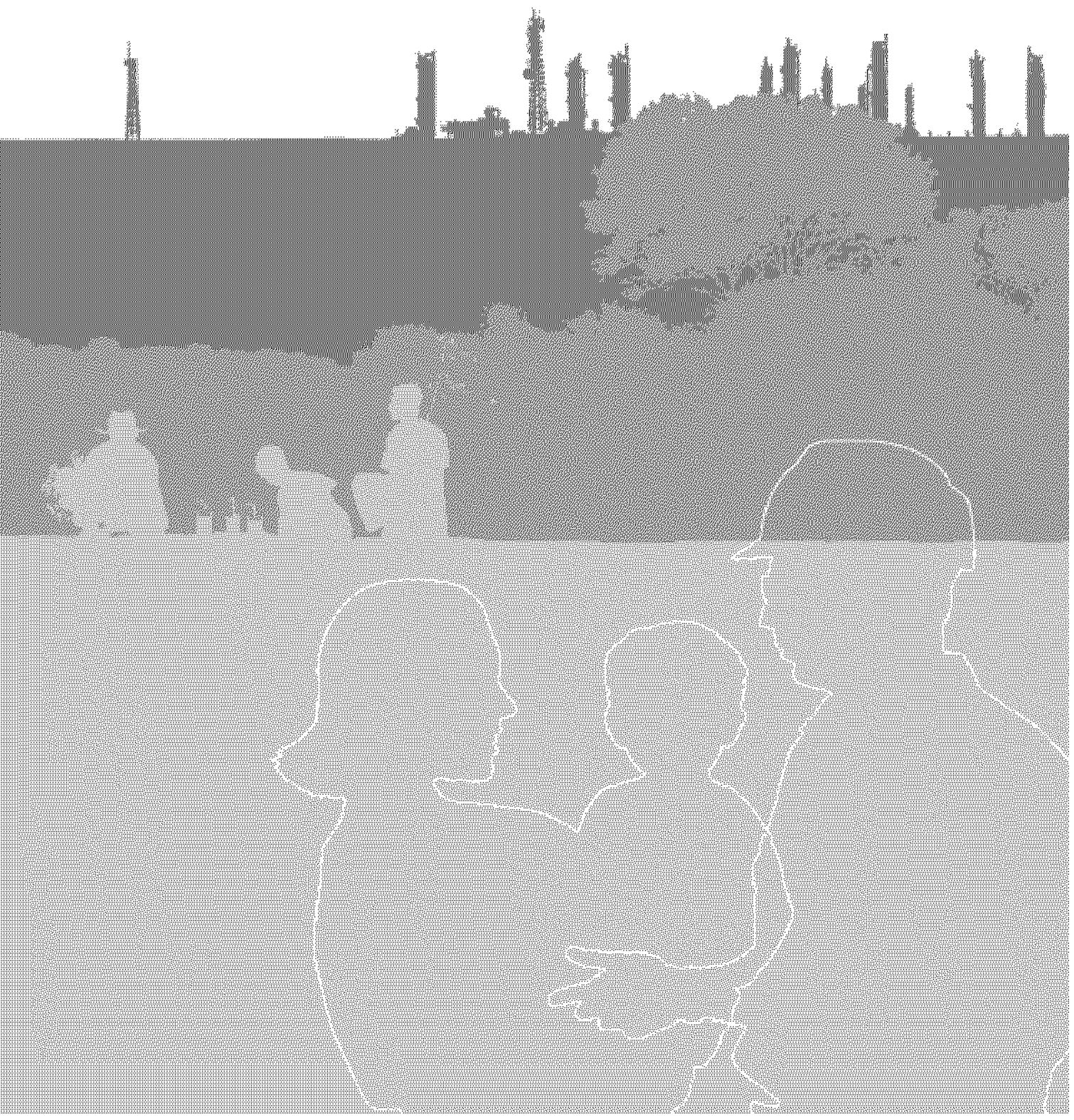
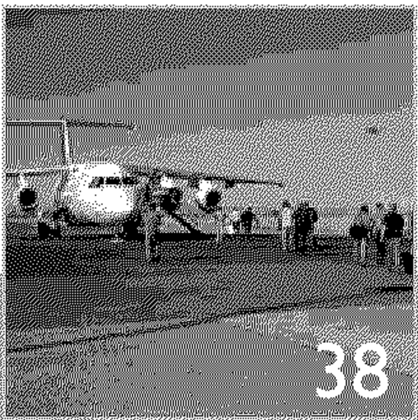
Santos

FIRST STEPS

Sustainability Review 2004



INSIDE...

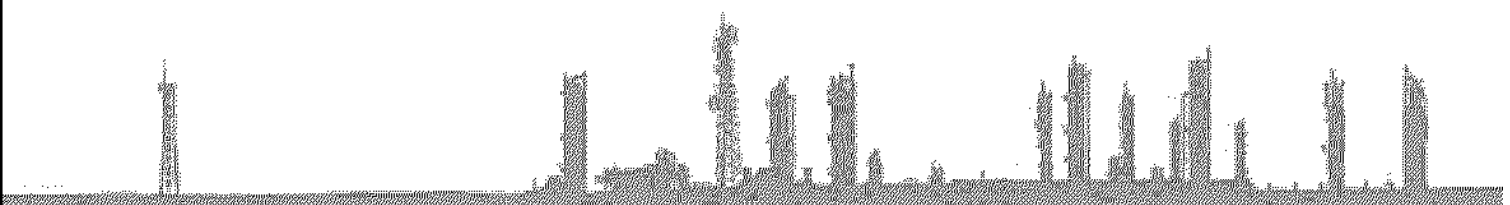


ENVIRONMENT AND NATURAL RESOURCES

SOCIAL RESPONSIBILITY

ECONOMIC CONTRIBUTION

OUR COMMITMENT TO INTEGRATING SUSTAINABILITY



Santos is committed to operating with a view to our long-term sustainability as an energy company.

This Review is Santos' first stand-alone publication that describes how the company is implementing the principles of sustainability in the areas of corporate governance, the environment, our social responsibility and economic contributions to the communities to which we belong.

Santos has adopted sustainability as a core value.

Our first Sustainability Review provides a baseline that will lead to greater levels of integrated reporting on the environmental, social and economic impacts of our business.

This will come about as we incorporate the principles of sustainability into our day-to-day planning, strategy, management and reporting.

We are committed to continually improving our performance in these areas.

INTRODUCING SANTOS

Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in the United States, Indonesia, Papua New Guinea and Egypt.

Santos is Australia's largest net gas producer, supplying sales gas and ethane to all mainland Australian states and territories, and selling oil and liquids to domestic and international customers.

The Cooper Basin, which Santos and its joint venture partners have developed, is Australia's largest onshore resource project.

In Australia, Santos has one of the largest exploration portfolios by area of any company and has assembled an expanding, well-situated acreage position in Indonesia and the United States. The company is also pursuing new venture opportunities in North Africa and the Middle East.

Santos is positioning itself to perform alongside the top quartile of the world's oil and gas companies – rapidly expanding its exploration interests and delivering an exciting suite of growth projects.

Significant development projects contributing to Santos' growth include the Bayu-Undan Liquids and LNG projects in the Australia Timor-Leste Joint Petroleum Development Area, the Mutineer-Exeter oil fields and John Brookes gas field developments in the Carnarvon Basin offshore Western Australia, the Oyong oil and gas field and Maleo gas field offshore East Java, and the Casino gas development offshore Victoria.

At year end 2003, Santos had a market capitalisation of $4.0 billion, making it one of Australia's Top 50 companies.


KEY TO MAP
Exploration
Production/processing
Exploration & production/processing
Development & production/processing
Exploration, development & production/processing
Joint Petroleum Development Area
Bayu-Undan, Elang-Kakatua
Timor Sea
Jabiru-Challis, Evans Shoal
Papua New Guinea & West Papua
Hides, SE Gobe
Bonaparte Basin
Petrel, Tern
Amadeus Basin
Port Bonython
Duntroon Basin
Otway Basin
Casino, Minerva
Sorell Basin
Surat/Bowen Basins
Moonie, Roma, Scotia, Lytton
Cooper/Eromanga Basins
Ballera, Jackson, Moomba
Gippsland Basin
Patricia-Baleen, Sole, Kipper, Golden Beach
United States
South Texas, Texas/Louisiana Gulf Coast

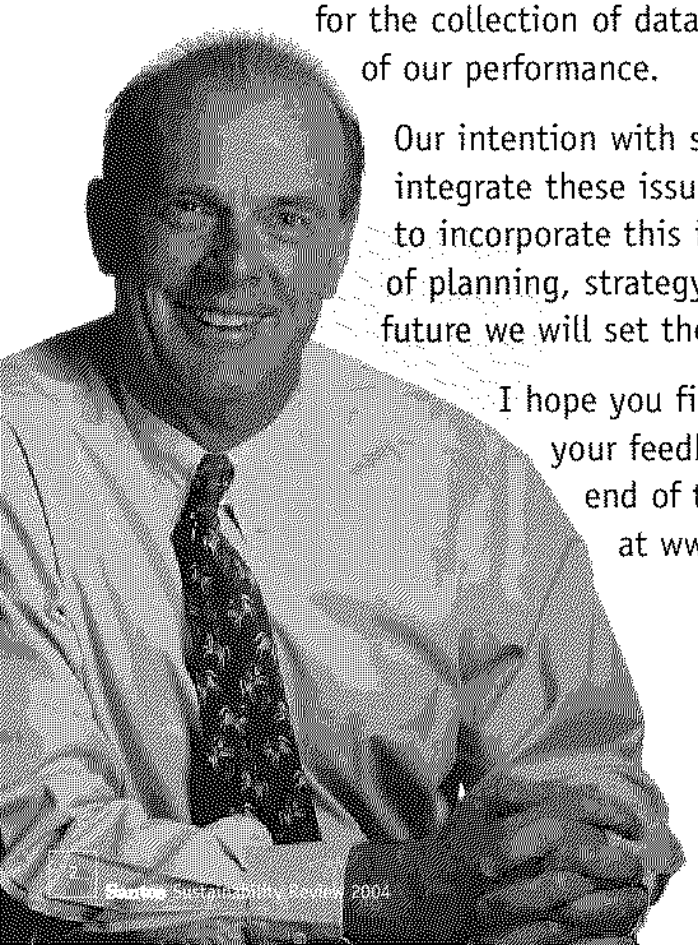
MESSAGE FROM THE MANAGING DIRECTOR

This is Santos' first Review which reports on the issues associated with sustainability that are relevant to our business.

Sustainability for Santos is about making economic progress while at the same time operating in an environmentally responsible manner and fulfilling our social obligations. In short, it means doing the right thing.

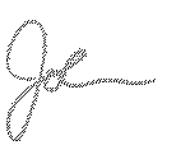
It is inherently linked with our strategic goals and provides a framework that links our financial and operating targets with the responsibilities we have to other important stakeholders such as employees, shareholders, our partners and the wider community.

This Review deals with social, governance, economic and environmental issues as discrete components. It provides a line in the sand and a starting point for the collection of data and the ongoing measurement of our performance.



Our intention with subsequent reports on sustainability is to integrate these issues progressively, to reflect Santos' desire to incorporate this into our comprehensive internal processes of planning, strategy, management and reporting. In the future we will set the bar higher for all sustainability goals.

I hope you find the information useful and we welcome your feedback. There is a feedback section at the end of this Review for this purpose or contact us at www.santos.com.



John Ellice-Flint
Managing Director

SANTOS SUSTAINABILITY ACHIEVEMENTS

GOVERNANCE STRUCTURES AND SYSTEMS

- The integrity of Santos' corporate governance was recognised with the maximum five star rating by the Horwarth and University of Newcastle Corporate Governance Research Report in 2002, 2003 and 2004.
- Santos' 2001, 2002 and 2003 Annual Reports were featured as examples of best practice in reporting worldwide in PricewaterhouseCoopers' annual ValueReporting publications.
- Santos' 2002 Annual Report was awarded a Silver Annual Report Award for excellence in annual reporting by the Australasian Reporting Awards.

ENVIRONMENT AND NATURAL RESOURCES

- Santos' commitment to reducing greenhouse gas emissions through the introduction of solar powered air compressors was recognised by the South Australian Chamber of Mines and Energy's 2002 Environmental Excellence Award.
- The Santos-led initiative to protect the world-renowned Coongie Lakes wetlands resulted in the South Australian Government declaring the area a new National Park in 2003. The initiative was a finalist in the 2004 Banksia Environmental Awards.
- More than 300 employees and contractors from 11 Santos sites helped foster environmental awareness in the community by participating in Clean Up Australia Day 2004 – collecting more than 50 cubic metres of rubbish.
- Santos introduced the annual Directors' Environment, Health and Safety Awards in 2003 to encourage innovation and reward good performance by employees and contractors.

SOCIAL RESPONSIBILITY

- Santos' Moomba and Stuart Export operations implemented strategies to create safety improvement that resulted in seven years without a lost time injury. This achievement was recognised with a Ministerial Award for Workplace Safety at the 2002 Northern Territory Resources Awards in Business Development.
- Santos is investing in the future of the petroleum industry by committing $2.5 million over 10 years towards the Australian School of Petroleum at the University of Adelaide.
- Santos has been principal partner of the Adelaide Symphony Orchestra for six years, an example of the company's commitment to supporting the cultural life of the communities where it operates.
- The Santos Community Fund was established in 2003 to support community based organisations and the volunteer efforts of Santos employees. For example, Santos employees are rehabilitating a section of the River Torrens in Adelaide as part of a three year commitment to the Our Patch program.
- More than $40,000 was raised for the Royal Flying Doctor Service at the 2004 Cooper Cup Classic Challenge, continuing a tradition of employee and company support for the Royal Flying Doctor Service for more than 15 years.

SUSTAINABILITY: WHAT DOES IT MEAN FOR SANTOS?

Over the past 15 years, the concept of sustainable development, rooted in concerns for the environment, has been fused with social, economic and governance issues in the widely accepted 'triple bottom line' indicator of company performance.

For Santos, sustainability is making economic progress, protecting the environment and being socially responsible – all on the foundation of sound corporate governance.

Santos views sustainability not as an absolute, but as a spectrum of progress, development and continuous improvement. Thus, it views its own activities not as being either sustainable or unsustainable, but rather as operations and processes that, through planning, thought and effort, are becoming more and more sustainable on the basis of continuous improvement.

"Overall, we continue to strive for economic success, social responsibility, excellence in safety and environmental performance and good corporate governance. The Santos Board believes that superior performance in all these areas – in effect, the principles of sustainability – creates long-term shareholder value" (from Chairman's Review – Santos 2002 Annual Report).

This Review records the process Santos has put in place since first addressing sustainability in a more cohesive manner.

It outlines what sustainability means for Santos and reports on performance in many areas that are considered indicative of sustainable business practice, both by the communities Santos belongs to and the industry in which the company operates.

The Review describes Santos' current position in the areas of corporate governance, environment and natural resources management, social responsibility and economic contribution in the context of integrating the principles of sustainability into the business, continually improving performance and the cultural change that supports these objectives.

MEASURING SUSTAINABILITY AND SETTING TARGETS

Santos conducted a baseline study during 2002 to establish its position and identify its strengths and opportunities for improvement in regard to the most commonly accepted measures of corporate sustainability.

This gap analysis study was conducted by Arup, a multidisciplinary international consulting firm, using its sustainability tool, which is based on the Global Reporting Initiative (GRI), United Nations Environment Programme (UNEP) and the Commonwealth Department of Environment and Heritage (DEH) indicators to provide a framework of relevant issues for consideration.

Santos adopted the gap analysis tool to:

- determine a baseline for Santos
- assess strengths and improvement opportunities for data collection
- obtain a high level assessment of systems
- identify gaps in data collection for sustainability reporting
- assess Santos-specific reporting and data needs.

The analysis divided sustainability issues into four quadrants: natural resources, environment, social and economic. However, given the significant overlap of issues and management practices with environment and natural resources, they

have been integrated into a single section of this Review.

The results of the study, based on more than 100 indicators, provided a clear picture of where work was required to steer Santos towards a greater level of sustainability and sustainable growth over the longer term.

Santos has strong environment and natural resource management systems in place, which includes a commitment to prevent pollution, protect biodiversity and reduce waste. Santos also manages the health and safety, social and economic impacts of its business and aims to contribute positively to the communities in which it operates. The gap analysis review identified reporting systems, the documentation of a code of ethics, and materials and supply chain management as areas for improvement.

In particular, the study indicated how Santos' long history of environmental management, corporate governance and engagement with communities needed to be integrated with economic factors and other specific areas requiring further effort and improvement.

Consequently, in 2003 Santos commenced the challenging task of incorporating a contemporary interpretation of sustainability into the existing processes of change, growth and continuous improvement.

Santos began measuring and accumulating data on the activities and processes that are considered to be key indicators of a company's level of sustainability.

The results of this analysis, which are presented on page 6, led to the development of a number of programs to improve Santos' sustainability performance. These include:

Policies:

- Code of Conduct/Ethics Policy – drafted and under review
- Greenhouse Policy – completed
- Human Rights Policy – drafted and under review
- Indigenous Policy – drafted and under review.

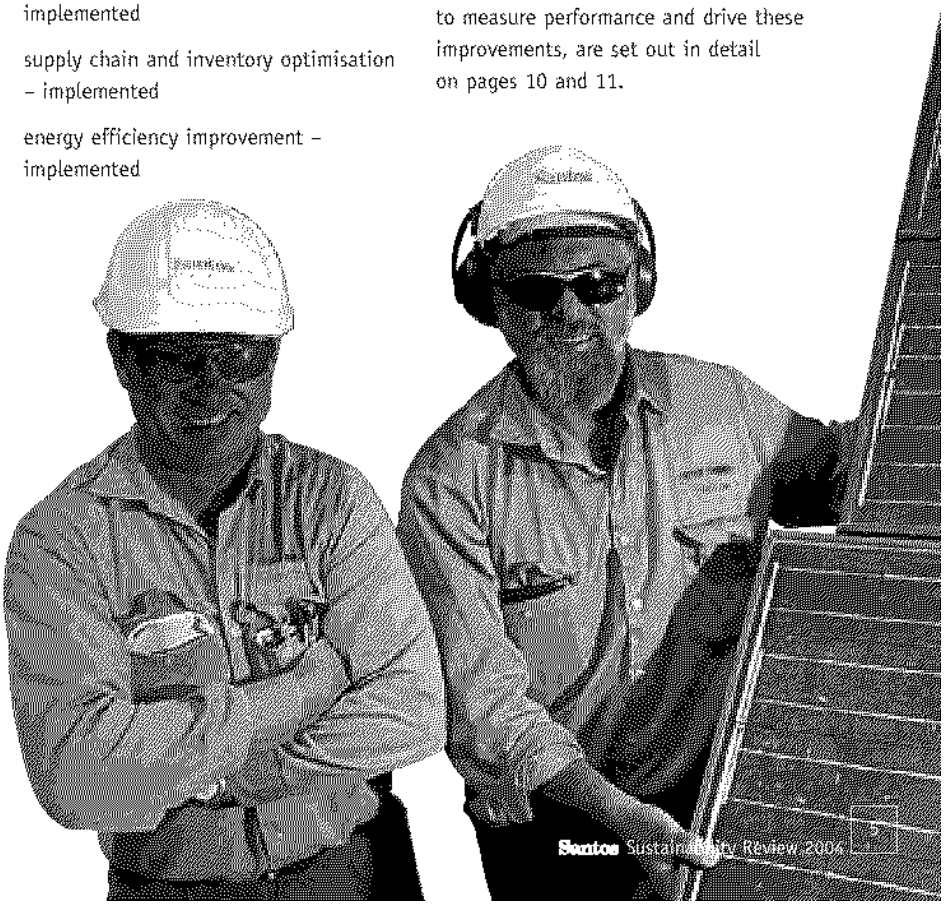
Projects:

- integrated Environment, Health and Safety Management System (EHSMS) – implemented
- supply chain and inventory optimisation – implemented
- energy efficiency improvement – implemented
- produced formation water management – baseline established
- waste minimisation – management plans developed
- employee satisfaction – survey conducted and areas for improvement identified.

Progress made on these projects and further sustainability data (environment, social and economic) are reviewed in the following sections.

Santos will continue to integrate the principles of sustainability into operations and seek to improve performance and report publicly against these principles.

