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KUALA LUMPUR
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WORLD GAS CONFERENCE

25th world gas conference
"Gas: Sustaining Future Global Growth"

Unconventional gas: a game changer or a global bubble?

David Knox – CEO and Managing Director
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6 June 2012

Patron: IGU (INTERNATIONAL GAS UNION / UNION INTERNATIONALE DU GAZ)
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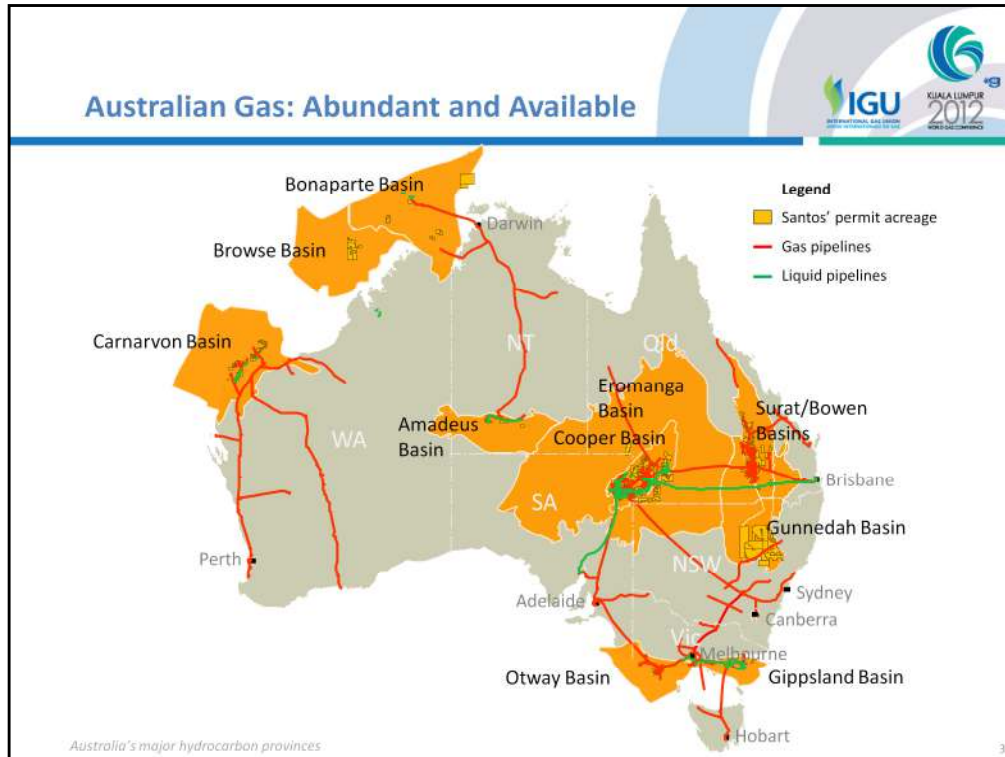
Good afternoon everyone and thank you Torstein [Indrebo, Secretary General IGU and moderator] for that kind introduction.

I am delighted to be here today as our panel considers the important role of unconventional gas in meeting the world's energy needs.

Today I will briefly cover three topics:

- What is the situation in Australia with regard to natural gas?
- The rise of coal seam gas in Australia and in particular Australia as the first exporter of LNG from unconventional gas; and
- Future gas developments in Australia.

I'd like to start with the story of Australia's gas growth.



Australia really is the lucky country. Our geographic proximity to the growing Asian markets, political stability, abundant resources and track record of reliable delivery put us in an enviable position.

