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Santos Limited today reported a 36% fall in net profit after tax to $86.5 million for the 6 months ended 30 June 2004. However, you stated that net profit would have been around $62 million higher at $149 million without loss of earnings from the Moomba incident. Can you quantify the positive and negative influences on net profit before the impact of the Moomba incident and can you separately explain the impact of the Moomba incident?

MD John Ellice-Flint
Lower gas and liquids volumes principally in the Otway, Carnarvon and Cooper Basins reduced net profit by $28 million whilst slightly higher product prices added $8 million to net profit.

The start up of the Bayu-Undan liquids project added $7 million to net profit, lower exploration asset write-downs $31 million, cost savings $7 million and other items added $2 million but the restructuring costs incurred in the first half reduced net profit by $14 million.

The biggest impact on first half profit was the Moomba incident which caused a reduction in net profit after tax of $62 million principally as a result of lost revenue and additional operating costs, offset by lower depletion due to lost production. The lower first half result doesn't include any recovery of losses expected from insurance polices covering business interruption or property damage caused by the Moomba 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.

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Cash flow from operating activities after interest and tax fell by 54% to $193 million. That seems like a large fall even allowing for Moomba. Can you detail the lower operating cash flow?

MD John Ellice-Flint
The 54% or $229 million decline in operating cash flow was largely influenced by the Moomba incident, lower sales volumes and movements in working capital.

The Moomba incident reduced operating cash flow by $106 million. The lower first half result doesn't include any recovery of losses expected from insurance polices covering business interruption or property damage caused by the Moomba incident.

The estimated adverse impact of the incident on Santos' full-year 2004 operating cash flow following insurance recoveries remains $35 to 40 million, as previously advised.

Lower sales volumes as a result of lower production principally in the Otway, Carnarvon, Cooper Basins and USA net of cost savings and price impacts of $49 million also contributed to lower operating cash flow.

The final negative impact was the $103 million movement in working capital. These movements relate mainly to the timing of sales receipts and creditor payments.

Lower tax payments in the first half of 2004 versus the first half of 2003 added $29 million due to timing and determination of tax instalment amounts based on prior years taxable income.

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Directors decided to declare a steady fully franked interim dividend at 15 cents per ordinary share in light of the significant production and profit improvements expected in 2005. Production for the half year to 30 June 2004 was 21.2 mmboe and the Company continues to expect production of 45-46 mmboe for 2004. What production do you expect in 2005 and what else will drive profits higher in 2005?

MD John Ellice-Flint
Significantly higher production is forecast for 2005. The magnitude of the 2005 production increase will become clearer towards the end of 2004 when there is 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 the previous 2005 forecast production by around 2 million boe. The previously announced difficulties in the Carnarvon Basin from reduced performance from the Stag and East Spar fields could reduce production by around 2 mmboe for each field.

Subject to satisfactory conclusion, the Novus transaction will add around 2 million boe. The net negative effect of these changes could be around 4 million boe for 2005.

What is important is that a large part of the increase in production in 2005 will be in oil and liquids, which will provide good margins in a high oil price environment.

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The cycle time from discovery to production is usually measured in years. Santos did not make any major discoveries in 2003. Is another production gap looming after around 2007?

MD John Ellice-Flint
We have a number of gas assets which we aim to have in production later this decade. These include Sole, Golden Beach and Kipper in the Gippsland Basin; Petrel Tern and Evans Shoal in Northern Australia and Hides in PNG. Any exploration discoveries over the next 18 months could also be in production by around 2008, and in some cases even earlier.

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What average oil price and exchange rate did you receive during the half year and what's your earnings sensitivity to the oil price and exchange rate?

MD John Ellice-Flint
Our average realised oil price during the first half of 2004 was little changed at A$46.76 up from A$45.91 per barrel despite the rise in the average realised oil price to US$32.63 from US$28.63. The small increase in the realised oil price was due to the 10.5% appreciation of the Australian dollar. The average realised Australian dollar exchange rate in the first half of 2004 was 69.78 cents versus 63.16 cents in the first half of 2003.

For the second half of 2004 a US$1.00 per barrel change in oil prices will result in a $7 million change in net profit after tax and a 1 cent change in the AU$/US$ exchange rate will change net profit after tax by $2 million.