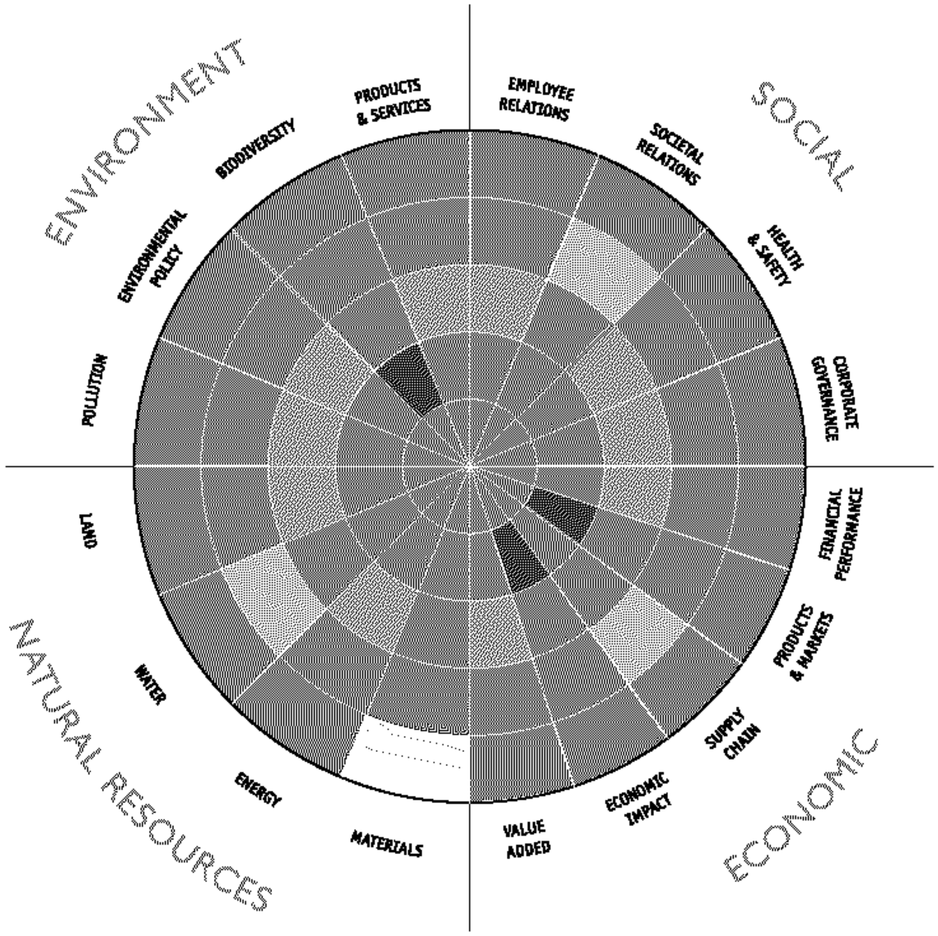
The 2004 key performance indicators for sustainability, which will be used to measure performance and drive these improvements, are set out in detail on pages 10 and 11.



Tony Dean, Instrument/Electrical Technician, and Peter O'Dowd, Production Operator, installing solar powered air compressors, Tirrawarra, Cooper Basin, South Australia. The compressors won the South Australian Chamber of Mines and Energy's 2002 Environmental Excellence Award.

GAP ANALYSIS – SUSTAINABILITY PERFORMANCE

This diagram represents where Santos is positioned in relation to these commonly accepted sustainability indicators. The closer to the centre of the target the better the compliance.



Score	Description
5	**Full compliance** Issue is formalised in the company and full information is recorded and available. This may be in the form of an implemented policy or system with periodic performance monitoring. The issue is communicated throughout the company via training sessions and other means and external communication occurs as appropriate.
4	**Partial compliance (not communicated or applied)** Information is collected on the issue and policies and management systems exist, but are not fully implemented. Data are collected in an organised manner but not formally monitored for performance and anomalies, nor are they formally communicated to staff or external parties.
3	**Collected but incomplete, informal** Information on the issue is collected but is incomplete or ad hoc. Information may not be aggregated at corporate level. There is a policy in place, but no formal management system for performance monitoring.
2	**Anecdotal, recognition of issues** There is recognition of the issue in the company, but information is anecdotal and not collated in any systematic way. There is no policy or formalised system.
1	**No adherence, not considered** The issue has not been considered by the company, there is a lack of awareness about it, no information collected, no systems or policies in place.

Ref: Arup Sustainability Gap Analysis Scoring 2003.

TRANSFORMATIONAL CHANGE

Santos commenced a major company-wide transformational change program in late 2003.

This program was designed to improve the company's performance significantly in key process areas, incorporating a review of the organisation structure, improvements to the company's financial performance and a cultural change program underpinning the behaviour necessary to implement the change program successfully.

This in itself is an indication of Santos' commitment to grow and manage the company successfully for the long term.

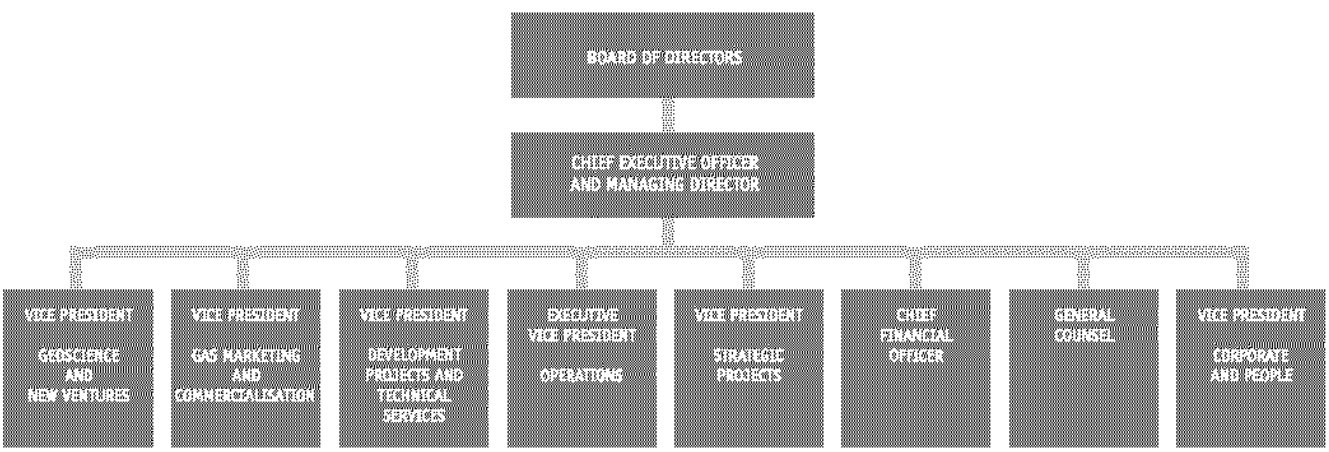
One of the key outcomes of this change program is that Santos has restructured the organisation on a functional basis which is a departure from the previous geographic-based business unit structure.

This new structure will help Santos to implement the programs and initiatives that will lead to an improvement in performance in the area of sustainability. It is illustrated below.

Responsibility for improvement programs will be contained within the relevant functional area and the management of these programs will not need to be replicated across business units.

The restructure also brought together the areas of environment, health, safety and sustainability into a single group. The group has responsibility for the stewardship of the principles of sustainability company-wide, and for monitoring, recording and reporting on Santos' progress.

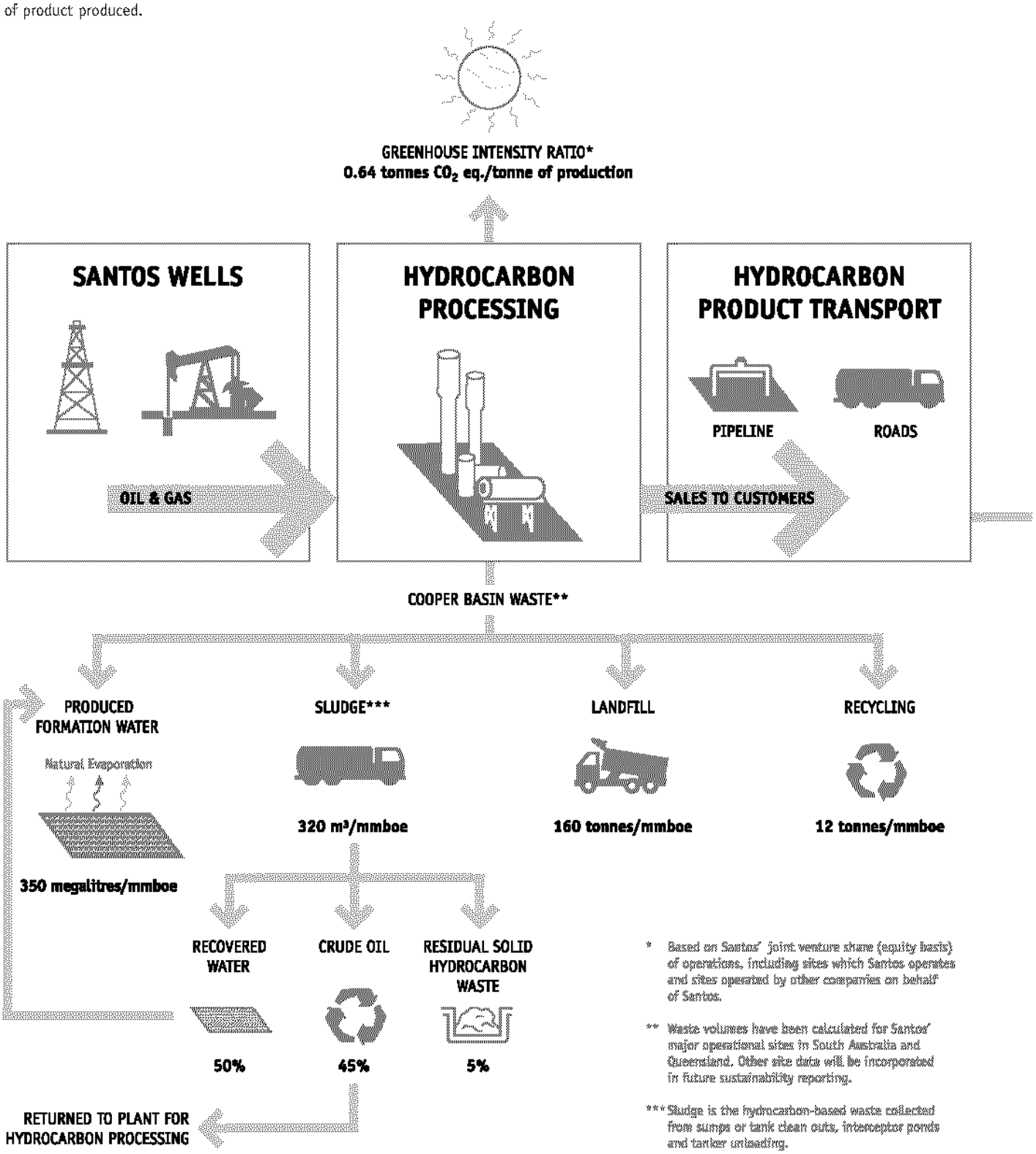
SANTOS' NEW FUNCTIONAL STRUCTURE INTRODUCED IN 2004



SANTOS BUSINESS LIFECYCLE

This diagram represents the business lifecycle of Santos products in 2003, commencing with the extraction of hydrocarbons from deep below the earth's surface through to the refining processes and finally to sale to customers, where hydrocarbons are converted for a variety of domestic and industrial purposes.

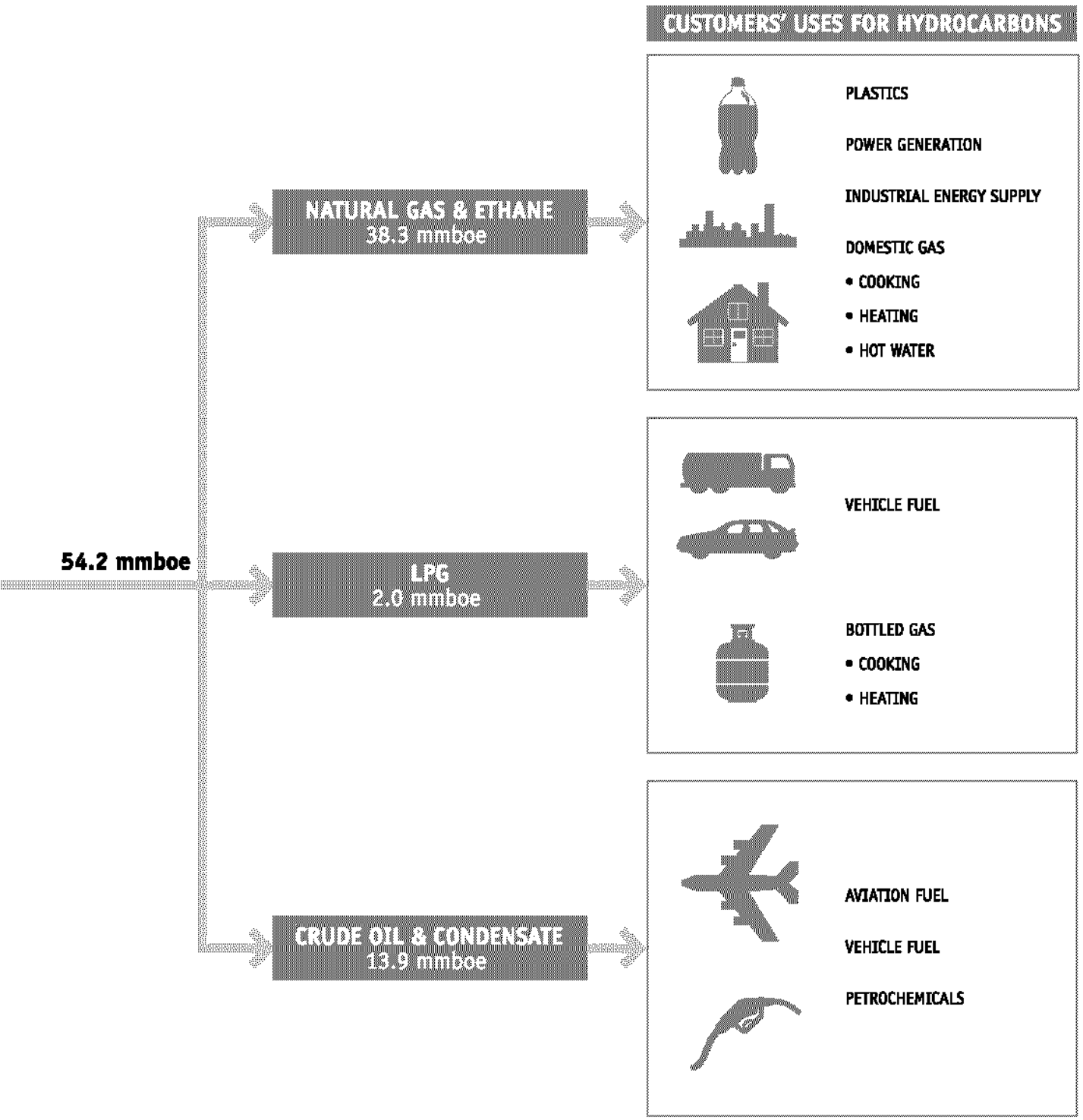
A key component of Santos' environmental management is the efficiency of product development. Santos will aim to reduce the volume of greenhouse gas, landfill, contaminated soil and produced formation water per unit of product produced.



* Based on Santos' joint venture share (equity basis) of operations, including sites which Santos operates and sites operated by other companies on behalf of Santos.

** Waste volumes have been calculated for Santos' major operational sites in South Australia and Queensland. Other site data will be incorporated in future sustainability reporting.

*** Sludge is the hydrocarbon-based waste collected from sumps or tank clean outs, interceptor ponds and tanker unloading.


CUSTOMERS' USES FOR HYDROCARBONS
54.2 mmboe
NATURAL GAS & ETHANE
38.3 mmboe
LPG
2.0 mmboe
CRUDE OIL & CONDENSATE
13.9 mmboe
PLASTICS
POWER GENERATION
INDUSTRIAL ENERGY SUPPLY
DOMESTIC GAS
• COOKING
• HEATING
• HOT WATER
VEHICLE FUEL
BOTTLED GAS
• COOKING
• HEATING
AVIATION FUEL
VEHICLE FUEL
PETROCHEMICALS

SANTOS SUSTAINABILITY INDICATORS 2004

ENVIRONMENT AND NATURAL RESOURCES

Aspect	Objective
Environment, Health and Safety Management System	Ensure continuous improvement in environmental management in line with Santos' environmental vision of lightening the footprint of its activities.
Biodiversity	Ensure recognised biodiversity values are preserved during the implementation of new developments. Progressively rehabilitate land as part of the abandonment process.
Air quality and energy efficiency	Produce more energy more efficiently and with fewer greenhouse emissions.
Water	Minimise the environmental impact of produced formation water.
Waste	Manage waste generated from operations.
Spills	Minimise the loss of containment of product.

SOCIAL

Aspect	Objective
Health and safety	Continue to work towards Santos' health and safety vision that 'we all go home from work without injury or illness'.
Human resources	Ensure continuous improvement in performance through alignment with Santos' strategic goals and engagement of all employees in their achievement.
Society	Maintain a proactive level of stakeholder engagement and communicate openly with stakeholders. Maintain a program of support for the communities to which Santos belongs. Ensure all employees are aware of and are complying with standards of ethical conduct.

ECONOMIC

Aspect	Objective
Investor relations	Maximise the company's access to investors and capital in order to achieve its strategic goals.
Economic contribution	Deliver an appropriate return on investment and enable sustainable growth in the future.

	2004 Targets & Strategies	Reference
	Improve the average environmental component of EHSMS baseline assessment by 10%. (Development and implementation of the EHSMS).	Page 16.
	All new projects include an assessment of environmental impacts and necessary environmental approvals. Measure and report on a progressive rehabilitation index.	 Page 18.
	Actively pursue an emission intensity reduction target of 20% in the period from 2002 to 2008.	Page 22.
	Measure and report the volume of produced formation water discharged from each site in order to identify minimisation strategies.	Page 24.
	All sites/activities to have a waste management plan.	Page 25.
	Reduce volume of unrecovered hydrocarbon spilt to less than 60 cubic metres. No significant environmental incidents. Achieve agreed environmental proactive reporting ratio of greater than 1.5 (the number of hazards and near misses reported versus the number of incidents reported).	 Page 17.

	2004 Targets & Strategies	Reference
	Total recordable case frequency rate (TRCFR) less than 6. Total recordable case severity rate (TRCSR) less than 105. Achieve agreed safety proactive reporting ratio of greater than 6.	Page 28.
	Complete employee survey and develop a strategy to improve organisational culture in support of business performance.	Page 32.
	No valid complaints from stakeholders. The sponsorship program accurately reflects the geographical spread of Santos' interests and priorities. Complete review of existing policies and codes of conduct to ensure compliance with changes in legislation and community expectations and compatibility with the ASX Corporate Governance Best Practice Recommendations.	 Page 33.

	2004 Targets & Strategies	Reference
	Provide timely and accurate information that enables investors to appropriately value the company.	Page 15.
	Incorporate the principles of sustainability into project development, acquisition and divestment decisions.	Page 38.

GOVERNANCE STRUCTURES AND SYSTEMS

For Santos, sound corporate governance, or the manner in which the actions of the company are controlled, underpins all of the processes and systems that are undertaken by the company in the course of its business.

Santos strives for the highest standards in this area and has been recognised for its corporate governance systems and principles by an independent third party review for three consecutive years in 2002, 2003 and 2004.*

At Santos each employee is charged with the responsibility of acting in accordance with the relevant aspects of the governance structure.

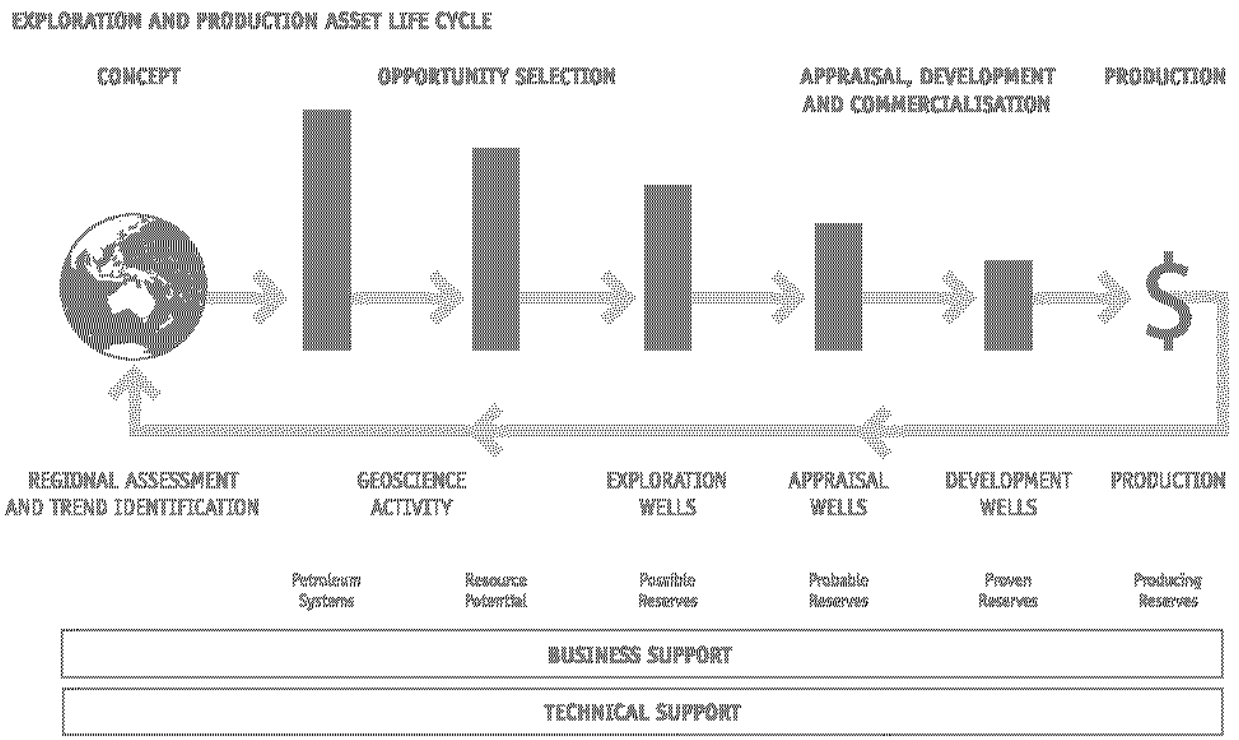
Sound management practices contribute to the longevity of an organisation. Santos continually seeks improvement in this area by regularly reviewing and updating governance charters and management systems, and benchmarking its approach against peers and relevant external guidelines.