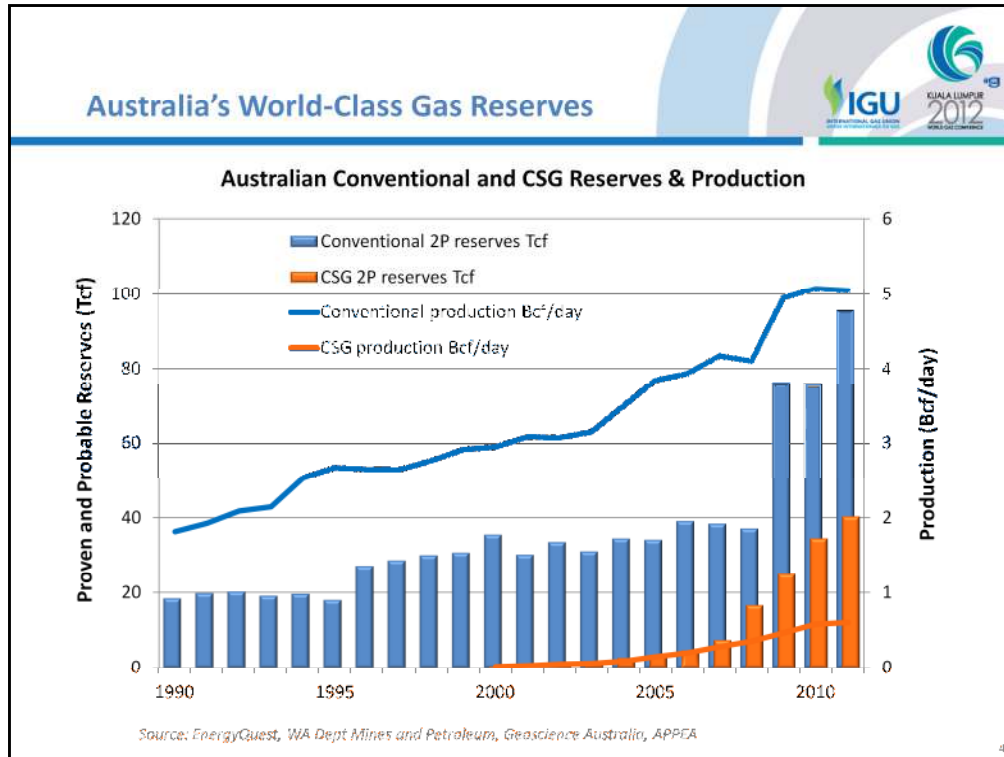
Australia holds the world's largest resources in a range of key commodities, and a leadership position in yet more.

And, like the country's abundance in coal and iron ore – which is well known – Australia is also blessed with substantial natural gas resources. Today, Australia's proven conventional gas reserves are ranked 13th in the world, and more recently we have seen significant growth from unconventional gas reserves. A recent government report states that Australia's combined identified gas resources, including coal bed methane but excluding shale gas, are in the order of 392 Trillion cubic feet. Coal bed methane is also known in Australia as coal seam gas, or CSG.

Australia's abundance of natural gas reserves and resources provide a real comparative advantage for the nation. Australia already plays a significant role in meeting Asian energy demand through LNG supply and this is set to increase as new projects come online.

Australia currently consumes only about 1 Tcf of gas a year domestically and exports about the same amount. By 2020, Australia's combined domestic and export demand is expected to increase three-fold to approximately 6 Tcf per year. So this supply / demand equation gives Australia around 184 years of gas at current production rates - and this doesn't take into account the shale gas potential which I will come to.

Australia's World-Class Gas Reserves



Like many countries, Australia's energy portfolio has gone through significant step changes in its history. This chart shows the growth of conventional gas reserves and production going back over 30 years, and more recently CSG, in Australia.

My company, Santos, has witnessed and been intrinsically involved in many of those paradigm shifts. We found gas in central Australia fifty years ago, allowing the major coastal cities of Sydney, Melbourne, Adelaide and Brisbane to be powered by gas for the first time. We have now been producing gas from the Cooper Basin, in central Australia, for over 40 years.

The next wave of gas production came in 1984 when Australia made its first deliveries of domestic gas from the North West Shelf project to Western Australia, fuelling that state's commercial and industrial development.

This was followed soon after by its first LNG exports in 1989. That facility, now five trains, continues to export gas under long-term contracts to customers in Japan, China and South Korea.

