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Santos

10 March 2006

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Suite SG.64
Department of the Senate
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

Submission to the Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into Corporate Social Responsibility

Santos Ltd ('Santos') is pleased to provide the following comments in response to the Committee's Inquiry into Corporate Social Responsibility.

By way of context, 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, Kyrgyzstan and Egypt. Santos is one of Australia's largest gas producers, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.

a) The extent to which organisational decision-makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.

Given the breadth and nature of the activities outlined above, Santos has an extensive level of interaction with stakeholders other than shareholders. This extends from the communities within which Santos operates, including indigenous communities, to non government organisations, and governments through to, of course, our customers. The quality of this interaction bears materially upon the company's core business. Accordingly, organisational decision-makers have a very high level of regard for such stakeholders.

As evidence of this, Santos incorporates the principles of sustainability covering the areas of **corporate governance, the environment, our social responsibility and economic contributions to the communities to which Santos belongs** - which reflect our responsibility as a company to address the interests of all of our stakeholders - into the company vision and objectives. This forms the basis of Santos' commitment to operating with a view to a long term future as an energy company.

In practise it means incorporating these principles into day-to-day planning, strategy, operations, management and reporting systems. By that, sustainable operations are achieved through the consideration of a comprehensive set of criteria incorporating environment and community interests beyond traditional economic measures. These criteria assess the full impact of Santos' operations and enables better business decision-making through a deeper understanding of their impact.

Following are some examples of projects that demonstrate Santos' consideration of the interests of a diverse group of stakeholders. Santos reported on activities such as this in 2004 in the Sustainability Review.

Coongie Lakes

In June 2005 Coongie Lakes was officially declared a National Park by the South Australian Government.

The Coongie Lakes wetland system, located within the central Australian oil and gas fields operated by Santos, is home to an abundance of wildlife, fish, turtles, frogs and other mammals and importantly provides a refuge for many species during drought.

Santos played a key role in securing the future of this important environmental icon by brokering a Memorandum of Understanding with South Australian conservation groups which recommended permanent protection for the Coongie Lakes area by excluding new petroleum activity from the area.

Undurana Camel Farm

Santos has made a significant contribution to the establishment of a camel farm at Undurana, about 400 kilometres west of Alice Springs. This enterprise was established in partnership with the people from a local outstation who saw an opportunity to farm feral camels in the region and sell them to buyers in Alice Springs and interstate.

The Undurana Camel Farm is located near Santos' operations at Mereenie and the Company provided significant assistance to the project both financially and through the services of its employees who helped set up the farm.

The project will benefit a group of Traditional Owners through employment, income and independence as well as removing feral camels that damage the environment.

Whale Research

Santos has worked closely with Deakin University Blue Whale Study researchers to conduct aerial surveys and to record ocean noise in order to monitor the interactions between petroleum exploration activity and blue whales and to gain an understanding of the potential impacts of this activity.

Adelaide Symphony Orchestra

Santos has long standing relationships with a number of institutions that enrich the cultural life of the community, recognising that healthy communities have rich cultural traditions.

An example of this is the company's support of the Adelaide Symphony Orchestra which enables the Orchestra to perform an annual free outdoor concert which is regularly attended by over 40,000 South Australians.

- b) The extent to which organisational decision-makers should have regard for the interests of stakeholders other than shareholders, and the broader community.**

Given the linkage between Santos' long-term sustainability as an energy company and the interests of stakeholders other than shareholders, it is self-evident that organisational decision-makers should – and in Santos, do - have careful regard for such stakeholders. This has been illustrated above.

These matters are addressed in goals and objectives at company and individual level.

- c) The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community.**

The interests of shareholders and other stakeholders are not mutually exclusive. The current framework, dominated by the *Corporations Act*, does not in Santos' view, discourage Directors from having regard to the interests of stakeholders other than shareholders.

Indeed, obligations imposed by the existing legal framework – particularly the fiduciary duty to act in the best interest of the company – in effect require that Directors' have a broad view of the Company's operations, one that goes beyond mere bottom-line financial analysis and incorporating the concerns of all stakeholders.