While Santos reports on corporate governance in its Annual Report, this Review seeks to expand on that by including information on the structure and responsibilities of the senior management team and providing a high level view of how Santos is managed.

THE ROLE OF THE SANTOS BOARD OF DIRECTORS

Among other things, the Santos Board is primarily responsible for:

- providing strategic direction and overseeing management and its performance and implementation of strategy
- corporate governance
- selecting, evaluating and providing succession planning for Directors and executive management
- managing remuneration of Directors and executive management



*2004 Horwath Corporate Governance Research Report prepared by accounting and management firm, Horwath, and the University of Newcastle.

- approving and monitoring financial performance and reporting against corporate budgets, major capital expenditure, capital management, acquisitions and divestments.
- approving delegations of authority to management
- maintaining ethical standards and codes of conduct and legal compliance
- monitoring risk management strategies and internal controls.

BOARD COMMITTEES

The Board of Directors has established a number of committees to ensure the effective execution of its responsibilities. These include:

- Audit Committee
- Environment and Safety Committee
- Finance Committee
- Nomination Committee
- Remuneration Committee.

All committees are chaired by, and comprised only of, at least three non-executive independent Directors, except for the Environment and Safety Committee, which also includes the Managing Director as a member.

The roles of all five committees, summarised below, are documented in Board guidelines and in separate charters approved by the Board, which are reviewed periodically.

THE ROLE OF THE MANAGING DIRECTOR AND EXECUTIVE MANAGEMENT

Santos' Managing Director, John Ellice-Flint, is responsible for the overall performance and strategic direction of the company. John leads major strategic initiatives, develops top level external relationships, leads and manages the Santos Leadership Team and takes responsibility for the management succession process.

ROLES OF SANTOS BOARD COMMITTEES

Committee	Responsibilities
Audit Committee	Determining whether accounting policies are appropriate and in accordance with generally accepted practices; ensuring that truth and fairness is reflected in financial reports; monitoring the independence of the auditors and reviewing internal and external audit procedures and the performance of the auditors; ensuring compliance with all professional and regulatory requirements relating to auditor independence and reporting matters of concern to the Board, as appropriate; and considering issues which may impact on Santos' financial accounts. Chaired by Graeme McKerracher AO, Director, and met four times in 2003. All members must be financially literate, with at least one having past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background. The Chairman of the Board is not allowed to chair the Audit Committee.
Environment and Safety Committee	Monitoring the effectiveness of environment, health and safety policies and management systems; monitoring and reviewing all aspects of environment, health and safety risks and reviewing major initiatives and developments and long-term strategies in environment, health and safety. Chaired by Stephen Gerlach, Chairman, and met three times in 2003. It is the only Board Committee that is allowed to have the Managing Director as a member.
Finance Committee	Considering and making recommendations on capital management strategy and funding requirements and specific funding proposals. Also responsible for formulating and monitoring compliance with treasury policies and practices and the management of credit liquidity and commodity market risks. Chaired by Stephen Gerlach, Chairman, and met twice in 2003.
Nomination Committee	Reviewing Board membership, new appointments, succession plans and performance; promoting new candidates ensuring the Board has the appropriate skills, experience and expertise; and, where appropriate, engaging the services of external consultants. Chaired by Stephen Gerlach, Chairman, and met three times in 2003.
Remuneration Committee	Reviewing senior remuneration policies and practices including remuneration arrangements for the Managing Director and executive management; superannuation arrangements; employee share and option plans; and the fees for non-executive members of the Board (within the aggregate amount approved by shareholders). Non-executive Directors may not participate in any of Santos' bonus, share or option plans. Chaired by Professor David Simon, Director, and met five times in 2003.

ROLES OF SANTOS LEADERSHIP TEAM*	
Functional leader	**Responsibilities**
Jacques Gouradain Vice President Geoscience and New Ventures	Exploration, appraisal and new venture activities
Rick Wilkinson Vice President Gas Marketing and Commercialisation	Gas and liquids marketing, gas planning and economics and commercialisation projects, including discovered but undeveloped gas resources, and developing new gas business
Paul Moore Vice President Development and Technical Services	Santos' offshore and international development portfolio, including operated and non-operated projects, subsurface engineering and technical services
Jon Young Executive Vice President Operations	Santos' production operations, including acquisition and development of onshore Australian operations, facilities engineering, maintenance and procurement, health and safety
Bruce Wood Vice President Strategic Projects	Identifying projects and regions of strategic importance to Santos, including the Timor, Bonaparte region, United States and Indonesian interests
Peter Wasow Chief Financial Officer	Finance, accounting, treasury, corporate planning, risk, audit, corporate development and taxation functions
Martyn Eames Vice President Corporate and Public Affairs	Strategic human resources, the monitoring of environment, health and safety and sustainability company wide, corporate affairs, government affairs, media and shared business services
Mary Lynch Group Executive Human Resources	The development and implementation of the human resources strategy in support of key business objectives

*The Santos Leadership Team includes the Managing Director.

Santos was restructured in May 2004 on a functional basis, a departure from the previous structure based on geographical business units. The new structure is aligned with Santos' growth strategy and reflects the asset life cycle of an exploration and production company.

Each of the functional areas is managed by a senior executive reporting directly to the Managing Director. Key responsibilities for each of the functional areas are outlined in the table above.

SANTOS LEADERSHIP TEAM

The Santos Leadership Team was established as part of the move to a functional organisation structure. It comprises a small group of key executives and is expected to provide flexible and fast decision making in specific areas. It replaces the previous Executive Committee which comprised 18 people.

The team of nine people comprises the Managing Director (Chair), all Vice Presidents, the Executive Vice President, Chief Financial Officer and Group Executive Human Resources.

All members of the Santos Leadership Team have a collective leadership role to:

- develop strategy and make recommendations to the Managing Director
- drive the execution of company strategy through appropriate involvement in key decisions
- prioritise opportunities through the Asset Value Plan process, a newly introduced system for managing Santos' assets through the asset life cycle
- take collective responsibility for Santos' results
- endorse recommendations to the Board.

Each of the functional heads within the Santos Leadership Team is subsequently individually responsible for:

- providing functional leadership
- developing and maintaining technical expertise and capabilities in their function
- making commitments to the Santos Leadership Team through the Asset Value Plan process for specific asset investments
- delivering on commitments made to the Santos Leadership Team for each approved Asset Value Plan.

Santos conducts its business under a Delegation of Authority framework.

Santos management and staff are responsible for the execution of the strategy and policies developed by the Managing Director and Santos Leadership Team and approved by the Board.

Executive management attend Board and committee meetings, at which they report to Directors within their respective areas of responsibility. This assists the Board in maintaining its understanding of Santos' business and assessing the Santos Leadership Team.

Santos' strategy is supported by detailed plans and budgets, all of which are subject to Board approval.

Performance targets are set annually for each functional area in line with the business strategy. These targets are then cascaded throughout the organisation and are reflected in the appropriate manner in each individual's performance scorecard.

BUSINESS ETHICS AND CODE OF CONDUCT

Santos has in place a number of policies and systems that relate to ethical business practice. These include Conflict of Interest, Dealing in Company Securities, Perquisites, Contact with Investors, Compliance with Trade Practices Act, and Fraud.

All Santos Directors, executives and employees are expected to act in accordance with these standards of professional and business conduct in their dealings on behalf of the company.

Where applicable, policies and guidelines are incorporated into individual contracts of employment.

An evaluation of these policies and systems, along with a review into best practice in this area, is currently being undertaken with a view to identifying any improvement opportunities and finalising those policies that are in the development stage.

Additionally, a Code of Conduct applies to the Chief Financial Officer and all other officers and employees within the Finance function of the company who have the opportunity to influence the integrity, direction and operation of Santos and its financial performance. This code is based on that developed by the Group of 100, an association of senior accounting and financial executives representing the major companies and government-owned enterprises in Australia.

Each employee agrees to abide by all company policies when signing their individual letter of offer.

Formal policies relating to bribery, corruption and facilitation payments, human rights, and whistle blowing are in the process of being developed.

GUIDELINES FOR DEALING WITH SECURITIES

In addition to the provisions of the Corporations Act, which apply to all Santos employees, the company has developed specific written guidelines that prohibit Directors and executives (and their respective associates) from acquiring, selling or otherwise trading in Santos' or business associates' shares if they possess price-sensitive information which is not in the public domain.

The guidelines prohibit Directors and executives (and their respective associates) from trading in Santos' or business associates' securities during the periods commencing on 1 January and 1 July each year and expiring two days after the announcement of the company's annual and half yearly results, respectively.

Under the guidelines, Directors and executives must inform and receive acknowledgement from the Company Secretary or other person nominated by the Board of an intention prior to any dealings in securities either by themselves or by their associates and must promptly notify the company following the transaction.

The guidelines' prohibitions on dealing in securities apply not only to the acquisition and disposal of shares, but also to the acquiring, taking, assigning and releasing of options traded on the options market. Directors and executives may not undertake short-term securities transactions.

ENGAGEMENT AND CONTINUOUS DISCLOSURE

Santos is committed to giving all shareholders timely and equal access to information concerning the company. The company has developed policies and procedures in accordance with its commitment to fulfilling its obligations to shareholders and the broader market for continuous disclosure. These are regularly reviewed and updated for changes to the law and the Australian Stock Exchange (ASX) Listing Rules.

When Santos makes an announcement to the market, it is released to each exchange where its shares are listed: the ASX, NASDAQ and NZX. All material information disclosed is posted on Santos' website at www.santos.com. This includes news announcements, Annual Reports, quarterly reports, notices of meetings, Managing Director's briefings and materials presented at investor, media and analyst briefings.

An 'email update' facility is available, where interested parties can be advised by email when news announcements, presentations, reports or other important information is added to the Santos website.

Webcasting of annual and half-yearly results presentations are provided for the benefit of shareholders regardless of their location. Additionally, Santos' external auditor is available to answer relevant shareholder questions at the Annual General Meeting.

ASX BEST PRACTICE RECOMMENDATIONS

Santos' corporate governance practices, other than matters of form, conform to the principles of the ASX Best Practice Recommendations released in 2003.

Santos intends to report in relation to the ASX Best Practice Recommendations in 2005, by which time the company will have completed its review of the form of its corporate governance arrangements.

RISK MANAGEMENT

The cornerstone of risk management at Santos is an Enterprise-wide Risk Management System based on the Australian Standard AS/NZS 4360.

The aim is to provide the Board and the Santos Leadership Team assurance that major business risks facing the company have been consistently identified and assessed, and that active management plans and controls are in place for the ongoing management of these risks.

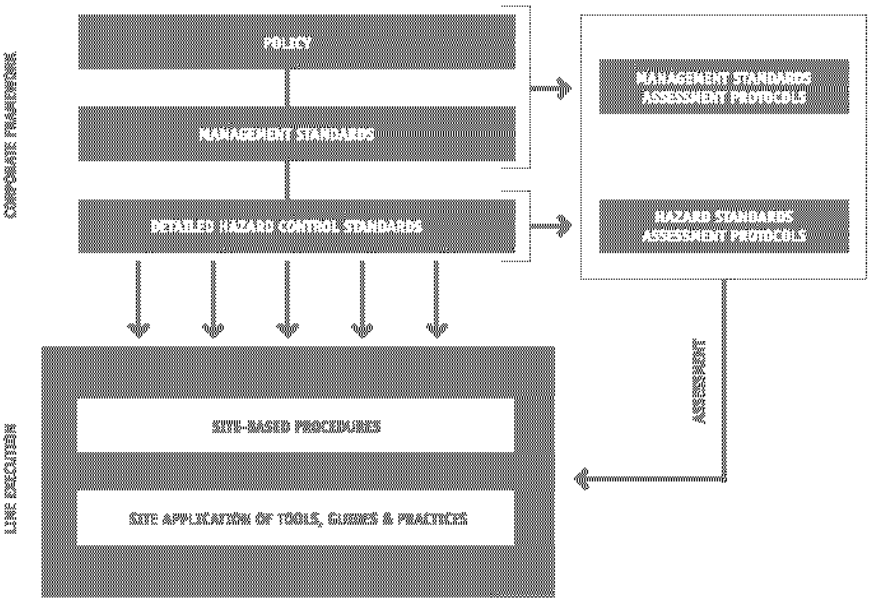
As well as managing risks in general, Santos has several specific risk management systems:

- **Management of environmental and safety risk**
  This is managed through: a comprehensive Environment, Health and Safety Management System based on Australian Standard 4801 and International Standard 14001; environment and safety committees at Board and management levels; the retention of specialist environmental and safety staff and advisers; regular internal and external environmental and safety audits; and imposing environmental care and safety accountability as line management responsibilities.
- **Management of exploration risk**
  This is managed through internal control systems which include: formalised risk assessment procedures at the functional level; corporate review in both prospect and hindsight; Board approval of exploration budgets; and regular reporting on progress to the Board. External reviews are also undertaken.

- **Investment appraisal**
  Santos has clearly defined procedures for capital expenditure. These include: annual budgets; detailed appraisal and review procedures; levels of authority; and due diligence requirements where assets are being acquired.
- **Financial reporting**
  A comprehensive budgeting system exists with an annual budget approved by the Board. Monthly actual results are reported against budget and, where applicable, revised forecasts for the year are prepared and reported to the Board. In addition, Santos is in the process of introducing a financial governance framework that will:
  - support the management of financial reporting risk
  - allow Directors, management and auditors to evaluate more easily financial governance processes
  - assist management communicate the objectives and components of control throughout the organisation.
- **Functional speciality and business reporting**
  All significant areas of operations are subject to regular reporting to the Board. The Board receives regular reports on the performance of each functional area and on exploration, development, finance, marketing, safety, government affairs, investor relations and environmental matters.
- **Internal audit**
  The internal audit function is one of the methods used to monitor Santos' risk management processes. It reports directly to the Audit Committee of the Board and provides independent assurance over how key business risks are being evaluated and controlled.

Santos also recognises there may be increased social risk as its business emerges internationally. The company will continually improve its approach to managing social risk to meet the needs of the international communities in which it operates.

SCHEMATIC OF ENVIRONMENT, HEALTH AND SAFETY MANAGEMENT SYSTEM



ENVIRONMENT, HEALTH AND SAFETY MANAGEMENT SYSTEM

Santos conducts its activities in a manner that aims to lighten the environmental footprint and ensure that all employees and contractors go home from work without injury or illness. This commitment is documented in Santos' Environmental and Health and Safety policies.

Santos has developed an Environment, Health and Safety Management System which outlines the structured approach through a series of standards to ensure environment, health and safety issues relating to Santos' activities are managed in a consistent and systematic manner.

The EHSMS has been developed in accordance with industry standards ISO 14001 (environment) and AS/NZS 4801 (safety).

The policies are underpinned by a set of management and hazard standards. Management standards document the higher level management practices required to improve environment, health and safety performance. Hazard standards set out specific controls to manage risk identified in Santos' activities.

Procedures and processes are implemented within each business function in order to conform with the standards.

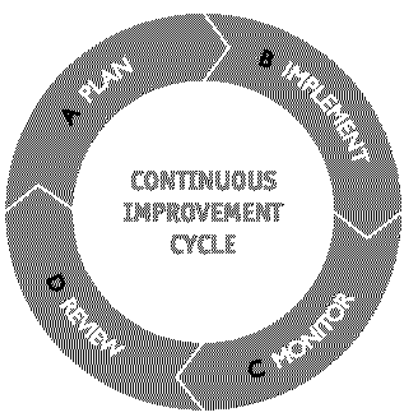
EHSMS STANDARDS

Management standards provide a common framework and have been developed around a continuous improvement cycle which describes requirements such as organisational structure, planning activities, responsibilities, resources, practices, procedures and processes for meeting the objectives of Santos' policies.

The management standards identify specific tools and procedures that are required to manage various aspects of Santos operations. These include Santos-wide processes which are used to implement a specific management standard; for example, the Incident Management System, Audit and Inspection Manager and Santos Incident Management Plan.

ASSESSMENT AND REVIEW

Conformance against the EHSMS standards is assessed periodically using external



auditors. The assessments convert the 'static' standards into a system which drives continuous improvement in performances. Baseline assessments commenced in 2003 to measure implementation of the EHSMS at each operations site and for major activities. An improvement target in assessment score is determined each year.

CRISIS MANAGEMENT AND EMERGENCY RESPONSE

Santos has in place a company-wide Santos Incident Management Plan which is activated in the event of any incident or emergency. In addition, Santos has a detailed Media and Stakeholder Crisis Management Plan which is used when the Santos Incident Management Plan is activated.

The Santos Incident Management Plan documents the procedures and organisational roles and responsibilities required to ensure Santos capably and efficiently manages any incident or emergency.

The plan states that in emergency situations, protection of human life is always paramount and Santos will always endeavour to protect the environment.

The plan can be activated by the emergency response teams. It is reviewed and updated regularly with formal look-back sessions held after each incident.

The Media and Stakeholder Crisis Management Plan sets out the roles and responsibilities for communicating with key stakeholder groups in the event of an incident or emergency. Working with the crisis incident manager, the communication team must:

- present an accurate description of the situation
- provide accurate, up-to-date information on any given situation on a fast-response basis
- do so in a way that provides useful information to the relevant stakeholders
- monitor the reporting of information provided to the media and other stakeholders
- act professionally.

RELIABILITY OF SUPPLY

Santos is committed to providing a continuous gas supply to satisfy long-term contracts and has established a good record as a supplier of gas. On occasion, supply has been reduced or interrupted for reasons relating to plant maintenance requirements and on the rare occurrence of an unforseen event. When this occurs, Santos works proactively with all stakeholders to manage supplies and minimise disruption to business, while conducting maintenance or rectifying the problem if necessary, and restoring gas supplies.

The most significant interruption to Santos gas supply occurred in January 2004 as a result of an unforeseeable gas leak and fire at the Moomba plant resulting in the plant being shut down as part of the emergency response. The shutdown temporarily interrupted supply to customers in New South Wales and South Australia.

In this instance, gas supplies were progressively restored within one day of the plant shutdown and were restored to normal levels by early February. During this period gas shortfall was met by the gas stored by Santos in underground reservoirs and other gas supplies being made available to customers in South Australia and New South Wales. Full liquids production was achieved by late August following the rebuilding of the affected area of the plant.

Santos gas supplies to other Australian states have not been interrupted.

MOONIE TO BRISBANE PIPELINE OIL SPILL

A leak occurred in Santos' Moonie to Brisbane oil pipeline in March 2003. The leak occurred approximately 1.5 kilometres from the Lytton terminal, located 15 kilometres east of Brisbane, and resulted in an oil spill to an adjacent vacant paddock.

The investigation by the Queensland Environmental Protection Agency identified that there was pre-existing damage to the pipeline. The pipeline ruptured at the point of the pre-existing damage, below the maximum allowable operating pressure and, therefore, before the two safety systems would have operated.

Santos mobilised all available resources to alleviate the impact of the spill, immediately implementing comprehensive emergency response plans in conjunction with the Environmental Protection Agency, Emergency Services and the Port of Brisbane Authority.

This included:

- shutting-in the pipeline to stop the transport of oil and prevent further oil spill
- deploying booms to contain the spill site and installing berms to contain the oil and prevent any flow into adjacent waterways
- cleaning oil from surrounding vegetation
- undertaking recovery operations to remove spilt oil.

Following the initial spill, Santos implemented a water and soil quality monitoring program to determine the extent of impact and assess rehabilitation progress. An ongoing remediation program has been implemented with the endorsement of the Environmental Protection Agency.

