

MANAGING DIRECTOR'S ADDRESS TO THE

ANNUAL GENERAL MEETING

OF SANTOS LIMITED

BY

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MANAGING DIRECTOR

30 April 2003

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Thank you Chairman and good morning ladies and gentlemen.

Let me add my welcome to that of the Chairman.

It's a pleasure to have the opportunity to address you today.

One of the nice things about Santos is that we always have such a good attendance at our Annual General Meetings.

We appreciate having interested and active shareholders. I know that you all have competing demands on your time and we value your presence here today.

A very warm welcome to you all and I look forward to chatting with you afterwards over refreshments.

Another sign of the change in Santos is that we have rearranged today's proceedings so that the Board and the senior management team will have more time to spend with you following the meeting.

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When I speak to investors, they generally want to know what distinguishes Santos from other mid size oil and gas companies around the world.

To my mind it comes down to four key things:

- First, the strength and value of our base business, which is our Australian oil and gas business. Being based in Australia is particularly important because of our country's low sovereign risk.
- Second, we have a balanced approach to earnings and growth. Though production is important, margin is equally important. At the current time we are particularly focused on improving margins.
- Third, we have a prudent approach to cost management. We have made great strides in reducing capital costs over the last two years and the focus is now moving to operating costs.
- Finally, we have an expanding suite of quality growth projects. A good example is Bayu-Undan on which I will comment in some detail.

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Santos' business has changed significantly over recent years.

For example, production has grown substantially.

Last year we produced a record volume of oil and gas, 57 million barrels.

This growth reflects the broadening of our activities.

Almost 40% of our production now comes from outside the Cooper Basin.

Over the last three years we have grown in Western Australia, Victoria, Indonesia and the United States.

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We remain the country's largest supplier of gas. This is a solid and secure base business.

The Cooper Basin, Australia's largest onshore resource project, remains our cornerstone.

We are fortunate to have had, and continue to have in the Cooper Basin, an asset that has provided a reliable gas supply over many years.

Reliability is a major asset of any corporation

Our reliability was instrumental in the Cooper Basin joint venture winning the new contract last year with AGL for up to 505 petajoules.

This contract award was very important for us. It extended our contracts with AGL from 2006 to 2016, and is worth in excess of two billion dollars to the Cooper Basin joint venturers.

Importantly too, the gas was contracted at a higher margin than previous Cooper Basin contracts.

While Australian gas is a solid and secure business, it has low margins by international standards. Australian gas prices are still the lowest in the OECD.

As I explained at last year's AGM, one of our priorities has been to achieve higher gas margins, both domestically and overseas and I am pleased to say that we are having some success.

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Santos' gas business is being increasingly diversified.

In Australia we supply gas from five basins to around 30 major customers in every mainland state and territory.

We also produce growing volumes of gas in the United States and are active participants in exciting new gas projects in Indonesia and Northern and Southern Australia.

In February we signed Heads of Agreement for sale of gas from the Oyong field in Indonesia, which we discovered in 2001.

This will be Santos' first gas production in Indonesia and the start of what we plan will be a growing South East Asian energy business.

There has also been good news on the Bayu-Undan LNG project in northern Australia.

This time last year I mentioned that ConocoPhillips, the Operator, had signed heads of agreement with major Japanese LNG buyers.

At that time there were still significant political hurdles to overcome.

I am pleased to say that there has been considerable progress and we are now awaiting a final decision by the designated authority.

This will be Australia's second LNG project, with a total investment of around US\$1.5 billion, and Santos' first involvement in LNG.

I will say more about Bayu-Undan later, but as I outlined at last year's Annual General Meeting, our gas business is growing and diversifying.

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Santos is also more than just gas.

Santos stands for South Australian Northern Territory Oil Search and while the Company's first discoveries were gas, it is oil and liquids that provide the high margin upside for our investors

Oil and gas liquids make up one-third of production, but they contribute nearly 60% of our revenue.

That means that we have been benefiting from strong oil prices in recent years.

However, while oil production is higher than it used to be, it has declined over the last two years due to a natural decline in our existing oil fields and the lack of new oil projects on the conveyor belt.

In terms of production volumes, the fall in oil has been more than offset by higher gas production. However, the lower margins we achieve for gas have affected earnings.

