

**TRANSCRIPT OF PRESS CONFERENCE AT AGM  
2 MAY 2008**

**INTERVIEW WITH SANTOS CHAIRMAN STEPHEN GERLACH AND ACTING CHIEF  
EXECUTIVE DAVID KNOX**

**TOPICS COVERED:** *AGM; BG bid for Origin; Cooperation between Gladstone LNG proposals; CEO search; Jeruk; Asian LNG prices vs East Australia gas prices; GLNG partner discussions; Nature of likely GLNG partnership; Shareholder cap removal; Foreign ownership of Australian energy assets.*

**Chairman, Stephen Gerlach:** Firstly, you have obviously already had the opportunity to meet David. It's a good opportunity for him to meet with you. Thank you for joining us. It was pleasing really from our point of view to see that we had so many shareholders here today, and likewise really to welcome your interest in Santos.

For those of you at the meeting you're probably hearing this again, but just quickly I would like to emphasise that 2007 was an important year in the continuing transformation of Santos. There was a number of important operational development highlights during the year as we progressed our strategy for growth, this included the announcement of our intention to develop the \$7.7 billion Gladstone LNG project. The project will underpin a fundamental transformation of the company through significant volume growth and margin expansion – and you would have heard the message that this project is really going to happen. Continued growth in our very significant Coal Seam Gas resources in Queensland will underpin the GLNG project. Good progress on PNG LNG project. The fact that we sanctioned the Henry and Kipper gas projects offshore Victoria and oil production commenced from Oyong field in Indonesia and producing at a rate of about 8,000 barrels a day. Continuing appraisal of our oil discoveries in Vietnam; and we saw strong growth in our booked oil and gas reserves for the year. So, all of those are important matters for us.

I'm also pleased that at today's meeting we saw the election of Peter Coates to our board and the re-election of Ken Dean and Mike Harding. They are all very experienced businessmen and already making a great contribution to the work of the board. So, with just saying some of those brief things, we will open it up to questions.

**Journalist:** Just firstly, I am wondering if there would be any prospect of a rival bid from Santos, perhaps with a partner, for Origin?

**Chairman:** Well as I said in the meeting we've obviously noted the intention of BG to make a bid for Origin. We've noted it with interest particularly in the context of the rub off, if you like, in relation to our own coal seam gas reserves. Beyond that I don't want to speculate any further about BG's intentions nor our own.

**Journalist:** There are two projects, Santos is looking at going ahead with an LNG Project in Gladstone and the Queensland Gas/BG project they are looking at it as well. Would there be any sense in bringing those two projects together at all?

**Chairman:** Well, our position is that we have and we are confident that we have enough gas to proceed with our own project. As you heard during the AGM and our previous notifications in any event, we have got access to land on Curtis Island to build our facilities. We have got major project status from the Queensland Government in relation to the whole thing. As far as we are concerned, we are single mindedly if you like going ahead as quickly as we can to develop our project.

What happens in the future with other projects is for other people to deal with. If there are other projects, what happens in the future is another matter. We are focusing on our own at the moment. I would just say that suggestions that there can only be one project in Gladstone, is not a proposition that we would endorse in any event. There is a lot of gas in the coal seam gas resources in that part of the world, which can be utilized for more than one project. What other people do, see what happens as these things proceed. We are well on the way for doing our own project.

**Journalist:** You've talked about a second train as well (unclear)

**Chairman:** Well David, you might like to comment.

**Acting CEO, David Knox:** I think as Stephen said it's important to understand we have a very strong resource base, extremely strong. Our resource base will definitely deliver our first 3 million tonne train, and we have aspirations to build a second 3 million tonne train shortly thereafter. The first one will come on in 2014, potentially the second in 2016. As I said we have a very strong resource base both in the Fairview assets and the Roma assets. In parallel with that, we are also seeking a partner to help construct these trains. The partner will also help us provide the wear with all, the staff and the engineering expertise to pull off such an enormous project. And that partner will also provide some of this equity funding for

the project. That's also happening in parallel. We've said before publicly we're looking at making an announcement by the end of this year.

