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TO: ASX Market Announcements

FROM: Company Secretary

DATE: 16 May 2014

SUBJECT: **2014 Annual General Meeting**

Please find attached the addresses of the Chairman and the Managing Director, and the statement of the Managing Director in relation to the shareholder requisitioned resolution, given to the 2014 Annual General Meeting held in Adelaide today.

David Lim
Company Secretary

Address by Ken Borda, Chairman

Good morning ladies and gentlemen, fellow shareholders, I am your Chairman, Ken Borda, and on behalf of the Board I would like to welcome you to the 2014 Annual General Meeting of Santos Limited.

As today's meeting is being webcast live, I also extend a welcome to shareholders joining us online.

I would like to acknowledge and pay respect to the traditional owners of the land on which we meet; the Kaurna people.

Santos operates upon the ancestral lands of many different groups of Aboriginal people. I acknowledge those many Aboriginal groups and their involvement in our industry through negotiations on native title, protection of cultural heritage and through their participation in employment, training and education opportunities associated with our industry.

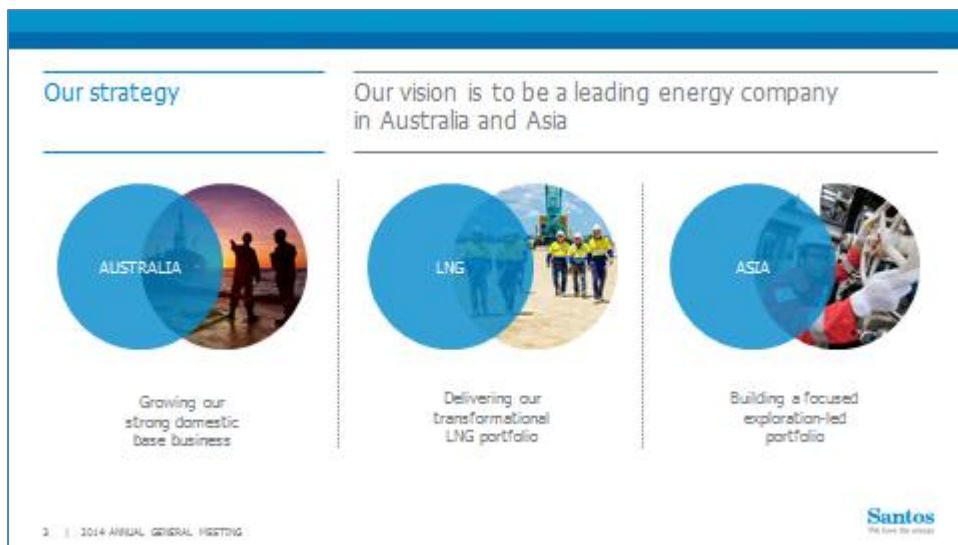
I confirm that a quorum is present and now formally declare the meeting open.

Joining me on stage are the non-executive directors, the Company's Managing Director and CEO, David Knox and David Lim, the Company Secretary. Also present is Trevor Hammond, representing our auditor Ernst & Young. He is available to answer questions relevant to the Audit Report, accounting policies, and the independence of the auditor.

And now I ask each non-executive director to introduce themselves, starting with Mr Scott Sheffield.

The Notice of Meeting for this year's Annual General Meeting was distributed to shareholders on 11 April 2014.

I will commence our business today with my report to you. David Knox will then give his presentation on the operating highlights for the past year and our future plans.



Today I will talk to our strategy – which has three core components:

1. To grow our domestic base business
2. Deliver our transformational LNG projects, and
3. To continue to build a focused exploration portfolio in Asia.

Our position domestically and in Asia is already significant, with a large and diverse portfolio of projects. We have a great opportunity to grow our position in these markets.

I will then address our approach to active capital management, the role and responsibilities of your board and the trust and credibility of our company in dealing with communities wherever we operate.

Let me first talk about the domestic market. I can be very clear that Santos is and remains committed to the Australian domestic market. We are focused on being a leading supplier of natural gas for retail and industrial customers across our nation.

Natural gas is and will continue to be important to Australia's economy for many decades to come. This holds true even with the drive to steadily grow the share of renewables in our energy supply. The end goal is the right one – that being to meet our growing energy needs while reducing carbon emissions.

But the reality is that renewable technology alone is still some way off from being able to

deliver energy at scale, competitively and on-demand. As a result, fossil fuels will continue to play a role in providing solutions for both peak and baseload power for the foreseeable future.

In this setting, natural gas can and does play a major role in supporting renewables to deliver a secure and cleaner energy market. In the US, the decline in energy related CO₂ emissions in recent years has been dramatic. The largest single factor contributing to this outcome is the increased availability of natural gas from the large scale development of shale gas resources.

In Australia too, natural gas has an important role to play. The Cooper Basin, here in South Australia has serviced the domestic market since the 1960s. Santos' ongoing investment, together with the introduction of new technology, has the potential to see the Cooper remain a major supplier of energy for many years to come.

Moving north to Darwin, where since 2006 Santos has been exporting LNG to markets in Asia from gas fields off the coast. Onshore, the MacArthur Basin holds great promise for developing natural gas from shale. Estimates for the entire Northern Territory see the potential for around 200 trillion cubic feet of shale resources. This presents another future source of gas for both the domestic and export markets – if the resources prove to be commercial.

Over the border, in Western Australia, Santos is already one of the State's major domestic gas suppliers and looking to grow our presence.

On the east coast of Australia, where conventional forms of gas are declining, it is natural gas sourced from coal seams, or CSG as it is called, that is playing a large and growing role in our economy. In fact today more than 86% of Eastern Australia's 2P Reserves are held in coal seams, and CSG already accounts for over 30% of the eastern Australia domestic gas market.

But more exploration and development of our gas resources is needed, not less. If CSG is to play a role in supporting an internationally competitive manufacturing sector, its development must be progressed as a priority.

There are no doubt challenges ahead. This includes both the high cost environment that oil and gas producers in Australia face today, as well as the ability to successfully engage with communities that host our operations.

