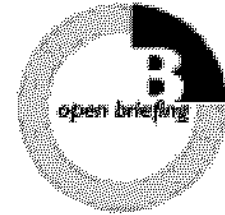


**Attention ASX Company Announcements Platform
Lodgement of Open Briefing**

Santos



corporatefile.com.au

Santos Limited
Level 29
91 King William Street
Adelaide SA 5000

Date of lodgement: 20-Aug-2003

Title: Open Briefing. Santos. MD on Profit & Outlook

Record of interview:

corporatefile.com.au

Santos Limited today reported a 2.2% rise in net profit after tax to \$170 million for the half year to 30 June 2003 (before write-downs of \$34.4 million after tax). Can you give a waterfall analysis of the profit rise?

Managing Director John Ellice-Flint

Net profit after tax (before asset write-downs) increased by \$4 million to \$170 million. This primarily reflected higher product prices contributing an additional \$57 million compared with the half year to 30 June 2002. This was partly offset by lower sales volumes (down \$31 million), higher royalties and PRRT (up \$13 million) and depletion (up \$6 million).

Another key measure of our financial performance was the strength of EBITDA which increased by \$16 million to \$503 million.

corporatefile.com.au

Although June half 2003 sales volumes decreased by 0.8 million barrels of oil equivalent (MMboe) to 26.5 MMboe, revenue was up 6.4% to \$716 million mainly because of higher average A\$ oil and gas prices. How do your current oil and gas prices compare with those averages received over the first half?

John Ellice-Flint

During the first six months of the year, our benchmark Tapis oil price averaged US\$29.70 per barrel and the Henry Hub US gas price averaged US\$6.00 per

thousand cubic feet. Early this week, prices were US\$29.55 per barrel for Tapis and \$US4.84 per thousand cubic feet for Henry Hub spot gas. So the oil price has decreased slightly while the US gas price has fallen about 20% post June 30.

Santos' earnings are fairly sensitive to both oil and gas prices. A US\$1 per barrel change in the oil price would impact second half NPAT by around A\$6 million and a US\$1 per thousand cubic feet change in the US gas price would also impact our second half NPAT by around A\$6 million.

Oil price hedging is spread fairly evenly throughout the second half with around 22% of forecast production hedged at US\$24.96 per barrel - similar to the first half. About 19% of our US gas production is capped at prices of US\$4 per million BTU. That is also similar to the first half and is part of the hedging we inherited from purchasing the Esenjay assets.

corporatefile.com.au

You've stated that production performance in 2003 and 2004 remains likely to be below the 57 MMboe achieved in 2002 and you're expecting around 54 to 55 MMboe in full year 2003. Nevertheless you remain upbeat about longer term growth. When do you expect Santos to achieve meaningful production growth from its new projects such as Bayu Undan (Santos 10.6%), Oyong (45%) and Mutineer Exeter (33.4%)?

John Ellice-Flint

The Bayu Undan liquids project will begin to contribute from May 2004, although we'll actually be testing the facilities and equipment in late December 2003. Liquids production from Bayu Undan will partly offset the decline in our existing oil fields in Western Australia and the Cooper Basin but we expect a material increase in production when the Mutineer Exeter oil field commences production in mid 2005. Our production profile will be further assisted by production from Oyong which will also start in mid 2005.

corporatefile.com.au

You've mentioned the short term production success through the infill well at Legendre. What other short term production initiatives are you examining such as optimising Cooper Basin production or possible early production from Jahal and Kuda/Tasi (25%) fields?

John Ellice-Flint

Woodside operates the Jahal Kuda/Tasi field but they are actively looking at development options and this discovery is close to their Laminaria FPSO.