While this was an unforeseeable and very unfortunate event, Santos was praised by Queensland authorities for its rapid response and for assuming full responsibility for the spill and site clean-up. The rapid response by all parties meant the impact associated with the oil spill was minimised.

As a result of the spill, Santos accepted a statutory fine of $300,000 under the *Environmental Protection Act (Qld) 1994*. However, in recognition of Santos' quick response and clean-up efforts, the magistrate did not record a conviction against the company. Santos has also undertaken to meet the total costs for the emergency response, initial clean-up and long-term remediation. This is estimated to be in excess of $2 million.

Santos takes its environmental responsibilities very seriously and has implemented several measures to reduce the risk of a spill of this nature occurring again, including:

- installing additional systems that control the pressure within the pipeline
- fitting further alarms
- enhancing the automatic shutdown system
- further staffing of the Lytton terminal.

ENVIRONMENT AND NATURAL RESOURCES

The environment in which we live and the natural resources upon which we rely are essential to our survival. Moreover, our very survival impacts on these resources.

In this Review Santos reports emissions, the use of natural resources and provides detail on the commitments contained in its greenhouse and environmental policies.

Santos is focussing on how to contribute to clean air, water and land management, and the protection of biodiversity values in the areas in which the company operates.

An example of this is Santos' commitment to lightening the footprint of operational activities. This principle is exercised at each step in the approval, design and abandonment phases of the exploration and production cycle.

This begins with a consultation process with landowners and regulatory bodies, taking into consideration all of the relevant issues such as land access, permits and cultural heritage.

In the project design phase, engineers look to minimise the amount of space that activities require, minimise emissions, maximise product retention and create infrastructure that is environmentally appropriate.

Abandonment plans ensure that biodiversity values are met by applying procedures that will minimise clearing and enable vegetation regeneration to occur naturally in the shortest possible timeframe.

Working in this manner is smart in two ways: it is good for the environment and it reduces costs, which is good for the business.

Santos has a long history of good performance in a number of these areas. For example, in the 1980s Santos was an industry leader in the establishment of documented codes of practice, manuals and training for a wide range of activities to protect areas of natural, scientific and cultural heritage significance and to minimise impacts on the environment, surface drainage, pastoral infrastructure and livestock. These principles are now widely adopted by the petroleum industry and have formed the basis for legislation in this area by various governments. However, there are aspects of Santos' operations where further management or procedures are required to integrate the principles of sustainability.

ENVIRONMENTAL POLICY

Santos has adopted the following key environmental policy commitments to support the goal of lightening its footprint:

- maintain and continuously improve the Environment, Health and Safety Management System across the organisation
- ensure that all personnel, contractors and consultants receive adequate training to fulfil their individual EHSMS responsibilities
- apply a systematic approach to identifying hazards and managing environmental risks, to reduce these to as low as reasonably practicable
- develop annual environmental objectives and targets and implement programs to achieve them
- comply with relevant legal and other requirements and, where opportunities exist, participate in the development and review of legislation and guidelines
- ensure Santos has the resources and skills necessary to achieve its environmental commitments
- incorporate environmental performance in the annual appraisal of employees and contractors and recognise accordingly
- implement strategies to reduce and prevent pollution, manage waste effectively, use water efficiently and address relevant cultural heritage and biodiversity issues
- formally monitor, audit, review and report annually on environmental performance against defined objectives
- review the environmental impact of goods and services being provided by suppliers.

BIODIVERSITY

Biodiversity encompasses the natural variability of plants and animals and the environments in which they live. Australia is one of the most biologically diverse countries in the world. Conservation of biodiversity is fundamental to the health of life on this planet.

Santos strives to continually improve environmental management practices and systems. As part of this improvement program, land disturbance data is being captured in the Santos Geographic Information System, which will be used to report land disturbance and rehabilitation data. Using this system, Santos will prioritise rehabilitation projects on a risk basis and carefully plan field development to ensure that the biodiversity values of the local environment are considered.

In addition, Santos will continue to explore new management techniques to reduce impact to the environment.

The installation of innovative flowlines and a commitment to reduce the space taken up by drill rigs are two examples of continuous improvements that are not only achieving cost reductions, but also are reducing the environmental impact of Santos' activities.

Both achievements resulted from the JALBU Murta oil development program to improve the recovery of oil from the fields located on the Nappamerri Murteree Horst in the South Australian area of the Cooper Basin.

Approximately 30 kilometres of glass reinforced epoxy flowlines have been installed as part of the program. The innovative product has many advantages including:

- corrosion resistance – which reduces the risk of oil leaks
- compact installation equipment – which reduces the area of impact
- speed of installation – which reduces the duration of impact (land disturbance).

Santos' Drilling and Petroleum Engineering team has also had great success in reducing the area of land taken up by drilling activity. Since 1998, drill pad sizes have been reduced by 68%, from an average lease size of 13,580 square metres in 1998 to just 4,300 square metres in 2003 (see page 30).

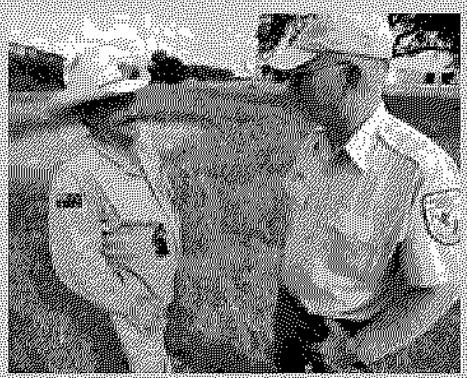
Santos pays particular attention to land rehabilitation and has in place a set of procedures to ensure that land is remediated to as close as possible to its natural state. This involves collecting and storing topsoil which is later replaced once drilling activity ceases, enabling the local vegetation to regenerate.

In addition to onshore operations, Santos also conducts exploration activities and develops petroleum resources offshore, in water depths ranging from less than 50 metres to 3,500 metres. These activities are undertaken in accordance with strict regulatory guidelines, which are determined following environmental impact assessments. However, there remains some concern about any potential negative impact petroleum exploration may have on whales.

To gain a better understanding of the key issues, Santos has worked closely with Deakin University Blue Whale Study researchers. The aim of this collaboration was to conduct aerial surveys to monitor the interactions between petroleum exploration activity and blue whales and to gain an understanding of the potential impacts of these surveys.

During one of these studies, more than 46 hours of flying time was accumulated over the exploration area and a total of 155

TEXAN OPERATIONS FIND HARMONY IN WILDLIFE REFUGE



Close collaboration with government authorities and a commitment to working in an environmentally responsible manner are central to Santos' successful operations in a Fish and Wildlife Refuge in the United States.

The San Bernard Wildlife Refuge was established in 1968 to provide a quality habitat for migratory waterfowl and other bird life. It is one of more than 500 national wildlife refuges administered by the U.S. Fish and Wildlife Service.

The 11,094-hectare refuge is located in Brazoria and Matagorda Counties, 19 kilometres west of Freeport in south-east Texas. The refuge includes flat coastal prairie and salt marsh with numerous saltwater lakes, shallow freshwater lakes and marshes, an intermittent stream, and wooded areas.

In order to minimise the impact on the refuge's pristine wetlands areas, the Santos team has directionally drilled wells under wetlands to avoid surface impact. This was done in consultation with the wildlife refuge manager, an expert wetlands delineation consultant and Santos operations staff.

The connection of two wells for gas sales involved laying a 10-kilometre gas pipeline to the sales point. Only 610 metres was within the refuge with the remaining 10 kilometres constructed on private property on a route carefully chosen with the aid of the landowner and the wetlands consultant to use existing roads and to minimise wetlands disturbance.

PERMANENT PROTECTION FOR COONGIE LAKES WETLANDS

A Santos-led initiative to protect the world-renowned Coongie Lakes wetlands has come to fruition, with the South Australian Government declaring the area a new National Park.

The decision to protect the Coongie Lakes wetlands system was announced in Innamincka in July 2003 by South Australian Premier, Mike Rann, and Environment and Conservation Minister, John Hill.

The heart of the network of lakes, a rare, wild freshwater system in the Australian outback, is now a National Park, with grazing and resources activities prohibited.

Surrounding this area, a special zone has been created within the Innamincka Regional Reserve to permanently exclude petroleum and mining access.

The catalyst for the government's decision was the historic agreement between Santos, which previously held the exploration rights to the Coongie Lakes area, the Wilderness Society and the Conservation Council of South Australia representing 50 environmental groups.

Early in 2001, Santos and the conservation groups worked together to develop a Memorandum of Understanding which recommended that the SA Government protect the Coongie Lakes by expanding the existing Coongie Lakes Control Zone and making it a 'no-go' area for resource activities.

While Santos previously held exploration rights to this area, the company recognised that it had a community responsibility to protect the important wildlife habitat and refuge.

Even while operating in the area, Santos adopted the highest possible environmental standards and, because of this, the values and beauty of the Coongie Lakes remain.

The successful protection of the Coongie Lakes is largely due to the collaboration and cooperation between Santos and the conservation groups. Indeed, the conservation movement has described the outcome as a giant step forward and one that would have been impossible 10 years ago.

BANKSIA AWARD FINALIST

The Coongie Lakes Memorandum of Understanding Campaign was a finalist in the prestigious national Banksia Environmental Awards in 2004.

Santos was recognised for the leadership role it played in protecting the unique Coongie Lakes wetlands from future mining and petroleum exploration activity.

The entry aimed to recognise that Santos and the conservation movement, despite many years of conflict, had come together to protect an important Australian environmental issue.

Santos is extremely proud of this achievement.

Coongie Lakes wetlands

blue whale sightings were made. According to the university research team, the whales appeared to be following krill – shrimp-like crustacea that whales feed on – and showed little or no signs of acknowledging the petroleum exploration survey. Aerial surveys undertaken during further petroleum exploration led to the identification of a feeding pod of sperm whales in deeper water to the south of the blue whale study area.

In addition to this research, Santos continues to fund ongoing independent research into understanding the distribution and behaviour of whales.

Santos has worked closely with researchers from Deakin and Curtin Universities to analyse noise data collected from a series of ocean bottom recorders. The recorders were deployed to detect background ocean noise levels, whale vocalisations, drilling noise and seismic noise. The ocean bottom recorders provided extra information on the whereabouts and habits of the whales, as well as data about the noise levels which generally exist within the ocean environments, caused by other animals, waves, weather, etc.

Another form of monitoring trialled by Santos was the innovative use of a towed hydrophone cable, termed passive acoustic monitoring, which successfully detected the presence of whales vocalising in high frequencies.

Innovative new methods of tracking blue whales offshore and the establishment of cooperative links with specialists in a number of research institutions has enabled Santos to gain valuable insights into whale movements, and provided more information on how exploration and whales can co-exist. This type of data will aid planning, assist regulators in their decision making and ensure exploration activity has a minimal impact on the local whale populations.

RESOURCE USE

SUPPLY CHAIN AND MATERIALS

Santos' operations need to be supported by a strong, efficient supply chain delivered by suppliers and contractors that operate under acceptable standards of sustainability.

Santos spends many millions of dollars on materials and services each year. The sustainable management of this resource is dependent upon reducing the supply

inventory and ensuring the inventory is made up of 'fit for purpose' materials that are delivered at the right time and price.

This ensures optimal resource usage coupled with safe and efficient operations.

Santos' materials inventory has grown in the past few years with dormant supplies taking up space in field warehouses and requiring resources to maintain.

Santos identified initiatives to improve supply chain management and efficiency, during 2003.

The first step of the improvement program was to bring inventory under greater control. This was achieved by reducing existing supplies to a manageable volume and establishing processes to maintain the inventory at appropriate levels.

Subsequently, redundant stock has been identified for reuse, recycling or disposal. Processes are currently being implemented to prioritise materials and supplies based on criticality and lead times for replacement to determine appropriate levels.

Santos aims to reduce its inventory by 35% at the end of 2005.

Once the inventory management process was refined, Santos addressed the issue of sourcing materials and services that are appropriate for their intended use. Santos' external spend was analysed and like materials and services were grouped into commodity groups.

When purchasing goods, services and materials, Santos puts greater focus on their intended use to ensure the end product is 'fit for purpose' thus eliminating wastage and re-work.

Santos recognises that it is not only its actions and activities that can impact the social and natural environment, but also the actions, principles and policies of its suppliers, contractors and external services providers.

A Contractor, External Service Provider and Supplier Management Standard (EHSMS 10) was introduced in 2003 to establish consistent practices for the review and assessment of contractors, external service providers and suppliers to ensure alignment with environmental, health and safety policies, systems and performance. Following assessment through pre-qualification review, the successful companies are monitored through periodical performance reviews incorporating demonstration of management system effectiveness.

To support this standard, the safety and environmental performance of contractors is reported publicly.

The Santos supply team has a number of programs in place to improve the company's level of sustainability. These are in some part driven by the recent restructure and the team's desire to ensure issues around contract management, internal and external relationships, and materials and inventory management take into account environmental and social responsibilities.

Santos will continue to assess product usage and production processes to work towards sustainable production by reducing waste emissions at the source.

ENERGY EFFICIENCY

Santos uses energy to extract hydrocarbons and process them to achieve sales quality gas specifications. The energy use is much higher where petroleum plants are configured to split raw gas into sales gas, LPG and condensate, than in more simple low volatility oil separation plants.

The energy used as fuel is mostly drawn from the oil and/or gas produced. Small volumes of hydrocarbons are also vented at various points throughout the production and processing cycle.

Santos implemented a company-wide energy efficiency project in 2003 with a specific aim to quantifiably reduce energy consumption per unit of production across all operated sites and interests. The program focussed on minimising energy use and brought together a number of initiatives that were underway in various field and office locations. It was also designed to help employees appreciate the benefits of energy conservation.

Improving energy efficiency reduces greenhouse and noxious emissions, such as sulphur dioxide, while adding to available production and recoverable reserves.

Santos has undertaken an assessment of energy use at its sites and offices. On the basis of the work completed to date, it has been established that:

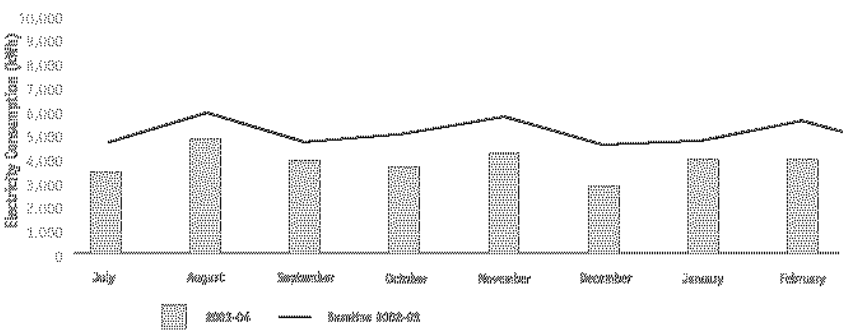
- fuel and loss amounted to about 11% of production or about 8 million barrels of oil equivalent (mmboe) across operations in 2002 (baseline year)
- the Adelaide head office consumed about 2,200 megawatt hours (MWh) over July 2002 to June 2003 inclusive (baseline year).

During 2003, energy efficiency teams assessed opportunities to reduce energy use at a number of Australian onshore operational and office sites and developed a seriatim of energy efficiency projects. Several energy savings projects resulted in:

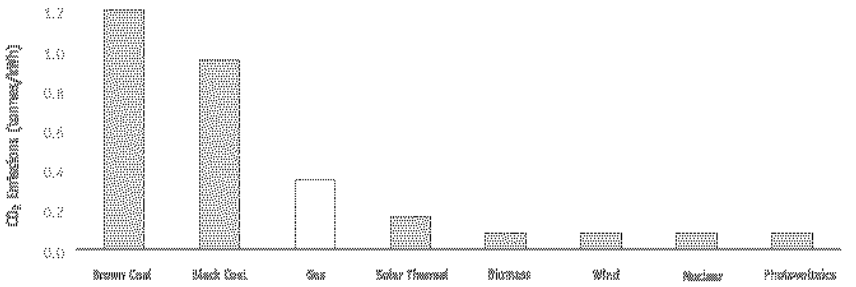
- 1.7 million gigajoules per year estimated saving from major projects
- 5,000 gigajoules estimated saving from the Roma project site initiative described on page 22
- approximately 15% energy use reduction from an energy-saving lighting trial for Santos' Adelaide office.

A key issue for the company is ensuring that employees are aware of and involved in increasing efforts to reduce energy use. To this end Santos has implemented a 'lights off' and 'computer monitors off' campaign, with results published in the company magazine and on the internal

ELECTRICITY CONSUMPTION (kWh)



EMISSIONS FROM ELECTRICITY GENERATION*



*Adapted from: Bruce Hobbs' CSIRO presentation, Australian Innovation Festival April 2002.

website. Santos' aim is to raise awareness of and commitment to the ongoing plan for reducing energy consumption.

As another example, 14 continuous bleed controllers located throughout the Roma gas field in eastern Queensland have been replaced with block and bleed controllers. These new controllers avoid continuously venting gas.

The ML1A plant facility instrument gas supply, which is the gathering point for the Roma gas production and includes condensate separation and gas dehydration facilities, also has been changed from process gas to air. This involved the installation of an air compressor on location.

GREENHOUSE GASES AND AIR EMISSIONS

The greenhouse effect refers to the trapping of heat by certain gases in the Earth's atmosphere, in the same way that the glass in a greenhouse prevents heat from escaping and warms the internal environment.

There is international concern that human activity is causing an increase of 'greenhouse gases' in the atmosphere, the most common of these being carbon dioxide. The concern centres on the possibility that global warming could raise sea levels, increase weather instability and adversely affect prevailing ecological systems.

There is sufficient concern about climate change that emission reduction strategies are actively being sought and implemented by governments, industry and communities worldwide. While renewable energy sources, such as solar power, wind and hydro, have low greenhouse emissions they are currently considered high cost and not yet sufficiently developed to meet global energy needs. It is commonly considered that fossil fuels will continue to be needed as the predominant source of energy for at least the next two decades.

Natural gas is the lowest greenhouse gas emitting fossil fuel, as shown in the graph above. Therefore natural gas is likely to be the preferred fuel until technological developments deliver a more environmentally friendly, lower cost and readily available source of energy.

Santos recognises that in striving to provide an increasing share of the community's energy requirements, it must equally strive to reduce the greenhouse emissions intensity from the oil and gas it produces. Santos intends to do this by making particular efforts to improve energy used in extracting and refining products, which will both reduce emissions and also conserve these valuable natural resources.

There are a number of gases that contribute to the greenhouse gas effect. Those that are recognised as being particularly relevant to the oil industry are nitrous dioxide, methane and carbon dioxide. These gases each contribute to the greenhouse effect at varying rates so their impact is expressed in tonnes of carbon dioxide equivalents.

Santos reports operated site greenhouse gas emission volumes and emission reduction activities to the Australian Greenhouse Office's Greenhouse Challenge Program via the Australian Petroleum Production and Exploration Association. Santos has reported on those areas where it operates on behalf of a joint venture since 1998.

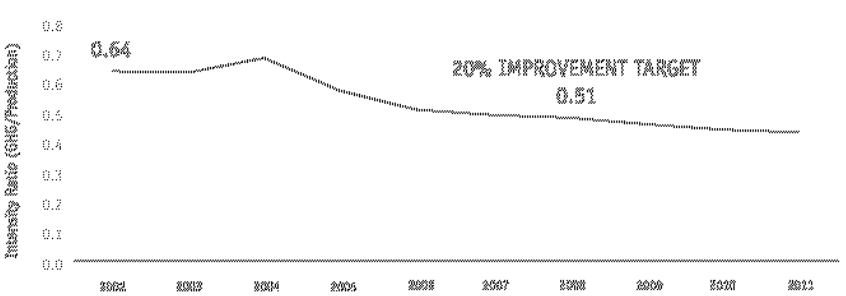
In addition to annual greenhouse gas reporting, Santos also reports annually to the National Pollution Inventory.

