Santos

## Annual Report 2008

# ‘Our natural gas resources offer clean, reliable and abundant energy for Australia and Asia.’

**David Knox** Chief Executive Officer

# Inside

# Santos
## is an Australian company providing energy for Australia and Asia.

## COMPANY PROFILE

Santos is an Australian oil and gas exploration and production company with high quality assets and projects throughout Australia and the Asia-Pacific region.

We supply over 20% of eastern Australia's domestic gas and produced 54.4 million barrels of oil equivalent in 2008. We have the largest Australian exploration portfolio by area of any company – 192,000 square kilometres.

Santos is developing a multi-billion-dollar project to build a liquefied natural gas (LNG) facility at Gladstone, Queensland – the world's first project to convert coal seam gas to LNG on a large scale. We are already a producer of LNG through the Darwin LNG project, which has been exporting to Japan since 2006.

Santos has more than 1,700 Australian-based employees working across its operations, and offices in Adelaide, Brisbane, Perth, Gladstone and Roma. The company has 170 staff in Jakarta, and country offices in Port Moresby, Hanoi, New Delhi and Bishkek.

## HISTORY

Founded in 1954, our name was an acronym for South Australia Northern Territory Oil Search. Santos made its first significant discovery of natural gas in the Cooper Basin in 1963. The Moomba discovery in 1966 confirmed this region as a major petroleum province and enabled gas supplies to Adelaide to commence 40 years ago in 1969.

The 1980s saw Santos develop a major liquids business with the construction of a liquids recovery plant at Moomba and a fractionation and load-out facility at Port Bonython. During the 1990s Santos further expanded its interests in Australia and overseas.

Since 2000, the company has continued to build its business in South East Asia while developing an Asian-focused business through exploration investment.

In 2006, a significant milestone was reached with the first export of LNG from the Darwin LNG project.

David Lobb, Landholder Adviser, discussing development plans with Ross West and 'Louie' from the 'Roleen' property, Wallumbilla, eastern Queensland.

## VISION AND STRATEGY

Santos' vision is to be a leading energy company for Australia and Asia through delivering the base business, tapping our resource riches, being a great place to work and doing it safely and sustainably to deliver a superior shareholder return.

The company has a robust strategy to achieve this through:

**Reliable base business**

- Eastern Australia: safe, reliable operations and market growth.
- Western Australia: exploit asset position.
- Indonesia: steady business with incremental growth.

**Significant growth in LNG**

- Gladstone LNG (GLNG®): transformational growth fuelled by Queensland coal seam gas.
- Papua New Guinea LNG: project underpinned by high quality gas reserves.
- Darwin LNG: mature brownfield LNG growth.

**Focused growth in Asia**

- Vietnam: develop Chim Sao field and exploration-led growth.
- India/Bangladesh: Bay of Bengal exploration-led growth.

**Delivering to our employees**

- Technical excellence.
- A collaborative workplace of capable and committed people.
- Opportunities to grow and innovate.

## VALUES

We are a team that:

- **Discovers** – by opening our minds to new possibilities, thinking creatively and having the courage to learn from successes and failures, to take on new challenges, to capture opportunities and to resolve problems.
- **Delivers** – by taking personal responsibility and pride in our work to deliver timely, quality results that benefit Santos and help achieve our vision and strategy.
- **Collaborates** – by recognising the value and power in diversity of thought and communicating openly to understand the perspectives of others; demonstrating leadership by sharing what we know and respectfully challenging each other to achieve the best results for all.
- **Cares** – by taking the long-term view to build a sustainable future for our company, our people and the environments and communities in which we operate.

# With abundant gas resources underpinning our growth projects, Santos is uniquely placed to meet Australia and Asia's energy needs.

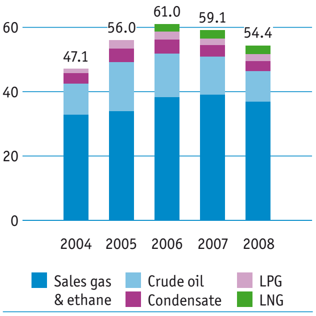
# 2008 operating and financial highlights

- SALES REVENUE UP 11% TO RECORD $2.8 BILLION; PRODUCTION OF 54.4 MMBOE WITHIN GUIDANCE.
- UNDERLYING NET PROFIT AFTER TAX UP 42% TO $572 MILLION.
- NET PROFIT AFTER TAX UP 359% TO RECORD $1.7 BILLION.
- FULL-YEAR DIVIDEND UP 5% TO 42 CENTS PER SHARE.
- PROVEN AND PROBABLE (2P) RESERVES EXCEED 1 BILLION BARRELS OF OIL EQUIVALENT.
- STRONG BALANCE SHEET: $1.6 BILLION OF CASH AND GEARING OF 10%.

| | 2008 | 2007 | % change |
|---|---|---|---|
| Sales ($million) | **2,761.8** | 2,488.5 | 11 |
| Operating profit before tax ($million) | **2,533.2** | 718.6 | 253 |
| Net profit after tax ($million) | **1,650.1** | 359.3 | 359 |
| Cash flow from operations ($million) | **1,473.2** | 1,213.9 | 21 |
| Earnings per share (cents) | **272.9** | 55.2 | 394 |
| Ordinary dividends per share (cents) | **42.0** | 40.0 | 5 |
| Cash flow per share (cents) | **249.4** | 205.6 | 21 |
| Total shareholders' funds ($million) | **4,478.3** | 3,093.1 | 45 |
| Return on average ordinary equity (%) | **48.6** | 12.8 | 280 |
| Return on average capital employed (%) | **34.1** | 8.5 | 301 |
| Net debt/(net debt plus equity) (%) | **10.2** | 37.3 | (73) |
| Net interest cover (times) | **38.5** | 7.4 | 420 |

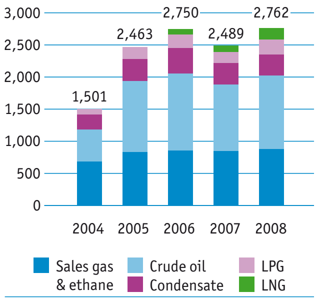
## PRODUCTION BY PRODUCT

**54.4 mmboe**



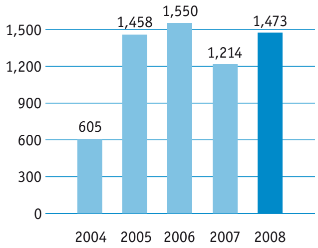

## SALES REVENUE

**$2,762 million**



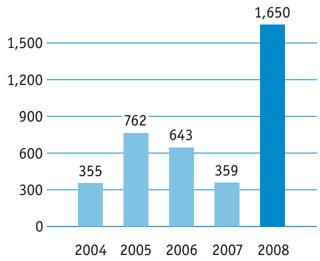

## OPERATING CASH FLOW

**$1,473 million**



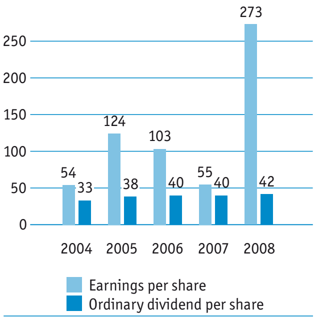

## NET PROFIT AFTER TAX

**$1,650 million**



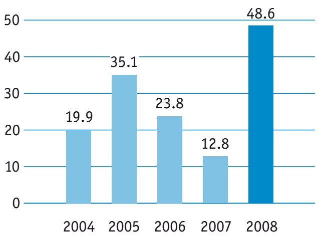

## DIVIDENDS PER SHARE

**42 cents**



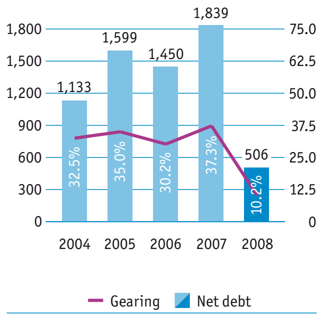

## RETURN ON EQUITY

**48.6%**



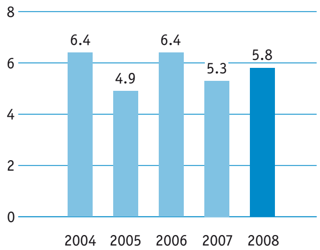

## GEARING

**10.2%**




## SAFETY PERFORMANCE

**5.8** Total recordable case frequency rate (per million hours worked)



# Progress made on the growth strategy in 2008

## LNG projects
page 14

- PETRONAS, one of the world's largest LNG producers, selected to be Santos' 40% partner in the development, operation and marketing of the GLNG project.
- Santos grew coal seam gas reserves significantly to underpin the GLNG project.
- PNG LNG project formally entered the front end engineering and design phase following the signing of key Government and joint venture agreements.

## Australia
page 16

- Go-ahead given for the Reindeer gas project in the Carnarvon Basin, offshore Western Australia.
- Santos made substantial contingent resource booking of unconventional reservoir gas in the Cooper Basin.
- First coal seam gas exploration wells drilled in the Gunnedah Basin in New South Wales.

## Asia
page 18

- Successful Chim Sao North appraisal well drilled; reserves will underpin Santos' first oil development in Vietnam.
- Oyong phase 2 in Indonesia on track for first gas in the third quarter of 2009.
- Santos' largest ever 2D seismic survey undertaken in the Bay of Bengal.

Chris Bant, Wallumbilla gas operations, eastern Queensland.

# Transformational progress

## Review by Stephen Gerlach, Chairman

Santos made substantial advances in its strategic development and operational performance in 2008.

Significant progress on Santos' LNG projects was central to our strategic advancement in 2008, while the solid performance of our base businesses in Australia and Indonesia pushed revenue to record levels.

Santos' early recognition of the opportunities to produce and export coal seam gas as LNG has enabled the company to secure a leadership position in this globally significant energy play.

**Strong share price performance**

In a year of unprecedented stock market volatility, Santos significantly outperformed the market. While other Australian stocks dropped an average of 40% in 2008, Santos shares rose by 5%.

