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Lodgement of Open Briefing

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Title: Open Briefing. Santos. CFO on Transition to A-IFRS

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The Australian Accounting Standards Board ("AASB") has issued the Australian equivalents to International Financial Reporting Standards ("A-IFRS") to apply from 1 January 2005. Accordingly, Santos will prepare its financial reports under A-IFRS for the first time for the half-year ending 30 June 2005. Will the move to reporting under A-IFRS have any impact on the way that Santos conducts its business?

CFO Peter Wasow
No, this doesn't affect the value of our business in any way. These are purely accounting changes which will not affect Santos' underlying strategies, operations, cash flows, credit ratings or capacity to pay fully franked dividends.

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Your half yearly report for the period ending 30 June 2005 will not be released until August 2005, so why are you highlighting the A-IFRS impacts now?

CFO Peter Wasow
We have chosen to present this information now to clearly separate the transition impact from the interim profit result in August. It is important that investors understand the adjustment to the opening balance sheet, and can then interpret the interim profit result under the new standards.

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Given that there are no changes to the way the business is run, why is Santos required to transition to A-IFRS, and what key accounting changes does the Company expect?

CFO Peter Wasow
The introduction of A-IFRS represents an attempt by regulators around the world to standardise accounting treatments across companies domiciled in different jurisdictions. The adoption of A-IFRS is a mandatory requirement for all Australian domiciled companies.

The major impacts stem from a change in the fundamental basis of accounting. Previously under Australian Generally Accepted Accounting Principles ("A-GAAP"), financial reports were predominantly prepared on a historical cost basis. Under A-IFRS, there will be an increased emphasis on recording assets and liabilities at their fair values.

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Do you expect any benefits for the Company in making these changes?

CFO Peter Wasow
Yes. As you know, Santos' strategy is to grow its international businesses and become a truly global player in the upstream oil and gas industry. The accounting changes which we have foreshadowed today, particularly in relation to accounting for exploration and evaluation costs, will bring us in line with many of our major global peers, including those in Australia: namely, Woodside and BHP Billiton.

In addition, they also provide for a more effective natural hedge for our US dollar assets with US dollar revenue streams.

Overall, the standardisation of accounting principles should lead to improved transparency and understanding for equity investors and debt providers. Ultimately, this should facilitate enhanced access to global capital markets.

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Which new standards will impact most on Santos' balance sheet? Can you give some detail?

CFO Peter Wasow
When reporting under A-IFRS, Santos is required to restate its opening balance sheet as at 1 January 2004.

Of the 45 new A-IFRS standards issued, only 4 include mandatory changes which have any significant financial impacts on Santos' opening balance sheet, as described in the table overleaf.

	Initial Balance Sheet Restatement As at 1 January 2004	Ongoing Implications
AASB 112 Income Taxes	Increase the amount of deferred income tax liability to reflect differences between the accounting and tax base of assets and liabilities rather than just timing differences.	Tax expense in future years will be reduced, and thus profit will be higher, by an amount equal to the increase in deferred tax liability. Effectively, we are pre-providing now for future liabilities. Annual tax expense will more closely reflect the statutory rates of tax in the various countries of operation.
AASB 121 The Effects of Changes in Foreign Exchange Rates	Adopt US dollar as functional currency for Timor Gap, Indonesian and PNG operations. Adjust asset carrying values using the A$ to US$ closing rate at each balance date using a foreign currency revaluation reserve.	More effective natural hedge of US$ denominated debt against US$ assets.
AASB 136 Impairment of Assets	1. Assess any impairment of the carrying value of producing oil and gas assets by applying the Cash Generating Unit concept, which is the smallest grouping of assets generating cash flows; previously impairment was assessed under a broader Area of Interest concept which included all of the producing oil and gas assets within a geological basin. 2. Measure the extent of any impairment of a cash generating unit using a discounted cash flow approach; previously under A-GAAP future cash flows were not discounted.	DD&A charges in future years reduced by an amount equal to the reduction in the carrying value of exploration and development assets.

AASB 137 Provisions, Contingent Liabilities and Contingent Assets	Adjust the restoration liabilities to reflect the present value of the total expected restoration costs and to capitalise these amounts as a component part of our oil and gas assets.	There will be a small increase in depletion expense, plus increased interest expense on restoration liabilities. These items will largely be offset by a reduction in restoration expense.

The total financial impact of applying all of the new A-IFRS standards on Santos' opening balance sheet as at 1 January 2004 (transitional date) but before the financial impact of applying the partial expensing provisions of AASB 6 - Exploration for & Evaluation of Mineral Resources, as at 1 January 2004 is to:

- reduce the carrying value of assets by $435 million;
- increase the carrying value of liabilities by $92 million; and therefore
- reduce equity by $527 million.

These adjustments will be made to our opening balance sheet and therefore do not affect the Income Statement.

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You mentioned the new A-IFRS dealing with exploration and evaluation expenditure. Won't this new accounting standard have a significant impact on Santos' balance sheet?

