



Santos Limited

Banjar Panji-1 Incident

Briefing Document

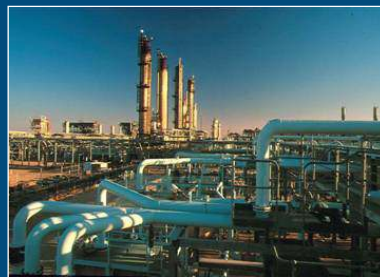
8 December 2006

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Introduction to Santos

Santos is a major Australian-based oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in Indonesia, Papua New Guinea, Vietnam, the United States, Kyrgyzstan and Egypt.

- Commenced operations in 1954
- Australia's largest domestic natural gas producer
 - 600 mmcf/d gas
 - 60,000 bbl/d liquids
- 1,700 employees
- Market capitalisation
~ A\$6 billion
- 80,000 shareholders



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Santos in Indonesia - Key Facts

- Santos commenced business activity in Indonesia in 1993
- 168 staff (92% nationals). Offices in Jakarta and Surabaya
- Asset acquisition from Novus Petroleum in 2004, including Brantas Production Sharing Contract (PSC)
- Exploration spend of US\$178m to date (US\$83m since 2005)
 - 15 exploration wells drilled 2001 – 2005
 - 15 exploration/appraisal wells planned during 2006 and 2007
- Development of major projects
 - Maleo (2006)
 - Oyong (2007)
- One of Indonesia's most active oil and gas explorers
- Active community support program in East Java

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Santos Community Support in East Java

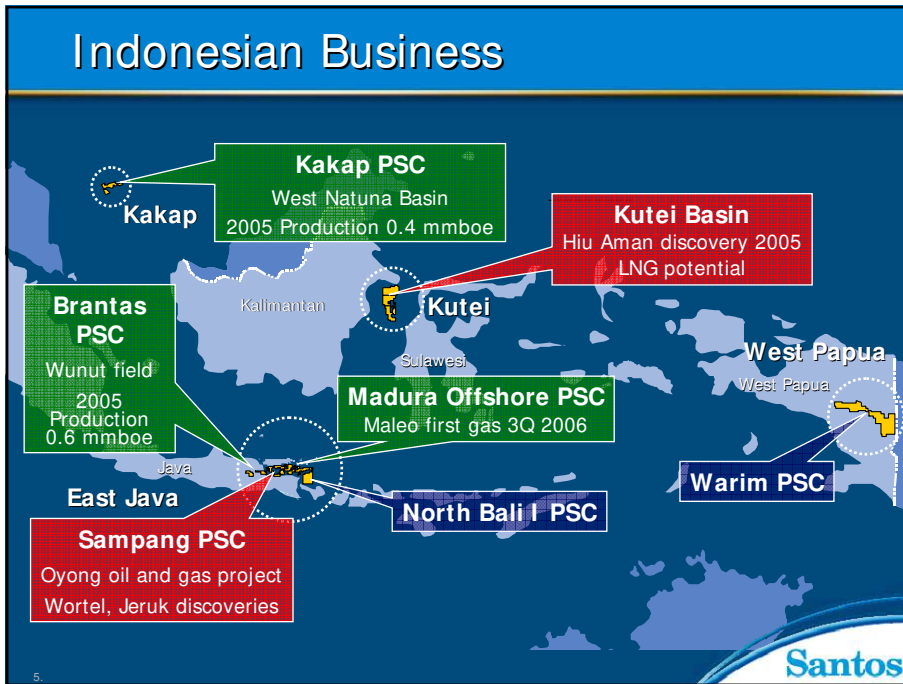
- A strong record of community support as an Operator in Indonesia
- Extensive programs are in place which cover 4 Regencies
- Extensive needs analysis & community consultation
- Delivery of tangible benefits
 - Economic
 - Education
 - Health
 - Culture