So I just want to assure everyone that we are in motion. We've awarded the pre FEED contracts, we'll be going into FEED at the end of this year, early next. Making the big decisions and actually pressing the go button at the end of 2009, early 2010. This is a project that's really on the go and I fully support Stephen's comments about other projects and at some stage we may or may not come together. That will be done at a time of both our choosing and the other project's choosing.

**Journalist:** There has been reports that BG was considering a takeover bid or joint venture issues with Santos and other companies before it made its bid for Origin. Have you had any discussions with BG on potential joint ventures?

**Knox:** As Stephen said, we don't publicly comment on who we discuss with and what we discuss with them. These are confidential commercial arrangements. I wouldn't wish to make any statements either way on our association with BG.

**Journalist:** When would you have the global chief executive search finalised?

**Chairman:** Well as I said at the time of the announcement, we are looking to have that finished as quickly as possible. I can't put any other timeframe around it except that we are pursuing it as hard as we can and we hope to be able to make announcement as soon as possible.

**Journalist:** Bit of history I guess, we haven't heard about Jeruk for a while. The last time I heard about it you were looking at it with the Indonesian Government ... would have some flexibility for taxation arrangements to see whether that would still be a viable well. Is that being progressed at all?

**Knox:** We are continuing to examine Jeruk. We have just moved one of our very top class geologists, one of our very senior geologists, up to Indonesia, who's having a really good look at Jeruk and our other aspects of that Indonesian Basin in East Java. We do have plans to drill around our Oyong production facilities and our Maleo production facilities – probably now it will be early next year rather than late this year. He is also examining options for Jeruk. Jeruk is very interesting in that it is very waxy crude. If you get a cup full of Jeruk and put it on the desk, it looks exactly like shoe polish. That is the challenge of Jeruk, is to produce that in an

economic way when in fact in its surface conditions it immediately turns into shoe polish.

**Journalist:** You mentioned before, the price differential between Australian Gas and overseas. How much added value do you think you can get out of CSG to LNG?

**Knox:** What we are going to do is put our shareholders to the Asian LNG markets through this Gladstone project. The Asian LNG market right now is very strong. Japan and Japanese customers like gas, they have a dependency on gas. Chinese markets are growing very fast – they currently only have one 3 million tonne terminal in China. Japan has 65 million tonnes they bring in. You can see the potential growth for LNG in China is absolutely enormous. Then Korea takes about, South Korea takes about 25 million tonnes, so there's also strong growth potential in South Korea.

I believe looking forward there will be very strong demand for LNG, which is a relatively clean way of running power stations and producing energy. That demand is going to be very strong for a long time. It is because of three things I've just addressed. In Japan, in particular, it's because they signed Kyoto, it's because they have continuing nuclear problems and it's because retail customers like gas. Certainly what we're doing through GLNG is exposing our shareholders to the Asian prices, and they are a lot stronger right now than the Eastern Australian gas prices.

**Journalist:** Can I just ask you something about the Gladstone project again, you've got enough gas to go alone. Can you do it yourselves or will you actually need that partner? And if you don't need someone with gas, then who are you looking for?

**Knox:** We don't need a partner with molecules of gas, it's absolutely not required. We currently have this project at 100% and that's a very high holding in a project which is \$7.7 billion in 2007 dollars. We are seeking a partner both to help us with the funding aspect to the project but also to provide expertise into the management and execution of this extremely large project. We are also looking for a partner who can help us or is highly credible in the Asian LNG market as well. We will see what ideal combination of those things will come to the table at the end of the day.

**Journalist:** Are you still talking to people about the discussions with ..?

**Knox:** Absolutely, discussions are ongoing and will continue until we make an announcement.

**Journalist:** Is it a wide field of partners with that kind of expertise?

**Knox:** Wide field or not we are talking to the big players, the super majors, the serious LNG players. We're talking to the really serious companies who will work with us as a partner, and we're going through a process to establish who the best person to partner us is. This isn't a partnership that's just around for a year or two. This is effectively a partnership for a very long time. So it's almost like making a decision around a marriage. We've got to make sure the cultural fit is right, it's really right for Santos – and that's why we're going through a rigorous process.