However, taking a leadership position by its own nature means overcoming challenges. And we believe that we can overcome these challenges and continue to be successful in both operating the assets we manage today, as well as in establishing new projects.

We will return to this issue of community understanding and trust when we come to Item 5 in our proceedings. At that point we will consider a resolution requisitioned by 161 shareholders and promoted by The Wilderness Society.

The resolution proposes that Santos abandon its \$1 billion plus investment in the natural gas resources in and around Narrabri in New South Wales.

I would like to make clear that the Board does not support this resolution. However I give my assurances that we will allow sufficient time to discuss it fully and openly. I have agreed a protocol with Mr Lyndon Schneiders, National Director of the Wilderness Society in relation to the conduct of discussion on the resolution. I will outline that protocol during the formal part of the meeting.

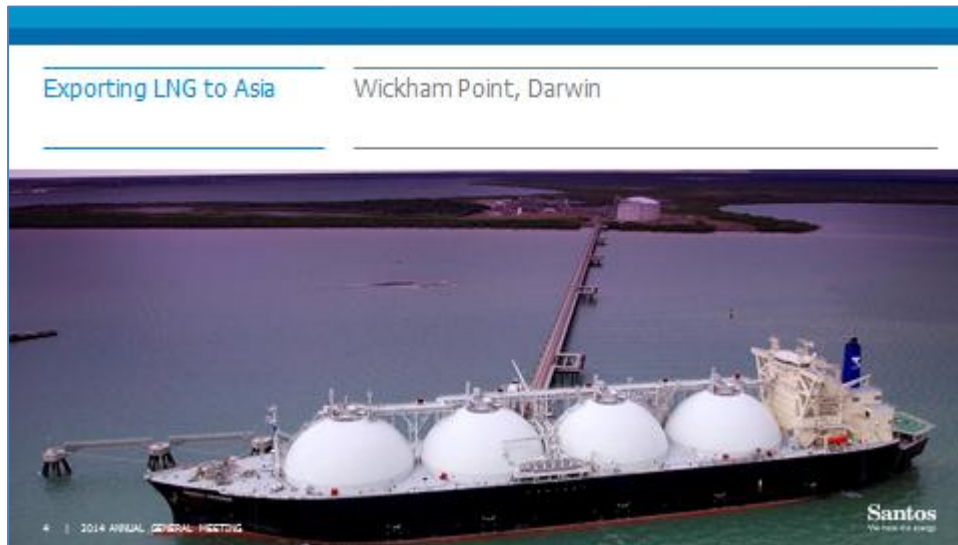
Now, while we remain committed to the domestic market after 60 years of working to supply energy to Australians - our horizons are changing.

Eight years ago, we realised that our options for growth were limited. Lack of sufficient scale in the domestic market, combined with the increasing cost of extracting both conventional and unconventional gas, meant that Santos was facing low growth prospects and unsustainable sales margins.

Continuing to invest in the Cooper, or in the development of any of our Australian onshore reserves at scale, was looking increasingly unlikely for Santos. Domestic gas demand alone would not sustain acceptable growth for our shareholders.

Something had to change, and the change came with the rapidly growing economies in Asia.

With millions of people moving from rural areas to cities and to a middle class lifestyle, Asia's energy markets are expanding rapidly. This presented Santos with the opportunity to become a major gas exporter.



There has been a lot of discussion in the past 12 months about the export of LNG from Australia. Let's be clear, Santos and other members of the oil and gas industry are developing a vital export industry on the east coast of Australia. The oil and gas industry is a global one that relies on trade to deliver energy to where it is needed in the most efficient manner. And we are part of that.

The benefits to Australia from this are many. Not only does it increase the nation's wealth and prosperity through providing jobs and increased revenues for local companies, but it also allows us to increase the country's ties with importing nations, while providing mutual transfer of skills and knowledge. Ultimately exporting natural gas from Australia is good for our country and good for Santos.

Liquefied natural gas, or LNG, can be shipped at large volumes, and cost effectively from countries that are blessed with abundant sources of energy to those markets such as Japan, Korea and China, which have high demand for energy but limited natural gas resources.

Exports are not limited to just these nations. Many more countries have invested in LNG import infrastructure over the past five years. This includes countries that were originally

exporters of energy such as Malaysia and Indonesia, and new importers such as Thailand and Singapore.

The volume of gas demand from our Asian customers, at sustainable pricing, has provided both the financial security and operational scale we needed to unlock Australia's unconventional natural gas resources, particularly those in eastern Australia.

To put this into perspective, our LNG exports will increase from 300,000 tonnes per annum from Darwin LNG today, to over 3 million tonnes of LNG per annum once GLNG and PNG LNG are fully ramped up.

This step change in production will result in a forecast doubling of operating cash flows over the next two years. This step change will also deliver long-term energy security for Australian businesses and consumers.

This is because we now have the scale needed to fund continued exploration and development of Santos' Australian gas reserves. We are in a strong position to deliver to both domestic and international customers. Santos has the largest exploration and production acreage in Australia.

We are also steadily growing our Asian portfolio of assets. Earlier this month we announced that the PNG LNG project has started producing LNG ahead of schedule. I am pleased to announce that the first export cargo is being loaded now and will soon depart PNG bound for Japan.

Our onshore and offshore oil and gas projects in Australia and across South East Asia put us in a strong position to deliver between 80-90 million barrels of oil equivalent production by 2020. That is strong growth from the 51 million barrels Santos produced in 2013. It underpins our confidence in the Company's capacity to deliver sustainable growth for shareholders.

Ken Borda - Chairman

2014 Annual General Meeting

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This leads me to the important topic of capital management and returns to shareholders.

As we review our current and future portfolio of projects, the Board takes into account the level of funding the company requires, the appropriate levels of gearing, as well as the expenditure required to operate our projects.

As part of this process, total shareholder returns and in particular unlocking of franking credits are a key priority for the Board.

One of our considerations is capital expenditure. 2013 was the peak year for capex in our LNG transformation plan – we invested \$4.1 billion in 2013. In 2014 capex begins to reduce with \$3.5 billion capex planned.