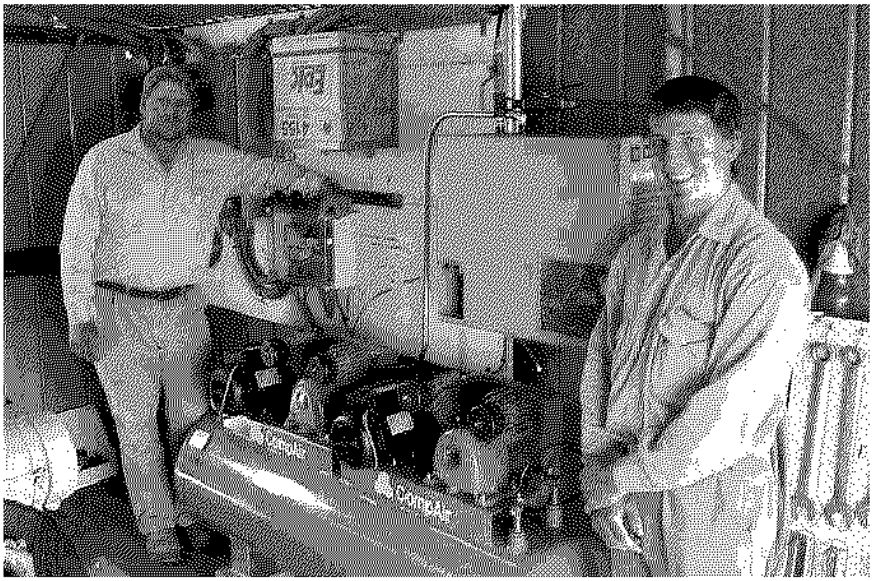
The National Pollution Inventory is an internet database that provides information on the type and amount of pollution emitted to the air, land and water across Australia. Santos has been reporting emissions annually to the National Pollution Inventory database since its inception in 1998. In keeping with the spirit of the program, Santos aims to minimise impacts associated with these emissions, expand reuse and recycling programs and minimise impacts to the environment.

Santos' newly adopted Greenhouse Policy will drive improvement strategies across operated sites. Consistent with this policy Santos will:

- actively pursue an emission intensity reduction target (greenhouse emissions/unit of production) of 20% in the period from 2002 to 2008
- measure and report progress against this emission reduction goal
- require all operations to develop energy efficiency and greenhouse management plans with site-specific targets
- identify and promote opportunities for natural gas to replace higher greenhouse gas emitting fuels
- carefully examine the forecast greenhouse gas emissions and energy use in planned new projects and

GREENHOUSE GAS INTENSITY REDUCTION TARGET





Fred Hewitt and Wil Lemon, Maintenance Operators, with an air compressor at the Roma MLIA plant facility in eastern Queensland, which reduces gas consumption and greenhouse gas emissions.

acquisitions, to ensure that emission intensity and energy efficiency levels are consistent with goals

- invest in energy and process research and development and seek to work cooperatively with other parties
- inform and educate employees about Santos' commitment and, together with their input and actions, implement plans
- participate in external voluntary greenhouse gas reduction programs
- regularly review performance against commitments and report openly.

Santos has established a greenhouse gas emissions reduction program, where promotion of energy efficiency is a key internal driver for emission reduction.

Santos' Greenhouse Policy is being rolled out across the organisation. As part of this initiative, Santos has commenced assessment of baseline greenhouse gas emissions based on the aggregate of joint venture interests, rather than just those areas operated by Santos.

Carbon dioxide is a naturally occurring gas that is held within the reservoir alongside hydrocarbons. When hydrocarbons are produced, carbon dioxide is also extracted.

The preliminary assessment of greenhouse emissions based on joint venture share is:

- 4.5 million tonnes of carbon dioxide equivalent in 2002
- an emission intensity ratio of 0.64 tonnes of carbon dioxide equivalent per tonne of product in 2002.

Santos is currently preparing a submission to the World Economic Forum Greenhouse Register, to improve visibility of the company's intent to secure greenhouse emission reduction across all business interests. Santos also intends to increase dialogue with those companies that operate assets on its behalf, with the intention of improving emissions reporting accuracy and reducing emissions intensity of those operations where that can be achieved.

ALTERNATIVE ENERGY OPTIONS

Santos has implemented a number of emissions saving projects including participation in the Yellowbank Flare greenhouse gas reduction project in Queensland with Origin Energy, which involves the sale of carbon credits to BP, and the use of solar energy units to drive instrumentation and controls at remote well sites, pictured on page 5.

Santos' development of a solar powered air compressor, which reduces gas consumption, greenhouse gas emissions and operating and maintenance costs, won the South Australian Chamber of Mines and Energy's 2002 Environmental Excellence Award.

Air compressors are currently being phased in across South Australian and Queensland sites.

The air compressor is used to power the safety and production control instruments at gas wellheads.

Traditionally, these instruments have been powered by unprocessed gas from the well's production stream, which produces greenhouse gas emissions and a quantity of vented well liquids which require disposal. There is also a high cost of maintaining equipment which is damaged by the corrosive nature of the raw gas.

The use of locally generated compressed air power not only results in the instrumentation functioning more reliably and increasing well operation time, but also pays dividends via:

- savings in raw gas usage which can be produced instead for sales
- reduced venting of greenhouse gases
- reduced wellhead maintenance requirements
- avoiding problems associated with liquids recovery, particularly in environmentally sensitive areas.

Santos is continuing to monitor and assess renewable energy technology including wind, solar and geothermal, with a view to identifying opportunities that can cost-effectively replace oil and gas used in operations or as a fuel source in their own right. While there are some niche applications, such as the solar compressors described above, Santos has not yet identified cost-effective, broad-based applications that are economic without a subsidy.

WATER MANAGEMENT

Water is required for processing plants and for domestic use in camps and offices. In Santos' main onshore operational areas, this water is pumped from water bores and purified. At Moomba, Santos' largest processing facility, a small volume of the waste water from domestic use is recycled to irrigate trees and shrubs planted around the residential, office and workshop buildings.

A relatively small volume of water from shallow water bores is also used for road construction and maintenance, well site lease construction and at drilling sites for mixing drilling mud.

PRODUCED FORMATION WATER VOLUMES

In rocks below the surface, water which is naturally co-mingled with gas and liquid petroleum products is brought to the surface together with oil and gas produced from the wells. This water, referred to as produced formation water, is a common feature of many hydrocarbon reservoirs worldwide.

The quality of this water varies from well to well and is usually unfit for human consumption, as it may contain suspended solids, salts and hydrocarbons.

Produced formation water may be sourced from rock strata which are different from those which provide the potable water typically extracted from the Great Artesian Basin in this region.

It is estimated that the Great Artesian Basin contains 8,700 million megalitres of water* which is replenished naturally through rainfall and stream flow as water enters the very large catchment area.

One megalitre equals one million litres, approximately half the amount of an Olympic size swimming pool.

Around 45%, or 1,500 megalitres per day*, of the water that is discharged from the Great Artesian Basin occurs through natural spring flow and vertical leakage through cracks in impenetrable rock. The remainder is the result of human activities including pastoral, mining and oil and gas operations.

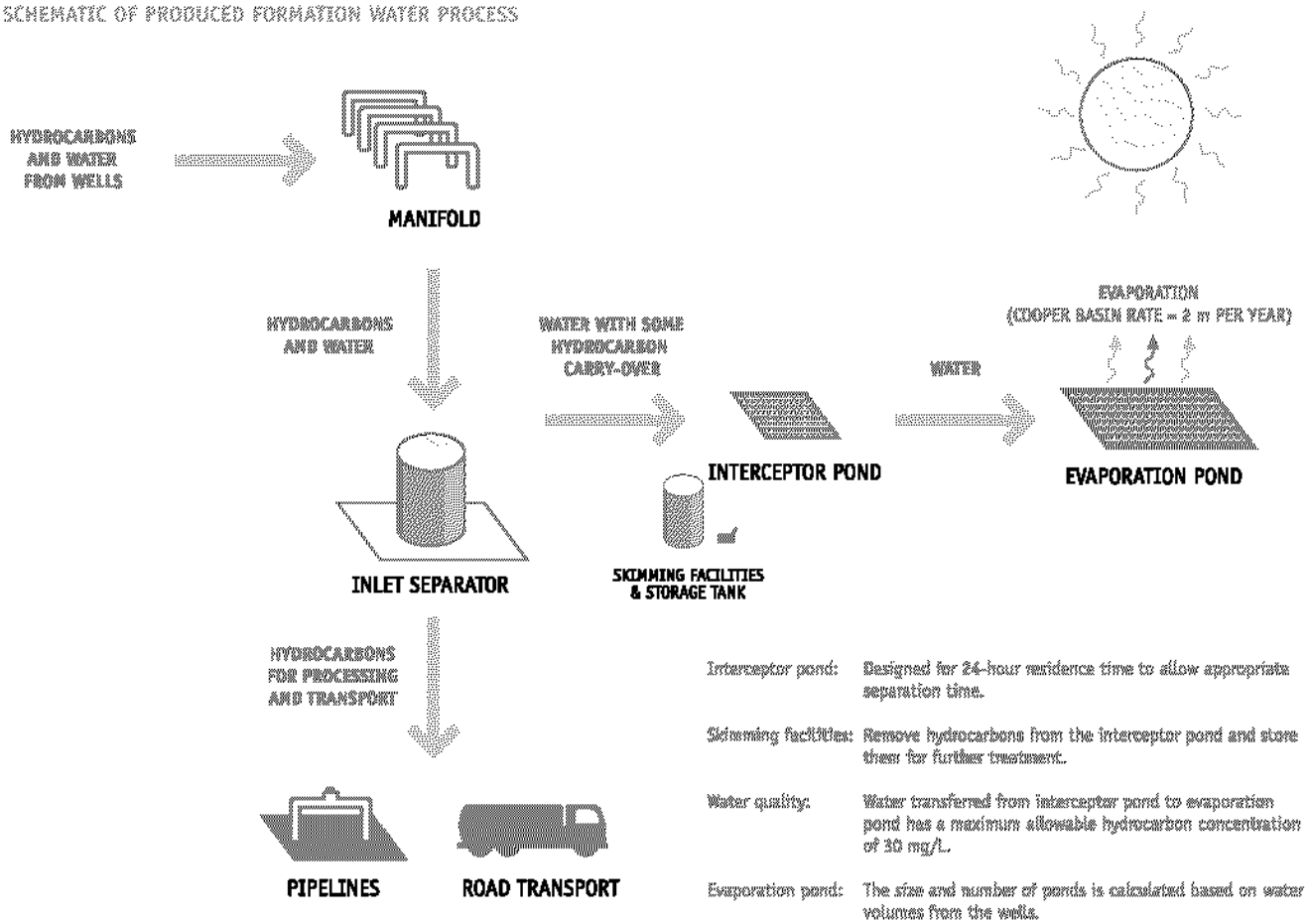
Santos' Cooper Basin activities account for the production of 51 megalitres of water per day (0.051 million cubic metres), which is approximately 4% of the total volume extracted from the Great Artesian Basin by human activity and only 2% of total natural recharge that enters the Great Artesian Basin.

Santos initiated a sustainability study of produced formation water management to calculate estimated volumes and identify alternative options for disposal or use. As Santos' largest operational site, the Cooper Basin was strategically selected as the first priority for this study.

Information for other production areas, including the Northern Territory, eastern Queensland and international operations, is currently being assembled, with water volume and quality information being sourced and checked using the model developed for the Cooper Basin.

The Cooper Basin study determined that produced water can be calculated to an acceptable level of accuracy using

SCHEMATIC OF PRODUCED FORMATION WATER PROCESS



*Sibenaler, 1996, in: Kinhill (1997) *Olympic Dam Expansion Project EIS* pp 4-15.

John Freimanis, Chemist, undertaking chemical analysis of water quality in the Moomba laboratory.

petroleum production data. Therefore, Santos will be able to adopt this technique to calculate produced formation water volumes for other onshore facilities.

SEPARATING PRODUCED FORMATION WATER FROM HYDROCARBONS

At offshore locations, water is separated from oil primarily by centrifugal equipment called separators. When it satisfies the required regulatory standard, the water is pumped into the ocean.

At onshore locations, the primary means of water disposal is through a process of gravity separation in process vessels and tanks followed by treatment through a series of evaporation ponds.

The treated water is discharged to an interceptor pond which is designed to contain any hydrocarbons which may pass through the initial water separation phase. Interceptor ponds, equipped with skimming facilities to allow recovery of hydrocarbons, ensure that any hydrocarbons carried over from primary separation are recovered.

Water leaves the interceptor pond through an underflow pipe which is designed to prevent hydrocarbons moving out of the interceptor pond.

Produced formation water then flows through a series of evaporations ponds, typically constructed in a series of three, with water being progressively 'cleaned' as the water progresses through each stage.

The water is evaporated from these ponds and re-enters the natural water cycle. In the desert environment of the Cooper Basin the evaporation rate is approximately two metres of water per year.

In accordance with Santos' Statement of Environmental Objectives for Cooper Basin production and processing operations, produced formation water quality is regularly monitored.

The maximum allowable hydrocarbon content of water in evaporation ponds is 30 milligrams per litre, while the maximum content of water entering free-form evaporation areas is 10 milligrams per litre.

Santos' water quality monitoring data are currently being transferred into a shared, easily accessible digital system: the Laboratory Information Management System. This system will allow specific data to be readily retrieved and allow better comparison of trends in water quality.

2003 PRODUCED FORMATION WATER VOLUMES (megalitres)

	Gas	Oil	Process/ Domestic	Total Annual	Total Daily
Santos Australia Cooper Basin	5,200	6,700	1,400	9,300	25
Santos Asset Queensland Cooper Basin	200	8,000	200	8,400	23
Total Annual	4,500	15,000	1,600	17,700	51

Source: Santos Production Information Database.

REUSE OF PRODUCED FORMATION WATER

Santos recognises that water is a valuable resource and that reusing produced formation water may have many benefits. Santos manages waste water from its operations and domestic facilities such as camp sites to identify opportunities to minimise usage.

Santos' produced formation water study identified a number of possible alternative uses for water, including:

- mineral salts recovery, for use in the chemical industry
- irrigation
- stock water
- production support
- road construction and maintenance.

There are a number of potential environmental impacts and cost implications to be evaluated before implementing any of the alternative use options. These include soil contamination, water contamination, stock and wildlife impacts and flora impacts.

Santos commissioned a soil health index study to assess the impacts associated with produced formation water disposal and other soil contamination. The project assessed the impacts of produced formation water disposal and will provide guidance in disposal methods and rehabilitation and restoration requirements.

Santos will continue to identify and evaluate produced formation water volume reduction strategies such as down-hole isolation of high water producing zones (water shutoffs).

WASTE MANAGEMENT

Waste from operations is generated from two sources: operational waste from petroleum production and processing activities, and domestic waste from residential camps and facilities.

A waste management project was initiated in 2003 to improve Santos' management of solid wastes to minimise volumes, improve efficiency and environmental performance.

Stickers are placed on Santos' computer monitors and beside light switches to encourage employees to conserve energy when they are not in use.

Site-based waste management plans are being developed to achieve these objectives. When completed, the plans will establish management systems, operational activities, procedures, monitoring and management provisions that conform to the principles of ecologically sustainable development, including:

- managing disposal and recycling facilities in a manner that ensures risks to the environment and adjacent land users are reduced
- implementing operational controls to minimise the potential for soil contamination through the downward movement of water (leaching) and emission of landfill gas
- implementing operational controls to prevent off-site pollution and impact through litter scatter, odours, vermin and pest propagation
- monitoring the quality of surface water and groundwater at the site
- operating landfill facilities in a manner that encourages final landform rehabilitation to an aesthetic state consistent with that of adjacent undisturbed areas and one that ensures no long-term legacy
- providing closure and post-closure management plans to ensure appropriate site decommissioning and provision for ongoing monitoring and maintenance after site closure.

These waste management plans will be strategically implemented and future sustainability reporting will document waste streams, volumes and rehabilitation plans.

Santos' waste volumes from its major operational sites in South Australia and Queensland in 2003 were approximately:

- sludge – 17,500 cubic metres (95% bioremediated)
- landfill – 9,000 tonnes
- recycling – 621 tonnes.

GREENING THE OFFICE

Santos formalised its commitment to greening the office environment in 2001 with the formation of the voluntary Greening the Office Committee. In accordance with Santos' Environmental Vision and Policy, the aim of the Greening the Office Committee is to lighten the footprint of Santos' activities.

Specifically the Greening the Office Committee endeavours to:

- promote awareness of environmental issues and identify opportunities to lighten the footprint of Santos' activities
- ensure information gathered by the committee is easily accessible and available to Santos personnel
- identify opportunities to reduce consumption of resources; in particular, to improve energy efficiency
- identify opportunities for recycling and implement recycling programs
- eliminate the use of non-recycled or non-recyclable materials where practicable.

The committee successfully implemented a number of initiatives during 2003 and 2004, including:

- providing Christmas card and bottle cork recycling facilities
- recycling compact discs, milk cartons, drink containers and newspapers on all floors
- eradicating the use of foam coffee cups
- revising the Greening the Office internal Santos web page to provide further information on environmental objectives, programs and green tips
- developing and launching a carpooling website for Santos' Adelaide employees
- running a 'bike to work' awareness campaign about the benefits of cycling to work.

TRANSFORMING WASTE SLUDGE INTO SALEABLE PRODUCT

Santos has successfully trialled an innovative method to treat contaminated oil sludge which resulted in a massive 97.5% reduction in solid waste requiring disposal and the recovery of more than half the sample into crude oil that was returned to process. The treatment is now being evaluated across other Santos sites.

Hydrocarbon sludge is old, weathered oil that is too contaminated to be returned to process as saleable product. Typically, it comes from oil spill sites that have been cleaned, from the bases of tanks where there's been a build-up of heavier fractions of oil, or from formation water treatment.

To date, Santos' Cooper Basin operations team has been dealing with hydrocarbon sludge by conducting the industry-accepted practice of landfarm bioremediation. This is where the sludge is spread across an area of soil, with a soil liner beneath it. Natural micro-organisms in the soil are then allowed to break down the oil into carbon dioxide and water.

Santos investigated alternative ways to treat hydrocarbon sludge. Given the remote nature of Santos' Cooper Basin facilities, the technology chosen had to be highly mobile and easily adapted to other sites.

New to Australia, and particularly the Cooper Basin, the Solids-Liquid Treatment System was selected for trial. This system removes sludge from a storage pit, separates the solids and excess water from the hydrocarbon liquid and returns recovered crude oil back to process, while removing waste solids for further processing and final disposal.

The trial, conducted over nine months, processed 4,000 cubic metres of hydrocarbon sludge, resulting in the:

- recovery of 2,600 cubic metres of crude oil that was returned to the process
- extraction of more than 1,000 cubic metres of free water which was disposed of via on-site evaporation ponds
- reduction of solid wastes requiring final disposal to less than 100 cubic metres.

These were great results because the solid waste, which was cut to 2.5% of its original volume, will be significantly easier and cheaper to dispose of than the original quantity of untreated sludge; the environmental risks of contaminated soils in landfarms will be reduced; and the crude oil returned to process, which previously would have been wasted using the landfarm method, was estimated to be worth about $760,000.

The long-term environmental and financial benefits of using this technology are expected to be considerable.

PAPER AND PRINTING OF THE SUSTAINABILITY REVIEW

Santos' Sustainability Review 2004 is printed on Onyx Recycled Smooth paper, which is made from 100% recycled pulp from pre- and post-consumer waste, used milk cartons and juice cartons.

This paper is manufactured at the Shoalhaven Mill in New South Wales, which is accredited to the ISO 14001 environmental management standard. The paper is manufactured using elemental chlorine-free processes that do not involve chlorine gas or compounds. Process water is primarily sourced from excess wastewater from papermaking operations and is recycled at the plant.

This Review was printed by Finsbury Green Printing in Victoria, which is accredited to the ISO 14001 environmental management standard. The printing process uses digital printing plates, which eliminate film and its associated chemicals.

The vegetable-based inks used in the printing process use linseed oil, which is made from renewable sources such as flax, rather than the traditional higher greenhouse gas emitting mineral oils.

Finsbury is the first commercial printer in Australia to volunteer for the federal government's Greenhouse Challenge to reduce greenhouse gas emissions and the first Australian printer to publish an audited environmental report on its activities.

95% of all waste materials generated at Finsbury are recycled.

An electronic version of this Review is available on Santos' website, www.santos.com, to help reduce the number of printed copies produced.

SOCIAL RESPONSIBILITY

Santos recognises its social responsibilities to its own employees and to the various communities to which the company belongs. The health, safety and welfare of employees are of paramount importance to Santos. The company seeks to engage employees in a fair and equitable manner that recognises both the contribution employees make to the enterprise and their own needs as individuals.

The community expects Santos to operate safely and without unacceptable impacts to the environment and this responsibility is seen as a basic operating principle. These responsibilities are collectively addressed and set out in Santos' environmental, health and safety policies and visions.

Santos also embraces a citizenship role in the communities to which it belongs, recognising that the health of the company is in part related to the health of the community that sustains it. In this regard, Santos invests both time and financial resources in these communities.

HEALTH AND SAFETY

Santos measures safety performance through injury frequency and severity rates and the level of employee participation in the process of identifying and finding solutions for problems.

Improving safety performance is a constant challenge and Santos looks to innovative programs and ideas to achieve better outcomes.

The contribution of employees is critical. Santos' employees participate in the process by which improvement opportunities are identified as well as in the implementation of the solutions that improve performance.