Santos was the fourth-best performing company in the ASX 100 in 2008, and one of only 10 to have positive total shareholder returns for the year. Santos has also produced top 10 total shareholder returns on a three-year basis.

**Dividend increase**

The Board of Directors declared a final dividend of 20 cents per share, after an interim payment of 22 cents. Shareholders therefore received a full-year dividend of 42 cents, up from 40 cents in 2007.

**Record annual sales revenue**

Santos posted record annual sales revenue of $2.8 billion in 2008, an 11% rise from the previous year. Net profit after tax was $1.7 billion, boosted by a $1.2 billion after-tax profit from the sale of the 40% interest in the GLNG project to PETRONAS. Underlying net profit after tax was $572 million, up 42% on last year.

For the fourth year in a row, Santos' production levels were within the company's guidance range. Production of 54.4 mmboe was a solid performance, although down by 8% on 2007.

**Off-market share buy-back**

The $300 million off-market share buy-back was successfully completed in October. Santos repurchased 3.1% of its issued capital at the maximum discount of 14%, enabling the company to efficiently return surplus capital to shareholders.

The completion of the buy-back demonstrates our commitment to efficient capital management and confidence in the strength of our financial position.

**Shareholder cap lifted**

On 29 November 2008, the South Australian Government removed the shareholder cap that restricted any one person from holding more than a 15% share in Santos. We welcome the cap's removal at a time when Santos is poised to capitalise on the development of its growth strategy.

**Brantas PSC transfer**

In December, we transferred our 18% interest in the Brantas PSC in Indonesia, the site of the Sidoarjo mudflow incident, to a company associated with the project operator. The transfer was a practical and appropriate resolution to Santos Brantas' minority, non-operator role in the PSC.

The mudflow incident, in particular the impact on the local community, has been of considerable concern to Santos. We have supported relief efforts, which have been coordinated by the Indonesian Government since 2007.

**New CEO and Managing Director**

In July, David Knox was appointed Chief Executive Officer and Managing Director to lead the company through the next phase of its growth. Mr Knox has extensive international oil and gas experience, having held senior positions with BP, ARCO and Shell. Before his appointment, Mr Knox had served as Acting CEO following the retirement of John Ellice-Flint in March.

**Board renewal**

We have continued our ongoing process of Board renewal with the appointment of Peter Coates as Deputy Chairman in December. He has been a Director of Santos since March 2008.

As part of this process, I intend to stand down from the Board and as Chairman on 31 December 2009. I then would have been on the Board for 20 years and served as Chairman for eight of those years.

Mr Coates will take over as Chairman when I step down. Peter has had a wealth of international corporate and commercial experience and will serve shareholders well when he assumes that responsibility.

I have indeed been fortunate to have served Santos shareholders and the company as a Director and in recent years as Chairman over a long period and I thank shareholders for their support of me. I am pleased the company will be in such good shape when I step down at the end of the year.

Another longstanding Director, Judith Sloan, is also stepping down from the Board at the conclusion of the Annual General Meeting after 14 years as a Director.

She has at all times served the shareholders and the company with distinction and made a significant contribution to the work of the Board and the strategic development of the company. The company will miss her presence and she retires from the Board with our best wishes for the future.

On behalf of the Directors, I would again like to thank everyone at Santos for their continuing commitment to advancing the interests of shareholders.

**Stephen Gerlach**
Chairman

16 March 2009

# A year of strategy delivery

## Review by David Knox, Chief Executive Officer and Managing Director

2008 marked a significant chapter in the ongoing transformation of Santos, with major milestones met in delivering our strategic objectives. In a challenging economic environment, Santos is uniquely positioned to deliver growth.

Our strategy is simple and robust: we will continue to develop the base business while pursuing growth through our suite of LNG projects and focused opportunities in Asia. This strategy is underpinned by our confidence in the long-term outlook for Australian and Asian energy demand, and the growing role of natural gas in providing clean energy.

The global financial crisis has led all prudent companies to review carefully their strategic direction. At Santos, we have a strategy that is right for the times. A strategy that enables us to negotiate the current lower oil price environment while proceeding with our growth projects. A strategy that means we will be in a position to benefit when the global financial environment improves and economic activity accelerates.

Our achievements in 2008 – posting record revenues and securing our US$2.5 billion GLNG partnership with PETRONAS – mean we are in a solid financial position. We have a base business that is performing well and providing a stable revenue foundation.

The unprecedented market volatility in 2008 saw the oil price drop from over US$150 in June to below US$50 by year's end. At Santos, the fixed price contracts that apply to a large portion of our Australian gas business helped to smooth out the fluctuation in international energy prices.

Lower energy prices have seen a contraction in some industry costs, and we are taking additional steps to ensure a tight rein on operating expenses right across our business.

In an uncertain economic environment, Santos also has the ability to control its destiny with a well stocked store-cupboard of world-class resources.

Critically, we have the people and partnerships we need to negotiate challenging times and ensure the development of our key growth projects.

**People and partnerships**

The oil and gas industry is built around partnerships. Traditionally, this has been about spreading the risk on major projects, but at Santos we see it as an opportunity to reap the benefits that come from shared knowledge and experience.

By combining our own expertise with that of our partners, we can ensure our projects are executed at a high standard. Building good partnerships has the additional benefit of allowing access to more high-quality opportunities in the future.

**Cleaner energy through gas**

The importance of natural gas in meeting future energy demands will increase in the coming years. Carbon emissions and their impact on climate are a real and serious problem. Natural gas will play a substantially larger role as economies transition to a lower carbon emission footprint.

The attraction of natural gas in a carbon-constrained world is compelling. Carbon emissions from gas-fired power generation are up to 70% lower than traditional power sources in eastern Australia. Quite simply, if Australia is to reduce its emissions in an affordable fashion, natural gas will need to play a larger role in the nation's energy mix.

In a potentially unstable global climate, security of energy supply is increasingly important to customers. Australia provides a low-risk energy supply source in close proximity to emerging Asian markets. Santos has the largest acreage portfolio in Australia and a suite of growth opportunities throughout Asia.

**Reserves growth**

In 2008, we grew our proven and probable (2P) oil and gas reserves by 134 mmboe, taking the total past the 1 billion barrel mark.

Reserves availability to the GLNG project increased by 142%, demonstrating the reserves build for the project is well on track.

'In an uncertain economic environment, Santos has the ability to control its destiny with a well stocked store-cupboard of world-class resources.'

PETRONAS PARTNERSHIP FOR GLNG


Establishing a partnership with PETRONAS is a tremendous boost for Santos' GLNG project. This project will benefit greatly from PETRONAS' industry knowledge and extensive customer base in Asia.

PETRONAS has been involved in the LNG industry for more than 25 years. It has grown into the largest LNG producer in Asia and the third-largest in the world, and operates the world's largest integrated LNG facility at a single location. From that project alone, PETRONAS has successfully delivered more than 5,700 LNG cargoes since the early 1980s.

Wan Zulkiflee, PETRONAS Director and Vice President of its Gas Business; Hon Anna Bligh, Premier of Queensland; and David Knox at the announcement of the Santos and PETRONAS partnership.

**Significant LNG progress**

The GLNG project achieved major milestones in 2008 with the selection of a partner and the appointment of a front-end engineering and design contractor.

In May, Malaysia's national oil and gas company PETRONAS joined Santos as our 40% partner in this world-leading venture. PETRONAS purchased its stake for US$2.5 billion – with US$2 billion received in July – an investment that significantly advanced the project. The fully aligned partnership with PETRONAS will maximise the future value of GLNG.

GLNG took another big step forward in December when Bechtel was appointed as the front-end engineering and design contractor for the gas liquefaction plant. Bechtel is one of the world's largest engineering and construction contractors.

The combination of Santos, PETRONAS and Bechtel ensures GLNG is in safe and capable hands. We are on track to make a final investment decision on this project in the first half of 2010.

Elsewhere, the PNG LNG project progressed well, with a gas agreement signed and the project entering the front-end engineering and design phase. The existing Darwin LNG project – our first LNG investment – delivered another excellent year, with solid production and scope for further expansion.

**Growth in Asia**

Our focus on growth in Asia is a key part of Santos' growth strategy. Indonesia is already a significant part of our business and presents opportunities for incremental growth. Led by Oyong and Maleo, both offshore East Java, Indonesian production increased by almost 40% in 2008, with output of 5.2 mmboe.

In Vietnam, successful appraisal wells were drilled at Chim Sao, with first oil expected in 2011.

In the north of the Bay of Bengal, we completed a 2D seismic survey and began a 3D seismic survey of highly sought-after acreage.

**A solid foundation**

Our base business performed well in 2008, meeting the production guidance for the year.

The 19% rise in production in the Cooper Basin Oil project in 2008 shows it remains on a sound foundation. Substantial exploration and development work across the Cooper Basin in 2008 highlighted the region's continued growth potential.

The Reindeer gas project in Western Australia, after being suspended briefly at the end of 2008, is again on track after the signing of a gas supply contract at market-leading prices.

In Victoria, Kipper remains on schedule for first gas in the first half of 2011. Henry has been slightly delayed due to difficulties with the contracted pipelay barge. Fortunately, there will be no impact on our 2009 production as Casino is performing well.

Our Indonesian operations have come of age and now rank as part of our base business. With two good operating assets and the Oyong phase 2 development progressing well, this region will continue to be a significant part of our base production.

**Safety performance**

I was disappointed that there was an upward trend in our injury rate in the first half of 2008. All of us at Santos were saddened by the tragic death of a contractor on an oil rig in the Cooper Basin in January.

We have conducted a thorough investigation of this incident and will continue to work closely with employees and contracting companies to reduce the risk of future incidents.

The injury rate for the first half of 2008 was unacceptable and prompted a company-wide intervention, the Stop for Safety program. Through continued efforts, there has been some improvement in our safety performance, which was demonstrated in the improved safety statistics for the second half of the year.

‘If Australia is to reduce its emissions in an affordable fashion, natural gas will need to play a larger role in the nation’s energy mix.’