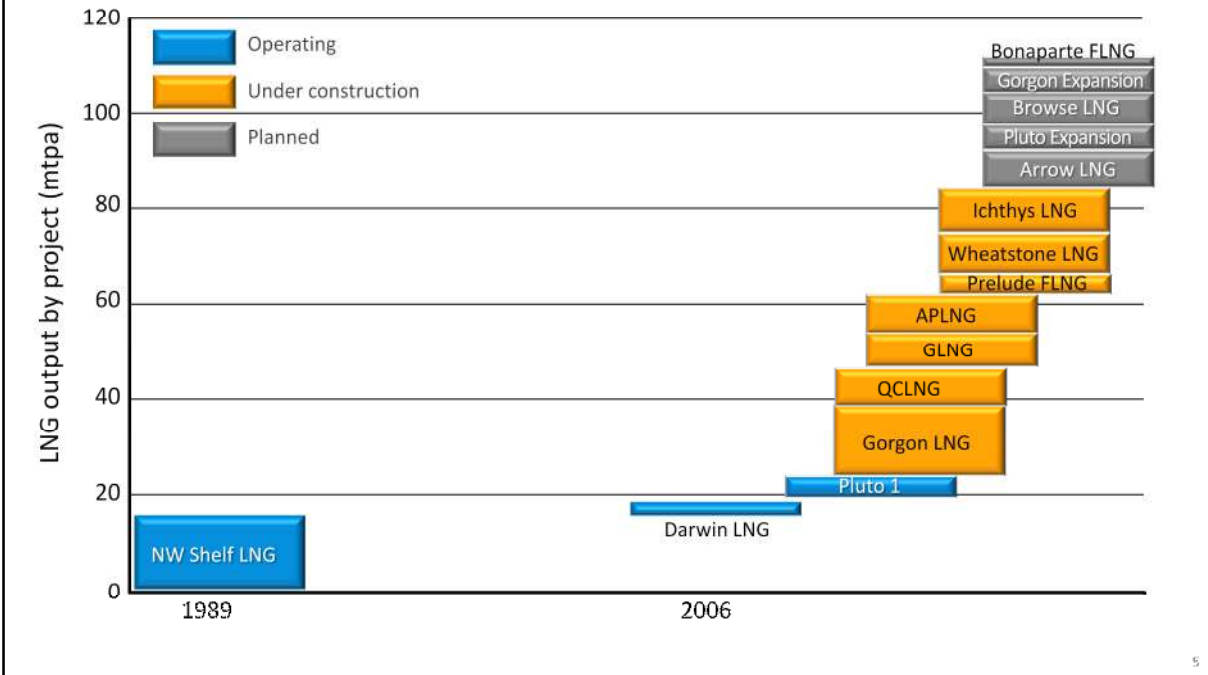
The Darwin LNG project, of which Santos is a partner, began exporting in 2006. And in March this year, Australia's third LNG plant – Pluto – commenced production.

In addition to the conventional reserves shown in this chart, this year we have seen a further reserves booking of 12.8 Tcf when the Ichthys LNG project was sanctioned.

We have also seen the rise of CSG reserves and production in more recent years. CSG production actually started in Queensland more than 15 years ago, but it has been the boom in CSG to LNG export projects in Gladstone which have resulted in the dramatic increase in CSG reserves bookings in the past five years.

Australia's LNG Revolution

The pace of development in Australian LNG in the past few years has been exponential.



As you can see from this timeline, we are witnessing a transformation in Australia's energy sector through the rapid growth in Australian LNG.

For nearly 20 years, Australian LNG was essentially a one-horse race.

Turning the clock forward to 2018, and in just six years another seven projects currently under construction will be online.

