

Good morning.

I would like to acknowledge the Leader of Federal Opposition, the Hon Tony Abbott MP, APPEA chairman Eric Streitberg, APPEA CEO Belinda Robinson, other distinguished guests, ladies and gentlemen,

You've already heard a lot this week about the role natural gas can play in bolstering Australia's energy security and giving us a cleaner energy mix.

I'd like to extend that theme this morning, but remind you that the benefits of natural gas – and the certainty of the investment and jobs planned for our sector – cannot be taken for granted.

I will today talk about Australia's AAA advantage in natural gas. Rest assured I'm not here to promote the American Automobile Association or the frequent flyer scheme of a major US airline.

Key messages

1. Australia's natural gas supplies are abundant, affordable and available to fuel both Asia and Australia's economic growth – representing our next comparative advantage in energy
2. This advantage *is* playing out with established LNG projects
3. It *could* play out more strongly with new LNG projects targeted at export markets and an expanded role for gas domestically, provided government policy facilitates investment

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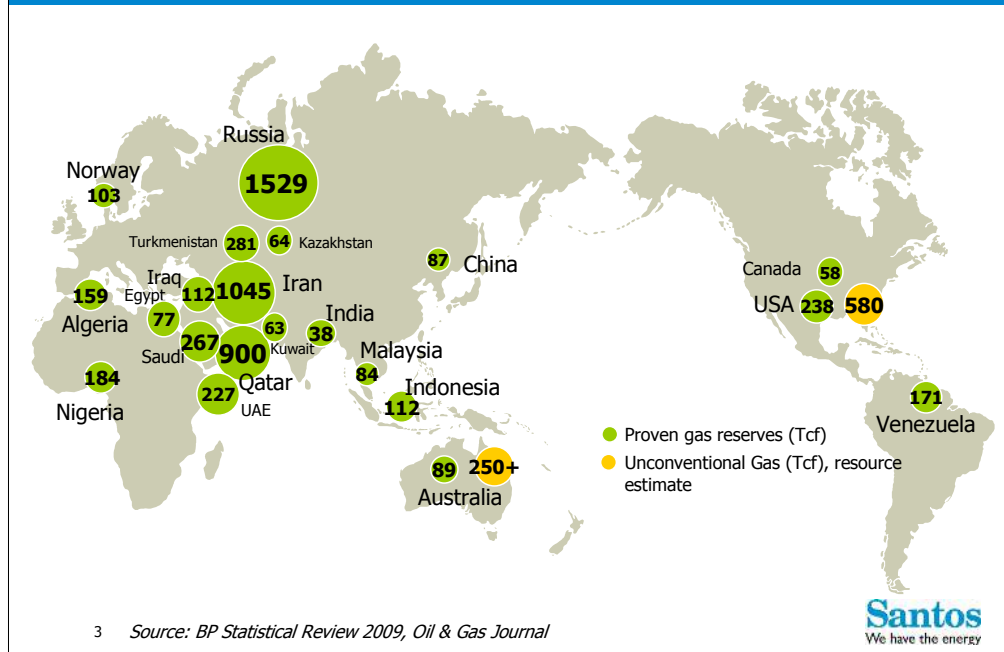
As I will outline today, Australia's AAA advantage is our Abundant, Affordable and Available natural gas resources. After years of enjoying a comparative advantage in energy on the back of coal, today I will argue natural gas is Australia's next energy advantage.

As you consider that proposition, the question I ask you to keep in mind is "do we have the policy settings right in Australia to benefit fully from this AAA advantage?"

Established projects offshore northern and western Australia show that advantage is already playing out in LNG, but in eastern Australia the fledgling coal seam gas to LNG business requires certainty over the tax regime it will face before major projects can go ahead.

In domestic markets, an expanded role for the clean energy of natural gas requires a fair mix of taxes and incentives – and greater certainty on carbon policy.

Natural Gas is Abundant



The Australian energy debate does not take place in isolation.