**Sustainability**

I was pleased that our sustainability performance was externally recognised with our inclusion in the Sustainable Asset Management (SAM) *Sustainability Yearbook 2009*. Each year, the top 2,500 companies as reflected in the Dow Jones Global Wilshire Index are assessed by SAM, with the top-scoring 15% included in the yearbook.

Our commitment to making a difference in the community continued in 2008, with a focus on contributing to education, health, the arts, and indigenous matters:

- Our $10 million Santos Indigenous Fund will back a company program to have up to 500 Aboriginal employees working with us and our contractors in the next few years.
- A $10 million, five-year commitment to help University College London establish a campus in South Australia.
- Our support of the Adelaide Symphony Orchestra marked its tenth anniversary, and we committed a further $1 million as the ASO’s principal sponsor from 2009–11.
- $5 million was provided to establish the Royal Institution of Australia, which will promote scientific knowledge in the wider community.

Our world-class projects have already attracted many talented professionals. Santos is an exciting and challenging place to work, and will continue to attract the highest calibre people from the oil and gas industry. I was very pleased with our recruitment and retention record in 2008.

Our workforce has the ability and commitment to fulfil our growth strategy and achieve success. I thank our employees, whose excellence and drive have put us in an outstanding position for the years to come.

**Looking to the future**

The next few years will present new challenges as the global financial crisis unfolds. I remain confident that our hard work and preparation have set us in good stead to meet those challenges.

In the near term, we are anticipating steady production levels before a step-change in 2014 when the GLNG and PNG LNG projects come online. For 2009, our production guidance has been set between 53 and 56 mmboe, following our 2008 production of 54.4 mmboe.

Santos’ solid base business in Australia will continue to support the ongoing transformation of the company. Our assets in eastern Australia, the Cooper Basin and Western Australia provide excellent further opportunities, and our Asian acreage presents scope for growth. We are well positioned to take advantage of future growth in demand for LNG with three world-class projects in our portfolio.

This is an exceptional company with an excellent portfolio of current and future projects. We will continue to be a proudly Australian company delivering energy to Australia and Asia.

**David Knox**
Chief Executive Officer
and Managing Director

16 March 2009

### BEST OF ENVIRONMENT AND SAFETY ON SHOW

The Santos Directors’ Environment, Health and Safety Awards were given extra prominence this year when they were presented at a breakfast ceremony in the Adelaide parklands. All employees were invited, with 350 attending the event.

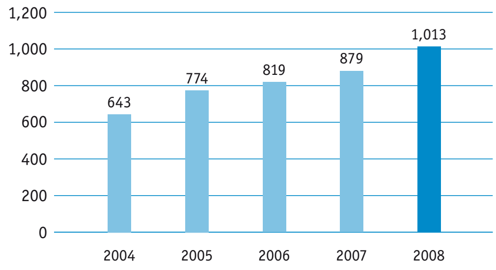
Awards were given for best safety performance within Santos, best safety performance by a contractor, best safety project or innovation, and best environmental project or innovation.

Members of the Baker Atlas drilling services team, joint winners (with O&G Solutions) of best health and safety performance by a contractor at the Directors’ EHS Awards.

# Well positioned with a strong financial performance

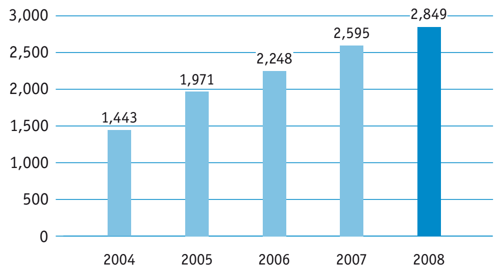
## Review by Peter Wasow, Executive Vice President and Chief Financial Officer

**2P RESERVES** mmboe




Five-year compound annual growth rate = 12%

**2C CONTINGENT RESOURCES** mmboe




Five-year compound annual growth rate = 19%

Santos has achieved impressive and consistent growth in both 2P reserves and 2C resources over the past five years, with 2P reserves now exceeding 1 billion boe.

Santos achieved an increase in underlying net profit of 42% to $572 million after tax in 2008.

The solid financial results in 2008 were built on the strong performance of Santos' base businesses in Australia and Indonesia. This enabled Santos to continue to develop its LNG growth projects, strengthen its balance sheet and increase dividends to shareholders.

The record net profit of $1.7 billion after tax included a $1.2 billion profit from the sale of a 40% interest in the GLNG project to Malaysian oil and gas major PETRONAS. The result also reflected higher oil and gas prices, offset by lower sales volumes and asset impairment charges.

Production of 54.4 mmboe was in line with our guidance. Production was 8% lower than last year, primarily due to higher downtime from producing assets in Western Australia, including the impact of the Varanus Island incident on John Brookes production. This was partially offset by new production in Asia and higher production of coal seam gas.

Higher oil and gas prices were evident in 2008 and more than offset the impact of lower production. Sales revenue was a record $2.8 billion.

Lower depreciation and depletion expense combined with a cut in our exploration spend meant we were able to offset the impact of higher production costs.

Operating cash flow was strong and increased by 21% to $1.5 billion, primarily reflecting the higher operating results.

Looking forward, the company anticipates steady production levels in the near term, ahead of a step change as the GLNG and PNG LNG projects come online in 2014.

### Strong balance sheet

In contrast to many companies, Santos enters 2009 in a sound financial position with a strong balance sheet. It is reinforced by a cash balance of $1.6 billion, which positions us well to execute our growth strategy despite the current disruptions to global capital markets.

Net debt at the end of 2008 was $506 million and gearing was 10%. In addition Santos has committed but undrawn debt facilities of $700 million available.

We have been managing our debt conservatively, making sure we have no significant peaks in repayments and ensuring a long average term to maturity of nearly seven years. Less than 15% of gross debt matures in the next two years and greater than 25% matures beyond 10 years.

The result is that we are in a strong position and are not facing a significant refinancing task in the difficult markets that are evident in the near term.

### Increasing shareholder returns

The solid financial results in 2008 enabled Santos to increase returns to shareholders.

Total dividends declared during the year were 42 cents per share (fully franked), up 5% on last year. This increase was achieved when many companies were cutting or eliminating their dividends.

Santos also successfully completed a $300 million off-market share buy-back in October.

We were pleased with the strong support shown by shareholders for the buy-back. The buy-back demonstrated the company's commitment to efficient capital management and our confidence in the strength of our financial position.

‘We are in a strong position and are not facing a significant refinancing task in the difficult markets that are evident in the near term.’

**Asset impairments**

As a result of the company’s regular impairment review of assets, the recoverable amount of several assets was assessed to be impaired and impairment losses totalling $140 million after tax were recognised in the 2008 financial statements.

The impairment losses resulted from lower oil prices, higher discount rates and the need to accelerate cost reduction plans.

**Reserves: strong growth and a rich harvest**

The performance of Santos’ reserves best reflects our performance in 2008.

The financial goal for an oil and gas company is to generate cash from its reserves base, reinvest that cash and grow the whole as a result.

In the year, we produced over 54 mmboe of oil and gas, generating $1.5 billion in operating cash flow.

Our sale of 40% of GLNG to PETRONAS generated a further $1.6 billion in after-tax proceeds.* We sold 92 mmboe of reserves to PETRONAS as part of the GLNG transaction.

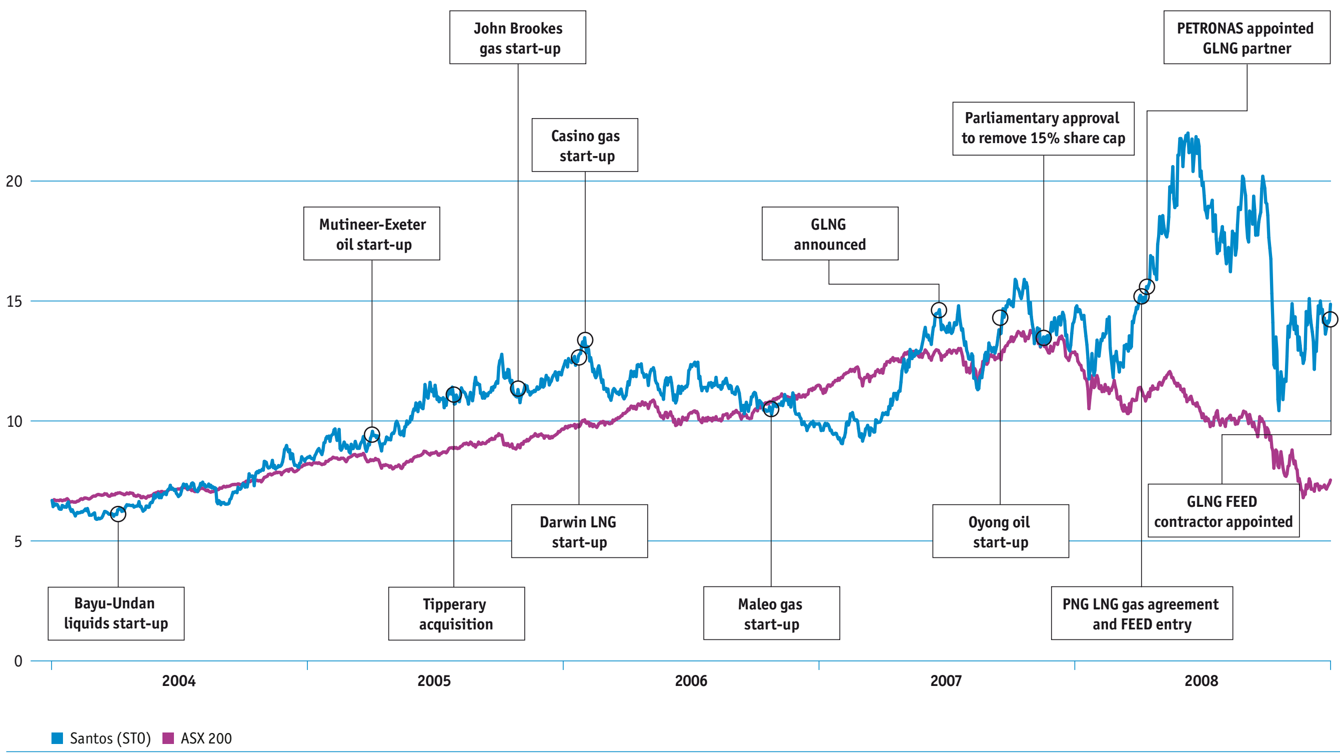
Taken together, we generated $3.1 billion after tax from our opening reserve position in 2008.

