Slide 1 Meeting the challenge – Interim results
Graeme Bethune:

Good morning everyone and welcome to the 2004 Santos interim results presentation.

For those I haven't met my name is Graeme Bethune and I am Santos Group Executive, Investor Relations.

The speakers we have today are John Ellice-Flint, Santos Managing Director, Jon Young, Executive Vice-President, Operations and Peter Wasow, Chief Financial Officer.

In Sydney we have Bruce Wood, Vice President, Strategic Projects.

In Melbourne we also have Mike Hanzalik and Mark Kozned from Investor Relations and Kathryn Mitchell from Media.

The pictures you see on the screen at the top of the slide are as follows

- On the left we have the Jack Bates semi-submersible drilling rig leaving Norway to drill Amrit and Callister
- The centre picture shows some of the engineering team working on Mutineer Exeter
- The right hand slide shows the flare on Exeter 4AH which has the capacity to produce up to 25,000 barrels of oil a day.

Slide 2

Here we have the customary disclaimer slide.

Slide 3

This is the program for today. John Ellice-Flint will provide an overview.

Jon Young will talk about harvesting value from our existing assets. Peter Wasow will address financial performance and John Ellice-Flint will conclude by addressing how we are creating value from new assets through development and exploration.

We will take questions at the end of the presentation.

If you would like to ask a question:

In Melbourne, please indicate and wait to receive the microphone, and

In Sydney please go to the podium where Bruce Wood will facilitate questions being asked.

If you would like to ask a question via this option, please state your name and organisation.

We will also take questions over the internet.

If you are using the internet option please get your questions in before the end of the presentation section.

Following the presentation we invite you to join us for refreshments in both Melbourne and Sydney.

I would now like to ask John Ellice-Flint to give an overview of the first half of 2004.

Slide 4 Meeting the challenge – Overview

John Ellice-Flint

- Ladies and gentlemen....good morning.

- Well, what a challenging opening half - in this our 51st year of operations!

- New Year's Day...Moomba...the fire... we'll update you on that shortly.

- But, beyond that incident, Santos in August 2004, is no longer a story about a company with one or two prime domestic assets.

- We've become a company with a number of growth-building cornerstones.

- If anything, I see the past six months as **the** period in which we cemented those cornerstones in place....and more importantly......went looking for more.

- As I said....quite an amazing and challenging six months....now let's look at the detail.

- Our vision at Santos has been, and remains, to grow the company into an internationally respected performer in the oil and gas industry.

- We are implementing our clear strategy to:

    - Harvest value from existing assets
    - Build a first-class organisation, and
    - Create value from new assets

- We're now at the stage in the journey where the new projects are taking shape.

- At the same time we're maximising value from our existing assets and dealing with the unexpected, such as the Moomba incident.

- 2004 was always going to be a tough year from a production perspective and the Moomba incident made it that much tougher.

- In the second half we also have the challenges of East Spar and Stag.

- However we haven't allowed ourselves to become distracted.

- We've maintained our focus on reshaping and streamlining the Company.

- We're putting Moomba behind us and the new Santos is taking shape.

Slide 5 Safety – recordable injuries reducing

- Good companies are safe companies.
- As always, our people are the major focus for Santos.
- We are building a better safety culture. This requires a comprehensive range of programs to improve safety performance.
- We measure many indicators of our safety performance. This slide shows that our continued focus is paying dividends in the form of decreasing injuries and importantly the severity of any injuries also shows a similar decreasing trend.

Slide 6 Positioned for higher oil prices

- Of course, the big news for the sector as a whole this year has been continuing high oil prices and from next year we will be in an even better position to capitalise on higher prices.

- You know the story and all the factors contributing to higher prices. I have spoken about this before and won't dwell on it here.

- The bottom line is that demand and supply are very finely balanced, in the short to medium term, with more downside than upside in capacity.

- Surprisingly, in Australian dollar terms, the oil price we obtained in the first half 2004 was similar to the corresponding 2003 period. However, since June 30th the Australian dollar price has increased to over A$65 a barrel**.**

Slide 7 Results Reflect Moomba

- The first half results, however, were dominated by the Moomba incident.
- Production overall was down by 21% compared with the first half 2003. Seventy percent of this was due to Moomba and the remaining decrease was spread across fields in the Otway, Timor, Carnarvon and Gulf of Mexico basins.
- Earnings were down by 47% before exploration write-downs and 36% thereafter.
- Operating cash flow was also affected by Moomba, working capital changes and restructuring costs.
- Gearing has increased but is still well within our target levels.
- The Board has retained a steady 15 cent fully-franked dividend, in anticipation of increased production and earnings in 2005.
- It is important to note that the lower first half result <u>does not include</u> any recovery of losses expected from insurance policies covering business interruption and property damage caused by the incident.
- The estimated adverse impact of the incident on Santos' full-year 2004 after-tax profit, following insurance recoveries, remains $25 to 30 million, as previously advised.
- The result also includes after tax restructuring costs of $14 million, which are on track to deliver significant profit improvements in 2005.
- If we strip out the Moomba impact our results would be ahead of last year

Slide 8 Reshaping the Organisation

- We also haven't let the short-term Moomba issues distract us from the bigger picture of growing the company.

