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Santos



Santos Limited
Level 29
91 King William Street
Adelaide SA 5000

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Santos Limited recently completed drilling the Jeruk 2 appraisal well at its Jeruk oil discovery in the Sampang PSC (Santos 50%), East Java Basin, offshore Indonesia. Can you elaborate on the known and potential height of the hydrocarbon column seen in Jeruk 2 and whether it is likely that the hydrocarbons will also be gas?

MD John Ellice-Flint

Current data indicates we are dealing with an oil column with a height of at least 379 metres. That is the vertical difference between the uppermost and lowermost intervals where oil has been tested in the field so far. That is already a very significant column but there is some additional potential both above and below this column. There is some room for the column to extend upward from the Jeruk 1 penetration point to the crest of the Jeruk structure. How much further is as yet unclear as the structure has been mapped using existing, sparse 2D seismic data. After interpretation of the 3D seismic data currently being acquired we will have a better idea.

It is possible that a relatively small volume of gas may be contained in the uppermost part of the structure, however this is considered unlikely from our analysis of fluid sample properties and pressure data gathered so far. There is also some room for the column to extend below the lowermost interval that tested oil at

4995m true vertical depth. Based on log data, the base of the column is unlikely to be too far below this depth but will certainly be above 5205m true vertical depth where we have already tested water. It is important to consider the column height information in true vertical depth terms as the wells were drilled at an inclination.

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Santos' revised estimate post Jeruk 1 and pre Jeruk 2 was that Jeruk could potentially contain an upside recoverable oil resource of 170 mmbbls. You have indicated that it is likely that recoverable reserves are greater than this earlier estimate. When will you be in a position to elaborate upon the potential range of reserves for this field?

MD John Ellice-Flint

This is an interesting and important question about a topic that is often poorly understood, so before answering your question I will explain the meaning we ascribe to some of these terms.

Firstly, within Santos we have a tightly managed and documented resource and reserve management process that is consistent with the Society of Petroleum Engineers resource and reserve definitions and guidelines.

During the exploration phase we prefer to talk about "contingent resources" which means the estimated recoverable volume, contingent upon appropriate field development facilities being put in place and on certain market assumptions, especially oil price. Typically, wide ranges are associated with contingent resources reflecting the fact that it is still very early days in our understanding of the field size and characteristics and of the development facilities that will be required to produce the resource.

"Reserves" are economically recoverable volumes which fall into closely defined categories of "proven", "probable" and "possible". Whilst still dependent on oil price and other market assumptions it is only after sufficient appraisal work has been performed to understand the reservoir and fluid properties (porosity, permeability, recovery factor) and to properly plan and cost development facilities that we start talking about "reserves".

So during the normal course of events as a field moves through exploration, appraisal, development and production phases we will first describe the volumes we think are going to be recoverable as "contingent resources" and then later "reserves". There is always a range of uncertainty with resources and reserves but generally with more data and as a greater understanding of any field is gained, the narrower the range will become.

So now to answer your questions. As far as Jeruk is concerned, we have clearly made a large discovery and are into the early stages of appraising the oil in place and determining an appropriate recovery factor. At this stage we will talk about contingent resources and we are dealing with a wide range of uncertainty. We will be in a better position to provide a range, albeit a wide one, after having integrated our recently acquired well and test data and examined analogue fields.

We are using well data such as rock samples, wireline logs and test data to understand reservoir and fluid properties vertically through the field – most importantly the distribution of porosity and permeability. We have two well data points only 1.6km apart – not far with respect to the size of the structure. We use seismic data to extrapolate reservoir properties laterally away from the wells and we are currently shooting 3D seismic for this purpose.

The program commenced early this week and acquisition, processing and interpretation will be completed in the second half of 2005. We will advise the market of our understanding of the estimated contingent resource range as soon as we are able; I hope within the next few months. The range will narrow further with integration of the 3D seismic data later in 2005 and then again with further drilling results – possibly later in 2005.