We reinvested $1.6 billion of that cash in increasing our reserves and added almost 300 mmboe of proven and probable (2P) reserves in the year.

In the final analysis, we not only increased the total reserves by the equivalent of several years’ production, we also generated a surplus of $1.5 billion. This was applied to boosting shareholder returns and strengthening our balance sheet.

* Proceeds received in 2008 of $2.1 billion. Tax of $0.5 billion is payable in 2009.

SANTOS VS ASX 200 INDEX FIVE-YEAR RELATIVE PERFORMANCE $



# The world of Santos


| | OPERATED | NON-OPERATED |
|---|---|---|
| EXPLORATION | 🟡 | ▲ (yellow) |
| DEVELOPMENT | ⚪ | ▲ (white) |
| OPERATIONS | 🟣 | ▲ (purple) |

Detailed exploration maps are available on the Santos website www.santos.com.

Percentage interests are provided in the Santos Group interests section on page 40.

| Ref | Activity | Location | Site/Asset | Description |
|---|---|---|---|---|
| 1 | 🟡 | Gulf of Suez, offshore Egypt | | Operated interest in South East July exploration concession. |
| 2 | 🟡 | Fergana Basin, Kyrgyzstan | | Operated interests in 14 prospecting licences. |
| 3 | 🟡 | North East Coast Basin, offshore India | | Operated interests in two exploration permits. |
| 4 | ▲ (yellow) ▲ (purple) | Bengal Basin, onshore and offshore Bangladesh | Sangu | Non-operated interests in two exploration permits and gas and condensate production from Sangu development area. |
| 5 | 🟡 | Song Hong Basin, offshore Vietnam | | Operated interest in one exploration permit. |
| 6 | 🟡 | Phu Khanh Basin, offshore Vietnam | | Operated interest in one exploration permit. |
| 7 | ▲ (yellow) | Nam Con Son Basin, offshore Vietnam | Chim Sao, Dua | Non-operated interest in one exploration permit, which contains Chim Sao oil and Dua oil and gas discoveries. |
| 8 | ▲ (yellow) ▲ (purple) | West Natuna Basin, offshore Indonesia | Kakap | Non-operated interest in Kakap PSC, which contains oil and gas production. |
| 9 | 🟡 ▲ (yellow) | Kutei Basin, offshore Indonesia | Hiu Aman | Non-operated interest in Popodi and Papalang PSCs. Operated interest in Donggala PSC, which contains Hiu Aman gas discovery. |
| 10 | 🟡 ⚪ 🟣 | East Java Basin, offshore Indonesia | Maleo, Oyong, Jeruk, Wortel | Operated interest in Sampang PSC, which contains Oyong oil production and gas development, and Jeruk oil and Wortel gas discoveries. Operated interest in Madura Offshore PSC, which contains Maleo gas production. |
| 11 | 🟡 ▲ (yellow) ▲ (white) ▲ (purple) | West Papua and Papua New Guinea | PNG LNG, Hides, Barikewa, SE Gobe, Warim | Interests in three exploration and two production permits in fold belt area of West Papua and PNG. In PNG, non-operated interest in PNG LNG development, the undeveloped Hides gas resource, and oil production from SE Gobe. |
| 12 | ▲ (yellow) ▲ (purple) | Timor Sea and Timor Gap | Baya-Undan, Darwin LNG, Jabiru-Challis | Non-operated interests in four exploration permits, which contain gas, condensate and LPG production from Bayu-Undan, LNG production from Darwin LNG, and oil production from Jabiru-Challis. |
| 13 | 🟡 ▲ (yellow) | Bonaparte Basin, offshore northern Australia | Barossa, Caldita, Evans Shoal, Petrel-Tern | Operated interest in four exploration permits in the southern Bonaparte, which contain the undeveloped Petrel-Tern gas resource. Operated interest in one exploration permit in the northern Bonaparte, which contains the undeveloped Evans Shoal gas resource, and non-operated interests in two exploration permits containing the undeveloped Barossa and Caldita gas resources. |
| 14 | ▲ (purple) | Darwin, Northern Territory | Wickham Point | Non-operated Darwin LNG facility. |
| 15 | 🟡 | Browse Basin, offshore Western Australia | | Operated interests in four exploration permits. |
| 16 | 🟡 ▲ (yellow) ▲ (white) 🟣 ▲ (purple) | Carnarvon Basin, offshore Western Australia | Mutineer-Exeter, John Brookes, Barrow Island, Legendre, Reindeer, Stag, Thevenard | Operated interests in five exploration permits, which include oil production from Mutineer-Exeter. Non-operated interests in numerous exploration permits, which contain oil production from Barrow Island, Legendre, Stag and Thevenard, and gas and condensate production from John Brookes, and Reindeer gas development. |
| 17 | ▲ (yellow) | Houtman Basin, offshore Western Australia | | Non-operated interest in one exploration permit. |


| Ref | Activity | Location | Site/Asset | Description |
|---|---|---|---|---|
| 18 | | Amadeus Basin, Northern Territory | Mereenie, Palm Valley, Brewer Estate | Operated interests in three exploration permits, which contain oil, gas and condensate production from Mereenie. Non-operated interest in one exploration permit, which contains gas production from Palm Valley. Also contains Brewer Estate liquids facility. |
| 19 | | Cooper/Eromanga Basins, South Australia and Queensland | Moomba, Ballera, Jackson | Operated interests in numerous exploration and production permits across South Australia and Queensland, which contain gas, condensate and LPG production from Moomba and Ballera and oil production from Jackson, plus satellite facilities and infrastructure. |
| 20 | | Spencer Gulf, South Australia | Port Bonython | Operated processing and load-out facility. |
| 21 | | Surat/Bowen Basins, Queensland | Fairview, Roma, Scotia, GLNG, Wallumbilla | Operated and non-operated interests in numerous exploration and production permits, which contain coal seam gas production from Fairview and Scotia, and gas, condensate and LPG production from Roma and Wallumbilla. Development of coal seam gas fields underway for GLNG development. |
| 22 | | Gunnedah Basin, New South Wales | | Operated interests in seven exploration permits. |
| 23 | | Gippsland Basin, offshore Victoria | Patricia-Baleen, Kipper, Sole | Operated interests in three permits, which contain gas production from Patricia-Baleen, and the Sole gas resource. Non-operated interest in one permit, which contains the Kipper gas development. |
| 24 | | Otway Basin, offshore Victoria | Casino, Henry, Minerva | Operated interests in three permits, which contain gas and condensate production from Casino, and Henry gas development. Non-operated interest in two permits, which contain gas and condensate production from Minerva. |
| 25 | | Sorell Basin, offshore Tasmania | | Operated interests in six exploration permits. |
| | | Santos offices | Adelaide, Brisbane, Perth, Gladstone, Roma, Jakarta, Port Moresby, Hanoi, New Delhi, Bishkek | |

# Production statistics 2008

| | Total 2008 | | Total 2007 | |
|---|---|---|---|---|
| | **Field units** | **mmboe** | Field units | mmboe |
| **Sales gas, ethane and LNG (PJ)** | | | | |
| Cooper | **90.2** | **15.5** | 94.7 | 16.3 |
| Surat/Bowen/Denison | **32.8** | **5.6** | 34.9 | 6.0 |
| Amadeus | **12.2** | **2.1** | 13.1 | 2.2 |
| Otway/Gippsland | **21.0** | **3.6** | 30.1 | 5.2 |
| Carnarvon | **27.3** | **4.7** | 30.6 | 5.3 |
| Bonaparte | **16.3** | **2.8** | 15.1 | 2.6 |
| Indonesia | **24.2** | **4.2** | 19.4 | 3.3 |
| Bangladesh | **6.3** | **1.1** | 1.2 | 0.2 |
| United States | **0.0** | **0.0** | 2.9 | 0.5 |
| **Total production** | **230.3** | **39.6** | 242.0 | 41.6 |
| Total sales volume | **237.9** | **40.9** | 239.4 | 41.1 |
| Total sales revenue ($million) | | **1,051.6** | | 944.1 |
| **Crude oil ('000 bbls)** | | | | |
| Cooper | **3,945.7** | **4.0** | 3,324.4 | 3.3 |
| Surat/Denison | **71.1** | **0.1** | 60.8 | 0.1 |
| Amadeus | **127.9** | **0.1** | 151.8 | 0.2 |
| Legendre | **299.6** | **0.3** | 387.1 | 0.4 |
| Thevenard | **339.8** | **0.3** | 391.1 | 0.4 |
| Barrow | **617.0** | **0.6** | 679.0 | 0.7 |
| Stag | **1,627.9** | **1.6** | 2,337.8 | 2.3 |
| Mutineer-Exeter | **1,254.6** | **1.3** | 3,687.8 | 3.7 |
| Elang-Kakatua | **0.0** | **0.0** | 76.5 | 0.1 |
| Jabiru-Challis | **142.0** | **0.1** | 148.6 | 0.1 |
| Indonesia | **983.4** | **1.0** | 418.7 | 0.4 |
| SE Gobe | **188.2** | **0.2** | 224.7 | 0.2 |
| United States | **0.0** | **0.0** | 18.8 | 0.0 |
| **Total production** | **9,597.2** | **9.6** | 11,907.1 | 11.9 |
| Total sales volume | **9,796.8** | **9.8** | 11,257.1 | 11.3 |
| Total sales revenue ($million) | | **1,150.6** | | 1,036.8 |

