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**To:** Company Announcements Office  
Australian Stock Exchange Ltd

**From:** Company Secretary

**Date:** 19 October 2006

**Subject:** **Listing Rule 3.1**

Pursuant to Listing Rule 3.1, attached is a copy of an announcement issued late yesterday, 18 October 2006 by Lapindo Brantas Inc (**Lapindo**) relating to the Banjar Panji well incident in East Java.

As outlined in releases made to the ASX on 27 June, 30 June and 21 July 2006, Santos Brantas Pty Ltd has a non-operated 18% participating interest in the Brantas production sharing contract (**Brantas PSC**) and relevant joint operating agreement.

Santos has made the Lapindo announcement available for the sole purpose of informing the market as to the status of the remedial operations advised as being undertaken by Lapindo, which operates the Brantas PSC and Banjar Panji well.

In addition, Santos provides an update on the potential financial impact and insurance status as follows:

### **Financial Impact**

As announced on 24 August 2006, Santos made a provision in its half-year financial statements of A\$24.3 million (US\$18 million) in respect of its share of potential estimated total remediation and related costs of US\$100 million that may arise from the incident. This provision equates to approximately 4.1 cents per Santos ordinary share prior to any potential insurance recovery (as discussed overleaf).

In Paragraph 14 of the attached Lapindo announcement, the operator states that:

“Lapindo presently estimates the total costs for drilling relief wells and mud management to be US\$180m. This estimate includes assumptions and may require further adjustment when estimates relating to the cost of long term mud disposal options, proposed cost of infrastructure relocation and costs relating to unrealised third party claims are known. With the flow continuing, the complexity of the event and the dynamic nature of the ongoing work, it is not possible to accurately estimate a total rectification cost at this time.”

Santos notes that the costs estimated by the operator have increased from US\$100 million to US\$180 million. Based on Santos' 18% participating interest in the Brantas PSC, and prior to any potential insurance recovery (as discussed below), this higher figure equates to approximately A\$43.7 million, or 7.4 cents per Santos ordinary share.

Santos will continue to work with the operator to determine the estimated total cost of the incident, and therefore to assess the adequacy of its provisioning.

### **Insurance**

As previously stated in its release dated 27 June 2006, Santos maintains appropriate insurance cover for these types of occurrences.

As the cause of the incident is currently under investigation, it is not possible to comment further on likely insurance policy responses.

W.J. Glanville  
**Company Secretary**

PRESS RELEASE

**Banjarpanji Incident Update**

In this update, Lapindo Brantas, Inc (Lapindo) reports that Lapindo is a key member of the National Mudflow Mitigation Team (Tim Nas) and:

1. is working hard with the Indonesian Government, government agencies as well as regional and local governments to assist the impacted communities;
2. has engaged a number of highly experienced local and international contractors to continue with its relief well drilling efforts at the Banjarpanji site;
3. has developed emergency plans to deal with immediate threats to people and property in the vicinity of the incident;
4. continues to develop strategies to manage the mudflow for the safety of the local community and protection of the environment; and
5. continues to cooperate with independent enquiries and investigations.

**Jakarta, Indonesia – Date: October 18, 2006:** Lapindo today updated the situation at the Banjar-Panji-1 exploration well. The well is located in the Brantas PSC in the Sidoarjo province, East Java and is operated by Lapindo which has a 50% working interest in the PSC. The other parties with working interests are PT Medco E&P Brantas (32%) and Santos Brantas Pty Ltd (18%).

As previously reported, on 29 May 2006 the Banjarpanji-1 well was drilling at a depth of 9,297 feet when steam, water and mud and a minor amount of gas were observed venting to the surface some 200 metres away from the drilling location (Broach).



Since that time, this mud continues to flow from the Broach. Lapindo works closely with the Tim Nas appointed by President Susilo Bambang Yudhoyono's Decree No 13 of 2006 on 8 September 2006. Tim Nas has duties to take operational measures in an integrated manner in order to overcome the Broach including the following:

- sealing off the Broach;
- mitigating the impact of the mud flow; and
- managing social issues.

The Minister of Energy and Mineral Resources is the Chairman of the Steering Committee of Tim Nas. The Head of the Research and Development Agency of the Public Works Ministry is the Chairman of the Executing Team of Tim Nas. Lapindo is a representative member of the Executing Team.

On 27 September 2006, the Indonesian President presented guidelines to the Tim Nas as follows:

- The families around the affected area will be resettled as the land was no longer fit for human habitation and was considered to be a "disaster zone";
- As the mud is not toxic, the mud should be disposed to the sea through the use of the Porong River;
- The effort to stop the mud flow using drilling efforts should continue;
- Efforts to monetize and find practical uses for the mud are to be developed and initiated;
- The mud containment area should be strengthened; and
- Infrastructure around the incident site such as the toll road, gas pipeline and railway should be relocated.

Lapindo as the operator of the Brantas PSC is working closely with Tim Nas in order to assist Tim Nas to implement the above guidelines. In doing so, Lapindo continues to provide technical, operational and management assistance to support Tim Nas on a number of levels.