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The main objectives of the Santos Continuous Improvement Program announced in May 2004 are simplifying the organisational structure, reviewing and improving key business processes to add value, reducing the cost base and improving the organisational structure and culture. Can you give a quantitative and qualitative assessment of the improvement program so far? What future financial targets have you set from the program?

MD John Ellice-Flint
I'll deal with the financial targets part of your question first. We set a target of reducing capital and operating costs by $120 million on a like-for-like basis during 2005, compared to the 2003 cost base. The work necessary for these savings is already firmly established, and is assessed against a structured milestones and savings schedule. Already we've confirmed savings in excess of $8 million for June and July, so we've made a good start.

The qualitative assessment is hard to do so early in the program, but the indications are that we've set up an organisation and leadership structure which will stand us in good stead for the environment Santos is moving into. It should be noted that many of the changes here are ones requiring patience, and will be delivered by completing projects we launched in the middle of the year. Examples of this are the restating of Santos's culture, the improved co-ordination of our onshore production facilities, or the more rapid and efficient execution of projects as we bring new prospects into production.

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You've described this year's exploration program as a well balanced portfolio with larger and higher quality opportunities. Can you outline the high risk wells that could deliver significant discoveries?

MD John Ellice-Flint
There are several significant wells in six different hydrocarbon basins. We have a good risk spread and a greater proportion of oil targets than in the past. A success in any one of the wells will lead to a number of follow-up opportunities and so they could all deliver significant value. Each is significant for its own reasons, some are large in their own right, like Agung, and others test unproven plays like Amrit.

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One of Santos' main corporate objectives is to achieve 2P reserves replacement equal to 140% of annual production. You can achieve that by new exploration success, acquisitions or by turning currently non-commercial discoveries – Contingent Resources – into reserves. What are the better opportunities in the latter category?

MD John Ellice-Flint
Santos is pursuing the commercialisation of major assets across short (1 year), medium (2-3 years) and long-term timeframes. The nearer-term focus is on gas resources along the southern margin (offshore Victoria & South Australia) where there is potential for early access to markets. The Sole, Kipper & Golden Beach gas fields are in this group. Further out the opportunities are categorised by very large gas resources where market access is dependent on niche or long-term domestic gas access, LNG or gas-to-liquids. Examples in this group are Petrel/Tern, Evans Shoal and Hides (PNG).

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The JV recently approved development of the $220 million John Brookes gas field which will replace East Spar production. Mutineer-Exeter and Bayu-Undan

are other Santos growth projects currently under development. Can you update progress on the Mutineer-Exeter development and bringing Casino and Oyong/Maleo to approval status?

MD John Ellice-Flint
Good progress was made during the June half year on the $480 million Mutineer-Exeter oil field development. This is the first offshore oil development that Santos operates and it is now more than 60% complete.

In the sub-surface, the structure and reservoir distribution is proving to be more complicated than originally anticipated. Exeter 4AH has been drilled and completed, with an initial production capacity of 25,000 barrels of oil per day. The north eastern Mutineer 5 development well has been drilled and confirmed. The pilot hole at Mutineer 8 was drilled recently and indicated that we need to revise this development location. A further pilot hole, Mutineer 7, was unsuccessful in confirming the development location in the south west of the field.

These results led to increased uncertainty on the ultimate recoverable volumes in the area of the fields so far drilled. The impact of these drilling results will be updated once the current drilling program has been completed. A development location to the north is currently being drilled and up to three further development wells are planned during this phase of drilling. Results to date indicate that the project should be able to meet the anticipated start up timing of mid 2005.

Santos is working with its Casino joint venture partners to conclude major development contracts and the gas sales agreement with TXU which will facilitate project sanction before the end of the year and first gas production in the first quarter of 2006. The innovative commercial arrangements associated with the Casino field have enabled the fast commercialisation of the gas field and have facilitated further exploration drilling in the permit this year. Tenders for the development works have been evaluated and in some cases critical long lead items awarded. Furthermore recently identified near field exploration and tieback opportunities are being matured with a possibility of drilling later in 2004.

