

Media enquiries

Matthew Doman
+61 8 8116 5260 / +61 (0) 421 888 858
matthew.doman@santos.com

Investor enquiries

Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

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Santos announces capital management strategy

Santos today announced a capital management strategy comprising the following key initiatives:

- an off-market share buy-back tender of approximately \$300 million;
- a 10% increase in the interim dividend to 22 cents per share; and
- the repayment of certain debt facilities.

Santos has also announced that the Dividend Reinvestment Plan (DRP) will be in operation for the interim 2008 dividend. The DRP will be fully underwritten with respect to the interim 2008 dividend as well as the following two dividends.

“These initiatives are consistent with Santos’ ongoing commitment to efficient capital management, and reflect the strength of the Company’s financial position” said Santos’ Chairman, Mr Stephen Gerlach.

“The off-market buy-back will allow Santos to immediately distribute to shareholders some of the proceeds resulting from the Gladstone LNG joint venture with PETRONAS, and will reduce the number of shares on issue. The Directors have concluded that the buy-back is the most effective mechanism to achieve these objectives. The final size of the buy-back will depend upon shareholder demand and market conditions.”

“The 10% increase in the interim dividend reflects Santos’ continuing sound operational performance and positive outlook.”

“At the same time, underwriting the Dividend Reinvestment Plan maintains the Company’s capacity to fund its growth strategy. The need for any further equity capital to support the Gladstone LNG project will be assessed during the Front End Engineering Design (FEED) process.”

“Based on the current share price and the expectation that shares will be repurchased under the off-market buy-back at a discount, the suite of capital management initiatives is expected to have a positive impact on earnings per share.”

“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 cash holdings, which have increased as a result of the selection of PETRONAS as a 40% participant in the Gladstone LNG project.

Details of the off-market share buy-back

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-back price based on the largest discount in the tender range that enables it to repurchase the required amount of capital (\$300 million).

It is expected that ASX and Australian Securities and Investment Commission (ASIC) regulatory approvals required for the Buy-Back will be in place prior to the opening of the tender period.

The Australian Taxation Office (ATO) has provided preliminary confirmation that for Australian taxation purposes the buy-back price will comprise a capital component of \$2.98 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 \$2.98 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 if those shareholders had sold their shares on-market. 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 Friday, 12 September 2008.

Excluded foreign persons, including any person who is (or who is acting on behalf of or for the account of a person who is) in the United States or who is a US Person within the

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, 3 October 2008. The Market Price will be posted on the Santos website and released to the ASX as soon as possible after 4.00pm (Eastern Standard Time) on the closing date.

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.

³ In accordance with the ATO's Tax Determination TD 2004/22, the Tax Value will be \$17.14, adjusted for the movement in the S&P/ASX 200 Energy Index from the commencement of trading on Thursday, 21 August 2008 to the close of trading on Friday, 3 October 2008.

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.

In addition, ADRs, restricted employee shares and shares issued under the Santos Dividend Reinvestment Plan in respect of the 2008 interim dividend cannot be tendered into the buy-back.

UBS is acting as financial advisor to Santos in relation to the off-market buy-back.

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

Event	Date (2008)
Cut-off date for buy-back franking entitlements under the 45-day rule ^b	21 August
Shares quoted ex-entitlement to participate in the buy-back on the ASX ^c	27 August
Determination of eligible shareholders entitled to participate in the buy-back (buy-back record date)	2 September
Distribution of buy-back documents to shareholders completed	12 September
Tender period opens (online tender facility will be available on Santos' website at www.santos.com)	15 September
Tender period closes at 7.00pm (Eastern Standard Time)	3 October
Determination of the buy-back price and scale back (if any)	6 October
Dispatch/crediting of buy-back proceeds to participating shareholders and updated holding statements completed	10 October

Notes:

- 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 and may vary the size of the buy-back.
- Shares acquired after this date will generally not qualify for franking entitlements in the buy-back under the 45-day holding period rule.
- 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 727 634 within Australia or +613 9946 4447 from outside Australia between 8:30am and 5:30pm (Eastern Standard Time), Monday to Friday.

Other important information

- The buy-back is subject to receipt of an ASIC exemption under subsection 257D(4) of the Corporations Act and certain waivers from the ASX Listing Rules in a form satisfactory to the Company which will allow the buy-back to be implemented in the manner contemplated.
- 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 Friday, 22 August 2008 will not be held at risk for 45 days.
- The ATO has provided preliminary confirmation that shares purchased on an ex-entitlement basis (that is, on or after Wednesday, 27 August 2008) 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 during the period from Friday, 22 August to Tuesday, 26 August 2008 (inclusive), 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 and may jeopardise the entitlement to receive franking credits on other shares.
- Shares issued under the Santos Dividend Reinvestment Plan with respect to the 2008 interim dividend will be issued to shareholders on 30 September 2008 (after the buy-back record date) and therefore will not carry an entitlement to participate in the buy-back and cannot be tendered into the buy-back.
- Shareholders who wish to tender all, or a substantial portion of, their shares into the buy-back may wish to consider withdrawing from the Santos Dividend Reinvestment Plan in respect of the 2008 interim dividend to avoid the possibility of being left with a small parcel of shares after the buy-back. In order to do this, shareholders must submit a Dividend Reinvestment Plan Notice of Election Form stating their withdrawal from participation in the Dividend Reinvestment Plan by Tuesday, 2 September 2008. You can obtain the Dividend Reinvestment Plan Notice of Election form by contacting the Santos share registry by phone on 08 8116 5000 or by fax on 08 8116 5950, or from Santos' website at www.santos.com under the Dividend Reinvestment Plan section.
- 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 announced to the ASX 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

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)