We have been working hard to reverse this. Liquids, like oil, are also a high margin product and first liquids production next year from Bayu-Undan will help.

In 2005 we expect first oil production from Mutineer and Exeter. However, we are also doing all we can to increase oil production in the near term, through optimisation of our existing oil fields and discoveries.

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In the Cooper Basin we are implementing an accelerated oil development program to offset declining oil production.

The program will involve extensive recompletion of existing producing wells, pilot water flood and the drilling of up to 16 wells in 2003 with the aim of increasing oil production over the course of 2003 and 2004.

Should this prove successful it will have significant follow-on oil development potential.

In the Carnarvon Basin an infill oil development well will be drilled this quarter in the Legendre oil field.

In the Timor Sea with our partners Woodside and Inpex, we are investigating possible early production in 2004 from the Jahal and Kuda Tasi oil fields.

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Exploration is the lifeblood of any oil and gas company.

Santos used to be more production than exploration focused, so improving exploration has been a major priority over the last two years.

We now have more exploration acreage in Australia than any other company. This follows recent acreage awards in the Duntroon, Otway, Sorell, Browse and Houtman Basins.

We have also acquired additional acreage in offshore Indonesia and in the United States.

Our exploration program has also changed considerably in recent years.

It is higher risk but also with the potential for much more material rewards, the size of rewards that are needed for a Company that produces around 55 million barrels a year.

Success rates are likely to be lower than historically, with more misses than hits, but the upside is considerably greater.

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I am pleased to say that Santos' 2002 exploration result was the best for many years.

We discovered 106 million boe of resource potential, more than four times the 2000 result.

This is a very good result for a wildcat exploration program.

However, we are very aware that we are only as good as tomorrow's results.

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The highlights of the exploration program were the discoveries of the Mutineer and Exeter oil fields and the Maleo gas discovery.

Mutineer and Exeter are two oil fields located less than five kilometers from each other in the Carnarvon Basin, offshore Western Australia. Santos is the operator and has had this acreage since the mid 1980s. Some drilling was done on Mutineer in the late 1990s but with inconclusive results.

We revisited the acreage in 2002 with seven wells. Not only was this program successful but it was executed at a 40% lower cost than Santos' previous drilling in the area.

The end result is that the two oil fields are estimated to have approximately 120 million barrels of proven and probable oil, a 50% increase in Santos' oil reserves.

A Floating Production Storage and Offloading facility or FPSO concept has been selected for the Mutineer Exeter oil development.

In order to progress the development as efficiently as possible, four major internationally recognised contractors have been pre-qualified and a technical definition phase has commenced.

This will be followed by a commercial tender phase for the lease of the facility to be completed by end June.

An experienced offshore project team is in place in Perth to manage this process as well as progressing all other schedule critical activities.

The target is to achieve full project sanction before the end of 2003 with first production in mid 2005.

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The other major discovery was Maleo, a gas field in Indonesia, offshore East Java.

Two wells confirmed a discovery of 250-400 billion cubic feet of gas. Java has a strong unmet demand for energy, particularly gas for power generation, and sales options are currently being actively explored.

We have been active in East Java in following up our Oyong and Maleo gas discoveries.

During the first quarter of 2003 we acquired over 2,000 kilometres of seismic in order to high-grade prospects close to these discoveries.

The next well to be drilled in East Java is the Mangga gas prospect, 35 kilometres due west of Oyong. It is due to be drilled in August.

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Mutineer, Exeter and Maleo are future development projects.

However, Bayu-Undan, which I mentioned earlier, is well under development already and because of its importance to the Company I would like to go into more detail on it.

Bayu-Undan is a world class hydrocarbon field, located in 80 metres of water, 500 kilometers north-west of Darwin.

It contains over three trillion cubic feet of natural gas and 400 million barrels of LPG and condensate.

This is the energy equivalent of one billion barrels in total.

Our share of Bayu-Undan reserves represents around 15% of our total proved and probable reserves.

The field is located in the area jointly administered by East Timor and Australia.

Santos currently has an 11.8% interest and we are the only Australian company involved in this project.

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The Project has two stages. The first stage is the Gas Recycle Project, which has a life span of 25 years.

The field contains a mixture of what are called natural gas liquids – propane, butane and condensate – and natural gas.

The first stage involves separating or stripping the liquids from the gas and reinjecting the lean gas back underground. The liquids can then be exported via specially designed ships.