Within the Cooper Basin, there was originally approximately one and a half billion barrels of oil in place but to date only around 20% has been recovered. We're looking at production optimisation programs there which we announced at the 2002 full year results. We've commenced a 15 well program including work overs, infill drilling and our first secondary recovery exercise using a pilot waterflood.

corporatefile.com.au

Product sales were up 6.4% to \$716 million and other revenue was up significantly, yet EBITDA was up only 3.4% to \$503 million. That's explained by the cost of sales increasing by \$28 million to \$445 million through higher Petroleum Resources Rent Tax (PRRT) and higher depletion. Production costs fell broadly in line with production. Can you please explain what you expect for future PRRT and depletion costs?

John Ellice-Flint

PRRT payments in the second half of the year are dependent on the level of our exploration in Australian Federal waters. The anticipated exploration program is expected to result in a decline in PRRT payments in the second half.

Future depletion charges are dependent on the level of estimated proved and probable reserves. Santos undertakes an annual reserve audit involving both an internal and external team and any revisions or additional bookings to reserves will be determined at the conclusion of that audit process in the second half of the year, as will any financial impact such as changes to our depletion schedule.

corporatefile.com.au

Net cash provided by operating activities after interest and tax was up 36% to \$422 million, largely due to lower taxation payments and higher realised oil and gas prices. What do you expect for taxation payments in future?

John Ellice-Flint

Santos has grown its cash flow from operating activities by about 12% year-on-year over the last ten years by successfully investing and operating well.

We expect that our tax payments in the second half of 2003 will be lower than the first half and that will result in overall lower tax payments for the full year compared with 2002.

corporatefile.com.au

Capital (\$71 million) and operating costs (\$7 million) were reduced by \$78 million on a like for like basis during full year 2002. Your new commitment is to achieve cost savings of \$100 million by end 2003. How's that tracking and what are the current initiatives?

John Ellice-Flint

In May 2001, we made the original commitment to deliver \$50 million in opex and capex savings on a like for like basis by the end of 2003. However, we doubled that target to \$100 million earlier this year. We've now achieved that revised target and increased it again to \$130 million.

One major initiative was in production optimisation where we've undertaken a systematic program of well remediation in favour of new gas developments, which in the year to end July, resulted in an extra 27 terajoules of gas production per day at significantly lower capital cost. Our drilling performance has improved to a level where we're now factoring drilling cost as part of our competitive position when evaluating new acreage opportunities.

corporatefile.com.au

The net debt to net debt plus equity ratio fell to 25% from 29% in December 2002. To what extent was this reduction in gearing due to the higher operating cash flow or the translation impact of US\$ debt resulting from the higher A\$?

John Ellice-Flint

Approximately 80% of the reduction in gearing was due to the appreciation of the Australian dollar, however, free cash flow also increased and exceeded the level of cash paid out in dividends in the first half.

corporatefile.com.au

Although the interim dividend was maintained at 15 cps fully franked, the payout ratio increased from around 60% to 70%. Can you maintain the absolute level of dividends and still fund growth projects?

John Ellice-Flint

We'll continue to focus on delivering a stable dividend during the period when we're developing our portfolio of growth projects. These projects will begin to contribute to earnings from around 2004 onwards but until then Santos has the operating cash flow, debt capacity, franking credits and retained earnings to fund organic growth projects and to pay dividends at the current level, although the precise level of future dividends is a decision for the Directors.

corporatefile.com.au

Last year Santos altered its exploration approach to include more high-risk, high-reward targets. Although you achieved some good results last year, you've stated that the exploration write-offs took the shine from an otherwise strong first half operating performance. What high-reward wells do you expect to drill during the second half and what are the pre-drill estimates?

John Ellice-Flint

In the second half we'll drill within two emerging frontier basins. The first is the Kutei Basin in Indonesia where we're seeing the first deep water oil fields coming onto production this month. The second, which to date hasn't any production, is in the deepwater Otway and Sorell basins in Victoria and Tasmania.

The Pohon-1 well in the Kutei Basin offshore East Kalimantan is an oil target which has potential for over 150 million barrels. The other well is Amrit-1 in the offshore Otway which is targeting resource potential in excess of 200 million barrels.

