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South Australian Government review of 15% shareholding cap

Santos welcomes today's decision by the Premier of South Australia, the Honourable Mike Rann MP, to initiate a review of the 15% shareholding restriction that has been in place since 1979.

This review is in response to a request made by Santos to the South Australian Government.

The outcome of the review is expected to be announced by the end of September 2007. A copy of the South Australian Government's news release is attached.

Commenting on the announcement, Santos' Chairman, Mr Stephen Gerlach, said that the Board is unanimously of the view that the cap is not in the best long-term interest of Santos' shareholders, and is an impediment to Santos realising its full growth potential.

"The Premier's review is, we believe, a positive and important step in addressing these concerns, and timely given the last review was undertaken by the Government in 2000," he said.

Santos' Managing Director, Mr John Ellice-Flint, joined Mr Gerlach in welcoming the Premier's announcement. "We are very pleased with the Premier's decision to initiate this review. We will be submitting to the review that the shareholding cap is no longer relevant, given the changes in the South Australian energy markets since its introduction over 28 years ago," he said.

"During that time Santos has also changed considerably, developing a diverse asset base with oil, gas and LNG production throughout Australia and internationally. We have also continued to demonstrate our strong commitment to the State through significant investments in our new corporate headquarters in Adelaide, and in the ongoing development of the Cooper Basin."

"The Board and management have an obligation to our shareholders to maximise the value of their investment," Mr Ellice-Flint said. "The presence of the cap clearly hinders this objective."

Attachment
Ends

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

Tuesday, 1 May 2007

REVIEW OF SANTOS SHAREHOLDING CAP

Premier Mike Rann today announced a review of a 28 year-old law limiting individual shareholder ownership in Santos to 15 percent.

The decision to review the cap comes at the request of Santos.

“The cap was introduced in 1979 – nearly 30 years ago - and was designed to prevent Alan Bond from taking the company over, with accompanying concerns at the time about ensuring continuity of gas supply. The cap was introduced in 1979 by the Corcoran Labor Government to protect a strategic asset of our State.

“Santos has written to me concerned that the cap restricts the company’s growth.

“Cabinet yesterday agreed to conduct a review of the cap.

“When it was introduced, the Cooper Basin was our sole gas source. Today, South Australia is the centre of a national gas hub, taking supply from Queensland, and from Victoria through the SEAGAS pipeline.

“The operation of the cap is conditional on Santos continuing to produce petroleum in South Australia.

“For many years, critics of the cap have claimed that it is anti-competitive, deflates Santos’ share prices and is a restriction that doesn’t apply to any other South Australian company.

“Similarly, under existing arrangements there is no obligation on the company to maintain its head office in Adelaide.

“However, Santos has recently invested in a new head office in Flinders Street which is a strong sign of its future commitment to South Australia.

“The previous Olsen Liberal government reviewed the cap in 2000. At that time, then Minerals and Energy Minister Wayne Matthews said that a central issue to its review would be determining whether the public benefits of the 15 per cent restriction on shareholdings outweighed the costs of the restriction. The then Government decided to maintain the cap.

“However, a lot has changed in the past six to seven years and I agree with Santos that it’s time to look at it again.

“A decision on lifting or retaining the cap will only be made after full assessment of potential costs and benefits.

“The Government’s approach will be driven by maximising benefits to South Australia. The review will have to show, and the company will have to provide, clear benefits to South Australia from any move to lift the cap,” Mr Rann said.

The review will be the responsibility of the Minister for Mineral Resources Development, the Hon Paul Holloway, and will be undertaken by the Department of Trade and Economic Development in conjunction with Primary Industries and Resources SA.

Terms of reference for the review will assess the benefits and cost of retaining the shareholding cap for both Santos and South Australia, taking into account:

1. The original intent of the 15 per cent shareholding cap and its applicability today
2. The impact of the shareholding cap on the operations and future growth of Santos both globally and in South Australia
3. Any potential risks from removal of the cap to South Australia’s economy
4. Energy security issues in South Australia
5. Regional development implications, and
6. An overall assessment of the current and future benefits of Santos’ operations in South Australia.

There will be an opportunity for public consultation and submissions by 15th June, with an announcement by the end of September.