As PNG LNG and GLNG commence production this year and next, operating cash flows are forecast to double through to 2016. And with this combination of increases in cash flow and decreases in expenditure comes greater balance sheet flexibility for active capital management.

We are an Australian company and we enjoy the strong support of a large retail shareholder base. In fact today we have more than 116,000 individual and family shareholders who own more than 30% of our shares.

We have a clear objective to continue to grow that number and we know that our ability to do this is linked to shareholder returns and dividends. We know that this is a priority for all shareholders.

In February, we announced our intention to move to a progressive dividend policy. Let me explain what this means, and what it doesn't mean.

It does mean that we plan to prudently increase and maintain the dividend in line with the Company's increasing cash and earnings capacity. As you know, we have held the dividend steady during recent years as we invested in our LNG projects.

This dividend policy is designed to give shareholders certainty. You can rely on our dividend because you know that we intend to either increase or maintain it, each year. We believe this is important.

It further means that your Board is committed to providing you with increased returns through the large franking credit balance currently held. Today this is valued at approximately \$845 million, and these franking credits belong to you our shareholders.

The progressive dividend policy does not mean that we will exclude other capital management options available to maximise returns to shareholders.

Your Board will consider all options available to provide returns to shareholders, such as special dividends or share buy backs.

Shareholders may remember that the company instituted two \$300 million off-market share buy-backs in 2007 and 2008, and distributed more than \$200 million in franking credits.

At this stage we see no reason to discontinue the dividend reinvestment plan or to reduce the level of discount. This enables shareholders to increase their holdings in the company at a discount and without brokerage.

We will provide a further update on capital management at our half yearly results announcement in August of this year.

Ladies and Gentlemen, while the Board and Management's primary role is to grow value for shareholders, we are absolutely determined to ensure that the company does this in a safe and sustainable manner.

As our onshore operations have expanded over recent years, our community of stakeholders has increased in size, scope and complexity. Ensuring that we meet our obligation to communities, governments, staff and our business partners is a responsibility that your Board takes seriously.

Principles of responsible operations	Increasing the confidence and trust of the communities in which we operate
	Operating safely
	Protecting the environment
	Treating people with respect
	Making a positive difference to communities

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We have four principles that underpin all decision-making:

1. We prioritise the safety of our people, our processes and operations;
2. Environmental safety is essential, we must have proper processes in place to monitor and protect the environments in which we operate;
3. We operate ethically and treat all stakeholders with respect; and
4. We do our best to make positive, meaningful contributions to the communities in which we operate.

Put simply, we always strive to do the right thing and to operate to the highest standards possible.

In applying these principles and to maintain a deep understanding of the business, Directors have held Board meetings on-site at many of our operations. In doing so we have visited and reviewed operations in the Cooper Basin, Papua New Guinea, Gladstone,

Roma and in Narrabri.

During these visits we have made a point of meeting with people from outside the company, with landowners who host our operations and those who are still undecided. We have met with regional and local business owners whose commercial livelihoods have been enhanced by our commitment to buy as much locally as we can, and with local governments keen to see their communities prosper.

In my first year as Chairman, I have visited Narrabri regularly. I have met with supporters and those with different views to us about the Narrabri Gas Project. I have also met with senior community leaders in Roma in Queensland where we are developing our GLNG project, and I am confident that Santos continues to have the support of many in those communities.

These visits to the field, allow us to better understand, question and assess first hand our activities on the ground, against the four principles of responsible operations I have just outlined.



Finally, I would like to turn to the topic of trust. At Santos our core corporate purpose is the discovery, development and production of oil and gas resources that underpin our society's standard of living. Maintaining trust is important to our ability to achieve our purpose.

Santos has a proud 60 year history of discovering and producing Australia's natural gas resources to the benefit of our key stakeholders, local communities, State and Federal Governments and our shareholders.

Santos is and will remain a company focused on providing this essential resource to our customers. As the video that played at the beginning of the meeting showed, when it comes to the development of eastern Australia's essential natural gas resources, Santos has demonstrated its capacity to operate safely and to work side by side with rural and regional communities and landholders.

We listen and provide ample opportunity for people to ask questions and to provide comment on plans and our approach.

That is why Santos recently signed in New South Wales, certain land access principles with three key farmer groups. These principles acknowledge the ability of landholders to choose whether or not to work with Santos in having a well drilled on their property.

The access principles agreed with the three NSW farming groups also explicitly acknowledge landholders' rights to say yes, to invite Santos onto their property.

While the signing of these principles has created a lot of debate, we believe it is in the interests of shareholders. We are also confident that it will ensure we have the right level of land access needed to progress the Narrabri Gas Project.

This is the same spirit that we have applied over the 20 years of CSG operations in Queensland. It is why a recent independent survey of landholders who have hosted our operations confirmed that the great majority of these landholders would welcome us back to their land for further operations.

I am confident that wherever Santos seeks to operate, that over time, local communities will come to see first hand, through the safety and integrity of our operations, the fact that agriculture, communities and our natural gas operations can co-exist successfully.

Ken Borda - Chairman

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In conclusion Ladies and Gentlemen, I wish to extend your Directors' thanks and congratulations to David, his senior management and the entire Santos employee team for their dedication and achievements on behalf of shareholders during the year in review and the transformation of the business over these past five years.

I also acknowledge the insight and support of my board colleagues, particularly in this my first year as Santos Chairman. To Mike Harding, on behalf of Santos shareholders past and present, thank you for ten years of thoughtful and independent representation of shareholders' interests.

I would also like to welcome Scott Sheffield to the Santos Board. Scott's appointment was a strategic one, bringing extensive leadership, technical and operational skills to the Santos Board, as well as a deep insight of the US energy industry and markets.