| | Total 2008 | | Total 2007 | |
|---|---|---|---|---|
| | **Field units** | **mmboe** | Field units | mmboe |
| **Condensate ('000 bbls)** | | | | |
| Cooper | **1,295.1** | **1.2** | 1,495.1 | 1.4 |
| Surat/Denison | **17.4** | **0.0** | 33.2 | 0.0 |
| Amadeus | **67.4** | **0.1** | 87.2 | 0.1 |
| Otway | **22.1** | **0.0** | 27.4 | 0.0 |
| Carnarvon | **291.4** | **0.3** | 441.0 | 0.4 |
| Bonaparte | **1,594.7** | **1.5** | 1,618.4 | 1.5 |
| Bangladesh | **1.2** | **0.0** | 0.4 | 0.0 |
| United States | **0.0** | **0.0** | 65.4 | 0.1 |
| **Total production** | **3,289.3** | **3.1** | 3,768.1 | 3.5 |
| Total sales volume | **3,173.9** | **3.0** | 3,926.0 | 3.7 |
| Total sales revenue ($million) | | **321.2** | | 330.1 |
| **LPG ('000 t)** | | | | |
| Cooper | **162.0** | **1.4** | 165.2 | 1.4 |
| Surat/Denison | **1.3** | **0.0** | 2.1 | 0.0 |
| Bonaparte | **88.1** | **0.7** | 76.2 | 0.7 |
| **Total production** | **251.4** | **2.1** | 243.5 | 2.1 |
| Total sales volume | **250.5** | **2.1** | 248.6 | 2.1 |
| Total sales revenue ($million) | | **238.4** | | 177.5 |
| **Total** | | | | |
| Production (mmboe) | | **54.4** | | 59.1 |
| Sales volume (mmboe) | | **55.8** | | 58.2 |
| Sales revenue ($million) | | **2,761.8** | | 2,488.5 |

# Reserves statistics 2008

**Proven plus probable (2P) reserves (Santos share) by activity**

| | Sales gas (incl. ethane & LNG) PJ | Crude oil mmbbl | Condensate mmbbl | LPG '000 tonnes | Total mmboe |
|---|---|---|---|---|---|
| Reserves year end 2007 | 4,271 | 79 | 43 | 2,982 | 879 |
| Production | -230 | -10 | -3 | -251 | -54 |
| Additions | 1,536 | 14 | 2 | 258 | 280 |
| Acquisitions/Divestments | -538 | 0 | 0 | 0 | -92 |
| Estimated reserves year end 2008 | 5,039 | 83 | 42 | 2,989 | 1,013 |

**Proven plus probable (2P) reserves (Santos share) by area**

| Area | Sales gas (incl. ethane & LNG) PJ | Crude oil mmbbl | Condensate mmbbl | LPG '000 tonnes | Total mmboe |
|---|---|---|---|---|---|
| Cooper Basin | 750 | 32 | 11 | 1,620 | 185 |
| Onshore Northern Territory | 105 | 2 | 1 | 0 | 21 |
| Offshore Northern Territory | 307 | 0 | 19 | 958 | 79 |
| Eastern Queensland | 2,440 | 0 | 0 | 13 | 420 |
| Southern Australia | 478 | 0 | 5 | 398 | 90 |
| Carnarvon Australia | 785 | 30 | 5 | 0 | 169 |
| Papua New Guinea | 0 | 1 | 0 | 0 | 1 |
| Indonesia | 163 | 2 | 0 | 0 | 30 |
| Bangladesh | 7 | 0 | 0 | 0 | 1 |
| Vietnam | 4 | 16 | 1 | 0 | 17 |
| Total | 5,039 | 83 | 42 | 2,989 | 1,013 |

**Reserves and Contingent Resources (Santos share)**
(mmboe)

| | Year end 2007 | Production | Revisions & exploration | Contingent Resources converted to reserves | Acquisitions & divestments | Year end 2008 |
|---|---|---|---|---|---|---|
| 1P Reserves | 485 | -54 | 50 | 74 | -37 | 518 |
| 2P Reserves | 879 | -54 | 61 | 219 | -92 | 1,013 |
| 2C Contingent Resources | 2,595 | 0 | 699 | -219 | -226 | 2,849 |

The information in this reserves statement has been compiled by Greg Horton, a full-time employee of the company. Greg Horton is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears.

In excess of 88% of Santos' year-end 2008 2P Reserves and 2C Contingent Resources were audited by independent experts Gaffney, Cline & Associates (conventional assets), Netherland, Sewell & Associates, Inc. (coal seam gas assets) and DeGolyer and MacNaughton (Contingent Resources for Cooper Basin unconventional reservoir gas and closer spaced infill drilling into conventional reservoirs).

The auditors found that, based on the outcomes, of each of the respective audits and their understanding of the estimation processes employed by Santos, that Santos' 31 December 2008 Reserves and Contingent Resources quantities in aggregate compare reasonably to those estimates prepared by the auditors.

Gaffney, Cline & Associates found that, in the aggregate, the total volumes summarised in the Santos summary table represents a reasonable estimate of Santos' 31 December 2008 Reserves and Contingent Resources position.

# LNG projects


**SANTOS' STRATEGIC OPPORTUNITIES**

GLNG: WORLD-CLASS RESOURCES WITH LEADING LNG PARTNER

EXPANSION OPPORTUNITIES IN PNG LNG

MULTIPLE PATHWAYS FOR BROWNFIELD EXPANSION IN DARWIN LNG

David Knox, Chief Executive Officer; Pandai Othman, Project Director; and Roger Kennett, Vice President GLNG Operations; discussing a model of Santos' proposed GLNG facility during the opening of the company's Gladstone office.

# Significant advances on GLNG and PNG LNG; solid performance from Darwin LNG

Santos' move into the production and export of LNG adds an exciting growth dimension to the company's traditional Australian gas business.

The past year has been defined by Santos' progress in its LNG projects. The GLNG project is set to become the world's first major coal seam gas to LNG project, developing Queensland's abundant reserves for sale into world markets.

GLNG is complemented by the PNG LNG project, which advanced significantly in 2008, and the existing Darwin LNG project, which delivered its third year of production.

**Big steps forward for GLNG**

Santos announced in May that the world's third-largest LNG producer, PETRONAS, would be its 40% partner in the development, operation and marketing of the GLNG project. PETRONAS made a US$2 billion cash payment in July, with a further US$500 million to be paid upon the final investment decision for the second LNG train of 3 mtpa capacity.

Striking this partnership was a major step towards achieving Santos' coal seam gas to LNG strategy. PETRONAS is the largest LNG producer in Asia and is the world's largest single owner-operator of LNG ships. It also has long-standing relationships with an extensive base of high-volume LNG customers in Asia.

GLNG will see coal seam gas extracted from Santos and PETRONAS' globally significant resources in the Surat and Bowen Basins south-west of Gladstone, and piped 435 kilometres to a gas liquefaction facility on Curtis Island.

GLNG gas reserves more than doubled in 2008, confirming Santos' strong position as it moves towards project sanction in 2010. The project remains on schedule for first shipments of gas in 2014.

In December, Santos announced Bechtel as the front-end engineering and design contractor for the LNG liquefaction plant and associated infrastructure on Curtis Island. Bechtel, one of the world's largest engineering and construction contractors, has built nine LNG trains, including the Darwin LNG project.

Marketing activity is well underway, with a particular focus on buyers in northern Asia. GLNG will benefit from PETRONAS' extensive network of LNG customers and established relationships throughout Asia.

Santos continues to build its GLNG team. Staff numbers on the project increased to 220 by the end of the year. There are plans for another 120 new employees by the end of 2009, and a total of 900 by the end of 2010.

A state-of-the-art building is under construction in Brisbane, which will accommodate 600 of those employees, with a further 300 in the field.

**PNG LNG advances**

Momentum has been building on the PNG LNG project with a number of significant milestones achieved in 2008.

Following the signing of agreements between the PNG Government and the joint venture in May, the project formally moved into the front-end engineering and design phase. Santos has a 17.7% interest in the project.

PNG LNG is the largest ever investment in PNG and will double the country's gross domestic product. The project will involve piping gas from the Hides gas field in the PNG Highlands to a proposed 6.3 million tonnes per annum LNG plant near Port Moresby. Additional gas will be sourced from other PNG fields.

Marketing and financing activity are well advanced. A final investment decision is targeted for the end of 2009.

**Darwin LNG going strong**

Santos' first LNG investment continued to perform well in 2008. Santos is the only Australian participant in Darwin LNG, with an 11.4% stake in the successful project that commenced production in 2006.

The plant is supplied by the Bayu-Undan gas fields in the Timor Gap, about 500 kilometres north-west of Darwin. With significant contingent gas resources in the Timor/Bonaparte, LNG growth remains an important part of Santos' strategy in this region.

## THE BENEFITS OF LIQUEFIED NATURAL GAS

**Producing LNG**

- Liquefied natural gas is produced by cooling natural gas to -161° Celsius.
- This reduces the volume by about 600 times, like reducing a beach ball of gas into a ping-pong ball of liquid.
- LNG is stored at atmospheric pressure, a safe way to transport by ship.
- LNG is used by many countries, including Japan, South Korea, China and the United States, for gas-fired electricity generation or for residential, commercial or industrial processes.

**LNG: a cleaner fuel source**

- Natural gas is the cleanest-burning fossil fuel, making it ideal as we move to a cleaner energy future.
- Gas-fired electricity produces up to 70% less greenhouse gas emissions than coal-fired electricity, and uses a fraction of the water that coal-fired electricity requires.
- Increasing demand for LNG will create a market for Santos' rich coal seam gas resources.

Above: Howard Keith, Resident Manager, and Rozitah Abu Bakar, Technical Services Adviser – members of the growing GLNG team.