- One of the major achievements during 2004 has been reshaping the organisation as part of our continuous improvement process.

- Senior management has been halved from 120 to 62.

- We can now fit all the top level executives on one slide, as you can see here.

- The company is now structured along functional lines rather than Business Units.

- This enables a much more streamlined decision-making process and better reflects the value chain for the company.

Slide 9 Value from new assets

- We have also made tangible progress in creating value from new assets:
    - Bayu-Undan, the first of our major new development projects, commenced production ahead of schedule, the Minerva gas field will shortly begin producing and Mutineer-Exeter is now 60% complete.
    - The John Brookes, Casino and Maleo gas projects all made good progress.
    - We have entered into strategic exploration alliances in northern Australia, Indonesia and Egypt, increased the US portfolio and started drilling our high-impact wells.
    - We are now in the process of completing the Novus acquisition and divested non-core onshore and corporate assets.

- While 2004 has posed more challenges than we expected, our focus on our long term targets has remained strong and we’ve continued to make good progress.

Slide 10 Harvesting value from existing assets

- Jon Young, Executive Vice-President Operations, will now provide an update on what we're doing to maximise value from our existing assets.

Jon Young

- Thanks John. Good morning.

- As John indicated, the operations team that I lead is responsible for harvesting value from our producing assets. We currently generate around $500-$600 million per annum of EBIT which is used to support Santos' growth strategy.

- The reality of operating mature assets, which are at or beyond their peak plateau, is one of constantly declining production. This decline occurs at various rates and is dependent on the reservoir characteristics and the level of ongoing development activity. For Santos, we typically see slower declines in the Cooper Basin and faster declines in our offshore assets.

- Effective harvesting of value means that we must not only deal with the inevitable production decline but also manage the numerous risks and uncertainties that are always present in producing from underground reservoirs and complex plants.

- The good news is that there are also opportunities for upside value creation through cost reductions, application of improved technologies and commercial initiatives such as the Moomba Hub. .

Slide 11 1H 2004 Production

- As indicated in this slide, first half production was down by 5.6 million barrels of oil equivalent (boe) over prior corresponding period (pcp). This was made up of :

    - 1.6 million boe of natural decline primarily in our Cooper, Otway, US and Carnarvon assets including East Spar
    - 0.3 million boe of field performance issues caused by cyclone impacts on our offshore Carnarvon/Timor assets and Stag reservoir management issues.

  These declines were partly offset by:

    - 0.3 million boe of production from the start up of the Bayu-Undan project to produce a net reduction of 1.6 million boe to 25.2 million boe.
    - the first half impact of the Moomba incident was 4.0 million boe and this resulted in a final first half production of 21.2 million boe.

Slide 12 Moomba Incident

- The Moomba recovery is nearing completion with the final recommissioning of the Liquids Recovery Plant B train planned to occur this coming weekend.

- This will complete the 6 stage recovery process which saw gas deliveries resumed within days of the incident and the restoration of gas liquids recovery to about 70% of capacity in May.

- As per the previous slide, the first half production impact of the incident was significant. There will also be an impact in the second half but it will be relatively minor by comparison.

- We do not expect any material increases in ongoing operating or capital costs to result from the incident and there is no reserves impact.

Slide 13 East Spar

- The East Spar field, where Santos has a 45% non operated interest, is experiencing earlier water breakthrough than was expected. This is resulting in a significant production impact which is unlikely to be turned around as the field is approaching the end of its productive life.

- Although the field showed only minor decline in the first half compared with the previous corresponding period, the onset of water breakthrough in key wells in the first half is earlier than was expected in the P50 case.

- Additional wells were drilled in the first half of 2004 but these were not completed due to insufficient net pay caused by water sweep. There is still some remaining potential for an additional well to access reserves that may not be drained by the existing producing wells and this is being evaluated.

- As a result of these issues at East Spar, the development of John Brookes has been accelerated to both help meet the existing East Spar contracts and to provide opportunities for further sales such as the recently announced Newcrest gas sales agreement.

- The combined impacts of the East Spar decline and John Brookes startup is expected to result in a reduction of around 2 million boe in 2005 production compared to what was previously anticipated.

