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## **2007 Full Year Results and Strategy Update**

**A webcast providing commentary on the results and strategy by Chief Executive John Ellice-Flint and Chief Financial Officer Peter Wasow is available at [www.santos.com](http://www.santos.com)**

### **Financial summary**

- **Production of 59.1 mmboe and sales revenue of \$2.5 billion, in-line with forecast**
- **EBITDAX of \$1,733 million, in-line with market consensus**
- **Net profit after tax of \$441 million down 32%, negatively impacted by higher DD&A and one-off items**
- **Final dividend of 20 cents per share, full year dividend unchanged at 40 cents per share**
- **Strong 2007 reserves replacement ratio of 175% and 178% on a 1P and 2P basis respectively**
- **Contingent resources increased 15% to 2.6 billion boe**

Santos today reported earnings before interest, tax, depreciation, amortisation and exploration (EBITDAX) of \$1,733 million and net profit after tax (NPAT) of \$441 million for the year ended 31 December 2007.

The operating result, as measured by EBITDAX, was within analyst consensus expectations, and reflected a 3% decline in production volumes combined with an increase in the proportion of lower-margin gas produced.

Higher commodity prices were evident across Santos' portfolio, with the average gas price increasing by 6% to \$3.95 per gigajoule. A 19% increase in US dollar oil price was offset by the stronger Australian dollar exchange rate. In Australian dollar terms, the oil price of \$92.10 was 3% above 2006.

The NPAT result was lower than analyst estimates due largely to increased depreciation and depletion expense as a result of higher future development costs which are being felt across

the industry. In addition, costs associated with the Moonie to Brisbane pipeline incident (\$26 million), an \$8 million loss on embedded derivatives in sales contracts and a small increase in provisioning for the Sidoarjo mudflow incident (\$8 million) had an impact.

For the fourth successive year, Santos increased its year end reserves position.

Commenting on the 2007 results, Santos' Managing Director, Mr John Ellice-Flint said the Company's operating performance was broadly in line with its sales and production guidance provided at this time last year.

"Santos' operating performance in 2007 was sound, although the lower profit reflects industry cost pressures, which are impacting on operating expenses and expected future development costs.

"Historically, Santos' focus has been on the domestic Australian market, where we are the largest gas producer. Looking forward, our strategy will leverage our portfolio to the much higher prices and volumes available for our resources in Asia," he said.

## **Dividend**

Santos' final dividend was maintained at 20 cents per share, fully franked. The final dividend will be paid on 31 March 2008 to registered shareholders as at 3 March 2008.

Total dividends declared during 2007 were 40 cents per share, unchanged from 2006.

## **Reserves Growth**

A table detailing the reserves position as at 31 December 2007 is attached to this release.

On a proven (1P) basis, year-end reserves increased to 485 mmboe, after allowing for the 2007 production of 59.1 mmboe. This represents a 1P reserves replacement ratio (RRR) of 175% for 2007, and 178% on a 3 year rolling-average basis.

On a proven and probable (2P) basis, year-end reserves increased to 879 mmboe. This represents a 2P RRR of 178% for 2007, and 234% on a 3 year rolling-average basis.

Contingent resources increased by 15% to over 2.6 billion boe, or over 14.5 trillion cubic feet (tcf).

The reserves additions in 2007 were mostly from organic growth sources, with acquisitions and divestments being insignificant in the final result.

Commenting on this increase, Mr Ellice-Flint said, "Our reserve replacement performance over the last 3 years places us within the top quartile of our peer companies globally."

"And this rate of replacement is only half the story. Our replacement cost over the last 3 years has averaged A\$12.33 per barrel as a result of our strategy to secure high quality

resources early; before market or energy price discontinuities have made them more difficult or costly to capture.” he said.

“Santos’s mean contingent resources of over 14.5 tcf provide the opportunity to grow 2P reserves by over 300% from known discoveries.

“These contingent resources are clearly focussed on LNG opportunities, and with Gladstone LNG providing linkage between domestic and export prices, 100% of our contingent resources are now exposed to regional energy pricing.

“Coupled with rapid growth in Asian economies and the consequent growth in energy demand, timeframes to monetise gas resources are shortening, and as a result the inherent value of these resources is increasing.”

## Strategy Update

2008 marks a pivotal year in the implementation of Santos’ strategy to gain exposure to global prices for our large scale resources, which will transform the Company through significant volume growth and margin expansion.

Sufficient coal seam gas now exists in eastern Australia for Santos to develop a large scale LNG export business. The creation of this export channel will underpin a fundamental shift in the value of Santos’ eastern Australian gas resources as the arbitrage between Asian and domestic energy prices closes.