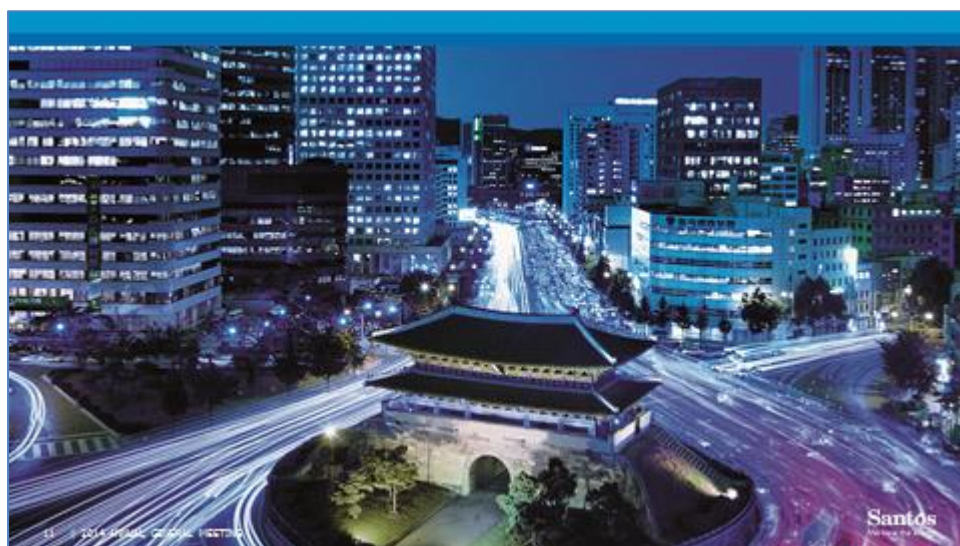
Finally, I acknowledge Ken Dean's contribution as Chair of the Audit Committee. Ken has stepped down from this role after eight years of assisting the Board to fulfil its corporate governance and oversight responsibilities. I wish Jane Hemstrich well in overseeing this important function of the Board.

I now ask David Knox to present his operational review before we commence the formal business of the meeting. Thank you.

Address by David Knox, Managing Director and Chief Executive Officer

Thank you Ken and good morning everyone.

Before turning to the operational performance of 2013 I want to provide some comment on where we now stand. We are at the cusp of realising the significant transformation of this Company.



Recently, I had the privilege of attending a very rare moment in this country's trade relations history, having been invited by the Australian Prime Minister to Japan and the Republic of Korea during free trade talks. As I was introduced to both leaders, they each acknowledged the importance of Australian, and very soon Santos gas, to their economies.

These acknowledgements highlighted two things to me. First, the products that we are producing have a strategic importance to significant world economies. Santos is now, very firmly, a key player in the Asian energy market.

Secondly, and perhaps most importantly, it is absolutely imperative that we deliver what we have promised both here in Australia and in Asia.

To the first point, what does being a player in Asian energy markets mean to Santos and to you, our shareholders?

To my mind, I look across the Santos portfolio and see a strong group of projects coming

on-line in the near term. We have been very focussed on the delivery of these projects. They have transformed Santos over the past 5 years.

Now, it is critical to put our heads up above the parapet, to look to the next tranche of growth. This is why I get excited about our exploration portfolio.

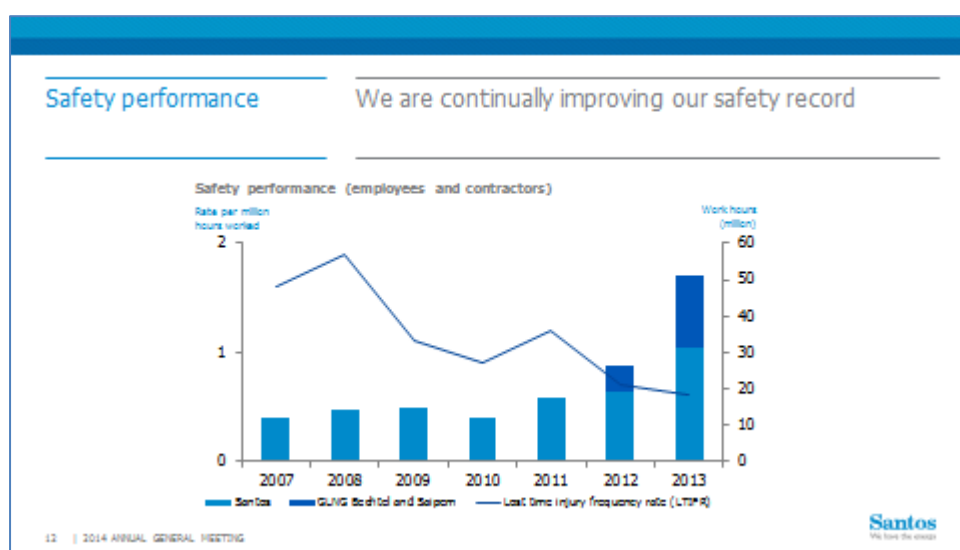
Growth, as you know can be acquired or achieved organically. An average LNG cycle is almost 12 years from exploration to delivery of the first cargo.

Exploration and appraisal are long lead items. They need to be sufficiently resourced to ensure our growth pipeline is constantly being fed with prospective projects.

Being a player in Asian energy markets means that we must engage not only domestically, but also within our region. This means that we must seek to understand the energy needs of individual countries, and then master the dynamics at play in our regional energy markets.

We must continue the search for exploration opportunities to meet those markets' needs. Santos is today very well placed and energised to do exactly that.

It is my second point, the importance of delivering on commitments, that is most relevant to my report today on operational performance, and there is no better place to start than with safety.



We now have over 3,500 employees operating in five countries. As Ken said, our ability to provide all staff with a workplace free from injury and major incident is the first principle of all decision-making at Santos.

The tragic loss of a young man on a contractor's rig in June last year has further reinforced our resolve to improve our safety performance.

Following the incident, we conducted thorough investigations, and have changed contractor practices, to ensure that the issues that led to the fatality can never happen again.

It is imperative that all of us maintain constant vigilance.

Without seeking to diminish the significance of this very sad loss in any way, it is important to acknowledge our broader improvement in safety performance.

