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Santos

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Santos growth outlook stronger than ever - Chairman

Santos Limited is in a stronger growth position now than at any time in its history, the Company's Chairman, Mr Stephen Gerlach, told shareholders at today's annual general meeting in Adelaide.

As part of its ongoing expansion strategy, Santos also today announced a further significant increase in its 2005 oil and gas exploration program in Australia and overseas.

Mr Gerlach said Santos had changed considerably from humble beginnings in the 1950s when the Company's founders first started exploring for hydrocarbons in the deserts of the Cooper Basin in central Australia.

"Your current Board and Management are building on that "change" process, by transforming Santos into a truly global exploration and production company," he said.

Mr Gerlach said Santos' highlights of the past year included a strong financial performance that delivered total returns to shareholders of 28%, including share price appreciation and dividends paid.

"This is a significant increase from the 20% return achieved in 2003 and is well above our target of at least 14%," he said.

"Dividend payments were increased to a total of 33 cents a share for the year and were again fully franked. This represents a grossed up yield of around 5% and marks the 28th successive year in which your Company has paid a dividend.

"Our strong cash flow and low gearing provide us with confidence that, notwithstanding a substantial capital expenditure program to achieve further growth, Santos is well positioned to be able to maintain its current level of dividend payments," he said.

Incentives to grow in Indonesia

Mr Gerlach said Santos had used its expanded and established advantages in Indonesia - Australia's nearest neighbour - "to strengthen the Company's niche in this energy hungry country, which has a population of about 240 million people".

"Recently, the Indonesian government announced both a reduction in domestic diesel subsidies – which will significantly expand domestic gas sales – and new incentives to encourage the development of marginal oil fields," he said.

"It is clear that Indonesia, through market and financial incentives, is focused on strengthening its domestic energy supplies – disappointingly, it is something that Australia appears unwilling to do.

“Declining self sufficiency for our nation’s energy supplies is clear. Domestic oil production is forecast to decline within the next 15 years to less than 300,000 barrels per day from current levels of more than 500,000 barrels per day.

“Industry statistics clearly reflect the decline in activity in Australia – we have less oil and gas exploration in Australia today than we did 10 years ago – yet we are operating in a climate of high oil prices.

“The problem gets back to the overall returns available to the explorers who are prepared to take the risks associated with the search for new energy sources in this country.

“The Government has got to get the investment climate right – and quickly – if it is to reverse the current trend of companies looking for and finding exploration opportunities where better returns are on offer.”

Mr Gerlach said Santos was among those Australian companies – large and small – that were broadening their areas of exploration activity outside of Australia.

“Of course the Cooper Basin remains a valuable asset at the core of our company and the cash flow generated by our position as the largest domestic gas producer in Australia enables us to fund our transformation,” he told shareholders.

“This further emphasises the change which is underway within Santos. Almost half of our annual production now comes from other locations and we continue to broaden our areas of operations.

“During 2004, we continued the Company’s global expansion beyond its current interests in Australia, Indonesia, Papua New Guinea, and the United States by entering a farm-in agreement to explore in Egypt where we are currently drilling the second and third wells in an eight well program.

“Overall, your Company clearly is in a stronger growth position now than at any time in its history.”

Exploration boost - to $170 million

“Given the importance of exploration to Santos, I am pleased to announce today a further increase in this year’s exploration budget to $170 million for the drilling of 28 wildcat exploration wells,” the Company’s Managing Director, Mr John Ellice-Flint, told the meeting

“This is up from $153 million previously advised and is 35% higher than the $126 million spent in 2004,” he said.

“It certainly confirms Santos’ position as one of the most active Australian oil and gas exploration companies.”

Mr Ellice-Flint said the Company’s 2004 exploration success rate of 44% included discoveries onshore and offshore Australia, offshore Indonesia and onshore USA.

“Potentially the most significant result was the Jeruk oil discovery in Indonesia which will shortly be further evaluated by the re-entry and sidetracking to the north-west of last year’s successful Jeruk 2 well,” he said.

"This work will allow us to further evaluate reservoir information from a location between the existing Jeruk 1 and Jeruk 2 wells. In particular, core samples and production testing will assist in better defining the reservoir and fluid properties, as well as providing information needed to right size potential production facilities.

"We have also acquired 3 dimensional seismic over the Jeruk field and surrounding areas, and depending on the interpretation of this data, rig availability, and approvals, we plan to drill additional appraisal wells, possibly starting in the fourth quarter of this year. This seismic should also assist in defining new exploration opportunities

"Options for potential early production from the Jeruk field are also being evaluated."

Mr Ellice-Flint said another Indonesian area where promising results were achieved by Santos was the deep water Kutei Basin off Kalimantan where the Hiu Aman gas and oil discovery was drilled early in 2005.

Production on target

Mr Ellice-Flint said Santos expects to meet its production projections of around 54 million barrels of oil equivalent during 2005 - compared with 47 million barrels produced in 2004 – with a further increase of at least 10% in 2006.

"There was rapid progress last year for our flagship Mutineer-Exeter oil field development. Production started 3 months ahead of schedule and 10% under budget – a world class achievement by any measure.

"Soon after start up in March this year, production was ramped up to an initial rate of 105,000 barrels of oil per day.

"Since then, the fields have produced on free flow at around the facility design capacity of 100,000 barrels per day before being stabilised at the current rate of about 90,000 barrels per day, as we gather reservoir performance data. About 2 million barrels of oil have already been sold from Mutineer-Exeter.

"Additional appraisal and development drilling is planned for the second and third quarters of this year with the successful Mutineer 11 appraisal well having just finished drilling."

FOR FURTHER INFORMATION PLEASE CONTACT:

Media enquiries:
Kathryn Mitchell
(08) 8218 5260 / 0407 979 982

Investor enquiries:
Andrew Seaton
(08) 8218 5157 / 0410 431 004

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