Slide 14 Stag

- The Stag oil field, where Santos has a 67% non-operated interest, has experienced unanticipated decreases in well performance. As a result, production declined by nearly 25% between the first and second quarters of this year. (652,000 bbls in 1Q 2004 to 502,000 bbls in 2Q 2004)

- Santos is working hard with the operator to identify remedial options such as optimisation of the water flood system which is critical to reservoir pressure support.

- Additional workover and infill drilling projects have also commenced. The results of this program will not be known for some time. There is a possibility that notwithstanding these remedial efforts, 2005 production could be up to 2 million barrels lower than previously anticipated.

- These 2004-05 production difficulties are not expected to impact on the 2P reserves of the Stag field.

Slide 15 Cost management

- Effective cost management is a critical component of margin enhancement and value creation.

- We have been aggressively pursuing cost reductions in recent years with the Business Improvement Programme delivering over $180 million in like for like cost savings in the 2001-03 period.

- The Business Improvement Program put in place the building blocks that enabled a comprehensive redesign of our core work processes. In May this year we commenced the Santos Continuous Improvement Program which undertook a detailed process review. This review confirmed that whilst we had made substantial progress since 2001, further opportunities remained to improve the business.

- Key focus areas include:

  - improving our buying of goods and services
  - reliability centred maintenance strategy
  - reducing our drilling and completion costs
  - maximising asset up time
  - implementing fit for purpose engineering.

- All of this will mean we can do more for less and this will result in reduced staffing requirements with approximately 150 people having left the organisation since May 3 with a further 150 expected to leave by end 2005.

Slide 16 Technology

- Applying new technology to our assets remains a key improvement opportunity to drive recovery volumes up and costs down. To this end we have numerous initiatives underway:

  - Pin point fraccing is a relatively new technology which allows much more targeted stimulation of reservoirs in a rapid execution manner. This photo was shot at Nephrite South and records the placement of the first pin point frac in the Cooper Basin.

  - Later this quarter we will also be trialling under-balanced drilling with a Coiled Tubing Unit. This technology may allow us to more effectively access reserves and to minimise formation damage during the drilling operation.

  - More effective data capture and the conversion of data into insight is also a priority for us and we have a number of projects reaching completion. Real time production data on every desktop is becoming part of our employees' routine toolkit and the 2 year, $70 million (gross) Moomba plant control systems project is currently being commissioned.

  - The photos at the bottom capture the before and after of our project to retrofit remote telemetry on our Cooper gas wells. This has been standard for our new wells for some years but many of our older wells did not benefit from this technology. With the completion of the project we now have over 90% of our wells wired up. This allows real time data capture, remote well cycling, better reservoir management and also improves our field operators' productivity as they no longer have to physically visit wellheads to understand well performance or to collect round charts.

Slide 17 Moomba Hub

- The Moomba Hub's commercial and infrastructure position in the east coast energy market is unique. Leveraging this position to create value is an emerging opportunity as the structure of the south east Australia market continues to mature.

Opportunities that are currently being pursued include:

- The recently announced gas swap deal will provide Origin with access for up to 200 PJ of gas at the Moomba Hub. The Moomba Hub's involvement in this arrangement enables a more cost effective market supply arrangement and an increase in the reliability of supply. In doing so, the Moomba Hub fee income is supplemented by increased liquids recovery.

- As the gas market evolves, more customers are interested in a wider range of gas products and options in order to better manage their market risk. The Moomba Hub is uniquely placed to supply spot and short term gas with a wide range of service or capacity options. In the last year the Moomba Hub has entered into several such arrangements with price premiums to longer term arrangements.

- Third party processing is also growing rapidly. At present the Moomba Hub is processing around 1 million barrels of third party oil per annum with emerging opportunities for gas processing.

- Our major gas contracts contain periodic price review clauses. The realised premium prices for shorter term gas contracts at Moomba Hub are encouraging signs that market prices are improving, and that Moomba is well placed to provide high value gas to Eastern Australia. In the last few years we have successfully increased the price of Moomba Hub gas and believe that the market will continue to highly value this supply source.

- All in all, the Moomba Hub story is off and running with about $100 million STO NPV10 having been already created. The outlook for future opportunities is bright and we will continue to aggressively pursue these.

- In conclusion, we continue to have a strong production base, generating a lot of free cash.

- The business of operations is more than just the production numbers. Actual value creation is also largely dependent on our cost management, the application of new technologies and how we commercially leverage our position in the market. We are also working these areas hard and will continue to see substantial improvements and value add.

Peter Wasow will now give you an overview of the financial results in the first half.

Slide 18 Meeting the challenge – Financial Performance

Peter Wasow

Thanks Jon. The financial result for the first half reflects our key messages very well.

- **First, we are effectively harvesting value from our producing assets.** Obviously any account of the first half will be dominated by the Moomba incident.

- In the absence of this event our profits would have been higher than in the previous corresponding period and, perhaps surprisingly, price is only a small part of that story.