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The Jeruk reservoir appears to be complex. Can you give a broader summary of what you now know about Jeruk including oil and reservoir quality, flow rates, possibly recovery factors and any other relevant data compiled from the appraisal program to date that support the potential resource assessment post Jeruk 2?

MD John Ellice-Flint

Jeruk is a carbonate reservoir composed mainly of limestone. Approximately 75% of the world's oil is found in carbonate reservoirs, including most fields in the Middle East. Whilst carbonate reservoirs are often difficult to drill and evaluate, they are commonly highly productive and reliable producers. Jeruk is geologically analogous with other producing fields in East Java.

Carbonate reservoirs often have a lot of internal variation in reservoir properties both vertically and laterally, reflecting their origin as hosts of communities of living marine organisms – just like today's coral reefs and associated environments.

During the appraisal phase we will seek to develop an understanding of the distribution of reservoir properties within the field. It is already obvious that there are some parts of the Jeruk field that are highly productive, as has been demonstrated by the excellent flow rate of 7,488 barrels of oil a day from DST 1 in Jeruk 2 through a ½ inch choke with a Flowing Tubing Head Pressure of 2762psi. This rate was limited by surface facilities. It is to be expected that parts of the reservoir will have similar or better properties to this while other parts will be less productive.

It is too early to be able to give an indication of likely recovery factors for Jeruk as the vertical and lateral distribution of reservoir properties is not yet well enough understood. The 3D seismic data currently being acquired will help improve our understanding of the distribution of reservoir properties. Fluid samples gathered in both Jeruk wells indicate the field contains a good quality, relatively light oil with a gravity of about 33° API containing few impurities.

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Jeruk lies in 44 metres of water and is close to the coast but is a deep well with high pressures and difficult reservoirs. The two wells drilled to date have been troublesome and expensive. Will future drilling be as challenging and expensive?

MD John Ellice-Flint

Indeed these have been challenging wells to drill, however to look on the bright side it is the very same features that make the drilling difficult that make the reservoirs productive. The drilling of wells targeting carbonate objectives in the East Java Basin has presented major problems to exploration companies during the past twenty years. Many wells were abandoned without reaching their objective or without fully evaluating the objective section.

At Santos we have assembled a highly talented and experienced drilling team that are more than capable of tackling these challenges and that is one of the reasons we were prepared to undertake this project. These wells involved drilling into a high pressure, high temperature environment to over 5000 metres below the surface with small diameter well bores at relatively high angles for parts of the well trajectories.

During the drilling of Jeruk 1 we experienced severe losses of drilling fluid from the borehole causing part of the drill-string to become stuck in the hole and requiring a sidetrack to be drilled. Whilst the drillers tackled the problems, the geoscientists were very pleased as lost circulation generally indicates excellent reservoir properties.

Whilst drilling Jeruk 1 our team developed very effective techniques to deal with the lost circulation which were successfully applied while drilling Jeruk 2. It is important to understand that we undertook to drill these wells using existing 2D seismic to plan the well trajectories. The field is 5000 metres deep and at these depths 2D seismic data loses a lot of its accuracy. Difficulties with the well trajectory, not reservoir difficulties, led to the need for a sidetrack in Jeruk 2.

The application of techniques learned during the first two wells, together with more accurate 3D seismic, will substantially reduce drilling costs during appraisal and development drilling on the Jeruk field.

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Can you give any guidance on the likelihood of Jeruk being commercial and any views on possible capital expenditure, development concepts, timing for first production and possible commercial flow rates?

MD John Ellice-Flint

It is too early to say that the field is commercial as we are still doing the work that will enable us to make that decision. It is, however fair to say that Jeruk gives every sign of being commercial. It is also too early to provide guidance on development concepts, capital expenditure, timing of production or flow rates. We will be examining a range of development concepts as appraisal proceeds. The fact that the field is in shallow water close to the coast increases the number of development options available to us and should enable us to bring production on

relatively quickly. Additionally it will allow us the flexibility to undertake a staged development if that proves prudent in order to reduce risks.