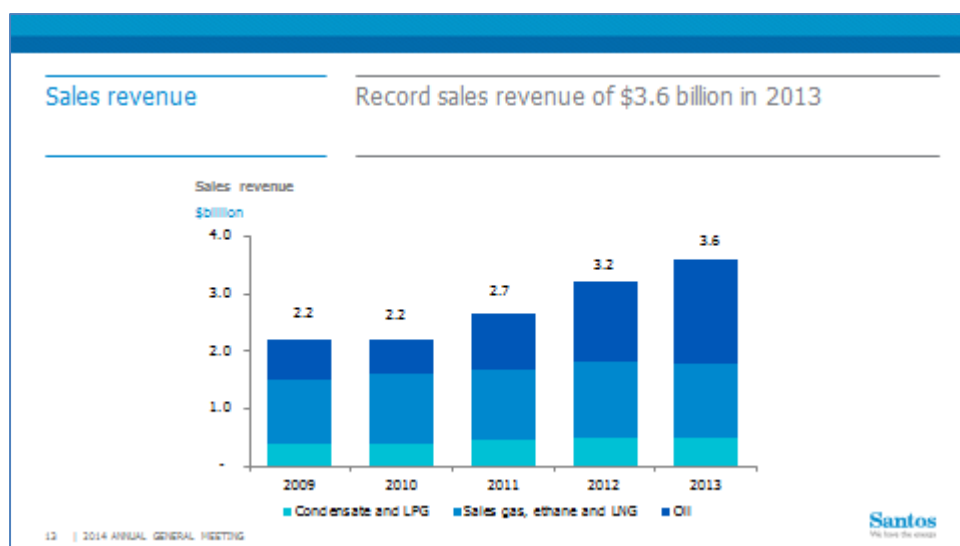
Last year, the hours worked as a company reached a new record of over 45 million hours. At the same time we brought down the total recordable case frequency, which represents the number of minor injuries recorded.

We also reduced the lost time injury frequency rate - this is when someone misses a day from work.

These are important indicators to improving safety culture and it is a great achievement from our teams in the field. We are in fact now attaining our lowest levels of lost time incidents in the company's history.

Process safety, which is what we do to keep the oil and gas in the pipes, is also a critical part of our business.

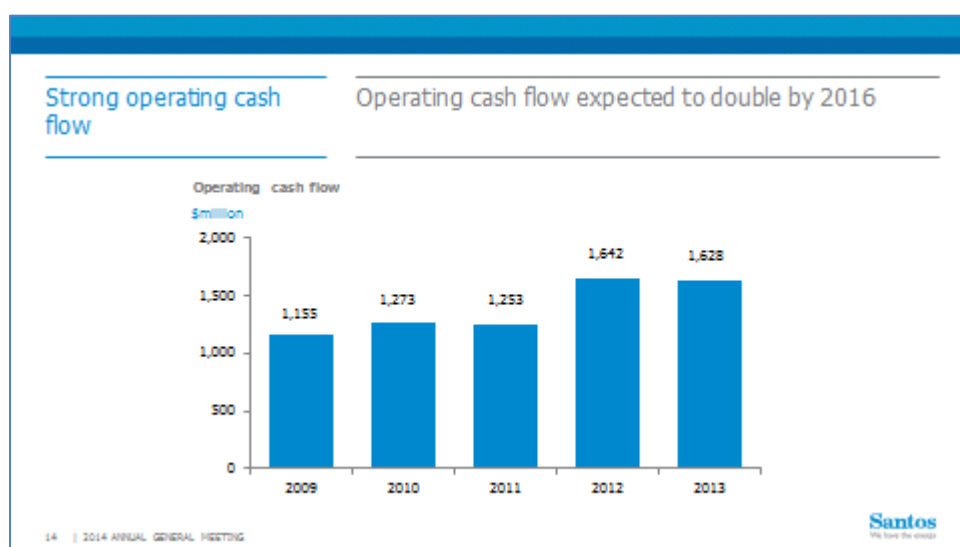
One of the metrics we use to measure our performance here is safety critical maintenance. Our performance target on this important safety measure is very high, we seek to have 98% of all safety critical maintenance completed at any one time, on any day across all our assets.



Moving to financial performance. First, revenue is increasing significantly. 2013 saw record sales revenue for the company of \$3.6 billion Australian dollars. This was driven by the highest oil production in six years, combined with strong oil prices.

We also benefitted from an increase in the amount of third party product that we are moving through the Moomba facilities. This emphasises the strategic importance of this key piece of infrastructure to Santos, and also to Australia's energy market.

Secondly, a step change in the product portfolio is delivering benefits. A few years ago only 30% of the portfolio was linked to the oil price. Today it is 40%, and by 2016 that number will be approximately 70%.

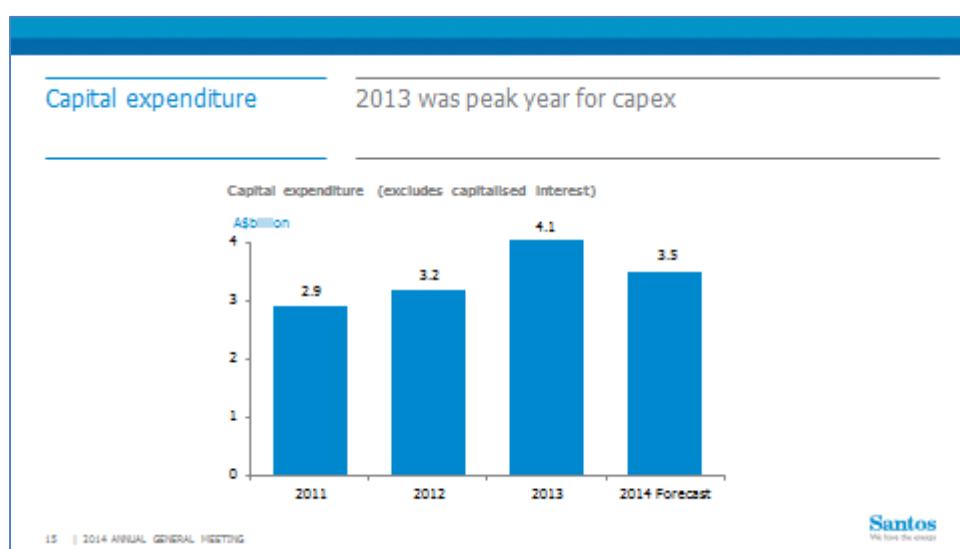


This in turn, will drive the amount of revenue we make per barrel and the company's operating margins.