- We have worked hard on a number of fronts to largely counteract the effects of the production decline we've been forecasting, and are now realising.

- We've also flagged some further production shortfalls from East Spar and Stag but we will continue to do what we can to deliver higher profits, notwithstanding these reservoir performance issues.

- **Secondly, we are creating value from our new assets.** 2004 is a year of record development spending which, together with exploration and acquisition expenditure, will see investment top $1 billion.

- I have shown the impact of the Moomba incident on all the financial slides. This should help those of you who are modelling our result to separate out the various impacts of the Moomba incident from our underlying result.

- At the end of the presentation I will cover two further topics.

- First the redemption of our existing hybrids and the new and larger preference share offer which we announced today.

- Second, the pending adoption of international accounting standards will be of interest to many of you.

- So in summary, we have made good progress in the first half of 2004 with the obvious exception of the Moomba incident.

Slide 19 - Sales Revenue

Here we see the overall message borne out.

- Sales revenue, before the effect of the Moomba incident, was almost flat when compared with the previous corresponding period.

- Overall sales volumes were down by 4.5 million barrels equivalent, or almost 1 million barrels less than our production shortfall. Most of this reduction was in gas. We drew down heavily on stocks to minimize the effects of the fire on our customers, notwithstanding the fact that we normally lay down stocks in summer to provide for the peak winter demand. We are meeting our sales commitments with lower storage levels, but will be accelerating some capital spending from 2005 to the second half to make good this inventory shortfall.

- Crude volumes were very close to last year; in fact within 100,000 barrels. Total liquids were also quite close due to the start up of Bayu-Undan.

- The surprise on this chart is how small the net price effect is. The 6 to 7 US dollar increase in oil prices is largely offset by the currency movement. We see also on this slide the continuing unfolding of our Australian gas story which Jon Young spoke about.

- So in summary, after Moomba, sales are very much where we said they would be.

Slide 20 – Production Costs

Costs are also better before the Moomba effect.

- Production costs are down by $8 million or more than 5% period on period. Before the effects of the Moomba fire, production costs were almost flat at $4.88 per barrel from $4.78 in the previous period.
- This reflects the realisation of our strategic goal of keeping operating costs flat as volume declines.
- Major savings were driven from cost management efforts in the Cooper and savings in US field management costs. Insurance premium increases offset some of these gains.
- The main Moomba incident related cost was associated with getting the dew point control unit mode of gas production on stream to restore gas supplies to customers.
- So in summary, very much on track with cost performance, although this relatively small improvement masks a lot of effort, as we continue to add fields on production, and volumes reduce.

Slide 21 – Net Back

- Bringing these elements together, we see net back climb to $19.13 per barrel which is 47 cents per barrel higher than the previous period, before the Moomba effect.

- We can see the minor effect from commodity price movements, and the effect of our predicted decline, being offset by items under the control of management: a benefit resulting from higher Australian gas prices, cost savings and the start up of Bayu-Undan in April.

- The message is that we continue to work on increasing the harvest from our producing assets: that is, improving our netback in line with our strategic target of $22 per barrel or better.

Slide 22 – DD&A

- DD&A is about flat year on year, somewhat lower after Moomba, although this result reflects a higher rate per barrel.

- Let me explain the two effects which are causing the DD&A rate to climb in the period.

- The first is an issue of production mix, where normally we would have produced more lower rate barrels of central Australian gas in favour of higher rate barrels from other fields. The Moomba fire therefore had the effect of increasing the average rate of depletion over the portfolio.

- The second effect is due to reserve movements. The revisions that we had in 2003 caused a $24 million pre tax increase in DD&A however that was offset by a $14 million positive as a result of successful appraisal of the John Brookes and Casino fields.

- The East Spar production issues that Jon spoke about may result in further reserve downgrades at this field, and if so, this will result in an increase in depreciation. A worst case scenario is for the full year's DD&A to increase by as much as $24 million over last year. I stress that this result will only be determined as the remaining East Spar reserves are produced, and may be offset by reserve movements elsewhere.

Slide 23 – NPAT

Rebuilding Moomba has obviously been a major challenge for us.

- Apart from that, our ongoing and everyday challenge is to manage the effects of decline in our producing profit centres.

- We can see on this chart, the cost of that decline: a $28 million reduction in net profit after tax. Part of managing the decline is the necessity of restructuring and we see here the once off effects of the SCIP program as a charge of $14 million after tax.

- We have fought back with cost savings, higher domestic gas prices, the start up of Bayu-Undan, and importantly lower exploration write-downs. Together we were able to offset the effects of the decline completely, giving us a net profit after tax that would have been higher in 2004 than in 2003 if not for the Moomba incident.

- Just one quick word on the write-downs. The actual variance year-on-year is $17 million positive, including not only the $31 million shown on this chart but also the $14 million SCIP restructuring cost which is a significant item included in the result.