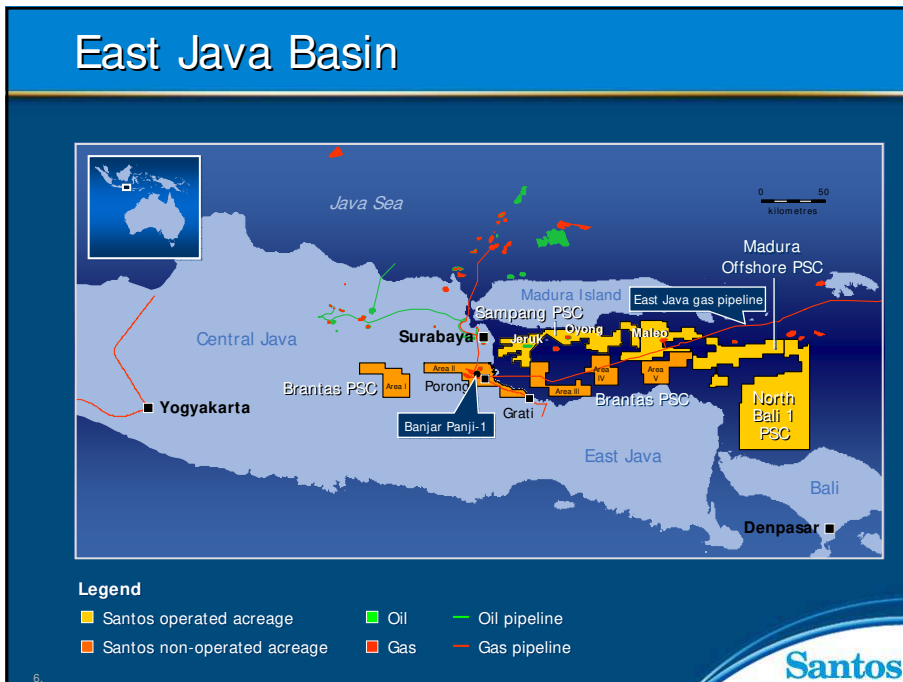
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Indonesian Business

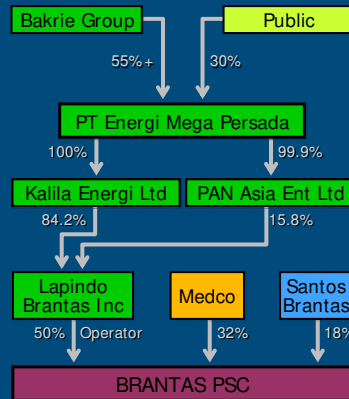


East Java Basin



Brantas PSC JV

- Joint Venturers:
 - PT Lapindo Brantas (50%, Operator)
 - PT Medco E&P Brantas (32%)
 - Santos Brantas (18%)
- Other than the JV, Santos does not have a corporate relationship with either Lapindo or Medco
 - No equity stake
 - No directors
- EMP efforts to dispose of Lapindo Brantas interest



Source: EMP Annual Report, 2005
Tempo (3 July 2006)

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Banjar Panji-1 Chronology

- 9 March - Banjar Panji-1 spudded
- 30 April – Drilling contractor sets 13 3/8" casing at 3,580ft
- 27 May – Earthquake near Yogyakarta
- 28 May – Loss of circulation while drilling at 9,297ft
- 29 May - Mud vents to surface 200 metres from the drilling location
- 8 September – Indonesia's President appoints National Mitigation Team
- 27 September – Mudflow area declared a disaster zone
- 22 November – East Java gas pipeline failure



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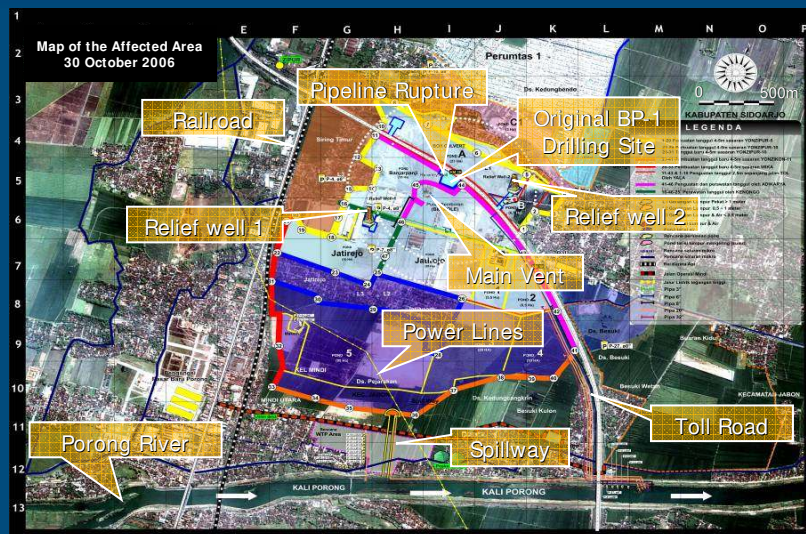
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Cause of the Incident

