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newsrelease

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**Santos adopts international accounting standards**

Santos Limited has adopted the Australian equivalent of the International Financial Reporting Standards ("A-IFRS") as from 1 January 2005, as required by all Australian companies.

"The adoption of A-IFRS is a major step towards standardising accounting practices around the world, which will provide enhanced transparency and increased comparability between companies," said Mr Peter Wasow, Santos' Chief Financial Officer.

The changes to accounting policy will not impact in any way on Santos' business strategy, operations, cash flow, credit ratings or capacity to continue to pay fully franked dividends.

The adoption of A-IFRS will, however, have an impact on the presentation of the Company's Balance Sheet which will be reflected in adjustments to shareholders' equity, as is usually the case when changes to accounting policies are required to be adopted.

The accounting policy changes will also have flow-on consequences for the Income Statement as it applies to the accounting for impairment of assets, taxation, restoration and exploration and evaluation expenditure.

The restated full year 2004 Net Profit After Tax is estimated to be approximately $344 million as compared with $380 million under the previous accounting standards.  Although the restated 2004 result is lower, future profits will be positively affected by the changes.

Santos estimates that the impact on the opening balance sheet as at 1 January 2004 is a reduction in shareholders' equity of approximately $1,014 million from $3,088 million to $2,074 million.

Although detailed accounts adopting A-IFRS are not required to be released until the 2005 half year report is issued in August 2005, as foreshadowed in the Annual General Meeting, Santos has elected to highlight the major accounting changes at this time to assist in an understanding of the transitional changes.

As part of the changes, Santos has elected to account for its exploration and evaluation expenditure using the "Successful Efforts" methodology, which represents a significant change from its past policy of capitalising all of these costs.



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This means that Santos will immediately expense exploration and evaluation costs unless they result in the discovery of potentially commercial hydrocarbons.

"The move to account for exploration and evaluation expenditure using a Successful Efforts methodology will bring Santos into line with the majority of its global and Australian peers," Mr Wasow said.

"Over the past four years, Santos' growth strategy has transitioned from near-field exploration concentrated in central Australia, to growing the business through high impact exploration in offshore Australian and international basins.

"We believe that this changing nature of our business should be reflected in the way we account for and report exploration expenditure.

"Likewise, the move to adopt the US dollar as the functional currency for operations in the Timor Gap, Indonesia and PNG will align us closer to our peers, and will provide a more natural hedge to our US dollar revenues," he said.

Balance Sheet

The major adjustments to the Balance Sheet are as a result of fundamental changes in identifying and accounting for impaired assets, taxation and restoration, together with the shift to a Successful Efforts approach to accounting for exploration and evaluation expenditure.

The net result is a reduction in the book value of net assets as at 1 January 2004 of $1,014 million, as shown in Table 1 below.

Table 1: Summary Balance Sheet Adjustments

| **All figures in A$m** | **Total Assets** | **Total Liabilities** | **Shareholders' Equity** |
|---|---|---|---|
| Previous A-GAAP As at 31 Dec 2003 | 5,218 | 2,130 | 3,088 |
| Adjustments | | | |
| Impairment (1) | (337) | (78) | (259) |
| Functional currency (2) | (214) | (62) | (152) |
| Restoration (3) | 106 | 62 | 44 |
| Tax (4) | - | 148 | (148) |
| Successful Efforts (5) | (672) | (185) | (487) |
| Other | 10 | 22 | (12) |
| **Restated A-IFRS As at 31 Dec 2003** | **4,111** | **2,037** | **2,074** |