Lapindo provides the following update:

1. The mud has affected a total area of about 400 hectares and 8 villages. At various times the mud has caused the Surabaya – Gempol toll road to be closed for cleanup and for public safety. After works to ensure the safety of the tollroad were completed, the toll road was re-opened on 11 October 2006. The railway line has been affected occasionally by flooding but is now functioning normally.
2. Approximately 3300 families whose dwellings have been or are threatened with flooding have been relocated. Lapindo is working with Tim Nas, the regional and local governments, community groups and the people directly to ensure that their needs are being met. People displaced by the incident have been relocated into more permanent housing utilising the rental assistance (which also includes six months of food assistance) offered by Lapindo.
3. Considerable effort has been made to ensure that all displaced people are cared for. In addition to emergency housing, the company provides meals to all refugees including special meals during the Ramadan period and continuous medical assistance. The company has been involved in a number of community based programs and intends to continue its support of the communities around the incident area.
4. With the assistance of The Institute of Technology Surabaya (**ITS**) and in consultation with the affected communities, a plan is being developed to permanently relocate residents.



5. Lapindo continues to work with owners of the farms, factories and the medium to small enterprises as well as market sellers and other businesses to ensure that the commercial enterprises are relocated promptly, jobs can be maintained and adequate compensation is made for any losses suffered. Lapindo has agreed to fund a religious holiday allowance of Rp.700,000 for each factory worker.
6. An extensive civil construction effort has been undertaken to construct a series of levee banks and holding ponds to contain the water and mud flows. Penkonindo, the Indonesian subsidiary of the Dutch company Van Oord has been engaged by Lapindo to assist with mud containment issues. Approximately 1400 army personnel are also involved in the effort to stabilise the levee walls and to increase the capacity of the mud containment area
7. Many media reports mistakenly state that the mud is "toxic", or "poisonous" however this is not supported by scientific data:
  - A sampling and testing program undertaken by Lapindo indicates that the mud is not toxic or hazardous. The mud is only mildly reactive under extreme conditions. The Ministry of the Environment now believes that the mud can be safely disposed without treatment directly into the environment.
  - A report published by the United Nations Environment Programme found that the incident's current impact on human health was considered to be low.
  - Very minor amounts of hydrogen sulphide (**H<sub>2</sub>S**) gas continues to be produced from the Broach but this rapidly dissipates in the atmosphere and does not threaten nearby communities. The company has implemented a H<sub>2</sub>S monitoring program.

8. Water and mud continues to flow erratically from the Broach. Penkonindo undertakes continuous readings of the elevations of the bund wall and mud elevations using a differential GPS system. Using data extrapolated from the readings, the estimated rates range between 100,000 and 150,000 cubic metres per day.
9. Lapindo is working with an expert consultant to monitor subsidence using GPS technology. Lapindo is working with Tim Nas to mitigate the effects of any possible subsidence in the area.

Efforts to stop the flow of mud are well advanced. In this regard:

- International consultants have been appointed to assist with managing the drilling operations.
  - An observation well has been successfully drilled and has provided valuable technical data.
  - Two relief wells are planned, the first of which is currently drilling at a depth of approximately 2300 feet.
  - Final preparations for the second relief well are underway. At present, the company believes that this well will be spudded within the next two weeks.
  - At present, the company expects that the relief well operations designed to stop the underground flow will be completed around the end 2006. This of course will be dependant upon the technical issues that may be encountered.
11. The Indonesian President gave guidance to Tim Nas that, as an emergency situation had arisen, the water and mud should be discharged into the nearby Porong River.



- Extensive preparations are currently underway to allow the mud to be discharged into the Porong River. This involves undertaking work to decrease the level of discharge required.
  - The Institute of Technology Surabaya is working with Lapindo and Tim Nas to minimise any effects on the ecology of the river caused by the discharge.
  - A number of ecological and hydrological studies are continuing to ensure that the discharge is undertaken in the most ecologically sustainable manner.
  - The need to discharge into the Porong River is the most viable and effective solution for short term emergency relief, to prevent further flooding of communities, farming land and industry.
12. Development of plans for the establishment of long term environmentally sustainable solutions concerning mud disposal and rehabilitation of the affected areas is currently underway. These plans are being developed in collaboration with Tim Nas.
13. Whilst there has been no fatalities directly resulting from the mudflow, two fatalities have occurred at the site as a result of heavy equipment accidents. Lapindo has investigated each of these unfortunate incidents and has reviewed the site's safety procedures in effort to reduce the risk of any future occurrences. Lapindo continues to ensure that the families of the two men are compensated.





14. Lapindo presently estimates the total costs for drilling relief wells and mud management to be US\$180m. This estimate includes assumptions and may require further adjustment when estimates relating to the cost of long term mud disposal options, proposed cost of infrastructure relocation and costs relating to unrealised third party claims are known. With the flow continuing, the complexity of the event and the dynamic nature of the ongoing work, it is not possible to accurately estimate a total rectification cost at this time.
15. Lapindo has made claims under the joint venture insurance policies of its insurers Tugu and AIU. Tugu and AIU have granted indemnity. Lapindo expects payment of US\$27.5 million by these insurers in stages over the next few months.

Total gross costs to date relating to the Incident are approximately US\$56m. Santos and Lapindo have fully met their cash calls in relation to these costs.

  
Lapindo Brantas Inc.

Imam Agustino  
General Manager