When combined with forecast production growth from the LNG plants, it means we can look forward to the doubling of operating cash flow that Ken referred you to earlier in his address.

Thirdly, production costs on an absolute basis were held flat. And, in the first half of last year they actually dropped. Given the dynamic economic and operational circumstances experienced in Australia last year, I think this is a creditable result.

Continuing to manage costs, and lower them wherever possible, is a key priority for everyone at Santos.



Capital expenditure peaked in 2013 as we progressed development of our two transformational LNG projects.

As these projects are completed this year and next, you can see how our capital expenditure will start to reduce.

While our debt level has increased in recent years we continue to enjoy a strong investment grade credit rating of BBB+. This was re-affirmed by Standard and Poor's this week.

Moving forward, we will strike an appropriate balance between shareholder returns, debt repayment and ongoing investment for growth. Our goal is to maintain a prudent balance sheet which reflects the nature of our business, and provides us with financial flexibility through the commodity cycle

I now want to take you through the performance and progress of our key assets, starting in Asia with the successful delivery of PNG LNG.



As Ken has announced this morning, PNG LNG has commenced loading its first cargo - a great outcome for this extraordinary project.

The project has been delivered ahead of schedule, despite the severe challenges of the terrain and operating conditions. This is without a doubt a terrific achievement and I want to congratulate our operator, Exxon Mobil, for a job well done.

But what does this mean for Santos? PNG LNG is a prime example of the first point I made about looking forward to the opportunities that will present themselves as we deliver on our LNG strategy.

The short term benefit for Santos will be a quadrupling of LNG production.

However, we are planning to be in PNG for the next 30 years so we are looking at ways to leverage this investment.

We farmed into three exploration licenses in PNG in the Central Highlands. Recent exploration activities in these licenses have been encouraging.

The Hides field is the field on which PNG LNG is focused today. What is very exciting is that this year we will be exploring the deep basins beneath the Hides field, a world-class exploration prospect.



Moving to the Indonesian business, which continues to deliver projects on time and on budget.

Just a few months ago, the Peluang tie-back to Maleo commenced production. This project was delivered in just 12 months and is an exciting addition to our portfolio. This photo shows the platform, a reflection of the high quality of work coming from Indonesia.

In Vietnam, the Dua oil development is due to come on line in the next couple of months.

Last year we announced the acquisition of a 50% operated interest in the Ande Ande Lumut field in Indonesian waters close to Singapore and Malaysia. I am pleased to say that work is well underway to reach a final investment decision on this oil project in 2015.

But back to Australia, to talk about our GLNG project.



It is important to remember what this project is all about, and how it ties into the company's strategy.

GLNG is the key to unlocking our Eastern Australian resources.

It has made development of the Company's vast coal seam gas fields in Queensland economic. It has also helped create the financial scale and capacity to invest in cracking the codes of the Cooper Basin's unconventional gas and to open up a platform for domestic supply in New South Wales.

We think about this project in three parts: the upstream where we are developing our gas fields in the Bowen and Surat Basins; the construction of a 420 kilometre underground transmission pipeline to Gladstone; and a two-train LNG processing facility which chills the gas on Curtis Island before it is loaded onto ships.

You can see in this photo the jetty, virtually completed already.

Over the life of the project we have contracted to send about 1,800 tanker cargoes to our customers.

Key to this project is the partnership we have in place with three of the world's largest energy companies, Total, PETRONAS and KOGAS, the last two of whom are also key customers of the project.



Today we are at peak construction activity at GLNG, and we are now seeing the results of all of that hard work and congratulate our teams on the progress made.

As you can see from the photo, GLNG is now 80% complete. It is on track and on budget for first LNG in 2015. We are making good progress.



Since taking the final investment decision for GLNG in January 2011 we have drilled over 500 wells. The processing facilities at Fairview and Roma are currently in pre-commissioning.



The pipeline is in the ground and 85% pressure tested. The marine crossing has been completed, and pre-commissioning of the pipeline is well underway.



On Curtis Island, as you can see in the photo, the two LNG tanks are progressing well with hydrostatic testing to commence soon.

Importantly, all 82 of the Train 1 modules are in place, and Train 2 is also well underway.

This is one of Australia's largest energy and export infrastructure projects. While the end is in sight, I can assure you that all minds are still very much on finishing this strategic project.



Turning to Central Australia, and in our 60th year, it gives me great pleasure to tell you about the revival of the Cooper Basin.

The Cooper Basin is the foundation of our company. It will also play a major role in our future as we seek to firm up the basin's unconventional play.

You will remember that Santos delivered Australia's first commercial shale gas well, Moomba-191, in 2012. This well continues to flow at 1.8 million cubic feet per day, over 18 months after it was connected to our Moomba plant.

We've recently connected the second shale well into the production infrastructure. This is Moomba -194 which achieved a peak flow rate of 3.1 million cubic feet per day.

We are also seeing promising early results from the first horizontal wells we have drilled. One of these is Roswell 2, shown in this picture.

Our aim is to prove the repeatability of shale production in the Cooper, and demonstrate ability to commercialise unconventional gas in these multi-stacked plays.

This is exciting work, and it is going to continue throughout this year and for a number of years thereafter.



We will speak about NSW in more detail when we come to Resolution 5 later, but from an operational perspective, since our last AGM we have drilled eight appraisal wells and one core hole in the Pilliga Forest. We now have a pilot well testing program underway.

The Preliminary Environmental Assessment has been submitted to government, and state of the art water treatment facilities at Leewood are being commissioned.

I'm also pleased to say that the Wilga Park Power Station is again delivering power into the local NSW grid driven by gas from the Pilliga wells.