- Another important point is that following two years of write-downs and rationalisation in our portfolio, we now have much lower dry hole cost remaining in our non producing areas and our housekeeping is largely done.

- The results presented today, which exclude insurance recoveries, show a net reduction of approximately $60 million associated with first half revenue losses and higher operating costs as a result of the Moomba incident. Reductions in the second half year will be minimal. A relatively small additional liquids production loss will be offset by the effects of rebuilding our gas inventory.

- Our Business Interruption policies cover lost revenue and higher operating costs beyond the first 45 days. Future recoveries under these policies will be credited to the profit statement. Capital expenditure to replace damaged equipment is covered by our Material Damage policies and future recoveries will be credited against capital expenditure.

- In a recent development, the industry mutual that Santos joined in 2002 and which provides cover for a part of the property damage, has advised us that it is not aware of any issue discovered to date which could put the claim under its policy in doubt. We are now progressing to conclude quantum and subsequent payment within the terms of the policy. The value to Santos of this portion of the loss is in the range of $25-35 million net of deductibles. The ultimate amount is not yet known as the cost of repairs is yet to be finalised.

- A further claim is being progressed with other insurers, which includes the residual property damage claim and business interruption.

- Our full year NPAT impact, assuming insurance recoveries, is forecast to be approximately $25m-$30 million which is consistent with previous guidance.

- So in summary, we are suffering from Moomba, but otherwise fighting the effects of decline in our producing profit centres successfully.

Slide 24 – Capital Expenditure

We are in a record year as far as our investment for the future is concerned.

- The overall spend in the first half of 2004 of $390 million is not all that much higher than that which we spent in the first half of 2003, if you take out the effect of the Moomba LRP rebuild.

- If you look at the elements of our 2004 first half spending you see a relatively lower exploration spend as we have been building and managing our acreage portfolio and commenced our drilling program in earnest in the second half.

- As far as Bayu-Undan is concerned we see the liquids project being completed and the emphasis now changing to LNG. Between these projects the spending in the first half of both years is approximately $100 million.

- We also see on this chart the emergence of Mutineer-Exeter as a significant project.

- Cooper spending is significantly lower because of our continued focus on reducing the cost of gas development.

- For the full year we are forecasting total capital spending of around $925 million plus a further $150 million for the acquisition of the Novus assets. This compares with our previous guidance of $780 million. Of the total increase, around $60 million relates to Moomba, either by way of rebuilding the LRP, or by accelerating gas development. We are seeking recovery from insurers for both expenditures. The remaining increase accommodates a Casino sanction this year, a number of rapid payback projects we have accelerated to capture the benefit of current high oil prices, an increase in Cooper oil spending as we try to increase the recovery of crude in our onshore acreage, plus an increase in exploration of around $18 million to drill our new Gulf of Suez prospects.

- To summarise, we continue to be disciplined in our capital program, but the quality and scale of our development opportunities is enhancing our scope to invest: evidence that we are in fact creating value from new assets.

Slide 25 – Cash flow and Net Debt

- And while we spend, we can still afford to, even including the effects of the Moomba incident.

- Cash flows are down year on year for the reasons shown on the chart. The major variance that we haven't discussed up to now is the working capital variance which includes higher payments to suppliers, lower receipts from customers and tax payments. These are temporary differences only.

- The gearing level at the end of the first half stood at 29%. The two main features in the movement in our net debt are: the higher capital spending we just discussed and the lower operating cash flow for the period. We also see a reversal of the Australian dollar's fortunes having the effect of increasing the reported value of our US dollar debt.

- Debt will continue to rise for the remainder of the year as we fund our development program. By the close of 2004, we expect that gearing will reach the low 30's, prior to recoveries from insurance. This is still well within our target ceiling.

Slide 26 – Capital management

- As a result of increasing development opportunities, and the current attractive pricing in the hybrid market, we have decided to increase our funding from this source.

- Today we announced the redemption of our existing preference shares, and the offer of $500 million of FUELS, which stands for Franked Unsecured Equity Listed Securities.

- We have all seen good pricing and strong demand in this market for some time, and at the level of issue of the current security, we are just not taking full advantage of this fact. Rather than issue some more of the current pref's with a short reset, or issue a further security, we have decided to roll it all into a new and bigger program.

- This is an innovative new product in the hybrid market, and the first issue by a non-bank institution. The issue will be earnings accretive, as its higher equity component ensures treatment for tax and accounting as equity, and not debt as most current hybrids would be considered under international accounting standards.

- The FUELS are a good use of franking credits for our ordinary shareholders because, as a franked instrument they will enjoy the benefits of a lower coupon.

Slide 27 – International accounting standards

- Speaking of which, the new International Accounting Standards will be adopted in a “Big Bang” approach next year, as depicted on this slide.