The opportunity to supply natural gas to an energy hungry world is great, but so is the number of potential sources of that gas.

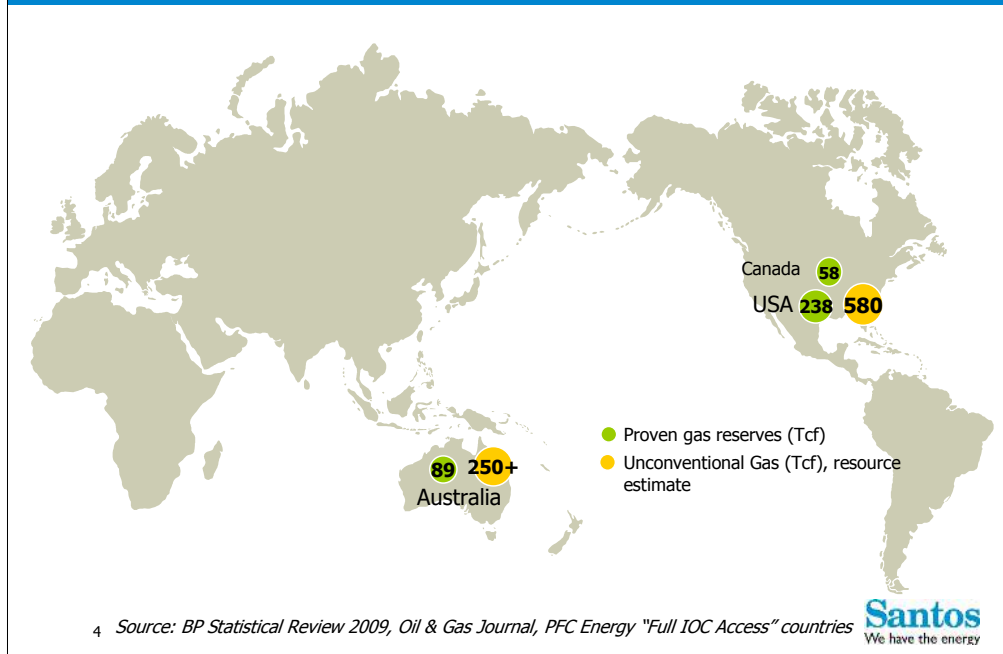
Australia has several key advantages in this competitive landscape – but these should not be taken for granted. If we miss our opportunity, others will seize it.

This map shows the world’s conventional gas reserves – these are 1P as at mid last year - and so-called unconventional gas resources - coal seam gas, shale gas and tight gas.

And while Australia is not among the world’s top 10 proven gas reserves, there are three essential points to consider.

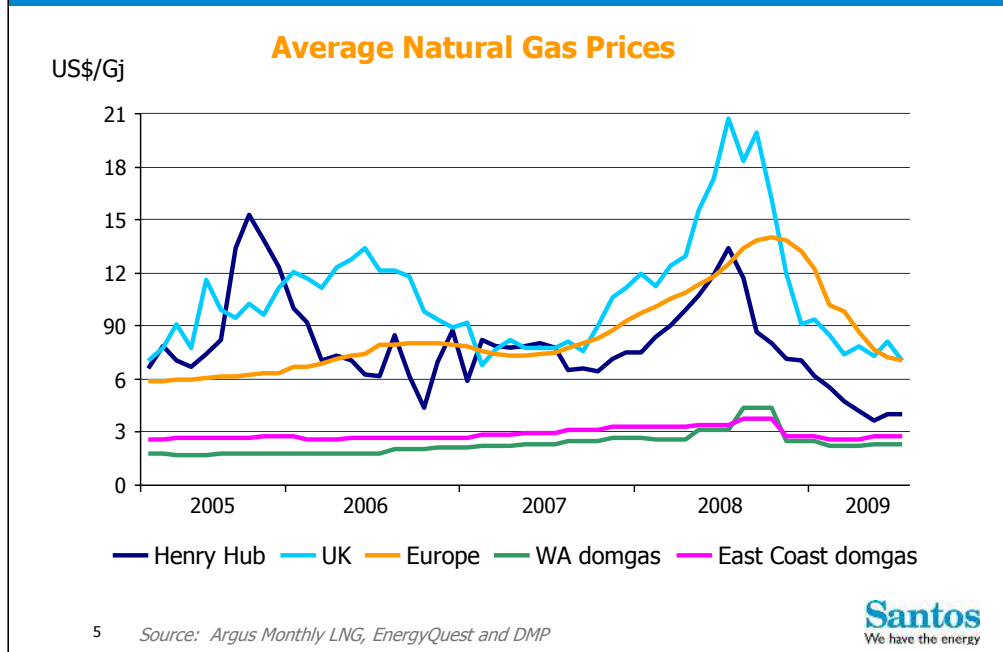
- Australia’s proximity to the gas-hungry markets of Asia
- Our unconventional gas resources are world-scale; and
- The accessibility to international investors of the resources you can see on this map.