**SANTOS' STRATEGIC OPPORTUNITIES**

NEW CONTRACTS AND ACREAGE IN WESTERN AUSTRALIA

GUNNEDAH: FUTURE GROWTH FROM MULTI-TCF QUALITY ASSETS

GAS-FIRED POWER GENERATION IN A CARBON-CONSTRAINED WORLD

# Australia


Cangie Wu, Engineer, and Jamie Crowe, Support Engineer, at the Moomba gas facility, central Australia.

# Solid production from base assets; development projects on track

Santos is uniquely positioned to serve growing demand for natural gas with a presence in all major hydrocarbon provinces in Australia.

Demand for natural gas will increase as Australia moves towards a cleaner energy future. Gas-fired electricity emits up to 70% less greenhouse gases than coal-fired electricity, and uses only a fraction of the water.

Santos' Australian base business comprises oil and gas production assets in South Australia, Queensland, Western Australia, the Northern Territory and Victoria.

In 2008, Cooper Basin reservoirs produced strongly, the Reindeer gas project offshore Western Australia was given the go-ahead and there was successful exploration at Netherby and appraisal at Henry, offshore Victoria.

**Growth in the Cooper Basin**

Production in the Cooper Basin Oil project was up 19% from 2007. High levels of drilling and connection activity took place throughout 2008, and extensive 3D seismic surveys continue to deliver additional exploration and in-field opportunities for drilling.

Substantial engineering and geoscience work undertaken in 2008 highlighted significant growth potential in the Cooper Basin. This resulted in the booking of 4.2 tcf of contingent resources, equivalent to 40 years of current Queensland gas demand.

Pilot field programs, leveraging off the existing base development program, are planned for 2009 to further mature and commercialise these contingent resources.

**Gunnedah exploration**

In addition to the Cooper Basin and the continued development of Queensland coal seam gas resources, Santos has secured access to substantial and quality acreage of up to 21,000 square kilometres in the Gunnedah Basin in New South Wales containing 40 tcf of prospective coal seam gas resources.

An 18-month exploratory drilling program began in 2008, with up to 30 core holes expected to be drilled. The first contingent resource booking is expected in 2009.

**Gas-fired power in western Victoria**

Santos' recognition of the growing importance of natural gas as a cleaner energy source in Australia's energy future is reflected in the proposed Shaw River Power Station.

The proposed 500 MW base load power station, which would be situated near Orford in western Victoria, would be supplied with natural gas from Santos' gas portfolio. Front-end engineering and design studies are underway, including the preparation of an Environmental Effects Statement.

**Green light for Reindeer**

The Reindeer gas project involves developing the offshore Reindeer gas field and onshore processing facilities at Devil Creek in the Carnarvon Basin. Santos has a 45% interest in the project.

Gas from Reindeer will supply CITIC Pacific's Sino Iron project in the Pilbara in Western Australia.

**Production at John Brookes restored**

Production at the John Brookes field was interrupted in June by an incident affecting the gas export pipelines at the Varanus Island processing facility operated by Apache Corporation. Although the process facilities were damaged and production interrupted, no-one was injured. Production resumed in August.

Meanwhile, Santos purchased 100% of the WA-4-R permit, which contains the majority of the undeveloped Spar gas field. The field is in the Carnarvon Basin, offshore Western Australia, and extends into WA-13-L, in which Santos has a 45% interest. It is estimated to contain up to 600 PJ of gas resources with associated condensate of up to 8 million barrels.

## COAL SEAM GAS AND SANTOS

- CSG is natural gas formed by the same processes that produce coal over millions of years.
- CSG is trapped in coal seams by pressure and water, and can be extracted without major disruption to surface activities.
- Santos' CSG reserves are 97% methane and lie about 200–1000m underground.
- Santos' rich CSG resources in Queensland will supply the GLNG project (see page 15).
- Santos has strong CSG prospects in the Gunnedah Basin in New South Wales.

Above: Bill Loof, Operator Maintainer, inspecting manifold at Fairview coal seam gas operations.

**SANTOS' STRATEGIC OPPORTUNITIES**

SIGNIFICANT OIL PROSPECTS IN VIETNAM

MULTIPLE GAS PROSPECTS IN THE BAY OF BENGAL

NEAR-TERM OIL AND GAS DEVELOPMENT IN EAST JAVA BASIN

SEISMIC SURVEYS UNDERWAY IN KYRGYZSTAN

# Asia

Cao Duy, Santos' Vietnam External Affairs Manager, near the Hanoi Opera House.

# Strong Indonesian production; progress made in Vietnam and Bay of Bengal

Santos remains in a strong position to capitalise on future growth in Asia, despite the current economic climate. For several years the company has focused on gaining significant resources near growing markets. This has been achieved by building core regions in Indonesia and Vietnam, and moving forward in emerging areas in the Bay of Bengal.

As well as its acreage and asset position, the company has built a strong relationship base, a solid track record and a reputation that puts it in an excellent position to benefit when Asian economies recover.

### Solid progress in Indonesia

Indonesia is a major part of Santos' business and at the core of its successful growth in Asia. The country accounts for 10% of Santos' overall production.

Progress in Indonesia was solid in 2008, particularly in the East Java Basin. Engineering and construction are underway in the development of gas reserves in the Oyong field. A 60-kilometre dedicated pipeline is being laid to transmit gas from Oyong to a gas processing facility at Grati in East Java.

First gas production is targeted for the third quarter of 2009. Cumulative oil production in the Oyong field passed 2 million barrels gross of oil mid-year.

In the nearby Wortel field, development planning is progressing. Wortel has the potential to tie back to Oyong, and first gas is targeted for 2011.

Santos will continue to focus on building its Indonesian exploration and production operations.

### Brantas interest transfer

In December, Santos Brantas Pty Ltd agreed to transfer its 18% minority interest in the Brantas PSC in Indonesia to Minarak Labuan Co Ltd, a company associated with the operator and majority owner of the PSC, Lapindo Brantas Inc.

The transfer was approved by BPMIGAS, the relevant regulatory body of the Indonesian Government.

The Brantas PSC includes the Banjar-Panji 1 onshore exploration well in Sidoarjo, the site of a major mudflow incident that began in May 2006. Since the incident, Santos Brantas has supported the efforts of Lapindo and the Indonesian Government in managing the response to the mudflow.

A long-term management framework and community support program has been established, and is being managed by the Indonesian Government.

### Chim Sao field drilling success

Appraisal drilling has demonstrated the commercial potential of resources in the Chim Sao field, with oil discoveries at Chim Sao and Dua. The discoveries were made in Block 12W of the Nam Con Son Basin, offshore southern Vietnam.

In the same block, the Chim Ung and Chim Cong exploration prospects were drilled later in the year. Santos holds a 37.5% share in Block 12W.

### Seismic surveys offshore India

Data from the second-largest 2D seismic survey ever undertaken in India were acquired by Santos in August 2008. It was the largest seismic survey ever acquired by Santos. In December, 3D seismic surveys commenced. Although interpretation is at an early stage, a number of encouraging features are apparent.

The two deep water exploration licences cover about 16,500 square kilometres in the north of the Bay of Bengal, and were awarded to Santos in 2007 under the Indian Government's competitive New Exploration Licensing Policy. Santos has committed to a US$70 million work program on the two blocks.

A work program, including 3D seismic surveys, is planned to evaluate the potential of two gas discoveries made in nearby Bangladeshi waters in October 2007 and March 2008.

### BOOSTING INDONESIAN COMMUNITIES

Santos has been committed to improving the quality of life in Indonesian communities for years. In 2008, a number of projects were undertaken, such as building new medical centres, new roads, and contributing to improved facilities at schools and mosques.

Santos also led the planting of 55,000 mangroves along the Giligenting coast of Madura, East Java, which will restore the coastal environment and protect coastal communities.

Above: Anita Setyorini, Community Development Coordinator, with Mas Ari, inspecting seedlings planted along the Camplong coast, East Java.


# Sustainability

More information about Santos' progress against sustainability targets is available in the Sustainability Report 2008. The report can be downloaded from the Santos website at www.santos.com/sustainability2008 or a printed copy can be ordered from Santos' Share Register by telephoning 61 8 8116 5000. Shareholders can also elect to receive future Sustainability Reports by contacting the Share Register.

**Clem Faulkner, Operator Maintainer, near Santos' eastern Queensland gas fields.**

# Continued performance improvement including new policies, systems and initiatives

Sustainable practices create long-term shareholder value by realising opportunities in, and managing risks derived from, a range of social, environmental and economic factors.

Santos' overall sustainability performance improved in 2008, with many achievements at the level of policy and system development and in successful implementation of initiatives.

As well as inclusion in the Sustainable Asset Management (SAM) *Sustainability Yearbook 2009* (see page 7), Santos' sustainability performance was recognised with inclusion on the:

- Australian SAM Sustainability Index (AuSSI)
- Reputex Social Responsibility Index, with Santos achieving a Reputex 'A' rating
- Goldman Sachs JBWere ASX Climate Disclosure Leadership Index
- Horwath–University of Newcastle five-star rating for corporate governance.

Santos remains committed to continuously improving its sustainability performance by integrating sustainable principles into its everyday business and comprehensively measuring and reporting its performance.

### Addressing safety performance

Safety performance is something Santos is continuously striving to improve. The company has in place a range of measures and procedures to protect its employees and contractors, and strive towards achieving Santos' safety vision: 'We all go home from work without injury or illness'.

Everyone at Santos was saddened by the death of a contractor in January, on an oil rig in the Cooper Basin. Santos has conducted a thorough investigation and is working closely with the contracting company to ensure lessons from this incident deliver ways to avoid such an event occurring again.

During the year, Santos continued its ongoing delivery of activities and programs to maintain focus on safety. This included a company-wide intervention, the Stop for Safety program, in which all personnel stopped work to discuss safety and identify ways to deliver improvement.

Specific action plans were drawn up to address safety at a work group level. Following this program, safety training was given to supervisors on safety leadership.