- But wait, what’s wrong with this picture?   Even though we will adopt 47 new standards there is, as yet, no new extractive industry standard. So what will resource companies do?

- An exposure draft, ED6, was issued at the start of this year, and is scheduled to be issued as an International Financial Reporting Standard in the fourth quarter. While it deals with Exploration and Evaluation expenditure, it is expected to do so by offering two options.

- The first would be the continuation of the Area-of-Interest methodology of accounting for exploration and evaluation under temporary grandfathering provisions. Alternatively, Australian companies may elect to adopt a type of “successful efforts” accounting which more closely meets the conceptual framework of the international accounting standards.

- Once the new standard is issued later in the year, we will be evaluating the options, if any, the standard offers. We will also consider the option of moving to a “successful efforts” methodology. It is unlikely that a decision will be made before year end. Either way, any adjustments required will be to opening retained earnings, and will therefore not impact profit.

- So on that heady note; I will pass the baton back to John to take us through the growth elements of the morning’s presentation.

Slide 28 Value for New Projects

John Ellice-Flint

- Thanks, Peter. I'd now like to look at the future of the Company and how we are creating value from new assets.

Slide 29 Development Timeline 2004 to 2006

- This chart summarises the status of projects that are due to come on line over the next couple of years.

- There has been good progress, with Bayu-Undan liquids having come on line ahead of schedule and a further seven new projects sanctioned or close to sanction, four of which we are operating.

- All of these projects have commercial or technical risks that can affect timing of first production.

- However our aim is the same, to get all this new production on quickly, safely and on budget.

Slide 30 Development Timeline 2007 to 2010+

- This slide shows a series of potential development projects for existing fields or possible fields that could be available in the event of exploration success.

- The aim of our exploration and gas commercialisation programs is to provide new growth projects beyond 2006

- I will now discuss each of our major projects.

Slide 31 Bayu-Undan

- The Bayu-Undan liquids phase was completed ahead of schedule and on budget. In this slide you can see the Ensco 104 jack up rig positioned over the Bayu-Undan production platform as it drills the development wells. The wells drilled so far have better than expected productivity. The project is currently producing 900 million standard cubic feet of gas per day for re-injection, with extracted liquids production of up to 88,000 barrels a day, of which Santos share is around 9,000 barrels.

- The other phases of the Bayu-Undan project are progressing well. The second photo on this slide shows the LNG plant at Wickham Point under construction with the Semac 1 pipelaying vessel installing the pipeline in Darwin harbour.

- The construction of the LNG plant is now more than 50% complete. To date the LNG project has achieved more than 1.1 million work hours without a lost time incident and over 400 consecutive safe work days.

Slide 32 Mutineer-Exeter

- The Mutineer-Exeter oil field development is over 60% complete.
- Recent progress includes commencement of the topsides construction and installation onto the Floating Production Storage and Offtake vessel.
- In this photo you can see the heavy lift barge installing the 400 tonne moonpool structure into the hull of the MT Airway, in Singapore.
- The FPSO conversion process is in full swing and the vessel will sail-away in early 2005.
- Total Santos production in 2005 is sensitive to the precise start-up time and production rate of the Mutineer-Exeter development.
- In the subsurface, the structure and reservoir distribution is proving to be more complicated than originally anticipated.
- We have drilled and completed Exeter 4AH which tested with a production capacity of 25,000 bopd.
- We have drilled and confirmed the north eastern Mutineer 5 development well. The pilot hole on Mutineer 8 which was recently drilled, indicated that we need to revise this development location.
- A further pilot hole, Mutineer 7, was unsuccessful in confirming the development location in the southwest of the field.
- We will update investors on the impact of these drilling results once the initial drilling program has been completed.
- These results lead to increased uncertainty on the ultimate recoverable volumes in the area of the fields so far drilled.
- We are currently drilling a development location to the north and up to three further development wells are planned during this phase of drilling.
- Results to date indicate that we should be able to meet the anticipated start up timing of mid 2005.

I will now turn to three gas commercialisation projects that have all achieved material progress this year.

Slide 33 John Brookes – Varanus hub

- Two weeks ago we announced the signing of a Gas Sales Agreement for the sale of John Brookes gas to Newcrest Mining.
- The development of John Brookes has been accelerated and this, together with third party gas, allows the Joint Venture to meet East Spar shortfalls.
- The alignment of interests between Santos and Apache facilitates this type of commercial arrangement and further enhances the use of Varanus Island processing facilities as a gas producing hub. This can be clearly seen in the schematic shown here.
- Construction of the platform jacket has already commenced at Batam Island Indonesia and several major contracts have been awarded.
- We are aiming at a start up of production from John Brookes in mid 2005.