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How significant is Jeruk for Santos? How does it compare with current reserves? How does it compare with recent Santos discoveries or developments?

MD John Ellice-Flint

We currently hold a 50% interest in the Jeruk field which we anticipate being very significant for Santos. It should bring a welcome addition to our portfolio of development projects with an investment schedule and production profile that complements other projects and strengthens our outlook toward the end of this decade.

As I said earlier, it is too early to talk about reserves. At this stage we believe that we have a large discovery that appears likely to contain more than the published, pre-drill contingent resource estimate of 170 million barrels. If our initial view is confirmed during the appraisal program then the Jeruk discovery could significantly upgrade our current reserve base and it would be Santos' largest oil field development.

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Production Sharing Contracts in Indonesia are quite favourable to the government, will Santos be able to achieve a good return from an oil development at Jeruk?

MD John Ellice-Flint

PSC terms around the world vary as governments try to attract investors by setting terms that achieve a balance between the returns offered and the technical, commercial and country risks that investors undertake. The terms of the Sampang PSC are reasonably standard for Production Sharing Contracts in Indonesia, a country where there is an attractive resource potential and a long history of successful management of PSCs. These terms should allow the development of a reasonably large oil field in the PSC to provide good returns to both the Government of Indonesia and the Contractor. Respected independent industry analysts estimate that analogous Indonesian oil fields can produce very strong double digit internal rates of return.

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Before drilling Jeruk 1 and Jeruk 2, the other JV parties in the Sampang PSC elected not to participate in these wells. Do those parties have rights to reclaim their interests in the Jeruk discovery and if they did, what would be the effect on Santos' interest in the Jeruk discovery?

MD John Ellice-Flint

Santos' fellow joint venture participants in the PSC elected not to participate in the drilling of the Jeruk 1 or Jeruk 2 wells. Santos proceeded to undertake the drilling of the wells on a 50:50 cost sharing basis with Medco Energi. The joint venture parties have the right to reinstate their interests in the field after paying compensation according to the sole risk provisions of the Joint Operating Agreement between the PSC parties. If this were to occur Santos' interest in the

field would reduce from 50% to 45%. As per standard Indonesian PSC conditions, a government nominated company has the right to back in to a 10% equity interest in the PSC, pro rata from each of the PSC parties. If this were to occur then Santos' interest in the PSC would reduce to 40.5%.

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What's the forward plan for activity to further assess Jeruk and the likely timing of that program?

MD John Ellice-Flint

The immediate program is to acquire, process and interpret a 3D seismic survey which will assist in improving our predictive models and help define reservoir property distribution and resource range. Data acquisition has commenced and we expect the data to be processed and interpreted during the second half of 2005. We will also consider undertaking further drilling later this year - possibly a re-entry of the Jeruk 2 wellbore. We will also continue evaluating and integrating the well and test data acquired so far to help us better understand the resource range and assess development options.

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How does the Jeruk success affect your exploration approach in the Jeruk area? What do you plan next in the area?

MD John Ellice-Flint

The Jeruk discovery reaffirms our belief in the exploration potential of the East Java Basin which is one of our two current focus areas in Indonesia where we are conducting active, ongoing exploration programs. The rig is currently preparing to move to the Agung 1 well location in the North Bali 1 PSC in which Santos has a 30% interest. Agung 1 is targeting a carbonate reservoir on a similar trend to the Jeruk discovery. It is a large prospect with an unrisksed upside resource potential of 550 mmbbls. We are also participating in the drilling of 4 to 5 wells in the deep water Kutei Basin commencing in the first quarter.

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Thank you John.

For further information on Santos please visit www.santos.com or call Graeme Bethune (Media enquiries) on (08) 8218 5157 or Mike Hanzalik (Investor enquiries) on (08) 8224 7725.

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