A biennial survey of employees is conducted to measure perceptions about health and safety in the workplace and to identify improvement opportunities. Improvement was evident in the latest survey undertaken in 2003, as discussed on page 31. On a-day-to-day basis, employees are encouraged to report all incidents and near misses to a central database, the Incident Management System. This information is then used in the communication process at daily toolbox meetings and briefings at all operational sites.

HEALTH AND SAFETY VISION AND STRATEGY

Health and safety is a core value for Santos and this is articulated through the health and safety vision 'We all go home from work without injury or illness'.

To achieve this health and safety vision, a strategy has been established which is summarised in the diagram below.

The health and safety strategy comprises three core areas: the integrity of plant and equipment; management systems; and the behaviour of personnel. Formal whole-of-plant risk assessments are undertaken in a program designed to assess the risks of major hazards and the effectiveness of their control.

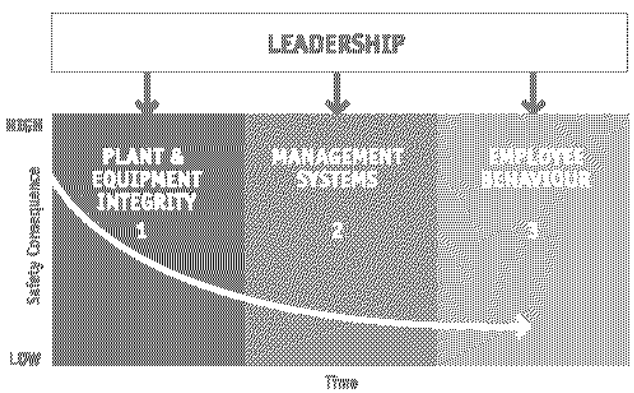
The Santos Environment, Health and Safety Management System provides the framework by which all operations can be conducted in a safe and environmentally responsible manner. Encouraging and rewarding the behaviour that supports a safe operating environment completes the strategy.

While Santos' health and safety program covers all three areas, the key focus at present is in the area of integrity and systems. The development of behavioural programs has commenced and these will continue to mature and become more sophisticated in the future.

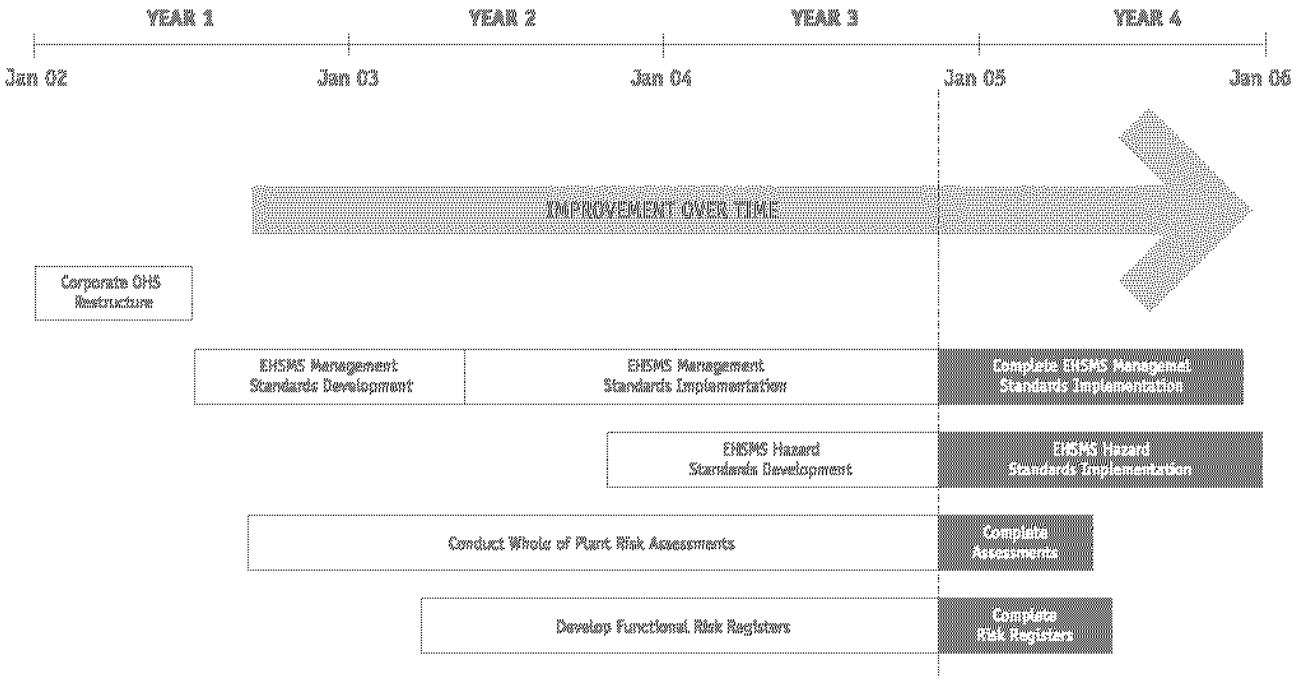
RESTRUCTURING HEALTH AND SAFETY

Santos commissioned an external safety management review by Shell Engineering Pty Ltd in 2001. The review recognised a high level of visible executive management commitment to safety and noted that there were some good foundations in place for the systematic management of occupational health and safety.

SAFETY IMPROVEMENT APPROACH



HEALTH AND SAFETY IMPROVEMENT TIMELINE



The review recommended a number of key strategic actions:

- develop and implement a three- to five-year plan for the restructuring of occupational, health and safety management based on the good existing foundations in place, as described in the figure above
- develop a corporate occupational, health and safety system based on AS/NZ 4801 with standards and guidelines to be applied across all businesses
- draw together separate risk assessments into a consolidated overview framework
- introduce a health, safety and environment case regime to bring it into line with industry best practice.

Progress against the key recommendations is presented above.

PERFORMANCE MEASUREMENT

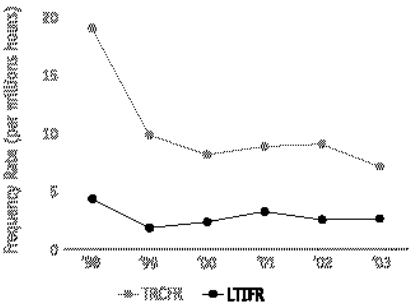
The primary indicator for health and safety performance is total recordable case frequency rate, which is the number of medical treatment and lost time injuries for every million hours worked. Targets and objectives are established for the combined performance of employees and contractors. While Santos' long-term objective is to achieve a rate of zero, each year stretch targets are established to drive continuous improvement.

One limitation with TRCFR measurement is that it only records the incidence of recordable injuries and does not provide any insight into the severity of these injuries. To measure the severity of both medical treatment and lost time injuries, Santos has established a total recordable case severity rate by assigning a severity index against each lost time or medical treatment injury as outlined in the table below.

Measurement of severity has been in place for 12 months during 2003 and no meaningful trend can be determined at this

INJURY SEVERITY INDICES			
Medical Treatment	Work Restriction		Severity Index
	At work	Away from work	
Sterile, immediate treatment/observation	No change to core role	Single day	1
Essential treatment to prevent deterioration/day surgery	Job/work location change	Up to one week	10
Urgent and critical treatment/ operational surgery	Permanent transfer to a new role	One to three weeks	100
Hospitalisation for medical/intensive care	Minor permanent disablement/able to work	More than three weeks	300
	Disablement/life changing		500
Fatality	Fatality	Fatality	1000

SANTOS INJURY PERFORMANCE – EMPLOYEES AND CONTRACTORS



stage. The average severity index for 2003 was 19 which is equivalent to two injuries per month requiring medical treatment and resulting in up to one week away from work.

The TRCFR has shown continuous improvement over the past two years, as shown on the graph above. At December 2003, the 12 month average TRCFR was 7.1.

Lost time injury performance, as measured by lost time injury frequency rate (LTIFR) over the corresponding period has been approximately 2.5, which is equivalent to the average rate for the petroleum production industry, one of the best performing industries as presented in the graph below.

SAFETY LEADERSHIP

All employees and contractors have a responsibility to ensure they work safely.

Santos implemented the Safety Leadership Program during 2002 and 2003 which involved 800 employees and contractors. The program provided a hands-on experience designed to help employees develop safety leadership skills and explored the following areas:

- Santos' vision, beliefs and policies and how these can be applied in a practical and effective manner
- human behaviour and the impact of experiences and attitudes
- Job Hazard Analysis and the Stepback program processes using team exercises.

It involved a number of information sessions as well as group discussions where participants could share safety experiences, knowledge and skills to help build up an understanding of how leadership and team issues impact upon safety.

The program featured an activity where participants were encouraged to put the concepts and skills discussed during the program into practice by using Job Hazard Analysis techniques. This involved an abseiling exercise where participants experienced the concepts and skills discussed during the program and put these into practice in a high risk environment. Phase 2 is being implemented during 2004.

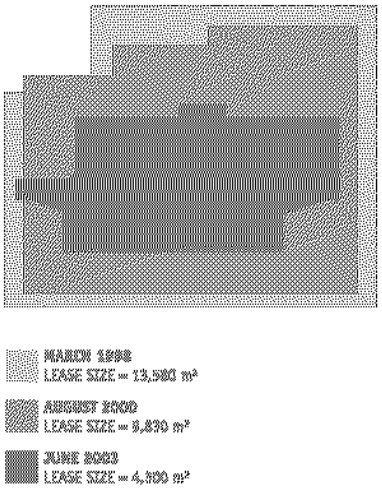
The program was well received by the workforce with a survey indicating 95% of participants considered the program a positive experience.

SANTOS DIRECTORS' ENVIRONMENT, HEALTH AND SAFETY AWARDS

The Santos Board established a company-wide Environment, Health and Safety Awards program to recognise innovation, continuous improvement and excellent performance by employees in this area.

Santos' Chairman, Stephen Gerlach, and Managing Director, John Ellice-Flint, presented the inaugural awards in 2004 in the five following categories:

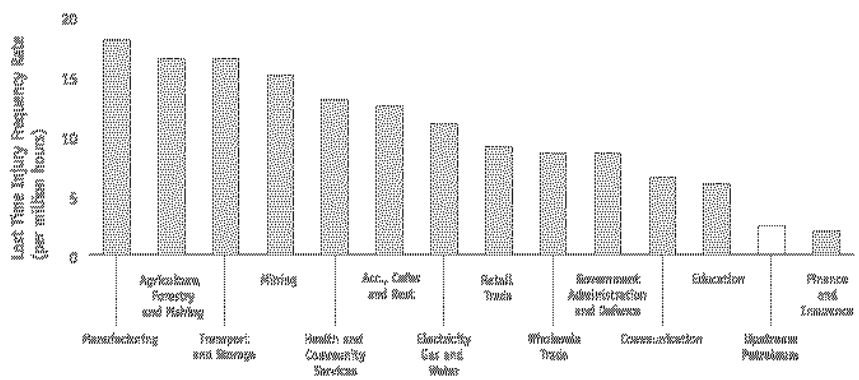
REDUCTION OF DRILL PAD SIZE 1998–2003



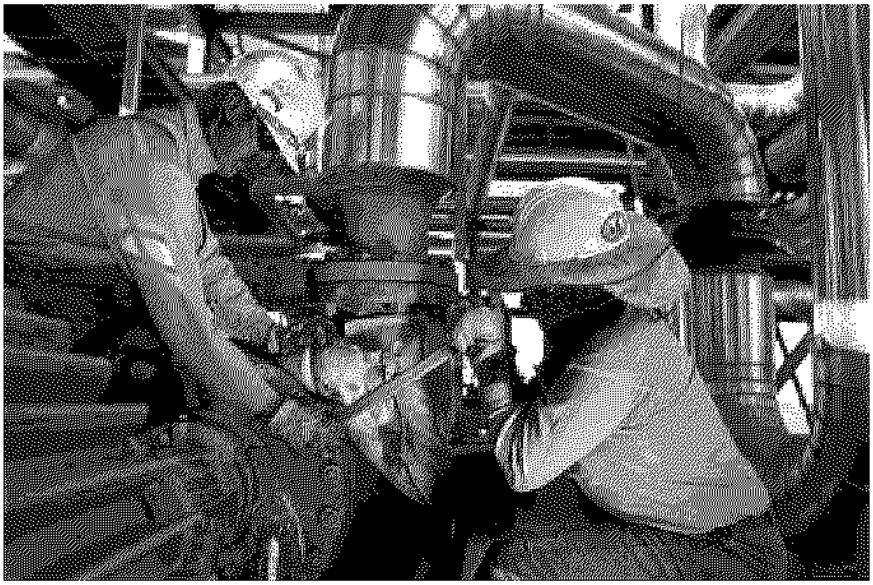
- Best Overall Environmental Performance – won by the JALBU project team for their drilling and completions program which resulted in a 30% smaller environmental footprint and reduced surface disturbance.
- Best Overall Health and Safety Performance – won by the former Central Business Unit Drilling & Completions team for achieving a 38% reduction in TRCFR and a 22% increase in proactive safety reporting.
- Best Innovative Environmental Performance – won by the Roma team for innovations leading to reduced gas venting by approximately 2,200 tonnes of carbon dioxide and 5,000 gigajoules of methane per year (see page 22).
- Best Innovative Health and Safety Performance – won by the South-West Queensland Safety Committee for innovations including the introduction of a healthy lifestyle program and a trailer-mounted driver education system.
- Best Contractor Environment, Health and Safety – won by Halliburton for the introduction of innovative environment, health and safety initiatives including hazard reduction and the development of new training programs.

The Board was impressed with the response to these awards from Santos' work teams and contractors and will continue to host the awards annually.

SAFETY RECORD OF SELECTED INDUSTRIES



Source: National Occupational Health and Safety Commission and Australian Upstream Industry 2000-01.



Strict permit procedures, hazard analysis and appropriate personal protection equipment are integral to maintenance activities.

ENVIRONMENT, HEALTH AND SAFETY CLIMATE SURVEY

A key element to building a strong environment, health and safety culture is to understand the perceptions and attitudes of workers towards this area so that a program that responds to strengths and challenges can be implemented. Santos commissioned the Flinders University National Institute of Labour Studies to conduct a company-wide survey during October 2003.

The survey was previously conducted in 2001 and provided a useful comparison to measure changes in environment, health and safety perceptions and attitudes over the past two years. Around 1,300 employees and contractors responded to the survey, representing a good overall response rate of 60%. The same survey questionnaire has been used in other successful studies of worker health and safety attitudes at BHP Billiton, Woodside Energy, ExxonMobil, Chevron and Apache.

The 2003 assessment identified the following strengths and opportunities.

Strengths:

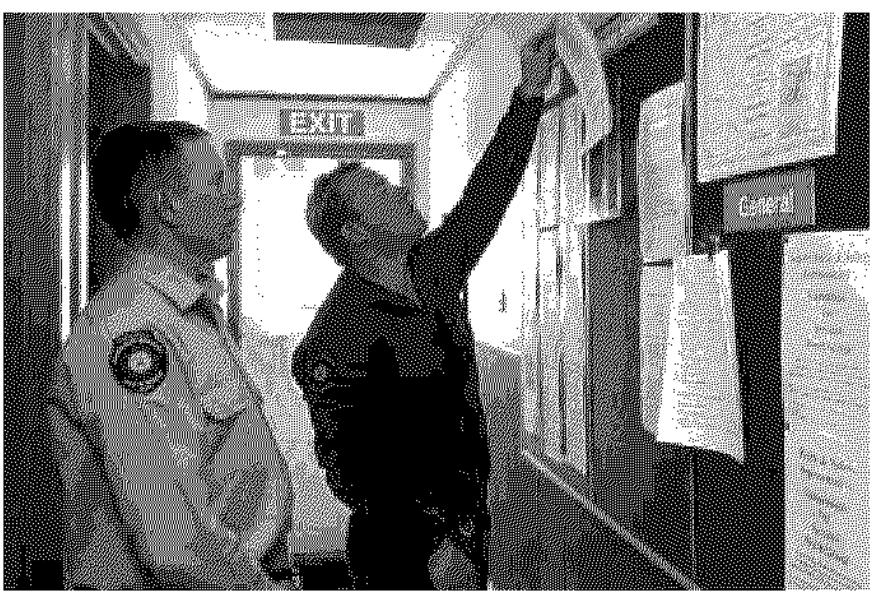
- skills and awareness of EHS of individuals and teams
- availability of tools and equipment required for safe work practices
- positive relationships with supervisors concerned with health and safety
- no blame culture – incidents can be reported to supervisors without concern
- effective communication on health and safety issues within the organisation.

Opportunities:

- increase focus on 'health' along with 'safety'
- reinforce the Santos beliefs to ensure safe behaviour at all times, particularly when there is work or time pressure
- ensure the no blame culture permeates to contractors
- more recognition for those upholding EHS standards
- focus on drug and alcohol issues in the workplace.

Initiatives have been implemented to address the key opportunities identified by the survey.

David Pritchard, Team Leader Emergency Services, and Damien Pontt, Emergency Officer, examining a safety information board at the Moomba operation. The boards, which are located in prominent positions at Santos' sites and offices, engage employees and raise awareness about specific health and safety issues.



Santos workers get hands dirty with clean-up

By Nadia Cavaliere

Santos employees got their hands dirty on Tuesday, picking up rubbish from Roma streets for Business Clean Up Day.

It's the second year they have been out in force with bags and gloves to give something back to the environment.

Santos field superintendent Sam Klass said the company got involved in the event because it was in line with Santos's environment philosophy.

"We always do our best to maintain a healthy environment," Mr Klass said.

"Every year we collected three to four truckloads of rubbish."

Last year they attacked the depot grounds for rubbish and this year they made their way down Minahall Road and Currey Street.

Mr Klass said the environment meant a lot to the company and hoped they had started a trend for other businesses to get involved next year.

"When you pick up the rubbish, you don't want to ever see litter again," he said.

"If every business picked up rubbish for a couple of hours, it would make such a difference."

Another Santos employee said he was concerned to see syringes and dirty nappies on the ground.

"We find a lot of beer bottles on the side of the road — you assume people have been drinking and driving," he said.

Clean Up Australia is on this Sunday and organiser Jason Gilmore has encouraged locals to help clean up Roma.

"Those who are interested can come down to the Big Rig and register before they set off to pick up rubbish and make sure you bring a hat, gloves, bags and covered in shoes," Mr Gilmore said.

"You can choose your own area or our marked area.

"We encourage people to get involved and better the environment."

All ready for Business Clean Up Day on Tuesday are Santos employees (front, from left) Cam Rae, Cathy Clem, Matthew Lennox and Lee Balcombe; (back) Fred Hewitt, Sam Klass, Ian Johnston and Steve Soo.

More than 300 Santos employees and contractors participated in the 2004 Clean Up Australia Day. *The Western Star* reported on the activities of the Roma team.

OUR PEOPLE – EMPLOYMENT AND RECRUITMENT

Santos' people, their skills and ideas are fundamental to the company's ability to prosper and grow.

Attracting the right people, maximising their contribution to the business and rewarding their performance are all vital to the company's success.

Santos is committed to providing a work environment where people enjoy what they do and are motivated to achieve, while supporting the diverse needs of the individual.

Santos employs approximately 1,600 people in a number of locations in Australia, South-East Asia and the United States. The workforce population largely comprises geoscientists, engineers, skilled tradespeople and other skilled personnel, and a wide variety of business professionals such as lawyers and accountants.

In recruiting people to join the company, Santos seeks to employ the best available candidate regardless of gender, race or disability or any other attribute that does not prevent a person from fulfilling the legitimate requirements of the role.

Joanne Bay, Graduate Engineer

Santos has specific policies in place that relate to employment including:

- Recruitment
- Remuneration and Benefits
- Health and Safety
- Induction
- Employee Responsibilities
- Resignation, Retirement, Termination, References
- Fair Treatment
- Employee Assistance
- Redundancy
- Working Hours and Leave Entitlements
- Diversity (Equity and Discrimination)
- Employee Performance
- Employee Development
- Counselling and Disciplinary Procedures.

A major review of these policies, covering every facet of employment, is currently underway. Santos will benchmark policies against those of similar companies and other major employers to ensure best practice in this area.

DIVERSITY

Santos is an equal opportunity employer and Santos' Diversity policy has been designed to support an equitable and discrimination-free workplace.

The specific issues covered in the Diversity policy include harassment, bullying, violence, practical jokes and rumours. The policy sets out in detail appropriate behaviours in relation to these issues and the procedures for addressing non-compliance.

PERFORMANCE MANAGEMENT

Santos aims to provide each employee with the appropriate opportunities to reach their highest level of performance.

Performance review is a process involving managerial, professional and administrative employees. It commences with a planning session where both the employee and their supervisor set goals and objectives relating to the overall business strategy.

These reviews are conducted twice yearly where employees and their supervisors jointly appraise the work undertaken over the course of the year.

Both achievements and behaviours are assessed in the review process and the results are used to identify development, reward and performance improvement opportunities. There are specific processes in place to address the outcomes of the performance review. Employees who have achieved an acceptable level of performance are eligible to participate in a bonus system and, depending on their achievements and company performance, receive a variable cash contribution in addition to their fixed salary.