Slide 34 Casino

- The development of the Casino field in the Otway Basin offshore Victoria is close to sanction with a target for first gas production of first quarter 2006.

- The development will have minimal environmental impact in this sensitive area through the use of subsea wellheads and a directionally drilled shore crossing under the beach.

- The utilisation of existing onshore production facilities and easements will provide added benefits.

- The innovative commercial arrangements that allowed the fast development of the Casino field have facilitated further exploration drilling, which will take place in the fourth quarter.

Slide 35 Indonesia Gas

Indonesia is a focus area for Santos. The risk profiles for oil and domestic gas differ, reflecting the fact that oil is sold on world markets but gas is sold to local companies. With domestic gas it is prudent to ensure that the buyers are providing appropriate credit indemnities and these are important preconditions for both Maleo and Oyong.

Maleo

- As the schematic shows, the current Maleo development plan involves the use of a Mobile Offshore Production Unit or MOPU, which is likely to be a converted jack-up.

- Development plans are progressing and we are close to finalising the Gas Sales Agreement.

- The GSA was delayed as a result of the need to confirm satisfactory credit arrangements for the buyer.

- This delay pushes the timing for first production to the beginning of 2006.

- Altogether the delay in Maleo is likely to impact the previous 2005 forecast production by about 2 million boe.

- While there has been a delay, the extended negotiation has improved the overall value of the project.

Oyong

- Oyong development planning is continuing. Oyong is subject to the same credit risks as Maleo so we are looking at ways of commencing early oil production.

- It is hoped that reserve studies underway will lead to an improvement in the value of the project through an increase in the volume of recoverable oil.

Slide 36 Novus Acquisition

- I will now turn to the Novus acquisition, which is a good fit with our existing interests as can be seen from this map.

- The final sale and purchase agreement is currently being negotiated with Medco, the ultimate successful bidder.

- Following the Medco bid late last year, we quickly moved to position ourselves to acquire the Novus interests in Indonesia and Australia.

- By being adroit and flexible we were able to back the successful bidder.

- The acquisition will cost US$110 million and provides reserves of about 22 million boe that will produce around 2 million boe in 2005.

- The effective date of the purchase remains 1 January 2004.

Slide 37 Meeting the challenge – Creating value from new assets

- I'd now like to summarise the production outlook before proceeding to exploration.

- The Company continues to expect 2004 production to be 45-46 million boe.

- We expect production to rebound in 2005. The magnitude of the 2005 increase will become clearer towards the end of 2004 when we have greater clarity on the year end exit production of East Spar and Stag and the precise start up timing of the Mutineer-Exeter and John Brookes projects.

- The delay on Maleo will reduce production by around two million boe and reduced performance from the Stag and East Spar fields could reduce production by around two million boe for each field, a total possible impact of 6 million boe.

- Subject to satisfactory conclusion, the Novus transaction could add around two million boe to Santos' 2005 production.

- I will now turn to our upcoming exploration program.

Slide 38 Exploration - The Journey So Far

- We are probably the most leveraged to exploration of any of the major Australian E&P companies and the program has the potential to provide a substantial boost to oil and gas reserves in the event of success.

- While our journey since 2001 has had its ups and downs our strategy has remained consistent. Our task of building a portfolio of material opportunities can be described in three steps.

- Our first step during 2001 to 2003 was to maximise value from our existing portfolio.

- Building from this, our next step was to expand our interests within our core areas.

- The last step in this strategy is to access new international growth opportunities.

- We are now at an exciting stage of our journey. We are testing significant opportunities in six different hydrocarbon basins and our acreage position will allow us to rapidly build on any success.

Slide 39 Basin Excellence

- Our exploration strategy is focused on basin excellence. We begin by identifying basins where we can build competitive advantages.

- The key to this is understanding the basin from its basic building blocks, the rocks.

    - Once focus areas have been identified, we set about becoming a leader in technical understanding.
    - Then we seek to establish substantial acreage positions.
    - Ideally we seek to do this as an early entrant at low cost.
    - To achieve maximum value we must understand and balance the technical and commercial risks.
    - Finally, we seek quality partners.

- Some examples of where we have successfully applied this strategy are:
    - East Java, with Total and Mitsui, the Kutei basin with Unocal, the Gulf of Suez with Devon, offshore southern Australia with Unocal and Inpex and the Timor Sea with ConocoPhillips.

- Clearly the high quality of the exploration portfolio is attracting partners of equal quality.

Slide 40 First Half Exploration

- The exploration story for 2004 is in two parts. During the first half the focus was on building and optimising our portfolio as preparation for the high-impact drilling stage, which has now begun.

- The most important drilling result was the Jeruk 1 well, seen here flaring during open hole testing.

- Jeruk 1 provided sufficient encouragement to rapidly follow up with a second well that is currently drilling.