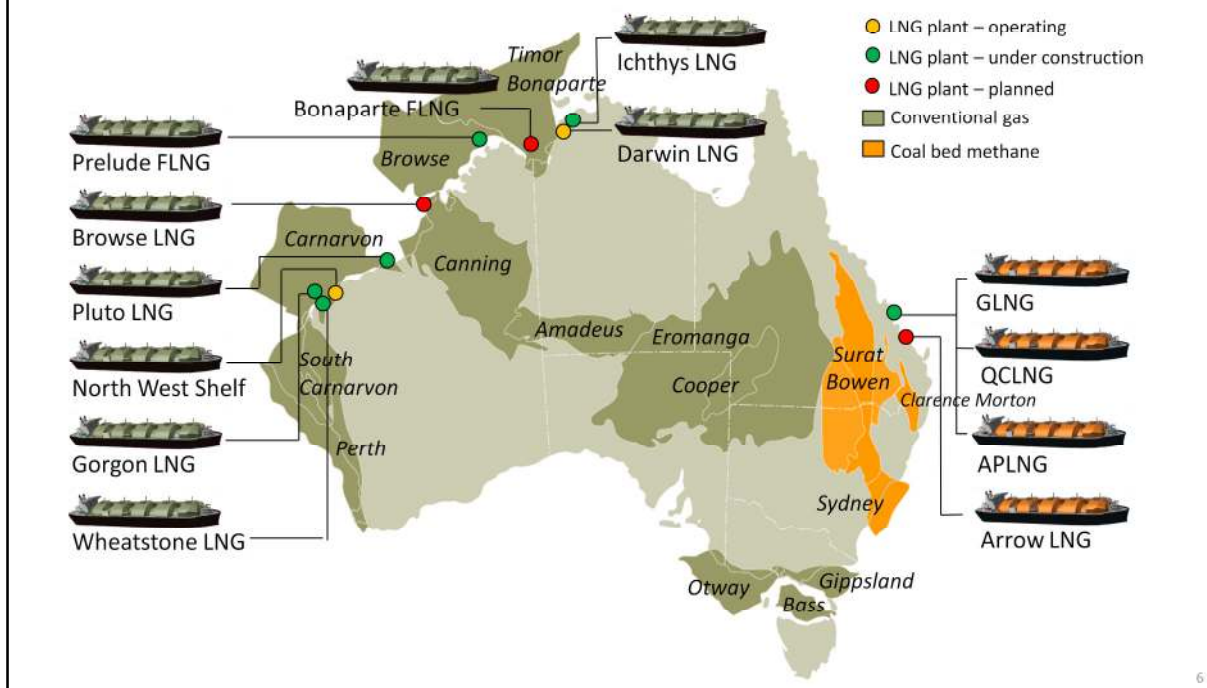
A recent article in the US Oil and Gas Journal pointed out that "no country has ever undertaken construction of so many LNG export projects at one time." All other things being equal, Australia is predicted to match Qatar by 2020 to become a leading LNG exporter, at circa 80 million tonnes per annum.

Approximately \$180 billion of capital investment has already been attracted to the projects under development in Australia. As we have heard at this conference, Asian energy demand is expected to grow and gas is expected to play a greater role in the energy mix.

This growth in gas demand will be met by local production and imports, both pipeline and LNG. Australia has the gas reserves and resources to support further LNG investment and secure our place as a leading LNG exporter.

Australia's LNG Projects

Australia west coast conventional vs east coast coal bed methane LNG projects



I'd like, if I can, to say a few words on how Santos fits into this picture.

Santos has equity stakes in four LNG projects:

- The operational Darwin LNG project led by ConocoPhillips
- The sanctioned PNG LNG project led by ExxonMobil
- The floating Bonaparte LNG project with our partner GDF SUEZ; and of particular interest today
- Santos' GLNG Project in the state of Queensland, which will be supplied by coal seam gas.

