



**Santos**

# Off-market share buy-back

21 August 2008

1

## Disclaimer

### Important Notice

NOT FOR DISTRIBUTION OR RELEASE IN OR INTO THE UNITED STATES OR CANADA

This presentation 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 presentation 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.

2

**Santos**

# Key features of the Buy-Back

<b>Target size</b>	<ul style="list-style-type: none"> <li>Approximately \$300 million, representing around 3.4% of Santos' ordinary shares<sup>1</sup></li> <li>Santos may vary the size of the Buy-Back depending on demand and market conditions</li> </ul>
<b>Tender discount range</b>	<ul style="list-style-type: none"> <li>Discount range from 8% to 14% inclusive (at 1% intervals) to the Market Price</li> <li>Market Price is calculated as the VWAP<sup>2</sup> of Santos' ordinary shares over the five trading days up to and including the Buy-Back closing date (3 October 2008)</li> </ul>
<b>Buy-Back price</b>	<ul style="list-style-type: none"> <li>Calculated by applying the tender discount selected by Santos under the tender process to the Market Price</li> <li>Comprises a \$2.98 capital component, with the balance of the Buy-Back price treated as a fully franked dividend for Australian tax purposes</li> </ul>
<b>Eligibility to participate</b>	<ul style="list-style-type: none"> <li>Shares acquired before the Buy-Back ex-entitlement date (27 August 2008) and held on the Buy-Back Record Date (2 September 2008) will be eligible to participate</li> <li>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 or a resident of Canada, are not eligible to participate in the Buy-Back</li> <li>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</li> </ul>
<b>Timetable</b>	<ul style="list-style-type: none"> <li>Tender period opens on 15 September 2008 and closes at 7pm (Eastern Standard Time) on 3 October 2008</li> <li>Announcement of Buy-Back price and scale back (if any) and entry into Buy-Back contracts on 6 October 2008</li> </ul>

1 Assuming a Buy-Back price of \$14.62 (i.e. a 14% discount to an assumed Market Price of \$17.00).

2 VWAP means the volume weighted average price of Santos shares on the ASX, adjusted for certain not "at-market" trades as set out in the Buy-Back booklet.

3



# Benefits of the Buy-Back

<b>Benefits all shareholders</b>	<ul style="list-style-type: none"> <li>The 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</li> <li>For some shareholders, depending on their individual circumstances, the after-tax proceeds from participating in the Buy-Back may be greater than if those shareholders sold their shares on-market</li> <li>Shareholders who continue to hold Santos shares are expected to benefit from a more efficient capital structure and improvements in earnings per share (EPS) and return on equity</li> </ul>
<b>Earnings per share</b>	<ul style="list-style-type: none"> <li>The precise impact of the Buy-Back on EPS cannot be determined until the Buy-Back price and the size of the Buy-Back are finalised</li> <li>The impact on EPS is expected to be enhanced through the purchase of shares at a discount of at least 8% to the Market Price, as Santos will be able to buy back a greater number of shares for the same amount of capital</li> </ul>
<b>Choice and flexibility</b>	<ul style="list-style-type: none"> <li>There are several options for shareholders to consider if they choose to participate in the Buy-Back. Shareholders can: <ul style="list-style-type: none"> <li>choose a discount in the range between 8 per cent and 14 percent inclusive (at 1 per cent intervals)</li> <li>choose how many shares to tender</li> <li>tender some shares at one discount, and tender other shares at a different discount (provided the shareholder holds more than 300 shares)</li> </ul> </li> <li>Shareholders can choose to lodge a Final Price Tender, ensuring participation to some extent</li> <li>Tenders can be made subject to a Minimum Price condition, providing greater certainty to participating shareholders as to the lowest price at which their shares may be bought back</li> </ul>

4



# Impact on Santos

<b>Balance sheet</b>	<ul style="list-style-type: none"> <li>Santos' share capital and retained earnings balances will be debited in proportion to the capital and deemed dividend split of the Buy-Back price</li> <li>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</li> </ul>
<b>Franking credits</b>	<ul style="list-style-type: none"> <li>The amount of franking credits to be distributed will not be known until the Buy-Back price and size of the Buy-Back are determined</li> <li>The Santos Board believes that the Buy-Back will not affect the capacity of Santos, subject to business conditions, to pay fully franked dividends for the foreseeable future</li> </ul>
<b>Credit rating</b>	<ul style="list-style-type: none"> <li>No change is expected to Santos' credit rating</li> </ul>