Safety is emphasised strongly in all areas of the business, with specific focus areas at the forefront:

- Vehicle management safety. There has been a reduction in serious vehicle accidents – nine in 2008 compared to 12 in 2007.
- Heat stress. It was pleasing that Santos did not have any heat stress injuries in 2008. This is an ongoing focus given the extreme climate at many Santos operating sites.
- The four main causes of recordable injuries are manual handling, tools, knocking into equipment or structures, and slips or trips. These areas have been, and will remain, a specific focus for improvement.

Process safety management has been integrated into Santos' environment, health and safety management system to prevent major hazards or events that could lead to fatalities, serious injury, significant property damage or environmental harm.

A systematic approach to process safety enables Santos to further improve the reliability and integrity of its plants and equipment, which in turn will support the ongoing improvement in its safety performance.

Reporting is critical to understanding how Santos is performing. In 2008, Santos introduced high potential incident reporting. These are significant incidents with the potential to cause a serious injury or fatality. Such incidents are presented and discussed at Board and senior management level.

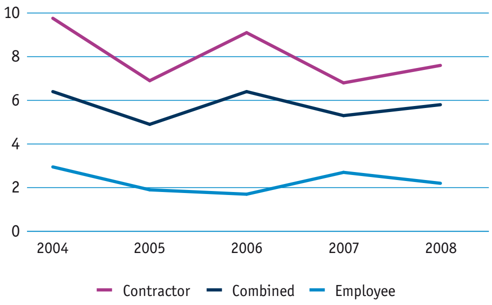
In 2008, there were 11 high potential incidents. Reviewing incidents, identifying the cause and implementing appropriate

| SANTOS SYSTEMS AND POLICIES INCLUDE: |
| --- |
| Asset Development Policy |
| Code of Conduct |
| Environment, Health and Safety Management System |
| How Santos Works |
| **Business conduct** |
| Anti-corruption |
| Company resources |
| Confidentiality |
| Conflict of interest |
| Financial governance |
| Financial management and accounting |
| Gifts and benefits |
| Guidelines for dealing in securities |
| Political affiliation |
| Privacy |
| Recruitment and selection |
| Reporting misconduct |
| Risk management |
| Shareholder communication and market disclosure |
| **Environment and social** |
| Community |
| Environment |
| Greenhouse |
| Health and wellbeing |
| Human rights |
| Safety |
| **Workplace and employment** |
| Conditions of employment |
| Equal opportunity |
| Internet and electronic communications |
| Issue resolution |
| Leave |
| Performance management |
| Remuneration and benefits |
| Training and development |

All Santos systems and policies are communicated to employees through the company's internal website.

# Sustainability
(continued)

## TOTAL RECORDABLE CASE FREQUENCY RATE
Recordable injuries per million hours worked



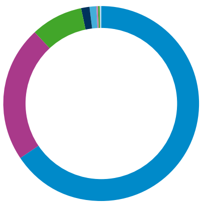

Santos' injury rate increased slightly to 5.8 in 2008 from 5.3 in 2007. The first half of the year started poorly with a fatality and an injury rate of 7.2. The second half of the year showed some improvement, with the injury rate dropping to 4.6.

## WORKFORCE COMPOSITION 2008
Headcount

| | |
|---|---|
| Full-time | 1,794 |
| Part-time | 59 |
| Graduate program | 79 |
| Secondee | 8 |
| **Total** | **1,940** |

## LOCATION OF EMPLOYEES 2008

| | % |
|---|---|
| South Australia | 65.6 |
| Queensland | 22.6 |
| Indonesia | 8.5 |
| Northern Territory | 1.5 |
| Western Australia | 1.1 |
| India | 0.2 |
| Vietnam | 0.2 |
| Egypt | 0.1 |
| Papua New Guinea | 0.1 |
| Victoria | 0.1 |



The majority of Santos' employees are located in South Australia due to the significant Cooper Basin operations and the Adelaide-based corporate headquarters. Two collective union agreements cover approximately 22% of employees.

action will help Santos prevent future incidents and the possibility of serious injury.

### Future leaders identified

Leadership continued to be an important focus in 2008. Santos added new programs to its structured leadership program, called the *Santos Way of Managing and Leading*. The program includes courses that help develop the necessary skills required at successive stages of leadership.

With an integrated approach to leadership development, Santos can ensure learning is consistent and content is relevant to both business needs and the Santos values. Using an established process to identify people with leadership potential early in their career, the company then provides training and resources for potential leaders. These planned development experiences are enhanced with regular feedback and coaching from managers.

To guide both individuals and their leaders in their joint responsibility for development, Santos introduced the *Managing My Career* training program and launched *Development Toolkits* for leaders and employees on its intranet in 2008.

### Boosting employee capabilities

Developing the capability of employees is crucial to fulfilling the company's strategy. Challenges include recruiting people with specific technical skills and accelerating capability development internally.

In response, Santos has a number of long-term programs to develop leadership, workforce capability and a high performance culture.

Santos' approach to development is underpinned by the Santos Competency Framework, which defines both the technical/professional and behavioural competencies required for success in current or future roles.

Employees can use the framework to assess their own competencies against those needed to succeed and progress in a particular role or discipline. Training programs and action learning aligned to particular development pathways are available for employees to develop their skills in relevant areas.

To ensure the company develops the necessary technical depth in the core geoscience and engineering disciplines, all relevant employees are involved in annual competency reviews and development planning processes under the Santos technical ladder process. This process was extended to the Indonesian operations in 2008.

### Success in targeted programs

Demand has increased in Santos' highly regarded graduate program with 30 graduates starting in 2009, double the 2008 intake.

For the second year running Santos has won a silver award in the Commonwealth Minister's Awards for Excellence for Employers of Australian Apprentices in the Adelaide region. Apprenticeships will also be offered in the company's eastern Australian operations in 2009.

The Competency Based Training program for field employees was extended in 2008 to cover personnel responsible for managing contractors, drilling and petroleum engineering and frontline operational leaders.

### Continued improvement in employee survey results

The positive results from the biennial employee survey show that Santos continues to build a committed culture.

Commitment has improved by 69% since it was first measured in 2002, and in the past two years has continued to improve by 3%. Commitment is an important measure because it correlates with business measures such as productivity and retention, customer satisfaction, total shareholder return and sales growth.

Results significantly exceeded the Australian norm on 29 out of the 40 items for which norm data were available, and were significantly below on only two of the 40 items.

Comparisons with the 2006 results show improvement across almost all areas of the survey. Among the biggest improvers were those identified for particular focus after the 2006 survey – personal development and

‘Santos has a number of long-term programs to develop leadership, workforce capability and a high performance culture.’

change management. Santos will continue its focus on these areas over the next two years, to further consolidate and extend their improvement.

**Improving health and wellbeing**

Santos again provided employees with a comprehensive health and wellbeing program in 2008. The program started in 2006 and has now conducted health expos at all Santos sites.

Health practitioners talked to staff on various topics such as healthy eating, blood pressure checks, diabetes, and skin cancer. More than 1,000 people attended the expos.

A fatigue management project was a major focus in 2008 and an extensive study was undertaken to examine fatigue issues in the workplace and whether current strategies are adequate.

Gym participation increased in 2008, with 40% of employees now active gym users.

**Health organisation fundraising**

A number of community health awareness campaigns were also undertaken during the year, addressing diabetes, breast cancer, prostate cancer and depression. Over $10,000 was donated to the Juvenile Diabetes Research Foundation, $4,000 for Pink Ribbon Day (breast cancer awareness) and over $30,000 was raised for Movember (prostate cancer and depression).

Money raised is a combination of employee donations and Santos matching sponsorships received by the Santos participants.

**Oil spill management**

Santos is committed to the prevention of oil spills. Systems in place to prevent spills include bunding around fuel and chemical sites, monitoring systems, pipeline integrity management, and pigging (cleaning pipes).

Should an incident occur, Santos is well prepared to deal with it. Employees are trained to respond immediately and appropriately, and the company has in place a comprehensive plan for mitigation, management and remediation of the effects of a spill.

Management of the Algester, Carindale and Moonie East spill sites on the Moonie to Brisbane oil pipeline continues to be a focus.

In Algester, a suburb of Brisbane, spill site remediation is well advanced. Greening Australia has planted grass, trees and other vegetation to enhance the affected park. Playground equipment also has been installed following consultation with Brisbane City Council and the local community.

In the Brisbane suburb of Carindale, 110m$^3$ of hydrocarbon was released from the pipeline. Prompt action was taken and the site has been remediated.

In Moonie East, Queensland, hydrocarbons continue to be recovered from bores. An automated hydrocarbon recovery system has been installed. Excavation works to remove contaminated soil have been completed. A bore installation program for ongoing monitoring is nearing completion.

Santos has begun decommissioning the Moonie to Brisbane pipeline. The company has developed an abandonment strategy to reduce the likelihood of incidents and ensure that appropriate measures are in place should an incident occur.

As discussed in detail in the Chairman’s review on page 4, Santos transferred its interest in the Brantas PSC, Indonesia, which contains the site of the Sidoarjo mudflow incident.

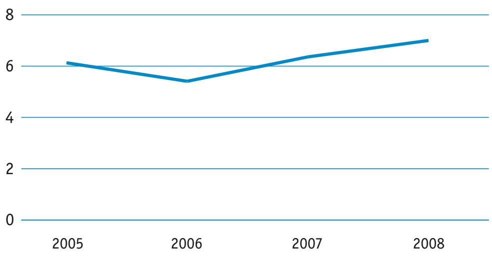
**Recycling doubled**

Santos achieved an ambitious recycling target of 15% in the Cooper Basin in 2008. This target followed a review of 2007 data which indicated a recycling rate of about 7% for Cooper Basin sites.

In the Cooper Basin, recycling programs diverted more than 5,976m$^3$ of waste from landfill. This improvement is not only beneficial to the environment, it can also potentially reduce landfill management costs.

In 2008, Santos instigated its new waste management system for its Adelaide office. This system achieved a recycling rate of over 80%, diverting 66 tonnes of waste from landfill.