Employees who have not met expectations must participate in a formal performance improvement program. This program sets out the areas for improvement and a plan is put in place to help the employee achieve an acceptable level of performance.

Santos offers a wide variety of training and development opportunities, including

INNAMINCKA: SERVICING THE OUTBACK

Santos has had a long history of involvement with local regional and urban communities. Perhaps the earliest associations with a local community can be traced back to Santos' relationship, beginning in the 1950s, with the township of Innamincka on Cooper Creek in the far north-east of South Australia.

Innamincka is approximately 1,000 kilometres from Santos' head office in Adelaide but, being the nearest township to the major processing plant, is 'only' 100 kilometres from the Moomba processing plant in the Strzelecki Desert. There are fewer than 20 people who live permanently in Innamincka, but around 40,000 visitors per year who, either by four wheel drive or light aircraft, pass through to visit such places as the internationally listed Ramsar wetlands of the Coongie Lakes and the graves of the famous explorers Burke and Wills.

The relationship between Santos and Innamincka is mutually beneficial where, over many years, the township has provided amenities to Santos visitors and Santos in turn has assisted with many of the township's needs.

Some years ago, Santos joined forces with well-known global explorer, businessman and philanthropist, Dick Smith, contributing funds and resources to enable the restoration of the ruins of the Historic Inland Mission Nursing Home.

This building now houses a visitor's centre and regional headquarters for Parks and Wildlife rangers from the South Australian Department of Environment and Heritage.

Royal Flying Doctor Service personnel based at Moomba are the closest paramedics to Innamincka and are available in an emergency by both the residents and by the region's remotely scattered pastoral communities. The Innamincka Station pastoral lease, for example, on which the township is located and through which the Cooper Creek flows, covers an area of 14,000 square kilometres. Santos and the pastoralists travel on the same tracks and share access to the same bodies of water in a mutually respectful process of resource stewardship and careful use.

a study assistance program that is used by employees to address their professional development needs.

WORK AND LIFE BALANCE

Santos recognises that it is important for employees to achieve the right balance between their work and personal interests and has addressed this through the introduction of a number of policies that provide for flexible work arrangements, part-time employment and special leave arrangements.

CULTURAL CHANGE

One of the key outcomes of the transformational change program undertaken in early 2004 (see page 7) was the need for the development of a culture that supports the newly designed business processes.

To this end, Santos commenced a structured cultural change program focussed on ensuring that behaviours are aligned with business outcomes.

Santos has undertaken an extensive employee survey in order to develop a shared view of the 'current culture'. Identifying the gaps between Santos' current and desired cultures will assist in the process of aligning every part of the business with the company's strategic goals.

The information obtained from this survey will be analysed and used to develop initiatives that address the desired cultural change outcomes.

EMPLOYEE INPUT

Santos values the ideas and innovations of employees and has a number of facilities in place which allow employees to provide input. These include informal toolbox meetings and the intranet-based Santos Suggestion Scheme. Suggestions made by employees through this scheme are reviewed by an evaluation panel chaired by the Chief Financial Officer and, where appropriate, implemented by the appropriate function in the company.

During Santos' transformational change program, widespread consultation was undertaken with employees and an email facility was established which allowed employees to anonymously make suggestions and ask questions to executive management. These comments, questions and answers were published on the Santos intranet.

PROFILING THE WORKFORCE

Gathering data that allows for a detailed understanding of the profile of the workforce is an important resource for the Human Resources team.

In this regard, Santos will continue to gather data on employee turnover and the practice of benchmarking salaries against external market data to ensure competitiveness and equity.

COMMUNITY RELATIONSHIPS

Santos has relationships with many communities throughout Australia. Some of these relationships have been developed over a long period of time; for example, in the Cooper Basin in north-east South Australia and south-west Queensland where Santos has been exploring for and producing gas for 50 years. Others are newer, such as Santos' relationship with the Otway community in Western Victoria. In countries such as Indonesia and the United States the company's relationships are emerging, as is its business.

Consulting with community stakeholders takes many forms, from the informal neighbourly relationships Santos has with pastoralists and farmers to defined programs of seeking input in relation to specific work programs, common issues or development plans.

Otway Basin

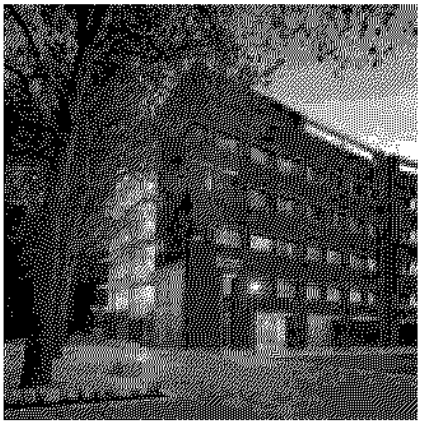
In Victoria's Western District, Santos' dedication to responsible environmental stewardship and community participation shows the benefits of integrating the principles of sustainability into Santos' day-to-day operations.

This area is largely sustained by high-intensity dairy farming and high-profile tourism. More than 3.5 million tourists visit the region each year to take in the unique environment of the Great Ocean Road and Otway Ranges, to find a vantage spot for whale watching or to take in rural attractions such as the Timboon Farmhouse Cheese company.

Over the past five years, Santos acquired more than 1,000 kilometres of seismic data, drilled 12 gas wells and constructed a gas processing plant in the area.

Santos identified six areas to minimise the impact of its activities – land use, fuel/flares, noise, water use and disposal, waste management and power consumption – all of which have been done in full consideration of other activities carried out in the area.

Santos is investing in the future of Australia's petroleum industry through the funding of the Australian School of Petroleum at the University of Adelaide.



With the objective of having zero net impact on land, Santos restored 86% of all impacted land (0.98 square kilometres) and conducted a number of initiatives to offset remaining land use. This included planting 200 trees at the Heytesbury gas processing plant and committing to the restoration of a native vegetation embankment, in partnership with the Corangamite Shire, to create a recreational space in the centre of Timboon.

By optimising the well mix, flaring was reduced by 50% lowering emissions to less than 1% of throughput.

Controlling noise was critical to being allowed to operate in such a highly populated area. Santos consistently achieved noise levels that were below the Environmental Protection Agency's guidelines of 32 decibels at night (the equivalent of a silent room) at the nearest residence. This translates to about 85 decibels at the plant boundary.

Rainwater tanks supplied 50% of all potable water, while all firewater was sourced from an untreated roadside bore. The team's objective was to source all potable water from rainwater and operations and to reduce the volume of water needing to be trucked offsite for treatment. Grey water was sent to a septic tank, while surface water was treated then channelled to an offsite drain.

Activities in the area required contact with more than 700 landowners and Santos worked in close consultation with the Otway Basin community to achieve outcomes that were of benefit to all parties.

Santos managed an ongoing program of support for a number of local organisations in the Timboon area, providing funding for new premises for the Port Campbell Surf Life Saving Club, purchasing vital equipment for the Timboon and District Healthcare Service including a defibrillator and an infant incubator, the Timboon R-12 School and the Nullaware School.

While Santos has recently sold its onshore Otway Basin interests, the company retains significant offshore interests and its relationship with this community continues.

Santos conducted its activities in the onshore Otway Basin, Western Victoria, with rigorous environmental stewardship, local consultation and community partnerships.

Lake Eyre Basin

Santos has been actively involved in the development of a community-based management regime for the Lake Eyre Basin.

This basin covers one-sixth of the Australian continent and includes areas in Queensland, South Australia, New South Wales and the Northern Territory.

Santos has been involved in the Lake Eyre Basin Coordinating Group and has had members in the Georgina-Diamantina Catchment Group, the Cooper Creek Catchment Group as well as the overarching Lake Eyre Basin Catchment Group.

Santos is also represented in the Ministerial Forum on Lake Eyre Basin, through the Community Advisory Committee to the Ministerial Forum.

Over the past decade of involvement, Santos has made a significant contribution, both financial and in kind, to maintain this community-based catchment management initiative.

In this remote location the services of the Royal Flying Doctor Service (RFDS) are vital to the local community. Recognising this, Santos employees have embraced this organisation and actively pursue and participate in a number of fundraising initiatives in support of the RFDS.

Among these activities is the annual Cooper Cup Cricket Challenge, a unique event hosted by Santos employees played on the local MCG ('Moomba Cricket Ground') bringing together the people who live and work in this arid part of central Australia. This event raises around $50,000 each year for the RFDS.

SPONSORSHIP PROGRAM

Santos' financial commitment to its communities is largely achieved through a structured program of providing support to organisations and events that are valued by the community.

Santos' sponsorship program includes contributions to the arts, the environment and education. Santos also contributes to 'not for profit' organisations involved in community capacity building and has recently established the Santos Community Fund through which these types of contributions are made.

The company currently spends between 0.5 and 1% of its pre-tax revenue on its sponsorship program and in 2003 this ammounted to $3.15 million.

Santos supports more than 100 groups in most years with contributions in the following categories:

- education – 81%
- culture – 12%
- community – 7% (environment, health, sport and recreation, welfare).

Education

In 1999, Santos announced a major sponsorship in partnership with the University of Adelaide, providing $25 million over a 10-year period, to establish a world-class school of petroleum. As well as providing the university with the necessary infrastructure for this school, the contribution assists with operational costs and scholarships, and enabled the appointment of a Chair, the Santos Chair of Petroleum Engineering.

This sponsorship is intended to lay the foundation for the financial viability of the school for at least 25 years. The federal government also contributed $1 million over five years for an additional professional appointment, the Reg Sprigg Chair of Petroleum Engineering, in honour of the late Dr Sprigg who made a significant pioneering contribution to the oil and gas industry in Australia.

CIRCUS OZ: SUPPORTING TEAMWORK AND INNOVATION

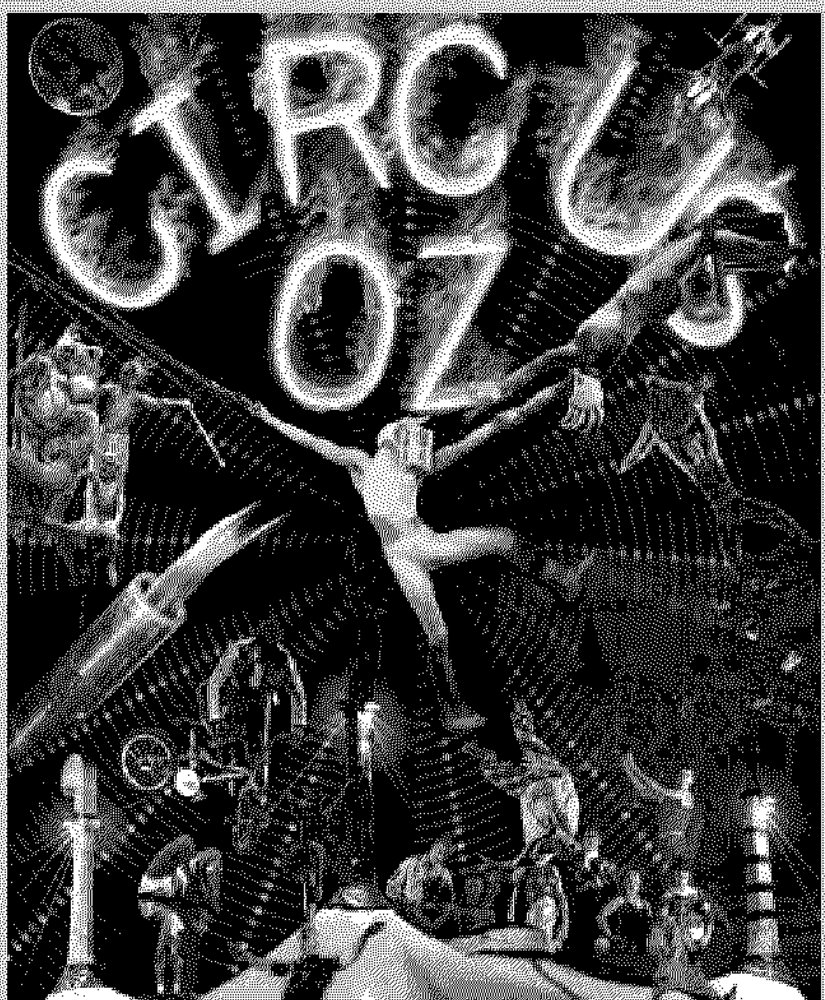
Santos celebrated its 50th anniversary in 2004 and to commemorate this achievement sponsored the South Australian and Northern Territory tour of the acclaimed performing arts company, Circus Oz.

Santos has had a long and enduring association with Circus Oz, first supporting them during the Adelaide Festival in 1988.

Sponsoring this tour is consistent with Santos' commitment to supporting events and organisations that are valued by the communities and recognises the company's origins as the South Australia Northern Territory Oil Search.

Circus Oz is also a visual demonstration of what can be achieved by teamwork and innovation; qualities that are valued by Santos.

Santos employees and their families in Adelaide, Port Bonython and Alice Springs were treated to a special performances of Circus Oz as part of the celebratory activities.



Santos employees rehabilitating a section of the River Torrens in Adelaide, as part of Santos' three-year commitment to the Our Patch project.

In late 2003, the National Centre for Petroleum Geology and Geophysics merged with the School of Petroleum to form the Australian School of Petroleum. By combining the geoscience and engineering disciplines into one learning institution, students are offered an educational experience that closely mirrors the actual needs of the oil and gas industry.

This is a strategic alliance for Santos and the university. Through this contribution, the profile of a major Australian educational institution is enhanced and educational and employment opportunities are provided to young Australians in a global industry.

The oil and gas industry also benefits from this contribution which increases the number of graduates in the petroleum engineering and geoscience disciplines, of which there is a major skills shortage worldwide.

Cultural life

In South Australia, Queensland and the Northern Territory, Santos has longstanding relationships with a number of institutions that enrich the cultural life of the community, recognising that healthy communities have rich cultural traditions. These include the Adelaide Symphony Orchestra, the Queensland Art Gallery, the Art Gallery of South Australia and the Darwin Festival.

For example, Santos recently sponsored an exhibition of the work of the late Clifford Possum Tjapaltjarri which has been shown at the Art Gallery of South Australia, the National Gallery of Victoria, the New South Wales Art Gallery and the Queensland Art Gallery.

Santos seeks close working relationships with many communities across Australia and this sponsorship reflects this commitment. The sponsorship of this particular exhibition reflects Santos' involvement in the gas fields of Mereenie and Palm Valley in the Amadeus Basin in central Australia. Clifford Possum enriched the lives of many people through the art he created and by sharing his culture. This is the country where he lived and worked.

Santos Community Fund

The Santos Community fund was established in 2003 to bring together all of the contributions Santos makes to community-based organisations and to recognise and support the efforts of Santos employees who choose to contribute their own time and resources to improving their own communities.

One of the organisations the Santos Community Fund is involved with in 2004 is the 'Our Patch' program. This is a joint initiative of the Patawalonga and Torrens Catchment Management Boards which encourages the local community to assist with the rehabilitation and management of Adelaide's water catchment.

Santos has adopted a 'patch' of the River Torrens and employees are assisting with the remediation and revegetation of this area in a volunteering program.

Santos has also made contributions to the following organisations through the Community Fund:

- Centacare
- Canteen
- Muscular Dystrophy Association
- Royal Flying Doctor Service
- South Australian Organ Donation Agency
- Leukaemia Foundation
- Australian War Memorial Eternal Gas Flame
- Autism Association of South Australia
- Nature Foundation SA
- Hutt Street Day Centre
- Thargominda State School
- Scouts Australia
- South Australian Government energy efficiency program for low income householders
- Trailblazer Challenge.

Santos always looks to work cooperatively with Indigenous people and their communities.

Santos signed an Indigenous Land Use Agreement (ILUA) in January 2001 with the Wangkumarra native title claimant group for the area of their registered native title claim in south-west Queensland.

The Wangkumarra claim covers a considerable part of permit ATP 259P.

This ILUA was signed after a number of years of challenging relations between Santos and Wangkumarra.

The agreement covers consents for licensed pipeline construction areas. In return, Santos has created and funded an education and community trust fund, which is used for the benefit of the Wangkumarra community. Decisions about the use of the trust fund are made by the Wangkumarra group.

The ILUA also contains extensive arrangements for the protection of Aboriginal cultural heritage within the petroleum exploration lease. This involves the heritage survey of all earth breaking activities. Santos employs six full-time Wangkumarra cultural heritage officers, based at the Ballera gas plant, to perform this survey. Santos also employs a number of casual Wangkumarra cultural heritage monitors when the workload is high.

The cultural heritage officers and monitors have received four-wheel-drive, GPS and computer training.

Two major native title agreements were signed in 2003 relating to Santos' operations in the Amadeus Basin in the Northern Territory and the Cooper Basin in South Australia.

In the Northern Territory, the Mereenie joint venture parties renewed the Mereenie Land Rights Agreement with the Traditional Owners of the Mereenie gas field and adjacent areas, 250 kilometres west of Alice Springs.

ABORIGINAL YOUTH RUGBY THRIVES ON TEAMWORK AND TACKLES

In a three-way partnership, Santos, the Aboriginal and Torres Strait Islander Commission and the Lloyd McDermott Foundation have collaborated to provide sporting opportunities and life skills development for rural Aboriginal youth.

The Lloyd McDermott Rugby Development Team, named after one of the first Indigenous players in the Australian Wallabies rugby union team, was established to provide Aboriginal and Torres Strait Islander youth with a future through the game of rugby union.

The organisation provides Indigenous rugby union teams to the National Under-16 Championships and the Australian Schools Championships.

The program uses its corporate and rugby networks to provide meaningful employment, training and accommodation and other development opportunities to young Indigenous people, making it a real youth development enterprise, not just a sporting association.

In 2003 the team played four matches in Sydney, Darwin and Adelaide.

The renewed Mereenie agreement was signed by the Central Land Council, representatives of the Traditional Owners of Mereenie and adjacent areas, Santos and its joint venture partner, Magellan Petroleum, at a ceremony at the Kutpitjara School to the north of Mereenie.

The agreement, under the Northern Territory Aboriginal Land Rights Act, allows Santos to proceed with operations at Mereenie while giving the Traditional Owners a number of benefits. In addition to a royalty payment, the community will receive other benefits including opportunities for employment.

Santos also signed a Native Title Act agreement with the Yandruwandha/ Yawarrawarrka People as a key step in obtaining a new exploration permit, south of Moomba in South Australia.

This agreement means that the Yandruwandha/Yawarrawarrka People will have the opportunity to benefit from future exploration as well as any future production from the permit area.

The Yandruwandha/Yawarrawarrka People will also be involved in the cultural heritage survey in areas where exploration work will be undertaken on the new acreage.

This work commitment involves drilling up to 14 exploratory wells and undertaking 320 kilometres of seismic on the new acreage area over the next five years.

ECONOMIC CONTRIBUTION

In this Review, Santos' economic performance is described in terms of economic impact, rather than the more traditional financial reporting found in the Annual Report. This recognises that Santos' contribution goes beyond its primary obligation to shareholders.

FINANCIAL PERFORMANCE

Santos is committed to generating sustainable financial performance, providing acceptable returns and building long-term value for shareholders. The strategy to achieve this is based on maximising value from Santos' existing base business while building a portfolio of options for growth.

Three years into the company's growth strategy set out in early 2001, Santos has moved from having only having two projects in the development pipeline to six new company-building projects. These projects, located in South East Asia, the Australia Timor-Leste Joint Petroleum Development Area and offshore Western Australia and Victoria, will make a strong contribution to Santos' annual production profile by 2006.

The key aspects of Santos' financial performance in 2003 were:

- $1,465.0 million – sales revenue
- $327.0 million – net profit after tax
- $897.3 million – cash flow from operations
- 54.2 million boe – production
- 222.8 petajoules – sales gas and ethane production
- $3,087.9 million – total shareholder funds
- 8.8% return on average capital employed
- 22.5% net debt/(net debt + equity)
- 8.5 times net interest cover
- 636.3 million boe Proven plus Probable reserves (2P)
- $5,218.3 million total assets.

MEASURING VALUE AND SUCCESS

Santos set in place a strategy in early 2001 to transform itself into a truly international exploration and production business, aiming to be Australia's leading energy company measured against the best oil and gas companies in the world and performing alongside the top 25% of those companies.

New targets, which more closely reflect the value creation cycle of this industry, have been put in place that relate to Santos' performance until 2006. Some of the target levels have been altered based on Santos' portfolio position at the end of 2003 and are consistent with trends in the sector generally.