- We also had a very active half for portfolio management. In East Java we successfully concluded a farm out of the Nth Bali 1 licence to major partners Total and Mitsui.

- In Australia, we brought in a major partner via the farm out of NT/P61 offshore Darwin to ConocoPhillips.

- In the US, we substantially increased our acreage position both onshore and offshore, in the shallow waters of the Gulf of Mexico.

- Santos also realised its first new country entry for some time with a farmin to three Devon Energy blocks in the Gulf of Suez, Egypt. The first well under this farm in is currently in progress with the drilling of Khefren 1 on the South East July block.

- Having successfully balanced the technical and commercial risks of our portfolio the second half of 2004 will see a lot of drilling activity in our focus areas.

Slide 41 Exploration focus – Indonesia: East Java

- In Indonesia, we have built a substantial acreage position in East Java, close to recent large discoveries and on trend with major existing fields.

- Significant wells to be drilled in 2004 are Jeruk 2 and Agung 1.

Slide 42 Jeruk 2

- The Jeruk 2 well now drilling in the Sampang licence follows the encouraging Jeruk 1 result 1.6 km to the west. The map shown here is a contour map at the level of the top of the Kujung limestone reservoir and indicates a trap area of about $30km^2$.

- The reef build-up is clearly evident on this seismic line that also shows the path of the Jeruk 1 well.

- Due to drilling difficulty, the bottom section of the Jeruk 1 well, seen here as a dashed line, was unable to be logged. The open hole drill stem test included the unlogged section and flowed oil and water, hence providing an inconclusive but encouraging result.

Slide 43 Agung 1

- The Agung prospect in the Nth Bali 1 licence will be drilled immediately after Jeruk 2 using the same rig.

- This slide clearly shows the seismic expression of a reef build-up of the same Kujung limestone reservoir typical of several nearby discoveries. Many of the giant fields in Java and Sumatra are found in similar geologic settings.

- The structure contour map shows the large closure of approximately 44 square kilometres.

Slide 44 Exploration Focus – Indonesia: Kutei

- In the Kutei Basin we have taken interests in a deep water trend outboard of several recent discoveries that are under development planning. With our upcoming wells, one in each licence area as shown on the map, we are seeking to confirm that this proven, prolific petroleum system extends into the deep water trend. We are targeting oil in substantial traps well imaged by 3D seismic.

Slide 45 Exploration Focus - Australia

- Another area of exploration focus is the southern margin of Australia where we have a strong position in the offshore Otway and the Sorell Basin.

- The focus of this area is the deep water frontier play to be evaluated by the Amrit well.

Slide 46 Amrit 1

- Amrit is the first test of a high risk frontier exploration play which could significantly change the landscape for the company if successful. The Amrit prospect will be drilled in the fourth quarter.

- This will be Santos' first deep water operated well and will test a new play concept .

- Amrit will test a thick section of deltaic reservoir sands within a very large tilted fault block that is clearly visible on the seismic section.

Slide 47 Exploration Focus - Egypt

- The Gulf of Suez.   is one of the world’s major hydrocarbon provinces with existing discoveries totalling over 9 billion barrels of oil. A number of giant oil fields surround the blocks in which Santos has taken an interest.

Slide 48 Khefren 1

- The Khefren 1 well is the first of 8 planned wells to be drilled under the Devon farmin completed last month. The seismic section shows the prospect as a large tilted fault block below a thick section of salt and evaporite sediments.

- The 80 million barrel Saqqara field discovered in 2003 by BP lies just 6 km to the northwest, and on trend with the Khefren 1 well currently being drilled.

- The reservoir target is the thick, high quality Nubia sandstone which produces prolifically in many existing fields in the Gulf of Suez.

- The well is expected to take around 90 days to drill due to slow drilling through the thick evaporite seal section.

I have given you a good flavour of our portfolio which indicates that our prospectivity is increasing and becoming oilier. There is further information in the back-up slides about other wells planned for second half drilling.

Slide 49 Meeting the Challenge

Thank you ladies and gentlemen...

In closing, let me leave you with this thought:

Success for any oil and gas company is embedded in where and how it explores.

The new production cornerstones we've outlined today have only resulted from the fact we have jumped out of our historic comfort zone to build a **"higher value"** business.

Today, we have also provided you with an outline of the aggressive and geographically diverse exploration program we are now undertaking – a program unprecedented in Santos' history.

We are tapping opportunities in some of the richest oil and gas provinces in the world... and in our home base of Australia.

It is the only route to balancing risk, endeavour and outcome to achieve "**sustainable value**".

This is all part of the changing face of Santos.

Clearly – in its 51^{st} year – it is a bigger business, an expanding business, a more focused business and an increasingly borderless Australian oil and gas company.

Slide 50 Meeting the Challenge

Q&A