**Journalist:** So this project could be a test project for others and a partnership for other ...?

**Knox:** It'll certainly be a partnership for the Gladstone, which is going to be very, very significant. Effectively what we're doing we're replicating the North West Shelf, except we're doing it in Gladstone. So it's a very significant project for Santos, it's absolutely transformational for us.

**Journalist:** Is BG one of the people you're talking to?

**Knox:** As I said earlier, we're not discussing publicly as to who we're talking to as our partners and who's potentially ... but we are in discussion with a number of parties.

**Journalist:** Is there any particular strategy leading up to November for the lifting of the cap in terms of a takeover defense, or is it more so you'll get on and do your job and protect the company?

**Chairman:** I think that's the answer to your question. We're pleased the cap is being lifted. We've been after that result for quite some time so we're pleased that that's happening. It obviously exposes us to the market, but it also gives us a number of capital management benefits that we're going to need as we move forward. Like all companies we're obviously concerned about making sure we're protecting our shareholders' interests, but as I said in the meeting, we are focused really 100% on our growth options and improving the base business of the company and on growing the growth projects forward. That's where we have our focus and we will deal with whatever the market gives us, like any other company that's exposed to those conditions under the ASX listing requirements.

**Journalist:** Was it a valid concern that Santos could be perceived as perhaps being comparatively cheap with the projects not actually being completed when the shareholder cap lifts?

**Chairman:** I don't think that's the way I would describe it. Obviously we have a concern to make sure that we are convincing the marketplace of the value of our resources. We have very, very significant resources and so we firstly need to commercialise those as quickly as we can, but secondly we also need to make sure that people understand what the true value of those resources is and that has not been recognized commonly across the market in the past. Partly because of the increased prominence of coal seam gas over the past four years or so ... and that's one of the reasons why the announcement a couple of days ago helps that process as well in giving further market recognition.

**Journalist:** How much work though do you think though that you've got to do to convince the market of the value of those resources?

**Chairman:** Well, we'll just keep talking about it and we will increase the amount of discussion we have with the marketplace and with the analysts and brokers and people like that, institutional investors, about what it is that we have got within the company. I think that's a process that just has to keep going. It's the responsibility of any listed company really to make sure that people understand what it is that you've got.

**Knox:** For me it's about making sure we deliver on our base and hit our milestones, and that's exactly what we've been doing. Deliver on the base business in the Cooper and Western Australia and Indonesia and make sure we absolutely deliver on the milestones we set ourselves for our growth projects – of which GLNG is one we talk about a lot, and we've hit the milestone of pre-FEED very well and we'll announce partners as I say. But also Papua New Guinea LNG is another area where we've said we're close to going to FEED on that project, and depends upon the signing of the gas agreement. That will be another milestone, we'll hit that. So the way we do this is you don't talk about your future, you earn it. And we intend to earn it by delivering these milestones, by delivering on the base and hitting the project milestones.

**Journalist:** Taking aside the names of companies that have been obviously over the last week or so trying to make takeover bids, or succeeding in making takeover bids, for Australian resources companies. Is there any wider issue about foreign bids to takeover Australian companies, or is it just simply a matter of value? If it delivers value to shareholders go with it, or if doesn't don't?

**Chairman:** Well if I could just say that issues around foreign investment into Australia are not our concern. They are political issues for Governments and FIRB and other people if they have to get drawn into it, but that's not our agenda, or part of what we are concerned about.

**Journalist:** You don't think from the company perspective that there might an Australian interest as just opposed to a company interest in taking over assets like that?

**Knox:** The way I look at this is that oil and gas companies around the world are effectively guests of the countries in which we work, whether that be Vietnam or Indonesia, or whether it be Australia. Ultimately we are guests of the sovereign government, and it's up to the sovereign governments to decide this sort of matter. It's up to us to make sure we work in conjunction with them, and that we work in a very positive manner in the countries in which we work, and that includes Australia, but it also applies to other countries in which we work. It's no different. It will be the sovereign government that makes the decisions about whether things are being done in the best interest of Australia, as it would be Indonesia or Vietnam or Bangladesh or where ever you work.

**Chairman:** Thanks everyone.

ENDS.