Australian Gas is Available



With so many reserves and resources controlled by National Oil Companies or subject to curbs on investment, North America and Australia stand out among markets where there are major natural gas assets which can be accessed fully – and hence why they have attracted so much investment.

Australian Gas is Affordable

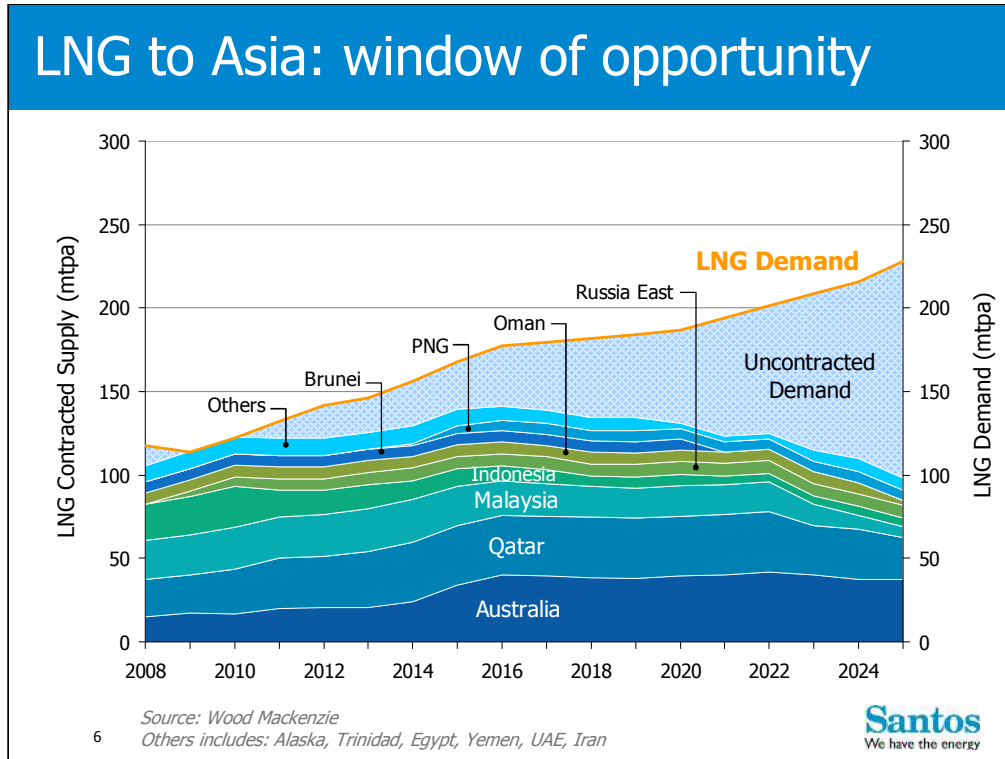


The good news for Australians is that the abundance of natural gas resources – together with our low cost coal resources - means we have some of the most affordable gas in the developed world.

Now I don't know for certain what will happen to gas prices domestically, although I can say that the LNG market is becoming increasingly global.