CFO Peter Wasow
This is an important part of aligning Santos' accounting practices with those of our peers, which is one of the key objectives of IFRS worldwide.

A comprehensive international accounting standard pertaining specifically to extractive industries has not yet been developed, so the AASB issued an interim standard (AASB 6) in December 2004 which requires Australian companies to continue to apply an "Area of Interest" methodology. Within an Area of Interest, the standard provides companies with the option to either expense, partially capitalise or fully capitalise exploration and evaluation expenditure, and prescribes strict conditions to be met before this expenditure can be carried forward as an asset. Santos already meets these conditions, hence if it were to continue with its current policy for capitalising exploration and evaluation expenditure, AASB 6 would not have any impact.

However, in considering the various options allowed under the new standard, Santos has decided to adopt the "Successful Efforts" (partially capitalise) approach to the treatment of exploration and evaluation costs. As a result, Santos will now expense exploration and evaluation costs unless they result in the discovery of potentially commercial hydrocarbons. This change in our accounting policy will be applied retrospectively and the impact as at 1 January 2004 is to:

- reduce capitalised exploration expenditure by $672 million;
- reduce deferred tax liabilities by $185 million; and therefore
- reduce equity by a further $487 million.

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You have outlined the impact on the 1 January 2004 balance sheet, however this is now over 12 months out of date. What further changes have occurred with the passage of time?

CFO Peter Wasow
Subject to the confirmation of a number of taxation issues and final signoff from our auditors, our current analysis suggest that the restated A-IFRS 2004 financial year result would have been a Net Profit After Tax ("NPAT") of approximately $344 million, as compared with the reported A-GAAP result of $380 million, as shown in the table below.

After allowing for dividend payments made, this would result in an increase in equity of approximately $129 million during 2004.

All figures in A$m	**Previous (A-GAAP)**	**Restated (A-IFRS)**
Depreciation Expense	171	167
Depletion Expense	344	294
Exploration Expense		
Non Producing areas	6	31
Producing areas	-	88
Impairment Expense/ (Write-back)	16	(5)
Future restoration costs	20	-
Interest on restoration liabilities	-	14
(Profit) on sale of assets	(52)	(61)
Income tax expense	161	174
NPAT	**380**	**344**

In respect of accounting for taxation, there are a number of issues that are presently being considered by the AASB, UIG and IASB that may have an impact on the figures which we have provided today.

One specific area which requires a clear interpretation from the standard setting bodies relates to Petroleum Resources Rent Tax (PRRT) and similar taxes. Industry practice has been to include these items in operating costs on an incurred basis. If the new AASB 112 standard were applied, these items would be reported as part of income tax expense and measured using deferred tax concepts.

We do not expect these matters to be resolved until some time in June and until we see the outcome of these deliberations we cannot be precise about the final impact of the new taxation standard.

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If Santos is not required to change to a Successful Efforts approach until a comprehensive accounting standard for the extractive industries is issued, why make the change now?

CFO Peter Wasow
Remember that A-IFRS is all about improving comparability between companies. We believe that Successful Efforts will present a view of Santos' financial performance and financial position that will make it easier to directly compare Santos with our peer group companies including Woodside, who moved to a Successful Efforts approach several years ago.

In addition, over the past four years, our growth strategy has changed from near-field exploration concentrated in central Australia, to growing our business through high impact exploration in offshore Australian and international basins. We believe that the changing nature of our business should be reflected in the way we account for and report exploration expenditure.

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Specifically, what costs are included within "exploration and evaluation costs" which will be expensed under a Successful Efforts methodology?

CFO Peter Wasow
There are three broad categories of costs associated with exploration and evaluation activities. They are acquisition, geological and geophysical ("G&G") and drilling costs.

Acquisition costs include costs incurred to acquire the right to explore for petroleum within a specified area such as a lease, permit or Production Sharing Contract. These costs will be initially capitalised as acquisition costs and either amortised as reserves are produced, or written down or written off at such time as the asset is deemed to be impaired.

G&G costs are incurred in undertaking regional topographical or geophysical studies, acquiring and evaluating seismic data, mapping prospects and leads and other geological and geophysical work leading up to drilling an exploration well. All of these costs will now be expensed as incurred.

Drilling costs will be treated on a Successful Efforts basis. If the drilling does not encounter potentially commercial quantities of hydrocarbons, the drilling costs will be expensed. Where the drilling encounters potentially commercial quantities of hydrocarbons, the costs will be carried as an asset on the balance sheet until the field is further evaluated. If the evaluation determines that the field contains commercial quantities of hydrocarbons, then the costs will be carried forward and amortised as the reserves are produced. In the event that the discovery is not economical to develop, the previously capitalised well costs will be expensed. Overall, this will mean the faster write-off of unsuccessful efforts.

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Won't this accounting approach mean that the Company's future earnings will be volatile?

CFO Peter Wasow
We expect volatility due to accounting for exploration and evaluation to be not more, and perhaps less than, the volatility experienced under the current method.