Santos was the early mover in recognising and capturing this opportunity, and has positioned itself by amassing a large, high quality coal seam gas resource position and by leading the development of an export LNG project at Gladstone.

The Gladstone LNG project represents the culmination of over two years of engineering and analysis, and Santos is well advanced in delivering this project. A freehold site for the liquefaction plant in the Port of Gladstone has been secured, pre-FEED discussions with engineering contractors are well advanced, federal environmental referrals for all aspects of the project have been lodged, and the project has been designated a project of State Significance by the Queensland Government.

## Capital Investment

Total capital investment in 2007 was \$1,307 million, unchanged from 2006.

The 2008 outlook is for higher capital investment totalling approximately \$1,500 million, with the allocation reflecting a balance between near term production imperatives and the transformational growth projects which provide exposure to higher global pricing.

Near term projects to extend our base business include Henry, Reindeer, Kipper, Cooper Oil and Phase 2 of the Oyong field development.

Transformational projects include Gladstone LNG, coal seam gas exploitation and PNG LNG.

In exploration, our 2008 plan of \$200 million is focussed on a stronger, balanced, moderate risk, material exploration program in Australia and Asia.

The Santos strategy of focusing on Gladstone LNG benefits from strong government support, industry leading reserves and a proven track record of Coal Seam Gas production.

The increases in the Company's investment program necessary to execute the strategy will be funded from cash flow and portfolio rationalisation. Importantly, we have received strong preliminary interest from potential partners in relation to Gladstone LNG, and are evaluating the merits of introducing a suitable joint venture partner.

## **Sidoarjo Mudflow Incident Update**

The Sidoarjo mud flow incident that occurred in May 2006 within the area of the Brantas Production Sharing Contract ("PSC") continues. Santos holds an 18% non-operated interest in the PSC. Efforts to contain and manage the mudflow are within the control of the Sidoarjo Mud Mitigation Agency appointed by the President of Indonesia.

The South Jakarta District Court recently dismissed a claim against a number of the defendants, including a Santos subsidiary, regarding the incident. The Court cited natural causes as the likely cause of the incident. The claimant has appealed the decision.

Santos, while not accepting any liability in relation to the incident, its ongoing management or any remediation of the area, has increased its provision for the incident by A\$8 million in its 2007 accounts. Further detail is provided in note 3 to Santos' 2007 year end accounts.

## **Production Guidance and Outlook**

Santos' 2008 guidance is for production of between 56 and 58 mmbœ.

Beyond that, the Company anticipates a return to growth in 2009, followed by further increases in production in 2010 and beyond as CSG production ramps-up, and new projects such as Henry, Kipper, Chim-Sao (formerly named Blackbird) and Reindeer come on-line.

Looking forward to 2013/14, Santos anticipates a step change in production as the Gladstone LNG, PNG LNG and potentially Darwin LNG expansion projects come on-line. Revenue and margin growth will accelerate ahead of production growth as the Company's strategy to expose its large scale resource base to global pricing is realised.

2007 Year End Reserves summary attached.

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

**APPENDIX A**

The table below shows the breakdown of reserves as at 31 December 2007.

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) BY ACTIVITY

	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	Total mmboe
Reserves year end 2006	3949	75	43	2895	819
Production	-242	-12	-4	-243	-59
Additions	551	16	4	330	117
Acquisitions/Divestments	13	0	0	0	2
Estimated reserves year end 2007	4271	79	43	2982	879

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) YEAR END 2007 BY AREA

Area	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	Total mmboe
Cooper Basin	783	39	11	1560	197
Onshore Northern Territory	113	2	1	0	23
Offshore Northern Territory	325	0	20	1011	84
Eastern Queensland	1667	0	0	14	287
Southern Australia	404	0	5	397	77
Carnarvon Australia	768	34	6	0	171
PNG	0	1	0	0	1
Indonesia	187	3	0	0	35
Bangladesh	24	0	0	0	4
Total	4271	79	43	2982	879

RESERVES (SANTOS SHARE)  
(mmboe)

	Year End 2006	Production	Additions	Acq / Div	Year End 2007
1P Reserves	441	-59	100	3	485
2P Reserves	819	-59	117	2	879
2C Contingent Resources	2248	0	359	-12	2595

Note - 2C Contingent Resources previously called "Best Estimate Resources". Name has been changed to be consistent with the updated SPE/WPC/AAPG/SPEE Guidelines issued in March 2007

Ends