And it is access to these global markets which will bring forward investments that will help reduce our carbon emissions and ensure the continued development of gas reserves for domestic use.

For now though, I want to consider how our AAA advantage is playing out...



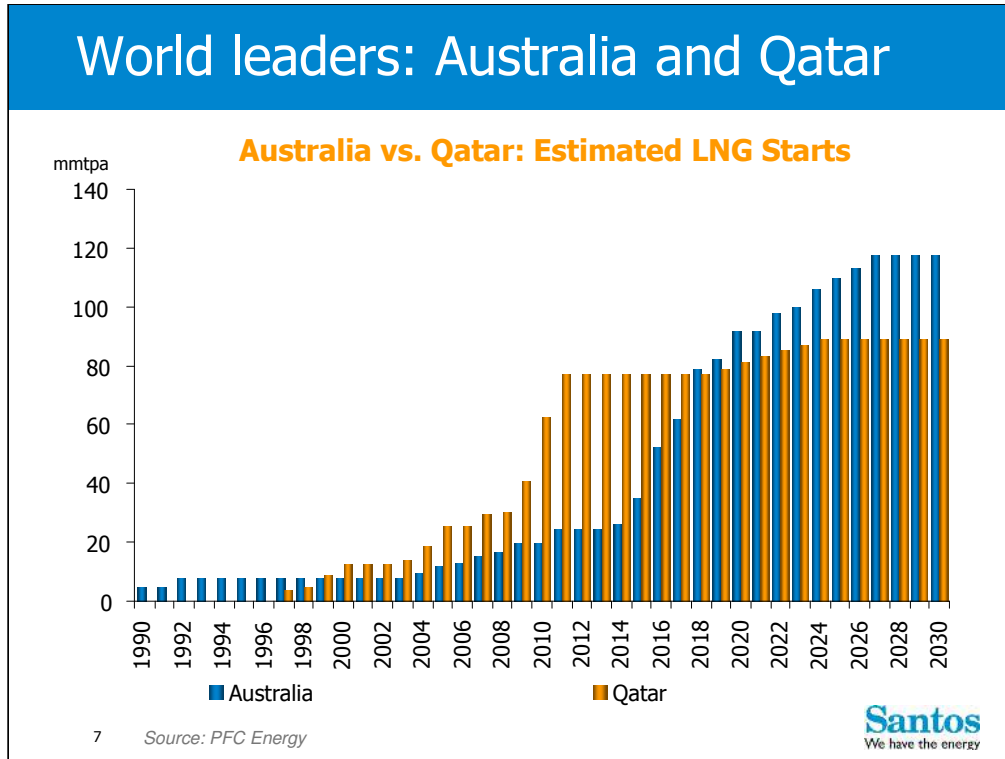
Expanding Asian energy demand has been the game-changer for Australia's natural gas industry.

Around the globe, over 500 million people will enter the US\$5000 plus annual income bracket over the next 5 years. The majority of them in Asia. And they will want more power for heating, cooling, light and transport.

In the period to 2030 Asia will account for an amazing 62% of global primary energy demand, well in excess of the region's predicted 47% share of population growth.

As the chart shows, forecast LNG demand in the region substantially outstrips contracted supplies. This is the window of opportunity for proponents of new LNG projects.

Of course this gap in the market is firmly in our sights at Santos with our cornerstone GLNG project and stakes in three other LNG ventures. This gap in uncontracted demand is also Australia's opportunity.



This chart shows the LNG start ups and production looking back 20 years and the estimated starts looking forward another 20 years.

As you can see the number of Australian starts - the dark bars on this chart – jumps dramatically after 2014 as the new CSG fields in Queensland come on line and Gorgon starts production in the west.

Remember that while Qatar has roughly 10 times the reserves of Australia, that doesn't count the CSG resources, which are a major factor driving Australia's growth.