# Participation and tender options

<b>How to tender</b>	<ul style="list-style-type: none"> <li>Buy-Back documents will be sent to eligible shareholders by 12 September 2008</li> <li>Tenders must be submitted by 7pm (Eastern Standard Time) on 3 October 2008</li> </ul>
<b>Tender options</b>	<ul style="list-style-type: none"> <li>Eligible shareholders can tender at any of 7 tender discounts from 8% to 14% inclusive (at 1% intervals) to the Market Price or as a Final Price Tender</li> </ul>
<b>Minimum Price condition</b>	<ul style="list-style-type: none"> <li>Shareholders have the option of making their tender conditional on the Buy-Back price being no less than one of three specified prices (as set out on the tender forms)</li> <li>If the Buy-Back price is lower than the Minimum Price condition selected by a shareholder, their tender will not be successful</li> </ul>
<b>Final Price Tenders</b>	<ul style="list-style-type: none"> <li>A shareholder can elect to receive the final Buy-Back price as determined through the tender process, subject to any scale back</li> </ul>
<b>Minimum tenders</b>	<ul style="list-style-type: none"> <li>Shareholders with 300 shares or less at the Buy-Back Record Date must tender all of their shares at one tender discount or as a Final Price Tender if they wish to participate in the Buy-Back</li> </ul>
<b>Online Tender Facility</b>	<ul style="list-style-type: none"> <li>Issuer Sponsored shareholders can lodge and withdraw or amend their tenders online at <a href="http://www.santos.com">www.santos.com</a></li> </ul>

# Acceptance and scale back

<b>Buy-Back price calculation</b>	<ul style="list-style-type: none"> <li>The Buy-Back price will be determined by Santos via the tender process, depending on demand and market conditions</li> <li>The Buy-Back price will equate to the largest discount in the range from 8% to 14% inclusive (at 1% intervals) to the Market Price that allows Santos to purchase the number of shares it determines to buy back</li> <li>The discount will be applied to the VWAP (excluding certain not "at-market" trades as set out in the Buy-Back booklet) over the 5 days up to and including the Closing Date (3 October 2008)</li> </ul>
<b>Successful tenders</b>	<ul style="list-style-type: none"> <li>Tenders at or larger than the Buy-Back discount and Final Price Tenders will be successful (subject to any scale back and Minimum Price condition)</li> <li>All successful tenders will receive the Buy-Back price</li> <li>Tenders at tender discounts smaller than the final Buy-Back discount will not be bought back</li> </ul>
<b>Scale back</b>	<ul style="list-style-type: none"> <li>If the total number of shares tendered at or greater than the Buy-Back discount and as Final Price Tenders is more than the number of shares that Santos determines to buy back, a scale back will apply (subject to the Priority Allocation). Where a scale back applies, Small Holding Tenders will still be accepted in full</li> </ul>
<b>Priority Allocation</b>	<ul style="list-style-type: none"> <li>Santos will buy back up to 300 shares from each shareholder before any scale back applies</li> </ul>
<b>Small Holding Tenders</b>	<ul style="list-style-type: none"> <li>Shareholders tendering all of their shares at a tender discount equal to or greater than the Buy-Back discount or as a Final Price Tender, and who would be left with 130 shares or less due to a scale back, will have their tender accepted in full</li> </ul>

7

**Santos**

# Australian tax implications

<b>Buy-Back price composition</b>	<p>Capital component:</p> <ul style="list-style-type: none"> <li>Shareholders will generally be taken, for Australian capital gains tax purposes, to have sold their shares for \$2.98 plus any excess of the Tax Value over the Buy-Back price<sup>1</sup></li> <li>Cost base of the shares is relevant in determining any capital gain or loss</li> </ul> <p>Dividend component:</p> <ul style="list-style-type: none"> <li>The excess of the Buy-Back price over \$2.98 will be treated as a fully franked dividend</li> </ul>
<b>Tax Value</b>	<ul style="list-style-type: none"> <li>\$17.14 adjusted for movements in S&amp;P/ASX 200 Energy Index from the commencement of trading on 21 August 2008 to the close of trading on 3 October 2008</li> <li>The Buy-Back price will not exceed the Tax Value</li> </ul>
<b>Holding Period Rule</b>	<ul style="list-style-type: none"> <li>The Holding Period Rule generally requires that shares must be held 'at risk' for a minimum of 45 days to qualify for franking credits and tax offsets</li> <li>In order to satisfy this rule, shares must be held 'at risk' from a date on or before 21 August 2008, the cut-off date under the Holding Period Rule<sup>2</sup></li> <li>Shares acquired from 22 August 2008 to 26 August 2008 inclusive, while being eligible to participate in the Buy-Back, will generally not be entitled to the franking credits on shares tendered into the Buy-Back</li> </ul>
<b>"Last-in First Out" rule</b>	<ul style="list-style-type: none"> <li>Shares acquired on or after 27 August 2008 on an ex-entitlement basis will not affect a participating shareholders' ability to claim franking credits on shares tendered into the Buy-Back</li> </ul>

<sup>1</sup> Different rules apply to companies which reduce the capital loss arising on the Buy-Back

