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Santos Announces Extension of CEO Contract

Santos Limited's Chairman, Mr Stephen Gerlach, today announced the extension of the terms of employment for the Company's Managing Director and Chief Executive Officer, Mr John Ellice-Flint.

"The Board is delighted that John has agreed to extend his commitment to the Company. John and his management team have delivered record results over the last year and significantly increased the returns to shareholders over his 5 years as Managing Director and Chief Executive Officer. The Board looks forward to working with John to further build upon the Company's growth strategy over the coming years."

Mr Ellice-Flint joined Santos in December 2000.

In announcing details of Mr Ellice-Flint's remuneration package, Mr Gerlach confirmed that the Board had sought external expert advice to set a package that was competitive and set at a level necessary and reasonable to secure the services of a Managing Director and Chief Executive Officer of a top 50 Australian company with international oil and gas operations.

Mr Gerlach emphasised that while Mr Ellice-Flint was engaged under an evergreen contract in 2000, Mr Ellice-Flint's original remuneration arrangements had effectively expired in December 2005 and that the package being proposed was intended to cover the period from January 2006 until at least August 2009.

Mr Gerlach also noted that a significant proportion of the total potential remuneration was "at risk" and subject to the performance of the Company and achievement of appropriate increase in shareholder wealth.

Remuneration Package

The details of the package for 2006 are as follows:

- Base salary of \$1.5 million, to be reviewed annually thereafter.
- A short term incentive the same as under Mr Ellice-Flint's original arrangement that enables a maximum of 150% of Base Salary to be earned for exceeding quantitative and qualitative performance targets agreed with the Board at the beginning of each financial year. In addition, 50% of the actual short term incentive awarded in each year would be invested in Santos shares which are to be held for a further period of 2 years.
- Participation in Santos' senior executive Long Term Incentive arrangements, similar to the grants made to Mr Ellice-Flint upon his appointment in 2000. Mr Ellice-Flint will, subject to receiving shareholder approval at the 2006 AGM, receive an offer of options under the Santos Executive Share Option Plan, which will be subject to the same

performance hurdles that apply to other executives. These measure the Company's relative Total Shareholder Return (TSR) performance against the ASX 100 (as to 50% of the options) and a basket of Australian and International Exploration and Production companies (as to the remaining 50% of the options).

The options will be subject to the following performance and vesting periods:

- 500,000 options which will vest no earlier than 26 August 2007 (noting options under existing circumstances would have been submitted to shareholders for approval at the 2005 AGM but were held over as a result of the overall remuneration review undertaken by the Board);
- 1,000,000 options which will vest no earlier than 26 August 2008; and
- 1,000,000 options which will vest no earlier than 26 August 2009.

If the performance conditions are not met on the dates set out above, they will be retested during the following 12 months (for that extended period). If the condition has not been met at that time, the options will lapse.

If approved at the 2006 AGM, the options will be granted at no cost to Mr Ellice-Flint but will, if capable of being exercised, require the payment of the exercise price of \$11.36 per option exercised (being the weighted average of the Company's share price over the 10 day period up to and including 9 March 2006).

Termination of Employment

- Under his existing contract, Mr Ellice-Flint must give the Company 3 months' notice of his intention to resign.
- The existing contract also provides that where the Company terminates his employment, other than for cause, Mr Ellice-Flint will be entitled to a payment equal to 2 years' notice. This is to be amended so that, for both the Company and Mr Ellice-Flint as from 1 January 2008, the notice period is reduced to 12 months.
- The superannuation arrangements put into place when Mr Ellice-Flint was appointed in 2000 have, as a result of current tax laws, proven costly and tax inefficient for both the Company and Mr Ellice-Flint and will become increasingly costly to the Company over time. The Company required superannuation contribution in 2005 was \$637,000 and that cost will escalate since Mr Ellice-Flint has attained the age of 55 years. As a result, it has been agreed to vary these arrangements. His existing benefits will be frozen and in place of the future benefits he will forego, the Company will seek shareholder approval to provide him with an annual loan of \$500,000 to acquire Santos shares which are to be held until he ceases to be employed or other arrangements are agreed with the Board. The loan will be interest free and will be forgiven by the Board after 3 years or such other period as the Directors determine. The cost to the Company of these arrangements will be, effectively, \$1 million per annum. If this is approved, Mr Ellice-Flint's current superannuation arrangements will be limited at 2.76 times his Base Salary on retirement.

Ends

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