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14 May 2007

Santos announces \$300 million off market buy-back

Santos today announced an off-market buy-back tender for approximately \$300 million of ordinary shares.

“This initiative reflects our solid balance sheet and cashflow position, combined with the Board’s view that the Company’s shares are being undervalued by the market” said Santos’ Managing Director and Chief Executive Officer, Mr John Ellice-Flint.

“Directors considered a number of capital management alternatives and concluded that an off-market buy-back would be the most effective way to deliver additional benefits to shareholders.”

“In particular, the buy-back is expected to improve the efficiency of Santos’ capital structure and result in improvements to earnings per share and return on equity, which will therefore also benefit non-participating shareholders.”

“At the same time, we will continue to make significant investments in our growth businesses, including short cycle time development projects such as Cooper Basin oil and the expansion of the Fairview field. Coupled with our substantial contingent resource position, we have numerous options in our portfolio to leverage the growing global demand for energy, including LNG.”

The Santos Board believes that the proposed off-market buy-back will not affect the capacity of Santos to pay fully franked dividends for the foreseeable future.

Funding

The buy-back will be funded from existing working capital and debt facilities. In addition, Santos intends to underwrite its dividend reinvestment plan for the 2007 interim and final dividends.

Buy-Back Process

The buy-back will involve a tender process, under which eligible shareholders will be invited to offer to sell their shares to Santos at discounts from 8 per cent to 14 per cent inclusive (at 1 per cent intervals) to the Market Price¹ and/or as a Final Price Tender². Santos will determine the final buy-

¹ ‘Market Price’ means the volume weighted average price of Santos’ ordinary shares (adjusted for certain not “at-market” trades as set out in the buy-back booklet) on the ASX over the five trading days up to and including the closing date of the buy-back, which is expected to be Friday, 29 June 2007.

² A ‘Final Price Tender’ means a tender in which the shareholder elects to receive the final buy-back price as determined by Santos under the tender process.

back price based on the largest discount in the tender range that enables it to repurchase the required amount of capital.

The Australian Taxation Office (ATO) has accepted that for Australian taxation purposes the buy-back price will comprise a capital component of \$2.79 per share, with the remainder deemed a fully franked dividend.

For the purposes of capital gains tax calculations, the deemed capital proceeds that shareholders will receive on disposal of their shares under the buy-back will be \$2.79 per share plus an amount equal to the excess of the Tax Value³ over the buy-back price. Santos does not intend to buy back shares at a price that exceeds the Tax Value.

For some of Santos' shareholders, depending on their individual circumstances, the after-tax proceeds from participating in the buy-back may be greater than a sale of their shares on the ASX. Shareholders should seek their own professional advice if they are in any doubt as to whether it is suitable for them to participate.

The terms and conditions of the buy-back will be set out in a booklet to be mailed to eligible shareholders by Monday, 4 June 2007.

Excluded foreign persons, including any person who is in the United States or who is a US Person within the meaning of Regulation S under the Securities Exchange Act of 1933 or a resident of Canada, will not be eligible to participate, directly or indirectly, in the buy-back.

Key dates for Santos' off-market buy-back^a

Event	Date (2007)
Cut-off date for buy-back franking entitlements under the 45-day rule ^b	15 May
Shares quoted ex-entitlement to participate in the buy-back on the ASX ^c	17 May
Determination of eligible shareholders entitled to participate in the buy-back (buy-back record date)	23 May
Distribution of buy-back documents to shareholders completed	4 June
Tender period opens	12 June
Tender period closes at 7.00pm (Eastern Standard Time)	29 June
Determination of the buy-back price and scale back (if any) with details posted on Santos' website at www.santos.com	30 June
Details of buy-back price and scale back (if any) made available via announcement to the ASX	2 July
Dispatch/crediting of buy-back proceeds to participating shareholders completed	9 July

³ In accordance with the ATO's Tax Determination TD 2004/22, the Tax Value will be \$12.25, adjusted for the movement in the S&P/ASX 200 Index from the commencement of trading on Monday, 14 May 2007 to the close of trading on Friday, 29 June 2007.

Notes:

- a. While Santos does not anticipate any changes to these dates and times, it reserves the right to vary them. Any change in date or time will take effect from the time it is authorised by the Board and will be publicly announced as soon as practicable following the Board's authorisation. Santos may also decide not to proceed with the buy-back.
- b. Shares acquired after this date will generally not qualify for franking entitlements in the buy-back under the 45-day holding period rule.
- c. Shares acquired on the ASX on or after this date will generally not confer an entitlement to participate in the buy-back.

Further information is available on Santos' website at www.santos.com.

Shareholder enquiries in relation to the buy-back may be directed to Santos' dedicated enquiry line on 1300 366 075 within Australia or +613 9415 4612 from outside Australia between 8:30am and 5:30pm (Eastern Standard Time), Monday to Friday.

Other important information

- To qualify for tax credits on the deemed dividend component of the buy-back price, shareholders must generally have held their shares 'at risk' for a minimum period of 45 days prior to the date on which Santos determines the buy-back price and buy-back allocations. Under the current timetable, this means that shares purchased on or after Wednesday, 16 May 2007 will not be held at risk for 45 days.
- The ATO has agreed that shares purchased on an ex-entitlement basis (that is, on or after Thursday, 17 May 2007) will not be allocated on a 'last-in, first-out' basis for the purposes of the 45-day rule and will therefore not affect entitlements to franking credits on other shares tendered into the buy-back.
- Shares acquired on 16 May 2007, while being eligible to participate in the buy-back, will generally not be eligible to the franking credits on shares tendered into the buy-back
- Santos reserves the right to vary the size of the buy-back and may choose not to buy back any shares at all. Furthermore, Santos may make changes to the buy-back timetable or terminate the buy-back. Any such change will be publicly announced as soon as practicable following the Board's authorisation
- If the total number of shares tendered at a discount greater than or equal to the final tender discount selected by Santos and as Final Price Tenders exceeds the amount of capital Santos is seeking to repurchase, a scale back may apply. A description of the scale back mechanism will be set out in the buy-back booklet.

Important notice

Not for distribution or release in or into the United States of Canada.

This press release does not constitute, or form part of, any offer or invitation to sell, or any solicitation of any offer to purchase any securities in any jurisdiction, nor shall it or the fact of its distribution be relied on in connection with any contract thereof. No indications of interest in the buy-back are sought by this press release. Shareholders who are (or nominees who hold Santos Limited shares on behalf of or for the account of persons who are) in the United States or US persons, (within the meaning of Regulation S under the United States Securities Act of 1933), residents of Canada or who are otherwise excluded foreign persons will not be eligible to participate in the off-market buy-back

described in this press release. ADRs and restricted employee shares may not be tendered into the buy-back. Buy-back documents, including the booklet describing the terms of the buy-back and tender forms, when issued, will not to be distributed or sent into the United States or Canada.

Forward looking statements

This press release contains forward looking statements, including statements regarding the implementation of the off market buy-back and its effects on our business and securities. The results and effects of the off-market buy-back may differ materially from those expressed in, or implied by, these forward looking statements. Factors that could cause or contribute to such differences include the number of shares bought back, the buy-back price and the general trading and economic conditions affecting our business. We do not undertake any obligation to revise these forward looking statements to reflect any future events or circumstances.

Ends

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