Notes:
1) The impairment adjustment of $259 million uses a discounted cash flow approach to value each "Cash Generating Unit", which is the smallest grouping of assets generating cash flows. Previously, future cash flows were not discounted, and assets were grouped together under a broader "Area of Interest" concept which included all of the producing assets within a geological basin.
2) The functional currency adjustment of $152 million reflects the adoption of the US dollar as the functional currency for Timor Gap, Indonesian and PNG operations. The asset carrying values are adjusted using the A$ to US$ exchange rate at each balance date with differences due to exchange rate movements reflected in the foreign currency translation reserve.
3) The restoration adjustment of $44 million relates to the recording of future restoration liabilities (which are expected to be incurred at the end of the field life) at the present value of the expected future costs, and capitalising this obligation as a component part of the asset value.
4) The taxation adjustment of $148 million reflects the increase in deferred income tax liability to reflect the differences between the accounting and the tax base of assets, rather than just timing differences.
5) The Successful Efforts adjustment of $487 million reflects the retrospective expensing of some previously capitalised exploration and evaluation costs, mainly dry hole costs in producing areas of interest.

It should also be noted that under A-IFRS, the changes to the Balance Sheet as a result of applying the changed accounting standards are reflected directly in retained earnings or reserves at the beginning of the comparative year (1 January 2004), rather than through the Income Statement.

Income Statement

To provide an indication of the ongoing impact on the Income Statement, Santos has estimated that the restated A-IFRS 2004 financial year result would have been a reduction in Net Profit After Tax to approximately $344 million, as compared with the reported A-GAAP result of $380 million, as shown in Table 2 below.

After allowing for dividend payments, this would result in an increase in equity of approximately $129 million during 2004.

Table 2: Summary Restated Income Statement

| **All figures in A$m** | **FY04 A-GAAP** | **FY04 A-IFRS** |
|---|---|---|
| Depreciation expense (1) | 171 | 167 |
| Depletion expense (2) | 344 | 294 |
| Exploration Expense (3) | | |
| Non Producing areas | 6 | 31 |
| Producing areas | - | 88 |
| Impairment Expense/ (Write-back) (4) | 16 | (5) |
| Future restoration costs (5) | 20 | - |
| Interest on restoration liabilities (5) | - | 14 |
| (Profit) on sale of assets (6) | (52) | (61) |
| Income tax expense | 161 | 174 |
| **NPAT** | **380** | **344** |

Notes:

1) Depreciation charge $4 million lower due to lower carrying value of assets, primarily as a result of impairment testing applied as at 31 December 2003.
2) Depletion charge reduced by $50 million due to lower carrying value of assets, primarily as a result of impairment testing and Successful Efforts changes as applied at 31 December 2003.
3) Higher exploration expense of $119 million, representing 55% of total exploration and evaluation expenditure, as a result of applying Successful Efforts methodology, including immediate expensing of geological and geophysical costs ($89 million) plus unsuccessful exploration drilling ($30 million).
4) Impairment write-back of $5 million due mainly to higher future oil price assumptions applicable at year end 31 December 2004.
5) Lower future restoration expense of $20 million offset by interest on restoration liabilities of $14 million.
6) Profit on sale of assets increased by $9 million due to the lower carrying value of the assets sold, primarily as a result of impairment testing applied as at 31 December 2003.

Future profits will be higher by the amount of the reduction in shareholders' equity, and whilst the 2004 restated numbers are provided to facilitate understanding of the impact of the accounting changes, actual profitability in future years will depend on many factors, including production levels, commodity prices, operating costs and the level of exploration and evaluation expenditure expensed during the year.

Note that the actual restated result remains subject to additional analysis, audit signoff and the confirmation of a number of taxation issues (presently being considered by the Australian Accounting Standards Board, the Urgent Issues Group and the International Accounting Standards Board), but is expected to be consistent with the table above.

Cash Flow Statement

The changes due to the adoption of A-IFRS will not impact the Company's cash flow in any way, hence there are no changes to the Cash Flow Statement.

The proposed accounting changes have been reviewed by Standard and Poor's, which has reaffirmed the Company's long-term investment grade credit rating of BBB+.

Further detailed discussion in relation to these changes is contained in an Open Briefing, which is available on Santos' website (www.santos.com).

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**Santos stock symbols: STO (Australian Stock Exchange), STOSY (NASDAQ ADR), Ref #82-34 (Securities Exchange Commission)**