Other key wells in established areas are the Mangga-1 well targeting gas in East Java on the Maleo-Oyong trend. This has upside resource potential of 270 BCF and the Knight-1 gas prospect in the Gulf of Mexico which has resource potential up to 250 BCF. The Ajax-1 well, close to Legendre oil development in the Carnarvon Basin, is targeting an oil resource of up to 70 million barrels.

corporatefile.com.au

Santos achieved new gas contracts of 350 petajoules during the half and has contracted around 650 petajoules since December 2002. You've still got large

amounts of uncontracted gas to work with. What are your expectations for future contracts?

John Ellice-Flint

The first point I'd like to make is that we're commercialising more gas at higher margins than we've achieved historically. This is the largest volume of gas net to Santos that we've commercialised over a 12 month period since the original AGL contract in the early 1970's. We're obviously limited in what we can say about prices due to commercial confidentiality, however we're succeeding in making the transition from volume-maker, price-taker to achieving respectable returns from our gas business.

In terms of new contracts, we've raised our targets for 2003 and over the coming months we're aiming to commercialise the Casino gas field in the offshore Otway Basin, assuming that we're successful with the down depth appraisal well. That should add around 100 petajoules net to Santos. Other priorities for gas commercialisation are the John Brookes field in the Carnarvon Basin which could add over 250 petajoules to our gas business. The potential of that field was increased by the success of the Thomas Bright well which increased the expected gas volume by approximately 25 percent more than our pre-drill estimate. The gross resource potential is now around 1,000 petajoules. Another priority is to commercialise the Maleo gas field in Indonesia which will add around 180 petajoules net to Santos.

corporatefile.com.au

US gas revenue was up in the June quarter due to increased production and prices. Can this production increase be sustained and how do you assess the operational and exploration performance of the Esenjay assets you acquired?

John Ellice-Flint

Gas production in the US has risen by 300% from year end 2000 to end second quarter 2003. Production gains in the US allow Santos to capitalise on a robust US gas market, with a current 12 month strip price forecast of over US\$5 per million BTU, up from US\$3.65 a year ago.

While production and reserve growth in the US has come predominantly from successful drilling acquired in the Esenjay portfolio, the challenge facing the US operation is to offset normal production decline and achieve stable growth. The US operation is meeting this challenge through focusing on its areas of competitive advantage which include a more material exploration program, delineation and development activities and new ventures.

corporatefile.com.au

Santos has said that it will apply more objective and conservative guidelines for carrying forward assets. Can you give more detail and how it has affected the latest profit result or future profit results?

John Ellice-Flint

Last year we adopted more stringent guidelines for carrying forward exploration expenditure. Basically, for exploration areas without production, we need to be

satisfied that the results of the program are sufficiently encouraging on an EMV basis to carry it forward. Static gas assets are assessed on progress towards commercialisation, either in the form of obtaining a market or access to infrastructure.

As at 30 June 2003, we carried exploration assets totalling \$94 million and capitalised expenditure on static gas resources totalled \$343 million.

The exploration write downs for the first half totalled around \$30 million. The largest portion of that was as a result of the unsuccessful Bosavi well in PNG and the two Bawean Block wells north east of Java which we drilled back to back.

The success of exploration is the key to any oil exploration and production company. We'd like all our exploration wells to be successful but unfortunately that's not realistic on a sustained basis. We're currently producing around 55 million barrels of oil equivalent a year so it's imperative that we not only replace that production but also add reserves for future production. That said, our cash flow and how we allocate that cash flow is also critical to success. Our exploration team has to earn the right to spend capital because, although cash flow was up 36%, we have other choices in allocating that capital such as delineation, development and acquisitions.

We've also written down \$4 million in listed investments to reflect the security's price at the end of June.

corporatefile.com.au

Thank you John.

For previous Santos Open Briefings visit www.corporatefile.com.au

For further information on Santos Limited visit www.santos.com