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Santos Ltd
ACN 007 550 923
Santos House Level 29
91 King William Street
Adelaide South Australia 5000
GPO Box 2455
Adelaide South Australia 5001
Telephone:08 8218 5111
International: +61 8 8218 5111
Group Planning & Accounting
Facsimile: 08 8218 5993

Santos

2 September 2002

The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir

Exposure Draft of Proposed Amendments to IAS 32 "Financial Instruments: Disclosure and Presentation"

Thank you for the opportunity to comment on the proposals contained in the Exposure Draft of Proposed Amendments to IAS 32 "Financial Instruments: Disclosure and Presentation".

Our comments are not directed at the specific topics identified in the Invitation to Comment issued by your Board, rather they relate to the amended paragraphs 22C, 22D and other related clauses regarding contractual obligations that can be settled by delivery of an entity's own equity instruments. Broadly these paragraphs require obligations to be classified as financial liabilities if the holder is not exposed to fluctuations in the fair value of the issuer's shares.

The application of these principles to corporations worldwide would result in the reclassification from equity to debt of many types of convertible preference shares, in particular those that are not mandatorily redeemable and are not redeemable at the option of the holder.

We do not support these principles for the following reasons;

1. **View of the issuer rather than holder**

   Paragraph 22D requires obligations to be classified as a financial liability where the number of shares needed to settle the obligation to the holder varies so that the fair value of the shares equals the obligation.

   The use of this "ownership relationship" as the primary indicator as to the classification of an instrument provides a less meaningful distinction between a liability and equity to one that considers the rights and obligations of the issuer and

holder relating to settlement of the instrument. In our view, it should be the contractual substance of the financial instrument from the point of view of the issuer, and not the nature of the risks and rewards enjoyed by the holder that determines the classification. The way in which the number of shares is determined should not be relevant to the classification of the instrument.
We believe convertible shares are equity, unless the shares are redeemable outside of the control of the issuer.

2. **Definition of liability**

When settling obligations by issuing equity instruments, there is an increase in equity in the financial report of the issuer and no actual financial loss is incurred. Accordingly, the nature of such settlements is not consistent with the generally accepted notion of a liability which requires there to be a future sacrifice of economic benefits (ie expending of an asset). In addition, the generally accepted understanding of a liability is an instrument that has priority claims over equity holders in the event of liquidation or bankruptcy. In most instances convertible preference shareholders rank behind creditors in the winding up of an entity.

3. **Developments in the United States**

The Financial Accounting Standards Board in the United States has been proposing amendments to the accounting for financial instruments for a number of years. The exposure draft 'Accounting for Financial Instruments with Characteristics of Liabilities, Equity or Both" contains similar principles to IAS 32 (in relation to convertible preference shares) and has received significant negative response from sectors of the accounting and financial community.
The extent of dissatisfaction from a large country with a mature financial market such as the United States is evidence that the general principles of IAS 32, including those relating to contractual obligations that can be settled by delivery of an entity's own equity instruments, are not widely accepted.

4. **Already understood by rating agencies**

Convertible preference shares, or variations thereof, are a common form of equity financing throughout the developed world. They are already well understood by credit rating agencies and financiers who consider each instrument on their own merit without regard to the accounting treatment. As a result, amending the accounting treatment does not assist these users of financial reports to obtain a better understanding of the financial capacity or strength of an organisation.

5. **Misleading to other users**

There are many other users of financial reports who do not have the level of understanding of finance or treasury experts. The reclassification for accounting purposes of certain convertible preference shares from equity to debt is likely to result in these users (including analysts) incorrectly perceiving that the financial position and capabilities of a company have deteriorated when in fact they remain unchanged. As a result the reputation of the corporation in the marketplace will be adversely affected.

If you have any questions concerning our comments, please do not hesitate to contact me on 61 882185231.

Yours sincerely

Peter Wasow
Executive General Manager - Finance and Accounting

Enclosed: Company Profile _Santos Ltd

Copy to:
The Chairman
Australian Accounting Standards Board
P0 Box 204
Collins St West Vic 8007
Australia

Santos Ltd - Company Profile

Santos is a major Australian energy company with assets of over $5 billion, annual production of 55.7 million barrels of oil equivalent and over 1600 employees. The Company's business is oil and gas exploration and production with interests in every major Australian petroleum province. Santos is the largest producer of gas for the Australian market supplying gas to all mainland Australian States and 'Territories. The Company also sells oil and liquids to a number of domestic and international customers.

The core of Santos' business is a majority working interest in the Cooper/Eromanga Basins oil and gas fields located in central Australia. Santos produces gas, ethane, oil and gas liquids from the Basins and is the Operator of production and exploration operations.

Santos' other Australian exploration and production interests are in the Surat and Amadeus Basins, the Denison Trough, the Carnarvon Basin, Timor Sea and Timor Gap, the Otway Basins, Gippsland and Bass Basins, Browse Basin and the Bonaparte Gulf. Outside of Australia, Santos' exploration and production acreage is held in Indonesia, PNG and the United States.

In 2001 Santos recorded a profit of $445.9m, generated from total sales volumes of 55.1 mmboe and total sales revenue of $1459.7 million. At the end of 2001 Santos' total proven and probable reserves were 724 million boe, equivalent to 13 years of production.

The Company's shares are quoted on the official list of The Australian Stock Exchange Ltd, The New Zealand Stock Exchange and NASDAQ in the US.