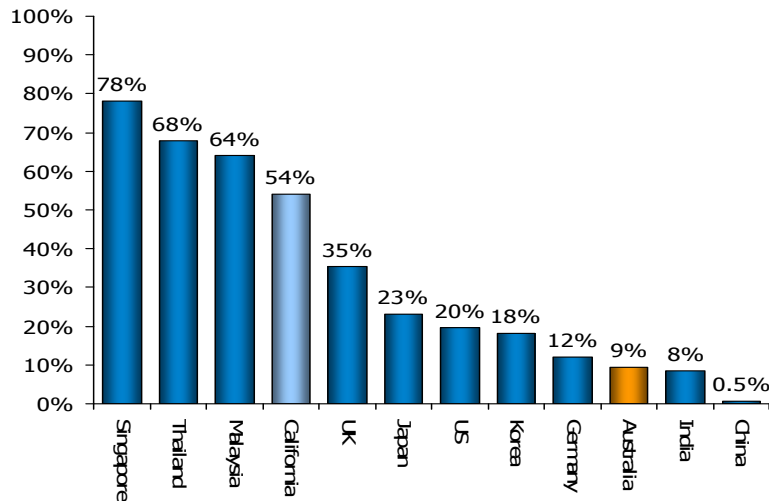
According to estimates from PFC Energy, a mere 4 years later, around 2018, Australia's LNG liquefaction capacity will surpass that of Qatar – currently the world's largest producer. That forecast really underlines the extraordinary nature of the opportunity before us right now.

Let's be clear though, the LNG market is highly competitive. And as we saw from comments reported in the Financial Review on Monday, the leader of the pack, Qatar, has an eye on Australia.

But, provided that current pending final investment decisions are not delayed by uncertainty over the tax regime, Australia's AAA advantage can play out in respect of LNG.

Domestic gas is underweight

Gas Penetration as % of Power Generated



8 Source: EIA, AER, Santos

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So what about domestic opportunities? Is Australia's AAA advantage playing out locally?

In short, no - natural gas use in Australia is underweight. Something that seems at odds with our abundant resources of affordable and available gas.

This chart shows starkly how Australia is lagging many of the world's major economies in the percentage of power generated by natural gas.

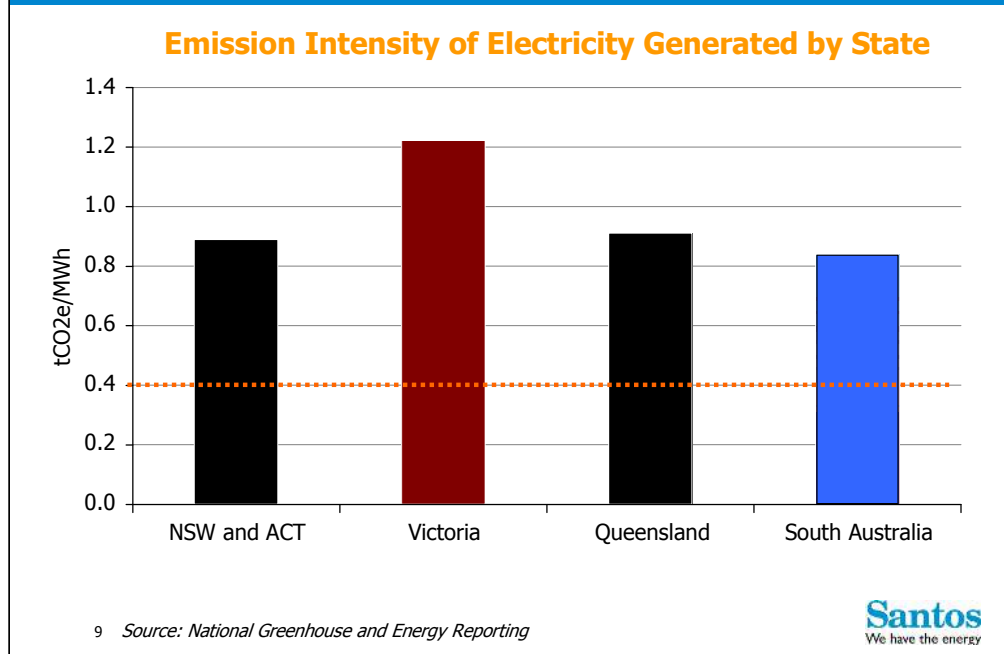
When gas is a way of life in so many comparable countries, why does gas not do better here?