I will close my report to you in turning to our businesses in Western Australia and the Northern Territory. These are exciting organic growth businesses. Let me talk to you first about the Lasseter Well as an example of what we mean.

In WA you will recall that the 2012 Crown discovery was one of the largest in Santos' history. Today we are drilling the Lasseter Well, an investment of over \$100 million by Santos and its partners.

It is an exciting prospect, and one capturing a lot of attention from the industry. There is of course exploration risk in drilling a well like Lasseter, but there is also upside potential for the company and for shareholders. This is what being an exploration and production company is all about.

And while PNG is loading up its 1st commercial cargo as we speak, this year the Darwin LNG project celebrated its 400th cargo since 2006. These milestones showcase Santos' growing knowledge in the LNG field.

Drilling is also underway in a three-well appraisal program in the Timor Sea - a potential source of expansion for our operations in Darwin.

The Northern Territory also promises to build our pipeline of organic growth opportunities. We have two very preliminary exploration plays onshore in the Territory.

There is an exploration program underway in the southern Amadeus Basin with encouraging results from the first well at Mt Kitty, 230km south west of Alice Springs.

And to the southeast of Katherine, in the McArthur Basin, we expect to drill our first shale well later this winter.

Very clearly, a huge amount of work is underway to meet the commitments which we have made, but it is equally important to make sure that we maintain a clear pathway for growth over the longer term.

There is a lot to be proud of in the Santos you see before you today. We are on the cusp of having re-defined the business. We are achieving our vision of becoming a leading oil and gas exploration and production company in Australia and in Asia.



From humble and insightful beginnings 60 years ago, we've not lost the spirit displayed by Reg Sprigg, John Bonython and many of the other pioneers who built this company.

We are still in the Cooper, but now we are also becoming an international energy player.

I think Santos has become an Australian resource industry leader that the founders would be very proud of, and we trust you are too.

Finally, my huge thanks to all Santos staff working across Australia and Asia.

Thank you also to the Board for your insight and guidance, and as always, constructive scrutiny.

Thank you to our shareholders for your commitment to the journey we've taken so far, I am very confident that it will continue to be a most worthwhile one.

Thank you ladies and gentlemen.

Managing Director's statement to the shareholder requisitioned resolution

This is an important matter, and I want to talk to each of the key issues.

I will start with the strategic importance of this project.

Natural gas



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Natural gas is an important resource that underpins our way of life

"...gas supply is far more important, and fragile, than many people realise. Unless we take a calm and balanced approach we will face serious unintended consequences"

Australian Industry Group, 4 April 2013

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In considering this Resolution, let's make sure we recognise a fundamental reality. Natural gas is an essential resource that underpins our way of life in Australia, and our standard of living.

More than 5 million, or 60% of Australian homes use natural gas today. Natural gas supplies nearly 50% of the energy and feed stock needs of manufacturing and construction in this country. In many cases, there is no alternative to natural gas for these industries. Natural gas is forecast to contribute one third of Australia's energy consumption by 2035.

Natural gas from coal seams is unquestionably part of our way of life. Extracting and processing natural gas from coal seams is neither a new, nor an untested process.

Today 30% of the east coast gas supply is being met by natural gas from coal seams, and the fact is, 86% of the known natural gas reserves on the eastern seaboard are located in coal seams.

Our challenge is to increase the supply of natural gas, not restrict it. This is the best way

to put downward pressure on prices in Eastern Australia.

New South Wales, the state with the largest population, imports 95% of its gas. In three years time, most of its contracts for imported gas expire and are unlikely to be renewed at current levels. NSW is facing an urgent and serious natural gas supply risk.

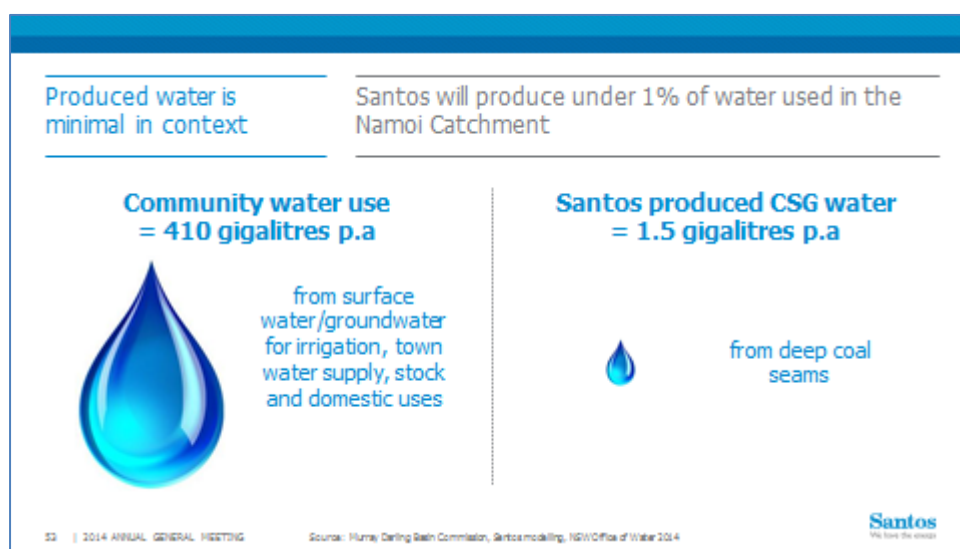
Fortunately, the Narrabri Gas Project can potentially supply between 25% and 50% of that state's natural gas needs, which is why the NSW state government has declared it a Project of State Significance.

Without new supplies such as this project, NSW will not have sufficient supply of natural gas by the end of 2017. On the flip side, by developing the project, the State can have access to a dedicated local and more affordable supply of gas.

You can take it as read that for Australia, for NSW and also of course for Santos this is an important project.

I will now turn my comments to the project's impact on water, and then the support of the community in which we operate.

In my experience, there are three aspects to water that are at the heart of the debate. The first is water use.



The benchmark Namoi Water Catchment Study shows that the effect of water we extract is very small. On all scenarios modelled, any impact by CSG development will be less than

the seasonal fluctuation in the aquifers.