Development plans for Maleo are progressing well as negotiations are close to finalising a gas sales agreement (GSA). 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 about the beginning of 2006. While there has been a delay, the outcome of negotiations has been positive and the joint venture has improved the overall value of the project. Tenders for the Maleo production facilities are currently being sought under the Indonesian PSC bid system.

The Oyong development plans are further behind those of Maleo because it has been necessary to review development plans as a result of additional technical evaluation on the magnitude of recoverable oil reserves. The development has also been waiting on satisfactory credit arrangements to be put in place. However high current oil prices coupled with ongoing screening of low cost development techniques suggest that we could be able to fast track the development, provided securitisation and regulatory approvals are achieved.

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At 30 June 2004, net debt to net debt plus equity was 29%. You forecast total capital expenditure for 2004 of $925 million ($390 million in the first half). As a result of increasing capital requirements, you have announced the redemption of your existing preference shares and the offer of $500 million of Franked Unsecured Equity Listed Securities (FEULS). Can you explain your funding strategy and particularly the use of FUELS?

MD John Ellice-Flint

We've seen good pricing in the hybrid market for some time and we're not taking full advantage of that. Rather than issue more of the current securities with a short reset or issuing a further security, we've decided to roll it all into a new bigger program. This is an innovative new product in the hybrid market and the first issue by a non-bank institution.

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In May 2004, Santos announced that it had entered into an agreement with Origin Energy involving the swapping of gas between Queensland and the Moomba Gas Hub. Can you describe and quantify the benefits to Santos? Are further gas swaps possible for Santos?

MD John Ellice-Flint

The Moomba Hub's commercial and infrastructure position in the east coast energy market of Australia is unique and leveraging this position to create value is an emerging opportunity.

Key to the recently announced gas swap deal with Origin is that it enables a more cost effective market supply arrangement, increases the reliability of supply and increased liquids recovery from the Cooper Basin. The agreement is structured to give Origin access of up to 200PJ of sales gas at the Moomba Gas Hub.

Moomba is also uniquely placed to supply spot and short term commodity supply with a wide range of service or capacity options. We're also actively pursuing third party processing as a way to add value, with about $100 million of value having been already created in relation to the Hub overall.

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You expect earnings in 2005 to increase from 2003, on a comparable basis. Can you detail the impact you expect when you adopt international accounting standards?

MD John Ellice-Flint

Not at this time. Santos will begin reporting under the Australian equivalents to IFRS when it reports its 2005 half yearly results at about this time next year. In preparing for this transition, the Company has a team reviewing the new reporting requirements so that the Company can meet its 2005 interim reporting deadline for applying IFRS. This work is not complete.

One of the complicating issues facing companies in the Extractive Industries such as Santos is that under IFRS, there is no IFRS Extractive Industry accounting standard and one is not expected to be available for a number of years. However, as an interim measure, the IFRS has issued Exposure Draft ED 6 "Exploration for and Evaluation of Mineral Resources" which proposes a "grandfather option" to apply the company's existing accounting policies in regard to accounting for Exploration and Evaluation activities until such time as an IFRS Extractive Industry standard is issued. This temporary standard has not yet been issued so we don't know its final form.

Alternatively, the Company may adopt a methodology for accounting for its exploration and evaluation activities which is compatible with the IFRS conceptual accounting framework where exploration costs would be expensed unless they lead to a successful discovery of economic value (or a successful efforts methodology).

A decision will not be made until the interim accounting standard is issued later this year and this option can be evaluated. Accordingly, it is not possible at this time to quantify the financial impacts of IFRS for 2005.

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Earlier this year the Federal Government announced new concessions that will allow companies to claim 150% (previously 100%) of their exploration spending in designated areas for PRRT purposes. To what extent will that benefit Santos?

MD John Ellice-Flint
We have yet to see the legislation and the Government will have a discretion on which frontier acreage is eligible for the concession. We are however interested in frontier exploration acreage opportunities and I wouldn't be surprised if we do explore in areas subject to the new arrangements. My broader concern is that more needs to be done to improve the PRRT system, particularly its impact on gas developments.

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Thank you John.

For further information on Santos please visit www.santos.com or call Graeme Bethune (Investor enquiries) on (08) 8218 5157 or Kathryn Mitchell (Media enquiries) on (08) 8218 5260.

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