The level of volatility from year to year will depend in part upon the nature and size of the exploration budget as well as the success of the drilling program.

However, don't forget that under the broader Areas of Interest approach previously used by Santos, the annual profit results were quite volatile as a result of periodic write-offs of carry forward exploration expenditure. In fact, over the past 5 years, annual write-offs of exploration costs have ranged from $4 million in 2001 to $75 million in 2002.

Overall, the level of transparency and the ability for shareholders and analysts to forecast the exploration and evaluation expense each year should improve, as all geological and geophysical costs, which are a large component of our exploration budget, will be expensed as incurred. Also, periodic write-offs are expected to be less frequent under the impairment testing regime unless there is a significant and sustained change in oil price, recoverable reserves or field operating costs.

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Will the $1,014 million reduction in equity have any other impact on the Company's future profit results?

CFO Peter Wasow
Yes, having reduced our equity and net assets by this amount, the total cumulative future expenses, including depreciation and depletion charges will be reduced by this same amount, and hence, over time, our cumulative future profits will be higher.

However, for any single year, the profit will depend on many factors, including production levels, commodity prices, operating costs and the level of exploration expenditure expensed during the year.

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For 2004, Santos' exploration success was 44%. Under Successful Efforts accounting would this mean that 44% of your exploration expenditure for that year would be capitalised?

CFO Peter Wasow
No. Under Successful Efforts, only our acquisition costs and the drilling costs of our successful wells would be capitalised. All of our G&G costs dealing with regional studies, seismic acquisition, seismic interpretation and mapping would be expensed along with costs of drilling unsuccessful exploration and evaluation (including delineation) wells. For 2004, $98 million, or 45%, of our total

exploration and evaluation expenditure of $217 million incurred in 2004 would be capitalised under Successful Efforts.

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The adoption of A-IFRS will also increase the Company's gearing level. Will this have any impact on your ability to fund future growth projects?

CFO Peter Wasow
No, the adoption of A-IFRS will not impact our ability to fund growth. In support I should point out that Standard & Poor's has already confirmed our credit rating is unaffected by the change.

As previously outlined, these changes impact on accounting treatments only, and there is no impact on operations, strategy or cash flow. Whilst our gearing ratio (calculated as debt/debt + equity) will increase from 24% to 32% due to the reduced book value of assets, our return on capital employed increases from 9.4% to 11.5%. Of course, cash flow to debt metrics are unaffected and our fundamental ability to service debt will be unchanged.

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You previously mentioned that Santos' ability to pay dividends will not be impacted. Can you please elaborate on this, in particular the ability to continue to pay franked dividends?

CFO Peter Wasow
The change to accounting has no impact on our cash flow. It also has no affect on our taxable income and therefore no impact on our ability to pay franked dividends from cash flow. Dividend payments can only be made from retained earnings, and while the accounting adjustments reduce retained earnings to around $470 million as at 1 January 2005, this still represents 2.2 years of cover at the current dividend rate, in addition to the current year's earnings.

Going forward, Santos' annual profit will be positively affected by the lower depletion charges arising from the reduction of capitalised exploration costs, but may vary upwards or downwards depending on the size and outcomes of our exploration program. Note also that Santos' Board of Directors does not declare dividends purely on the basis of a payout ratio calculation. Rather, dividend payments are made after consideration of cash flow generation, the Company's cash position and the levels of capital required to fund future growth opportunities.

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Does the Successful Efforts approach discourage high risk, high reward exploration?

CFO Peter Wasow
No, our appetite for exploration risk is set by the quality of our exploration opportunities, and the overall risk profile of our portfolio. Remember that all of the oil and gas majors and over half of the US independent E&P companies have reported under the Successful Efforts methodology for many years.

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You've stated that adopting the Successful Efforts approach will align Santos with the approach used by most of the major E&P companies worldwide. Are there any significant differences between the Successful Efforts method used by these overseas E&P companies and the method you are adopting?

CFO Peter Wasow
No, there are no significant differences. One area which still must be resolved in the development of a comprehensive IFRS for the Extractive Industries is whether to measure impairment and to amortise the capitalised exploration and development costs over Proved (1P) or Proved plus Probable (2P) reserves. As you know, Australian companies generally use 2P reserves and include future development costs in their assessments, whereas the US companies use 1P reserves and exclude future development costs.

An Issues Paper issued by the International Accounting Standards Committee Steering committee on Extractive Industries in November 2000 expressed the view that impairment should be assessed based on 2P reserves and companies should disclose proved and probable reserves separately. Earlier this year one of the Big 4 accounting firms released a report on oil & gas reserves measurement and reporting which recommended that market regulators and accounting standard setters require reporting on 2P reserves.

We will continue to use 2P reserves as our basis for testing for impairment and calculating depletion unless a comprehensive IFRS is issued for the Extractive Industries requiring a different basis.

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Thank you Peter.

For further information on Santos please visit www.santos.com or call Kathryn Mitchell (Media inquiries) on (08) 8218 5260 or Andrew Seaton (Investor inquiries) on (08) 8218 5157.

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