By integrating such issues into Santos' day-to-day operations planning, strategy, management and reporting, Santos is demonstrating the relevance of these issues to the company's performance. They are, therefore, an active component of existing Board deliberations and purview. This is also reflected, for example, in the Board Committee structure, which includes an Environment and Safety Committee.

- d) Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering this matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.**

The Corporations Act does not drive and is not the bastion of corporate responsibility. Santos and other Companies have to adhere to a multitude of Acts and regulations at a state and federal level, ranging from corporate governance, safety, environment, native title, cultural heritage to market practices, fair dealing, foreign corrupt practices just to name a few. Each of these bestow upon Santos and other companies a requirement to act in a certain manner and to obtain various approvals before proceeding with operations – all of which is effected for the benefit of multiple stakeholders.

Santos does not believe that any new additions or revisions to the existing legal framework, including the *Corporations Act*, are required to enable or encourage Directors to have regard to the interests of stakeholders other than shareholders with respect to corporate social responsibility.

This reflects a variety of factors. In particular, a strong belief within Santos – and as seen in many other successful Australian companies – that part of our success in promoting corporate social responsibility reflects the inherent flexibility and innovation within our company to address our specific commercial circumstances. Any attempt at imposing generic regulatory guidelines is almost certain to suppress or distract our positive momentum. With regulation comes mandatory reporting and in this area the burden of such reporting could become the focus rather than the actual activity.

Our approach also emphasises the importance Santos attaches to transparency, trust and programs to ensure that the company 'does the right thing'. This is not only to meet the reasonable expectations of non-shareholder stakeholders but to meet those of our shareholders themselves.

It also reflects the reality that the interest of stakeholders other than shareholders are already incorporated into a range of Federal, State and Territory legislative and other regulatory requirements. Corporate governance is an obvious area, but it extends into other critical areas such as the environment and occupational health and safety. Without diminishing the role of regulation in many of these areas, the Australian regulatory environment is already considerable and Santos would encourage a focus not on what additional revisions might be made but rather on rationalising existing regulation to ensure one coherent set of guidelines and to remove duplication between the Federal and State levels.

It is also right to comment that there are many types of business entities which all have a responsibility to address the interests of multiple stakeholders. Creating a focus on corporations is only addressing part of the issue.

e) Any alternative mechanisms, including voluntary measures that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.

The market is the natural mechanism under which the issue of corporate social responsibility will continue to thrive. It is clear that companies who perform well in the areas connected to corporate social responsibility also have leading financial performance.

Santos is considered to have a high degree of corporate, social & environmental governance momentum and is leveraging off the lessons from leaders in this field such as BP and Toyota. Santos is listed on the Australian SAM Sustainability Index (AusSSI) since the index was established in February 2005 and the Reputex Social Responsibility Index.

As indicated above, Santos has already successfully implemented its own voluntary mechanism for incorporating sustainability – including a framework heavily focused on external stakeholder relations - into its daily processes.

f) The appropriateness of reporting requirements associated with these issues.

Internally, the reporting requirements associated with Santos' sustainability agenda are, in effect, daily. Externally, a Sustainability Review is published and made available to stakeholders and the general public. The review provides a clear picture of our activities and the intersection with external stakeholders.

Santos' first Sustainability Review covered our performance in 2004. That report – which is attached at A - provides a baseline that will lead to greater levels of integrated reporting on the environmental, social and economic impacts of our business. A further review will be issued in 2006 which will report on performance against the relevant GRI criteria.

It reflects Santos' commitment – at all levels, from the Chairman of the Board of Directors to our new Graduates - to continually improve our performance in these areas.

g) Whether regulatory, legislative or other policy approaches in other countries could be adopted or adapted for Australia.

For reasons discussed above, Santos does not see a need for further regulation surrounding corporate responsibility-related issues, whether designed in Australia or by adoption from abroad.

Our commitment to corporate responsibility is embedded in our culture. We do this because, as a company, it is the right thing to do, and not because of any regulatory requirement.

Santos would be pleased to elaborate further on any of the above, whether in response to the Committee's specific requests or in any public briefings the Committee might hold in Adelaide.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Eames', written in a cursive style.

Martyn Eames
Vice President - Corporate & People