<sup>2</sup> This assumes the Buy-Back contracts are formed on 6 October 2008

8

**Santos**

# Timetable

Event	Date
Buy-Back announcement	Thursday, 21 August 2008
Last day that shares can be acquired to be eligible for Buy-Back franking entitlements under the 45-day rule	Thursday, 21 August 2008
Shares quoted ex-entitlement to participate in the Buy-Back - shares acquired on or after this date on the ASX will generally not confer an entitlement to participate in the Buy-Back	Wednesday, 27 August 2008
Record Date for determination of shareholders entitled to participate in the Buy-Back	Tuesday, 2 September 2008
Dispatch of Buy-Back documents to shareholders	Friday, 12 September 2008
Tender period opens (online tender facility will be available on Santos' website at <a href="http://www.santos.com">www.santos.com</a> )	Monday, 15 September 2008
Tender period closes at 7pm (Eastern Standard Time)	Friday, 3 October 2008
Expected announcement of the Buy-Back price and scale back (if any)	Monday, 6 October 2008
Dispatch/crediting of Buy-Back proceeds to participating shareholders and updated holding statements completed	Friday, 10 October 2008

9

**Santos**

# Worked Australian tax examples

	Superfund	Australian resident individuals <sup>1</sup>				
		Income = \$0-\$6,000	Income = \$6,001-\$34,000	Income = \$34,001-\$80,000	Income = \$80,001-\$180,000	Income = \$180,000+
		0.00% marginal tax rate	16.50% marginal tax rate	31.50% marginal tax rate	41.50% marginal tax rate	46.50% marginal tax rate
Per share A\$	15% tax rate					
<b>Income tax consequences (deemed dividend)</b>						
Illustrative Buy-Back Price	\$14.62	\$14.62	\$14.62	\$14.62	\$14.62	\$14.62
Less: capital component	(\$2.98)	(\$2.98)	(\$2.98)	(\$2.98)	(\$2.98)	(\$2.98)
Assumed fully franked deemed dividend <sup>2</sup>	\$11.64	\$11.64	\$11.64	\$11.64	\$11.64	\$11.64
Add: gross up for franking credits	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99
Assessable income	\$16.63	\$16.63	\$16.63	\$16.63	\$16.63	\$16.63
Tax on assessable income	(\$2.49)	\$0.00	(\$2.74)	(\$5.24)	(\$6.90)	(\$7.73)
Tax offset <sup>3</sup>	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99	\$4.99
Net tax offset (tax payable) on franked deemed dividend	\$2.50	\$4.99	\$2.25	(\$0.25)	(\$1.91)	(\$2.74)
<b>After tax proceeds<sup>3</sup></b>	\$14.14	\$16.63	\$13.89	\$11.39	\$9.73	\$8.90
<b>CGT consequences (capital)</b>						
Capital component	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98	\$2.98
Add: excess Tax Value over Buy-Back Price <sup>4</sup>	\$2.38	\$2.38	\$2.38	\$2.38	\$2.38	\$2.38
Less: Illustrative cost base	(\$8.50)	(\$8.50)	(\$8.50)	(\$8.50)	(\$8.50)	(\$8.50)
Nominal capital gain/ (loss) on disposal	(\$3.14)	(\$3.14)	(\$3.14)	(\$3.14)	(\$3.14)	(\$3.14)
Discount capital gain/ (loss) <sup>5</sup>	(\$2.09)	(\$1.57)	(\$1.57)	(\$1.57)	(\$1.57)	(\$1.57)
Tax impact of capital gain/ loss <sup>6</sup>	\$0.31	\$0.00	\$0.26	\$0.49	\$0.65	\$0.73
<b>After tax proceeds<sup>5, 6</sup></b>	\$3.29	\$2.98	\$3.24	\$3.47	\$3.63	\$3.71
	\$17.43	\$19.61	\$17.13	\$14.86	\$13.36	\$12.61

10

**Santos**

# Notes to tax examples

1. The marginal tax rate includes the Medicare levy of 1.5%. The liability of an individual to pay a Medicare levy depends on the individual's own circumstances.
2. This assumes that the Buy-Back price of \$14.62 is a 14% discount to an assumed Market Price of \$17.00.
3. This assumes the shareholder is fully entitled to the franking credits.
4. This assumes, for illustrative purposes only, that the market value for tax purposes (the "Tax Value") of the shares is \$17.00. The actual Tax Value will be \$17.14 adjusted for the movement in the S&P/ASX 200 Energy Index from the opening level on 21 August 2008 to the closing level on 3 October 2008.
5. This assumes that the discount capital gain method is used, which adjusts the total capital gain by a discount factor (50% for individuals, 33<sup>1/3</sup>% for complying superannuation funds).
6. This assumes individuals will be able to fully utilise capital losses to offset capital gains. The capital loss which arises under the Buy-Back may be different to any capital gain/loss which may have arisen under an equivalent sale of shares on-market. This is because the capital proceeds under the Buy-Back are the aggregate of \$2.98 (the cash capital component) plus \$2.38 (the excess of the assumed Tax Value over the assumed Buy-Back price).