Offshore gas production capacity is one billion cubic feet per day which is almost twice the capacity of the Moomba plant.

The current development is the most complex liquids stripping plant ever built offshore anywhere and will cost around US\$1.8 billion.

It involves three platforms plus a permanently moored ship called an FSO in which the liquids are stored for export via shuttle tankers.

This is the first ever FSO to separately store propane, butane and condensate and has the capacity of 1.4 million barrels

The platforms are massive. The compression platform stands on eight legs, 90 meters above the sea bed. That is roughly equivalent to a 20 storey building in height.

The decks of the Compression and Production platforms each have three levels, and weigh 11,000 and 14,000 tonnes each, or the equivalent of around 80 fully laden 747 jet air liners.

The project partners have already drilled and completed six wells out of a total of 17, for stage one. Each of the wells is around 3,000 metres or three kilometers below the sea bed.

As at the end of March, the first stage was 73% complete.

When the gas recycle project comes into production next year, it will bring about a significant increase in Santos' liquids production, starting to reverse the decline in oil and liquids production to which I referred earlier.

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The second stage of the project is to produce LNG.

This will involve construction of a 500 kilometre pipeline from the field to Wickham Point in Darwin, to a new LNG plant. This will cost approximately US\$1.5 billion.

Production from this plant is planned for 2006.

This second stage will be a significant project for Santos, Australia and East Timor.

The total revenue for both LNG and liquids over the current life of the project will be in the order of A\$30 billion.

However, final government approval is needed before the companies involved can go ahead.

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I said in my opening that Santos is changing. While maintaining a strong base business, we are diversifying, focusing on more material exploration and on increasing number of growth projects.

In speaking about change, I could just as easily have talked about our core asset, our people.

This year's Annual Report is entitled, The Energy that Drives Us Forward, with photos of some of our people from across the Company.

Finding oil and gas begins in the minds of men and women and to be successful we need to attract and retain the best people in the business and to manage them to achieve the best result for shareholders.

I am pleased to say that we are having increasing success in doing so.

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As you can see we are working actively to build value for Santos shareholders.

Of course adding value is more than just growing volumes.

It is also about controlling our costs to increase margins. This needs to be done, day in day out.

Improving productivity or lowering the cost per unit produced is key.

We have been successful in reducing capital costs associated with our extensive works programs.

We are currently implementing twelve major initiatives as part of our focus on lowering operating and capital costs.

In May 2001 we set a market commitment of achieving capital and operating cost savings of \$50 million by the end of 2003.

At the end of 2002 we had already delivered \$78 million of cumulative savings.

Our performance to date has given us the confidence to raise the cumulative target to \$100 million by the end of 2003.

We are now increasing the focus on opportunities to reduce operating costs.

Santos is a low cost operator but we are constantly searching for ways to improve our performance in this regard.

Conclusion

In closing, let me just say that

We have made good progress on our growth targets first outlined to you two years ago

As well as effectively managing our substantial existing business, we have a growing and exciting portfolio of opportunities through which to create sustained growth.

Subject to oil price movements, the medium to long-term outlook is very sound.

Our profit outlook is tied to a range of factors, including oil prices, costs and production.

Oil prices remain extremely volatile. Since the first quarter they have fallen to around \$US25 per barrel.

On costs, we are increasing our targeted level of savings

On production and sales volumes, the outlook remains the same as at the time of the full year results.

In the near-term production and sales volumes will marginally decline, reflecting a comparatively lower level of investment in new production projects during the 1990's.

However we are actively working opportunities to increase near-term production and it has been a good start to the year with production holding almost steady in a period of strong energy prices.

Looking ahead, we are starting to build a profile of growth projects that we need to take us forward.

We have made good progress in meeting our operational metrics but over the next couple of years the focus will be on achieving financial targets.

But, to get the financial metrics right we must first achieve our operational metrics.

What you have heard today and what we aspire to do, is all part of the changing culture at Santos.

It is a great, active and visible culture - being driven by some excellent, talented and innovative people, of whom I am immensely proud.

They have the know-how and desire necessary to meet the challenges we face in the energy sector and global economy.

That provides me and my colleagues with much confidence about the future.

Thank you for your time and I look forward to joining you for refreshments following the conclusion of the meeting.