The simple answer is that Australia also has an abundance of cheap coal – which has powered the nation for decades but is becoming constrained by its heavy carbon emissions.

Look a little deeper and we see renewable energy getting a helping hand.

Gas has generally been left to stand on its own. A notable exception in the mandatory target for gas fired power generation here is Queensland, which I believe was the catalyst for developing the CSG resource being discussed by so many of us at this conference.

More gas means lower emissions

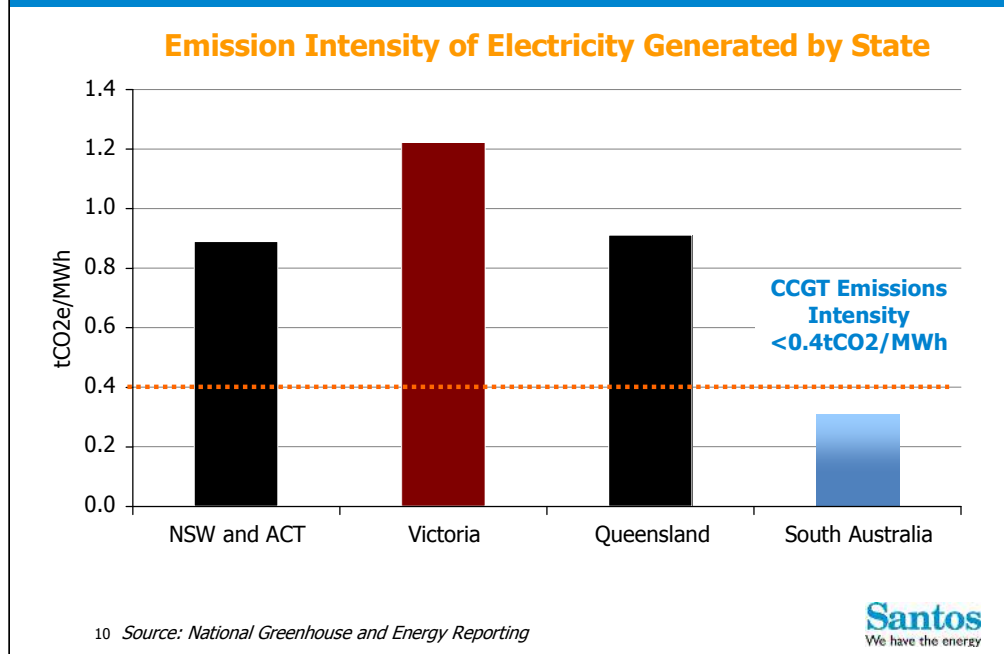


If we get the policy settings right – by that I mean supporting gas and renewables – there are significant benefits for the climate.

Let me show you what I mean in respect of my adopted home state of South Australia where gas already provides 50% of power generation output and renewables, in this case wind, provides 17%.

If we were to replace South Australia's two ageing coal fired power stations in the State's north with gas, upgrade the existing gas fleet and meet the State Government's 33% renewable energy target – this is what would happen.

More gas means lower emissions



South Australia's emissions intensity from power generation would halve, dropping well below 0.4 tonnes of CO₂ per MWh

Similar reductions could be achieved right across the country if coal-fired power stations upon reaching their normal plant life were replaced with natural gas and a greater role for renewables.

Of course, it is easier for South Australia than the 'Coal States' in the East to achieve these reductions, but the fact remains that the transition to a lower-carbon Australia can only take place with a greater role for gas in the fuel mix.