Our Narrabri gas project's water extraction will be less than 1% of the volume drawn for agriculture and town usage in the Namoi Catchment.

Further, we only extract water from the coal seams well below the shallow aquifers that are being used for agriculture and town supply.

Coal seam water is usually salty in its natural state, so it's unsuitable for agriculture and its depth means that it cannot be reached by normal farm bores.



We treat the coal seam water we extract, we make it usable. This will actually make Santos a producer of new supplies of clean water which can be used by local landholders and the community.

The second related water issue is whether we have sufficient baseline data to model and measure our impact on aquifers, particularly in the Pilliga.

Let me give you a brief overview of the work that we've done to obtain the baseline data. There is a great deal of information, collected from many sources, not just our exploration and appraisal wells.

The shallow aquifers in the region are actually very well understood. There are some

18,500 registered farm bores in the Namoi Catchment. This number of bores does not appear to cause the community any concern.

What's more we've developed the most comprehensive groundwater model in the region.

The purpose of the model is to predict water flows within the coal seams over the project life and beyond, out to 1,500 years post the project period.



In the foyer, you can see the model simulation of those water flows.

An example of what this simulation can do is on the screen now, and I encourage you all to look at it again after the meeting.

This model runs thousands of calculations per second. It is the most comprehensive study ever funded on the region's sub-surface and aquifers.

This model is a key component of the environmental impact statement that will be submitted for scrutiny by authorities, before any production approval can be considered.



On the ground, this model is supported by live data collected from a network of monitored bores operated by the NSW Office of Water at 123 different locations, 17 new monitoring bores of our own and over 90 landholder bores.

Making information available

www.santoswaterportal.com.au

Extensive research will be made available to the public across the life of the project

www.santos.com/nsw

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This is comprehensive modelling and information. It will be made publicly available at all times.

Ladies and Gentlemen, we have a demonstrably robust basis for understanding the water flows under the surface, day in and day out. We have the baseline data needed to check that our operations have no unexpected effects.

Let's move now to the issue of how we protect aquifers from contamination as we drill and extract gas.

At the Pilliga sandstone aquifer level, between only about 50 and 250 metres, our wells have 3 layers of steel casing. Each layer is then concreted all the way to the surface.

This provides multiple fail-safe levels of protection for the surface aquifers. For gas to escape from the well it must make its way through these 3 steel layers, plus at least 2 layers of concrete. You can clearly see this in the diagram.

Please note that this diagram is only a schematic. The actual diameter of the well is much smaller than can be illustrated here. Each well is only about 35centimetres in diameter at its widest point.

As a former drilling engineer, I can confidently say the Narrabri Gas Project wells are designed to the highest standard. They will provide multiple levels of fail-safe protection for the aquifers. Beyond this very sophisticated engineering, the wells are monitored closely, 24 hours a day, by sophisticated surface monitoring equipment.

When we stop using a well we plug it with concrete covering all aquifers and hydrocarbon zones along the whole wellbore - from a few metres below ground surface, to the very bottom of the well up to over a kilometre below.

This is not your garden variety concrete. It is specially formulated to be as strong, or stronger, than surrounding geology. After it has hardened the concrete is pressure tested.

Because the well is completely filled with concrete, there is no way for water to move up or down. This process ensures that the abandoned well is designed to last in perpetuity.

Our responsibility and care does not end with what is below the ground. Our operations at the surface are also focused on environmental protection. This is where operator experience is imperative. And why operators like Santos are critical.

We undertake rigorous soil and groundwater monitoring, and are developing state of the art water handling facilities which are now being commissioned at Leewood near Narrabri. The new holding ponds at Leewood have multiple layers of lining, and are fitted with highly sensitive monitoring systems.

We are very serious about process safety as I mentioned earlier. We have invested heavily to provide the highest possible level of assurance to the community. We know how our facilities are performing every day of the year.

In addition, we are strictly required to report any water incident – no matter how small.

For example, if an employee was to spill a garden bucket of salty water -that's just eight litres - we are required to file an incident report to the authorities and to take immediate clean up action.

I hope I have shown you that Santos knows what we are talking about when it comes to safety with water resources, and that we are committed to doing the right thing to protect this essential resource.



So let me move to community support. We are finding that people who are directly affected by, or involved with our project, are generally supportive of what we do.

People in the area generally accept that regional development needs to occur to provide jobs and to support local businesses. They see our activities as an opportunity and many want to collaborate with us.

A month ago now I was in Narrabri talking to local residents including cotton farmers. They support our activities and understand the opportunities that our business might

provide.



In fact, they sympathise to some extent. The cotton farmers remember the opposition they faced 30 years ago when they first started cotton farming in the Narrabri region.

Their biggest concern when we spoke was water contamination. After we shared with them the same information that I'm sharing with you today, they understood. If anyone knows about drilling into aquifers it's got to be the cotton farmers. They were very impressed with the technical sophistication and integrity of the Santos wells.

Santos has already signed over 40 landowner agreements in NSW. This is a credible beginning to a project where we are seeking to operate for the next 20 – 40 years.

We are confident that we will be able to secure sufficient land access to deliver the project as planned.



Our now more than 20 years' experience in developing coal seam gas resources in Queensland has taught us that it takes time, and a preparedness by all parties to talk and listen, in order to build trust in communities.

NSW is just at the beginning of this journey, and Santos is committed to open dialogue with the community as we finalise our plans, submit them for assessment and then hopefully begin to develop the much needed Narrabri Gas Project.



Shareholders, as the Managing Director and CEO of Santos, I say very clearly to you that Santos will make the Narrabri Gas Project a success in every sense.

We have the demonstrated experience and commitment to deliver the project safely from every perspective.

The Project is a key part of the Company's east coast domestic gas strategy.

It is essential to energy security for NSW, to millions of households and hundreds of businesses in that State.

For these reasons, and based on the facts that I have put before you today, Resolution 5 is clearly not in the interests of the Company.

Your Directors, including me as Managing Director, unanimously recommend that you vote against this resolution.

I will now hand back to the Chairman.

Thank you.