- Definitive cause yet to be established
- Operator, Lapindo, indicates that a seismic event triggered the incident
 - On 27 May, an earthquake measuring 6.3 on the Richter scale occurred near Yogyakarta, 300km SW of Sidoarjo
- Joint Venturer, Medco, asserts gross negligence on the part of the Operator for failing to set casing of 9 5/8" at 8,500ft
- A police investigation is currently underway
 - 13 employees of EMP, Lapindo, Medici and subcontractors named as 'suspects'

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Aerial Perspective



Affected Area



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Affected Infrastructure



Toll Road



Levee to protect railroad



Factories

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National Mitigation Team (NMT)

- On 8 September, Indonesia's President established a National Mitigation Team (NMT)
 - Chaired by the Minister of Energy & Mineral Resources
 - Tasked with sealing the breach, mitigating the impact, and managing the social consequences
 - Six month mandate
- On 27 September, the NMT declared the affected area a disaster zone and relocated inhabitants. It further committed to facilitating:
 - Resettling and compensating the communities affected by the incident
 - Drilling relief wells to kill the mudflow
 - Disposing the mud to the sea via the Porong River
 - Strengthening of the mud containment areas
 - Protection of infrastructure around the site, including the railway line toll road, gas pipeline and electrical lines
 - Discovering and developing practical uses for the mud

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Relief Wells

- One relief well underway and a second planned
- The objective is to stop the mudflow by pumping heavy fluid into it
- Drilling of relief wells is technically challenging
- International well control experts, Boots and Coots, engaged, with Pertamina and Century Drilling providing the rigs



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East Java Pipeline Incident

- On 22 November, the East Java gas pipeline failed
- The pipeline is owned and operated by Pertamina
- 13 fatalities, 1 missing person and at least 13 injured
- The NMT has attributed the cause of the failure to subsidence that in turn increased pressure on the pipeline
- As a result, the Maleo gas project in the Madura Offshore PSC was shut in
- Production resumed 27 November at reduced rates via an alternative distribution network

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Assistance to the Affected Communities

- As at 19 November, over A\$5m assistance distributed, including A\$3m+ for relocation costs, rental accommodation and meals
- Food, water, sanitation facilities, medical assistance and shelter provided
- Financial assistance and long-term alternative accommodation provided to those displaced
- Lapindo Brantas is negotiating further compensation for affected land, buildings and rice fields



Provision of clean water

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Environmental Issues & Response

- Independent Indonesian Government and UN assessments found the water and mud to be non-toxic
- NMT directive to dispose of mud/water into the Porong River to relieve pressure on the levee system during the wet season
- NMT concept to dredge mud at the river mouth and develop mangrove wetlands/possible land reclamation



Spillway construction

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Role of Santos

- Santos is very concerned by the impact of the incident on the community and the environment
- Support is being provided to the NMT and Lapindo through timely and full payment of cash calls (US\$15m paid by Santos to date)
 - Cash calls are supporting the social, technical and environmental response efforts
- But the NMT has been established to manage the response. As an 18% non-operator and not represented on the NMT, Santos does not have authority to direct the response effort

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Financial Implications for Santos

- Santos provision A\$24m as at 30 June based on US\$100m estimated total cost
- On 19 October, Operator revised the estimated cost from US\$100m to US\$180m
 - A\$43.7m, or 7.4 cents per STO share prior to potential insurance recovery
- Lapindo has stated
 - That the costs may require further adjustment when estimates of the long term mud disposal options, infrastructure relocation and unrealised third party claims are known.
 - Until then "...it is not possible to accurately estimate a total rectification cost."
- Estimated costs will be reviewed as more information comes to light

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Insurance Coverage

- Santos maintains appropriate insurance coverage for these types of occurrences and has advised its insurers of the incident
- Specific policies:
 - JV policy for US\$27.5m total
 - Insurers Tugu and AIU
 - Indemnity has been granted
 - Initial payments have been received
 - Santos policy covering well control aspects
 - Insurer OIL (industry mutual)
 - Limit appropriate for international oil and gas company
 - Santos policy covering liability aspects
 - International syndicate of insurers
 - Limit appropriate for international oil and gas company

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All references to dollars, cents or \$ in this document are to Australian currency, unless otherwise stated.

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