PERFORMANCE AGAINST TARGETS

	LONG-TERM TARGET	2003 PERFORMANCE	COMMENTS
Production growth	6-8%	5%	Not achieved
Proven (2P) reserve growth	150%	148%	On target
Proven (2P) finding cost	US$1.25 boe	US$1.77 boe	Improving trend
Proven (2P) finding and development cost	US$5.50 boe	US$5.62 boe	Close to target
Total shareholder returns	>14%	20%	Achieved
Return on capital employed	>10%	8.8%	Below target due to projects under development
Cash flow growth	>10%	9.3%	Close to target
Earnings per share	>10%	0.4%	Not achieved

STRATEGIC TARGETS FOR 2004–2006

Production	6-8% growth per annum
Netback (profit margin and production)	>A$22 per barrel
Reserve replacement cost	<US$5.50 per boe
Reserve replacement ratio	>140% of annual production
EBITDA growth per share	Equal to or >10% per annum
ROCE growth per share	Equal to or >10% per annum

Santos contracts National Jet Systems to regularly transport employees from Adelaide and Brisbane to Cooper Basin field locations.

SANTOS' ECONOMIC CONTRIBUTION TO SOUTH AUSTRALIAN GROSS PRODUCT

A report by the South Australian Centre for Economic Studies in October 2002 estimated the positive impact of Santos' operations on the South Australian gross state product was $1.6 billion per annum. The report looked at Santos':

- employment
- purchase of goods and services
- state government taxes and royalties
- donations and sponsorship.

The report found that Santos outlaid nearly $122 million in wages, salaries and superannuation payments in 2001-02 to its South Australian workforce; spent $348 million on purchases, largely with South Australian suppliers and contractors; and contributed $96.2 million to state and federal governments in taxes and royalties.

Santos also gives generously to community projects in its major areas of operations. In South Australia, this support is in the order of $3 million per annum and is directed to organisations such as the University of Adelaide's Australian School of Petroleum, the Adelaide Symphony Orchestra and the Art Gallery of South Australia.

As well as assessing the direct dollar contribution from Santos, the report estimated a multiplier effect of approximately three, to ascertain the full impact of Santos' business activities on the South Australian economy.

The report identified that Santos 'created' 7,059 full-time jobs and generated $1.6 billion in consumption impacts when households spent the labour income that they earned. Based on this, Santos' business operations represent 1.7% of South Australia's Gross State Product, which was nearly $43.2 billion in 2001-02.

This means that Santos contributes more to South Australia's Gross State Product than the whole of the fishing industry, the premium wine industry and the textiles, clothing and footwear industries.

CONTRIBUTION TO SOCIETY

Santos supplies gas to all mainland Australian states and territories, supplying approximately 50% of eastern Australia's gas needs.

Santos' Moomba oil and gas processing facility in central Australia is Australia's largest onshore resource project. More than $1.3 million per day is invested in the project and more than 500 Santos employees and contractors are employed there. The Moomba plant was built in the late 1960s and has been significantly expanded and upgraded over the years. Its replacement cost is estimated to be in excess of $8 billion.

In 2003 Santos also invested over $1.5 billion in exploration and production activities in Queensland, Victoria, Western Australia, Northern Territory, the Timor Sea, Indonesia and the United States of America.

Santos' economic contribution in 2003 is outlined in the table below.

SANTOS' 2003 ECONOMIC CONTRIBUTION	
Wages and salaries	$167.2 million
Multiplier (SA study)	$1.6 billion
Money spent on materials, goods and services	$608.4 million
Export receipts for Australia	$382.5 million
Federal government corporate and employee tax	$209.5 million
State governments royalties and other taxes	$92.5 million

GLOSSARY

abandonment
To cease producing oil and gas from a well when it becomes unprofitable. Several steps are involved in abandoning a well: part of the wellhead is removed and salvaged, one or more cement plugs are placed in the borehole to prevent migration of fluids between the different formations penetrated by the borehole, and the well is abandoned. The well lease area is then reinstated to facilitate natural revegetation. In many states it is necessary to secure permission from official agencies before a well may be abandoned.

appraisal
Wells drilled to appraise the limits of a previously discovered field.

barrel/bbl
The standard unit of measurement for all production and sales. One barrel = 159 litres or 35 imperial gallons.

biodiversity
The natural variability of plants and animals, and the environments in which they live.

bioremediation
Conversion of hydrocarbons by naturally-occurring soil organisms to inert organic material.

boe
Barrels of oil equivalent. The factor used by Santos to convert volumes of different hydrocarbon production to barrels of oil equivalent.

butane
The saturated hydrocarbon (alkane) with four carbon atoms in its molecule (C_4H_{10}). The fourth member of the paraffin series. A gas at atmospheric pressure and normal temperature but easily liquefied by pressure for transportation and subsequent use.

commercialisation
Agreement on the project development of a resource that satisfies the economic and strategic investment criteria of Santos and results in the production of hydrocarbons.

the company
Santos Ltd and its subsidiaries.

corporate governance
'Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.' - OECD April 1999.

cultural heritage
Definitions of cultural heritage are highly varied. Cultural heritage can be considered to include property ('things' such as landscapes, places, structures, artefacts and archives) or a social, intellectual or spiritual inheritance.

ethane
Saturated hydrocarbon (alkane) with two carbon atoms in its molecule (C_2H_6). The second member of the paraffin series. A gas under normal conditions.

exploration
Drilling, seismic or technical studies undertaken to identify and evaluate regions or prospects with the potential to contain hydrocarbons.

geoscience
Scientific disciplines related to the study of the earth.

GJ
Gigajoules. Joules are the metric measurement unit for energy. A gigajoule is equal to one joule x 10^9.

greenhouse effect
The trapping of heat by certain gases in the earth's atmosphere in the same way that the glass in a greenhouse prevents heat from escaping and warms its internal environment.

greenhouse gas
A gas that contributes to the greenhouse effect by absorbing infrared radiation. Greenhouse gases include:

- CFC, chlorofluorocarbon – a fluorocarbon with chlorine, formerly used as a refrigerant and as a propellant in aerosol cans. The chlorine in CFCs causes depletion of atmospheric ozone.
- Carbon dioxide, carbonic acid gas, CO_2 – a heavy, odourless, colourless gas formed during respiration and by the decomposition of organic substances. Absorbed from the air by plants in photosynthesis.
- Gas – a fluid in the gaseous state having neither independent shape nor volume and being able to expand indefinitely.
- HFC, hydrofluorcarbon – a fluorocarbon emitted as a by-product of industrial manufacturing.
- PFC, perfluorocarbon, – a powerful greenhouse gas emitted during the production of aluminium.
- Sulphur hexafluoride – a colourless gas that is soluble in alcohol and ether. A powerful greenhouse gas widely used in the electrical utility industry.

hazard
A source of potential harm.

hydrocarbon
Compounds containing only the elements hydrocarbon and carbon, which may exist as solids, liquids or gases.

liquids
A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.

LNG
Liquefied natural gas. Natural gas that has been liquefied by refrigeration or pressure in order to store or transport it. Generally, LNG comprises mainly methane.

LPG
Liquefied petroleum gas, sometimes known as condensate. A mixture of light hydrocarbons derived from oil-bearing strata which is gaseous at normal temperatures but which has been liquefied by refrigeration or pressure to store or transport it. Generally, LPG comprises mainly propane and butane.

lost time injury frequency rate (LTIFR)
A statistical measure of health and safety performance. A lost time injury is a work-related injury or illness that results in a permanent disability or time lost of one complete shift or day or more any time after the injury or illness. LTIFR is calculated as the number of lost time injuries per million hours worked.

market capitalisation
A measurement of a company's stock market value at a given date. Market capitalisation is calculated as the number of shares on issue multiplied by the closing share price on that given date.

medical treatment injury frequency rate (MTIFR)
A statistical measure of health and safety performance. A medical treatment injury is a work-related injury or illness, other than a lost time injury, where the injury is serious enough to require more than minor first aid treatment. Santos classifies injuries that result in modified duties as medical treatment injuries.

methane
Hydrocarbon with the lightest molecule (CH_4). The first member of the paraffin (alkane) series. A gas under normal conditions.

mmboe
Million barrels of oil equivalent.

NASDAQ
The largest US electronic stock market, comprising approximately 3,300 listed companies in the areas of technology, retail, communications, financial services, transportation, media and biotechnology.

near miss
An unplanned event that did not result in harm but which, when formally assessed, had the potential to have done so.

NZX
New Zealand Exchange Limited.

oil
A mixture of liquid hydrocarbons of different molecular weights.

PJ
Petajoules. Joules are the metric measurement unit for energy. A petajoule is equal to 1 joule x 10^{15}.

proactive reporting ratio
A statistical measure of health and safety performance. Proactive reporting ratio is calculated as the number of near miss and hazard reports divided by the number of injuries (first aids, medical treatment injuries and lost time injuries).

Proven reserves (1P)
Those oil and/or gas reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

Proven plus Probable reserves (2P)
Those oil and/or gas reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable reserves.

Proven, Probable plus Possible reserves (3P)
Those oil and/or gas reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

produced formation water
Water which is naturally co-mingled with the gas and liquid petroleum products in rocks below the surface and is brought to the surface together with oil and gas produced from the wells.

propane
The saturate hydrocarbon (alkane) with three carbon atoms in its molecule (C_3H_8). The third member of the paraffin series. A gas under normal conditions.

sales gas
Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.

Santos
Santos Ltd and its subsidiaries.

seismic
Data used to gain an understanding of rock formations beneath the earth's surface using reflected sound waves.

sustainable development
Although it means different things to different people, the most frequently quoted definition is from the report, *Our Common Future*, also known as the Brundtland Report: 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'

TJ
Terajoules. Joules are the metric measurement unit for energy. A terajoule is equal to 1 joule x 10^{12}.

toolbox meeting
An informal, short workplace meeting to promote general awareness and sharing of ideas for environment, health and safety and work issues.

top quartile
Top 25%.

total recordable case frequency rate (TRCFR)
A statistical measure of health and safety performance. Total recordable case frequency rate is calculated as the total number of recordable cases (medical treatment injuries and lost time injuries) per million hours worked.

total recordable case severity rate (TRCSR)
A statistical measure of health and safety performance. For each recordable case, the severity of the injury is quantified according to the guidelines on page 29 of this Review. The type of injury, impact on the individual and number of days lost from work are considered to determine the appropriate injury severity score. Total recordable case severity rate is calculated as the sum of the injury severities per million hours worked.

Conversion

crude oil 1 barrel = 1 boe
sales gas 1 petajoule = 171.937 boe x 10^3
condensate/naphtha 1 barrel = 0.935 boe
LPG 1 tonne = 8.458 boe
For a comprehensive online conversion calculator tool, visit the Santos website, www.santos.com.

NEXT STEPS

This Review represents Santos' first steps on the path of sustainability reporting.

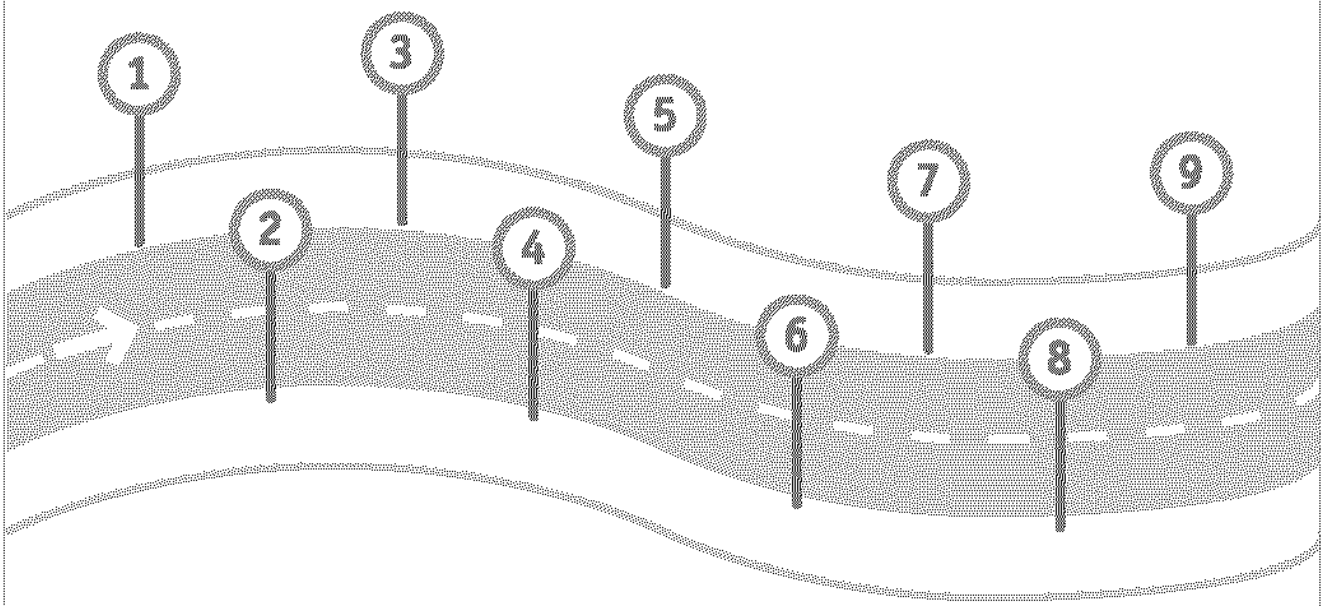
It provides an historical review and gap analysis of Santos' environmental, social and economic performance and sets a framework for future sustainability reporting.

With this framework established, Santos will continue to work towards improving its sustainability performance and seek verification of these results in subsequent reports.

You are welcome to provide feedback on this Review via the feedback form on page 43 or by contacting us at www.santos.com. Your feedback will help Santos determine the direction and format of future reporting.

Santos already has many procedures and processes in place that are indicative of a sustainable development approach. The company will strive to capitalise on these and develop, implement and complete quantifiable projects to measure sustainability performance.

THE PATH TO SUSTAINABILITY



1 **Introduce concept of sustainability.**

2 **Undertake gap analysis.**

3 **Establish baseline.**

4 **Set objectives and targets.**

5 **Publish Sustainability Review.**

6 **Prioritise and implement sustainability projects.**

7 **Collect data on sustainability projects.**

8 **Verify data by independent party.**

9 **Report publicly.**

FEEDBACK FORM

PLEASE SEND US YOUR COMMENTS ON SANTOS' SUSTAINABILITY REVIEW 2004.

OVERALL, I FOUND SANTOS' SUSTAINABILITY REVIEW TO BE:

Easy to understand	☐
Average	☐
Difficult to understand	☐

Comments:

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THE LENGTH OF SANTOS' SUSTAINABILITY REVIEW WAS:

Too long	☐
About right	☐
Too short	☐

Comments:

.....

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.....

I FOUND THE INFORMATION IN THE FOLLOWING SECTIONS TO BE:

	Very informative		Informative		Not informative	
Introducing Santos	☐		☐		☐	
Our commitment	☐		☐		☐	
Message from the Managing Director	☐		☐		☐	
Sustainability: what does it mean for Santos?	☐		☐		☐	
Governance structures and systems	☐		☐		☐	
Environment and natural resources	☐		☐		☐	
Social responsibility	☐		☐		☐	
Economic contribution	☐		☐		☐	
Glossary	☐		☐		☐	

Comments:

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COMPARED TO OTHER TRIPLE BOTTOM LINE REPORTS I'VE READ, SANTOS' SUSTAINABILITY REVIEW WAS:

Superior	☐
About the same	☐
Inferior	☐

Comments:

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DO YOU CONSIDER SANTOS TO BE A RESPONSIBLE CORPORATE CITIZEN?

Yes	☐
No	☐

Comments:

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.....

PLEASE SEND TO SANTOS USING THE FOLLOWING METHODS:

Mail to: Susie Smith, Senior Sustainability Adviser
Santos Ltd
GPO Box 2455
Adelaide, South Australia 5001

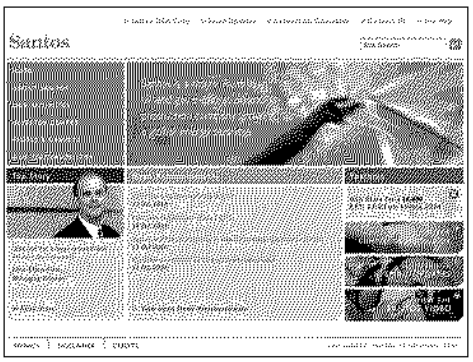
Fax to: 08 8218 5518

Alternatively, please contact us through the Santos website, www.santos.com.

Affix
stamp
here

Susie Smith
Senior Sustainability Adviser
Santos Ltd
GPO Box 2455
Adelaide, South Australia 5001

FURTHER INFORMATION ABOUT SANTOS



SANTOS WEBSITE

The Santos website, located at www.santos.com, provides a wide range of information about the company's activities, strategy, history, financial performance and management of areas associated with sustainability.

The website features a comprehensive Investor Centre, which includes:

- News Announcements
- Weekly Drilling Summaries
- Annual Reports
- Full Year and Interim Reports and Presentations
- Quarterly Activities Reports.

The Investor Centre includes archives of these materials dating back to 1997.

Other information available on the Santos website includes:

- open briefings with Corporate File – an ASX-endorsed online briefing service
- webcasts of Santos investor briefings
- an email alert facility where interested parties can register to be notified, free of charge, of Santos' News Announcements and Weekly Drilling Summaries via email
- a host of interactive tools, including interactive share price charts, Santos' 50th anniversary interactive timeline and an interactive production history that generates customised Excel spreadsheets of Santos' quarterly production.

The Santos website also provides a handy online Conversion Calculator, which instantly computes equivalent values of the most common units of measurement in the oil and gas industry.

PUBLICATIONS

The Annual Report and Sustainability Review are the major sources of printed information about Santos. Printed copies are available from the Share Register in the Adelaide office.

Santos also produces a publication called 'Santos: A Profile' which contains useful information about Santos and a suite of maps detailing the company's areas of operation. Copies of this publication are available from Corporate Affairs in the Adelaide office.

Designed and produced by Perspexa

"Sustainability is having a profitable business, while working sensibly with the natural environment and maintaining a proud and rich pastoral culture. In such an arid land, decisions must be based on the knowledge learnt over a period of time through hard won, on-ground experience."

Maree Morton, Innamincka Station, S.Kidman & Co Ltd.

"The AMWU fights for the protection of workers' entitlements, reasonable wages, dignity at work and a fair go for working class people. Sustainable companies balance making profits with looking after employees, positively contributing to society and taking responsibility for the environment now and for future generations."

John Gresty, Assistant State Secretary, South Australia, Australian Manufacturing Workers Union.

"Fundamental to Circus Oz is its community. It is the interaction between groups in the community that give Circus Oz its sustained energy and creativity. Circus Oz dedicates each of its performances to the principles of tolerance, diversity and human kindness."

Matthew Hughes, Programming Manager, Circus Oz. Sponsored by Santos since 1988.

"Sustainability requires a commitment to an integrated approach to development for the needs of current and future generations. Government must not only encourage investment, but must also ensure that appropriate and effective community, health and safety and environmental standards are met."

Geoff Collins, Minerals and Petroleum Division, Department of Primary Industries and Resources Victoria.

CORPORATE DIRECTORY

REGISTERED AND HEAD OFFICE

Level 29, Santos House
91 King William Street
Adelaide, South Australia 5000
GPO Box 2455
Adelaide, South Australia 5001
Telephone 08 8218 5111
Facsimile 08 8218 5274

SHARE REGISTER

Level 29, Santos House
91 King William Street
Adelaide, South Australia 5000
GPO Box 2455
Adelaide, South Australia 5001
Telephone 08 8218 5111
Facsimile 08 8218 5950

OFFICES

Brisbane

Level 14, Santos House
60 Edward Street
Brisbane, Queensland 4000
Telephone 07 3228 6666
Facsimile 07 3228 6920

Perth

Level 28, Forrest Centre
221 St Georges Terrace
Perth, Western Australia 6000
Telephone 08 9460 8900
Facsimile 08 9460 8971

Port Bonython

PO Box 344
Whyalla, South Australia 5600
Telephone 08 8640 3100
Facsimile 08 8640 3200

United States of America

Santos USA Corp.
10111 Richmond Avenue, Suite 500
Houston, Texas 77042 USA
Telephone 1-713 986 1700
Facsimile 1-713 986 4200

Papua New Guinea

Barracuda Limited
Level 8, Pacific Place
Cnr Champion Parade
and Musgrave Street
Port Moresby, PNG
Telephone 675 321 2633
Facsimile 675 321 2847

Representative office of Santos Asia Pacific Pty Ltd in Jakarta

Level 9, Ratu Plaza Office Tower
Jalan Jendral Sudirman Kav 9
Jakarta 10270 Indonesia
PO Box 6621, JKS GN
Jakarta 12060 Indonesia
Telephone 62-21 270 0410
Facsimile 62-21 720 4503

USEFUL E-MAIL CONTACTS

Share register enquiries:
share.register@santos.com

Investor enquiries:
investor.relations@santos.com

Employment enquiries:
recruitment@santos.com

WEBSITE

www.santos.com

Santos