CSG: a new industry in regional Australia

- Queensland CSG industry
 - >\$40 billion investment
 - 18,000 new jobs
- Economic benefits of GLNG®
 - \$1 billion invested in Queensland since June 2008
 - A job a day created in 2009/10
 - 6000 new jobs



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Of course, as CEO of Australia's largest onshore gas producer, I've got a vested interest in promoting our product – but let's be clear, if we proceed with our planned investments the benefits will spread far further than Santos staff and shareholders.

APPEA predicts the Queensland CSG industry as a whole will attract over \$40 billion in new investment and create 18,000 new jobs.

Our GLNG project alone has been creating a job a day for the last 18 months and will see billions of dollars of investment in regional Queensland. When construction commences, 5,000 workers will be engaged in delivering the project and 1,000 workers ongoing.

But as I've already said, these investments cannot be taken for granted.

Onshore gas

- Onshore gas is an important and rapidly growing fuel for Australia's domestic energy needs
- Onshore gas-to-LNG capitalises on burgeoning Asian energy demand growth, creating a whole new industry in Queensland
- Onshore gas cannot withstand being disadvantaged as it competes

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It is significant that APPEA is meeting in Queensland this week.

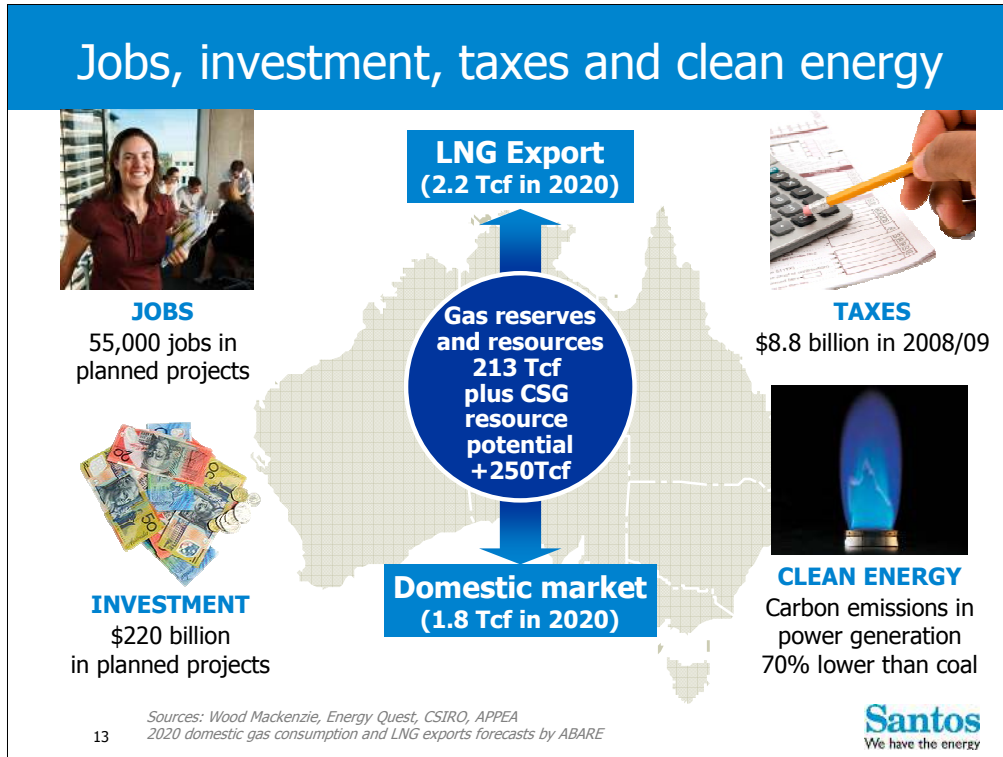
The emerging coal seam gas fields in this state, and the Cooper Basin which straddles south west Queensland and neighbouring north east South Australia are the nation's two most significant onshore gas provinces.

Onshore gas is an important and rapidly growing fuel for Australia's domestic energy needs.

Onshore gas-to-LNG capitalises on burgeoning Asian energy demand, creating a whole new industry in Queensland.