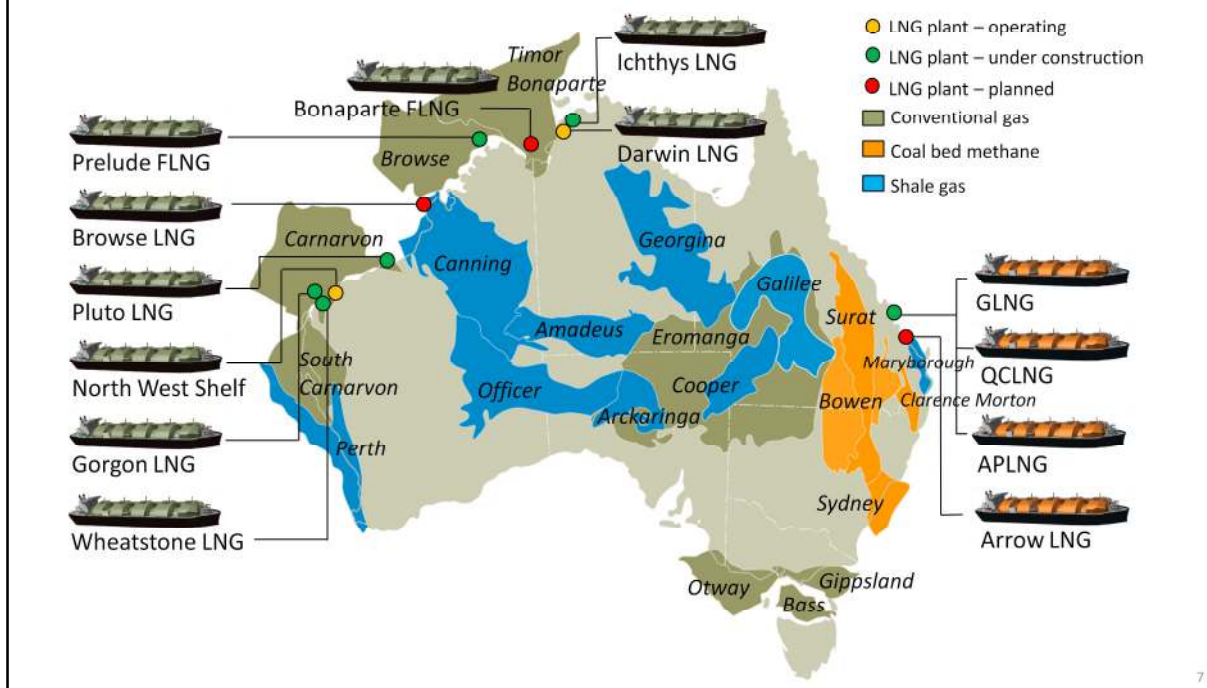
This slide shows that the story of Australia's LNG industry has two sides. Conventional LNG projects to the west and the pioneering CSG-to-LNG projects over to the east.

Santos, as Australia's largest domestic gas producer, has a portfolio of reserves and resources which spans the country. It is our strong resource and infrastructure positions that give us the confidence we can meet both domestic and export gas demand.

The eastern Australia LNG projects are contracted to supply gas to Asian customers for the next 20 years at oil-linked prices. It has been this oil-linked pricing, and the opportunity of equity participation for Asian buyers, which has facilitated the scale and pace of development of Australian LNG projects.

Oil-linked pricing in Asia has evolved over the past 40 years. It has worked because it balances the risk between buyers and sellers. It achieves this balance through providing greater certainty to sellers and project financiers and at the same time providing greater transparency to buyers. As a result, we expect to see long-term oil-linked pricing into Asia, and Santos is strongly positioned through its mix of assets to deliver natural gas to this market.

Shale Gas – Next Wave of Australian Gas Supply?



The question I am often asked is: will shale gas become the next wave of Australian gas supply? The first thing to point out is that it is still very early days in the Australian shale gas story.

What people sometimes forget is that the US has been producing shale gas for over two decades. Australia is estimated to be the sixth largest holder of global shale gas resources with an estimated 400 Tcf of potential recoverable shale gas.

Many of Australia's known shale plays are spread across remote areas. What's needed for shale gas to be successful is both the scale and the development of infrastructure to bring that gas to market.

In Santos' own Cooper Basin fields in Central Australia, which have been producing gas for over 40 years, we are currently testing a shale gas well to understand the quality of the resource. The Cooper Basin has the advantage of existing processing facilities and transportation infrastructure to deliver the gas to east coast markets. This would give us a distinct advantage in rapidly developing shale plays in central Australia.

So will shale gas create a supply revolution in Australia as it did in North America? I think the answer is that shale gas has the potential to become a material source of supply, but the really important question is: what is the quality of the resources? To answer this question properly requires greater exploration. The industry needs to get out the drill bit and explore sufficiently to better evaluate the potential.

What is clear is that the strong domestic and LNG export gas demand in Australia will provide the encouragement and impetus for industry to test the resource, and if we are successful we could see Australia exporting shale gas.

I would now like to hand back to Torstein. Thank you again for the opportunity to address this important conference.

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