But onshore gas cannot withstand being disadvantaged, including compared to Australian offshore gas, as would be the case under the Federal Government's proposed income tax on the resources sector.

We've been clear that we will take the time to assess the impact of the proposed new tax on GLNG. I have also said that we will take a final investment decision this year. To enable that it will be important that we get greater clarity on the tax regime we can expect going forward.



If we get the policy settings right the benefits for Australia are enormous.

This is an opportunity before us right now - to give a massive boost to the LNG export market to help fuel Asian economic growth, supporting our domestic industry in a carbon constrained world.

This will provide tens of thousands of jobs for Australians, as well as investment, and taxes to both State and Federal Governments and cleaner energy.

But more than that, supporting the industry will also ensure that our gas resources are developed for the benefit of domestic energy security.

Scale is needed to fully develop assets ... but scale will come with increased domestic and international demand for gas.

Gas is the only fuel that can provide today a safe, secure, reliable source of cleaner energy for baseload power generation.

Gas really is Australia's AAA advantage.

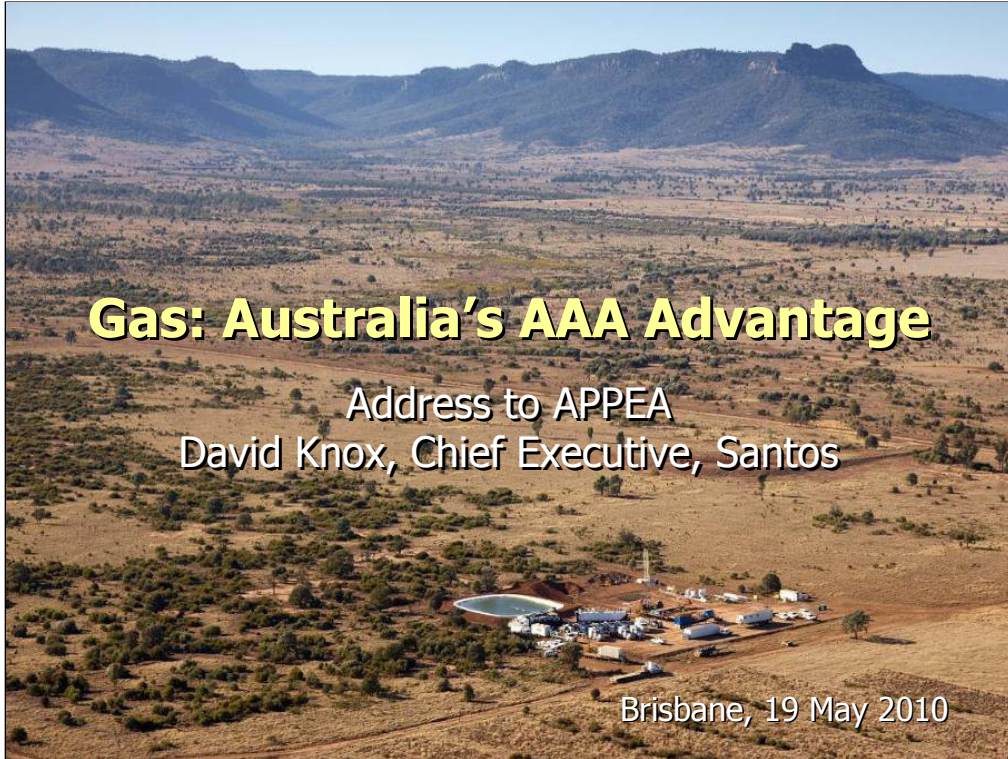
An advantage Santos has the energy to deliver.

Thank you.

Disclaimer & Important Notice

This presentation contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, geotechnical factors, drilling and production results, gas commercialisation, development progress, operating results, engineering estimates, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial markets conditions in various countries, approvals and cost estimates.

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



Gas: Australia's AAA Advantage

Address to APPEA
David Knox, Chief Executive, Santos

Brisbane, 19 May 2010