VOLUNTARY EMPLOYEE TURNOVER %

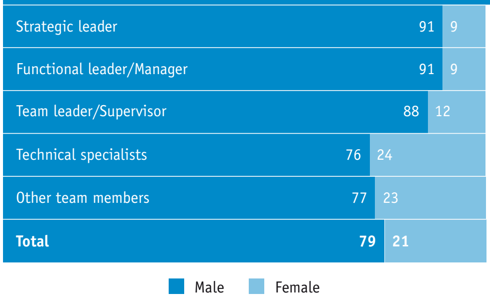



WORKFORCE TRAINING 2008

| Category | Total employees | Average training hours per employee* |
|---|---|---|
| Strategic leader | 11 | 1.7 |
| Functional leader/ Manager | 86 | 7.9 |
| Team leader/ Supervisor | 259 | 28.3 |
| Technical specialists | 368 | 15.6 |
| Other team members | 1,216 | 36.7 |
| **Total** | **1,940** | **30.2** |

* This figure represents only employees in Australia.

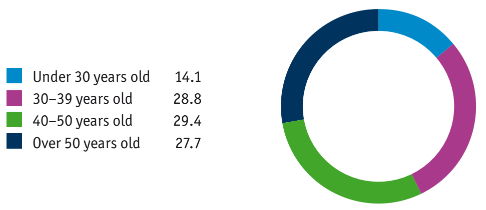
WORKFORCE GENDER PROFILE 2008 %



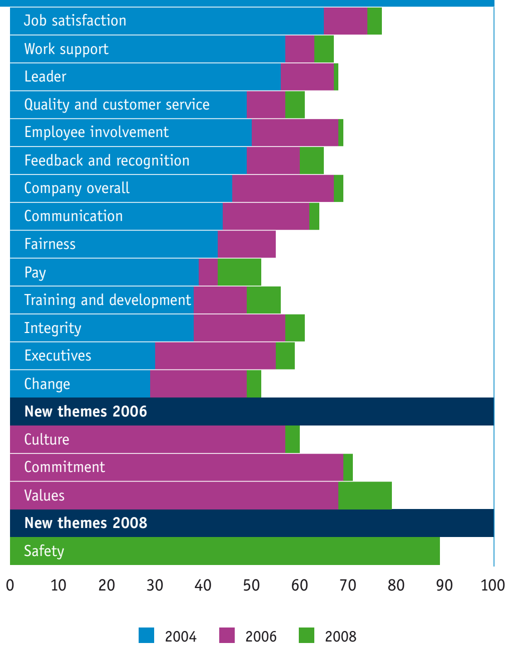

Santos’ gender profile reflects the predominantly male workforce in trades, engineering and science. The company is involved in programs to improve gender balance; for example, the Geoscience Pathways project.

# Sustainability
(continued)

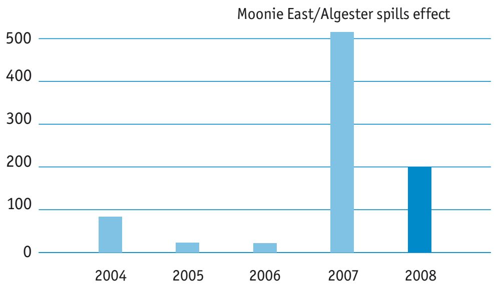
WORKFORCE AGE PROFILE 2008 %




EMPLOYEE SURVEY RESULTS % positive




OIL SPILL VOLUMES $m^3$




**Climate change policy launched**

Climate change is a global issue requiring significant resources to meet complex environmental, energy, economic and political challenges.

A clean energy strategy is the cornerstone of Santos' new Climate Change Policy. The policy is based on Santos' vision 'to lower the carbon intensity of its products'. It will guide moves to increase energy efficiency, develop low emissions technology, embed a carbon price and continue public disclosure of emissions.

Santos' new clean energy division will pursue emissions abatement projects and lower emission technologies.

**Energy efficiency opportunities**

Santos achieved its emission intensity reduction target of 20% by 2008, from 2002 levels (greenhouse emissions/unit of production).

Greenhouse gas and energy efficiency hazard standards under the environment, health and safety management system provide direction to Santos operations for the measurement and management of emissions and energy.

Santos has been actively participating in the Australian Government's energy efficiency opportunities program since its introduction in 2006.

**Transparent air quality reporting**

Air quality management and reporting includes emissions to air of pollutants. Santos aims to manage operations to comply with regulatory air quality requirements.

The company has disclosed its emissions to the Australian National Pollution Inventory every year since its inception in 1998.

**Stakeholder consultation grows**

Stakeholder engagement took on an even greater level of importance in 2008 as Santos embarked on a series of landmark projects in new geographical areas. This included the GLNG project, the proposed Shaw River Power Station in western Victoria, and the exploration of the Gunnedah Basin in New South Wales.

To meet the individual needs of these regions, Santos drew up tailored Stakeholder Engagement Plans to ensure communities were fully informed and consulted. Detailed consultation databases for each region ensured every question, comment or grievance was logged, tracked and responded to.

For example, Santos held 25 GLNG information sessions in 2008 across 11 locations and more than 140 project briefings with key stakeholders. More than 250 community enquiries were followed up. The company also set up information shop fronts in Gladstone and Roma's shopping districts as the beginning of an ongoing program.

While taking on new major projects, Santos has not lost sight of the importance of maintaining its stakeholder engagement programs in areas surrounding existing operations such as the Cooper Basin and Victoria.

**Community wellbeing programs**

Santos is committed to forming strong relationships with the communities it becomes a part of. The company recognises its responsibility as a corporate citizen, and seeks to improve the quality of life in communities surrounding its operations.

The company's Community Policy – developed in 2008 – provides guidance for stakeholder relations and community investments in areas surrounding its operations.

This policy has been incorporated into the company's environment, health and safety management system. The management standard that outlines a framework to ensure activities comply with the policy's commitments is now being finalised.

In 2008, Santos contributed $7.5 million to 206 events and organisations in Australia, Indonesia, Papua New Guinea, Vietnam and Kyrgyzstan. The company focused on education, the environment, art and culture, and youth development.

‘Santos contributed $7.5 million to 206 community events and organisations in 2008.’

Examples include:

- a $1 million, three-year commitment to the Adelaide Symphony Orchestra, which continues Santos’ longstanding relationship with the ASO
- sponsorship of the OzAsia Festival, including employee participation in the Moon Lantern Festival
- support for 12 organisations in Orbost, Victoria, near Santos’ Patricia-Baleen gas plant, including schools, recreational clubs, the fire brigade, and health and environmental projects
- a donation by employees of 520 children’s books to Port Moresby General Hospital
- provision of $5 million to establish the Royal Institution of Australia, which will promote scientific knowledge in the wider community.

Santos works with communities to identify local needs before giving support, to ensure its resources are used in the best possible way to make the biggest difference.

**Employee fundraising supported**

The Santos Community Fund supports volunteering and fundraising by employees. In 2008, it contributed to 14 organisations.

The fund covers all the contributions Santos makes to community-based organisations. It also provides additional support to employees who volunteer their own time and resources to improve the community.

In 2008, this included helping Cooper Basin employees and contractors raise $100,000 for the Royal Flying Doctor Service, and assisting all staff raise about $10,000 for the Juvenile Diabetes Research Foundation.

**Indigenous relations and cultural heritage**

Santos recognises the importance of retaining cultural heritage. From an operational perspective this involves safeguarding items of cultural significance and ensuring that all relevant statutory cultural heritage requirements are complied with.

In 2008, Santos entered into formal negotiation with eight Aboriginal groups for cultural heritage and native title for the GLNG project.

Cultural Heritage Management Plans are negotiated with Aboriginal groups to define site identification procedures, ensure Aboriginal participation in the identification and protection of cultural heritage and specify impact mitigation measures. In 2008, five plans were completed for review by the Queensland Government.

Resources were expanded in 2008 with the appointment of additional office and field-based cultural heritage personnel. Also, Santos continued to invest in the training and developing cultural heritage officers.

**Aboriginal Engagement Policy**

The Aboriginal Engagement Policy, which is being developed, will provide a holistic approach to engagement with the Aboriginal community. This will take Santos beyond the minimum legal requirements of cultural heritage and native title, addressing risk in terms of cost, delay and possibility of legal action.

The broader approach includes addressing employment and training, business opportunities and educational support.

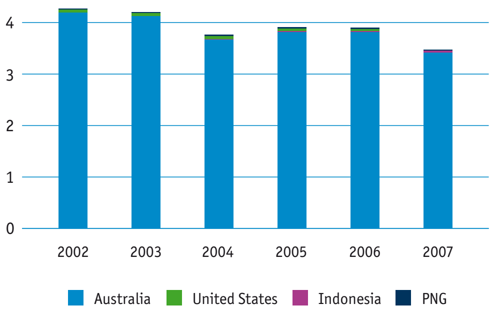
**More indigenous employment and training opportunities**

In 2008, Santos set out a new strategy that aims to have up to 500 Aboriginal employees working with Santos and its contractors in the next few years.

The scheme is a cooperative approach between Santos and its contractors, and will be supported by the development of the Santos Contractor Aboriginal Training and Employment Scheme.

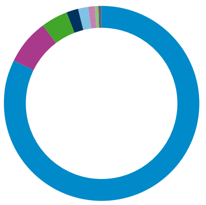
This initiative supports the Australian Employment Covenant. It will be backed by the $10 million Santos Indigenous Fund, set aside for employment and training in the energy sector. Project-based funds, such as those associated with the GLNG project, also will be used.

**SANTOS SHARE GREENHOUSE GAS EMISSIONS**
Million tonnes $CO_2$-e




Santos’ greenhouse gas emissions are reported as carbon dioxide equivalents and include carbon dioxide, methane and nitrous oxide. This data is audited, with the assurance statement provided mid year. Therefore, 2007 results are represented.

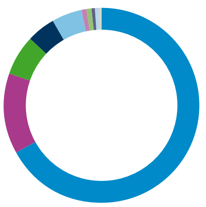
**SPONSORSHIP BY ACTIVITY 2008** %



| | |
|---|---|
| Education | 82.3 |
| General community | 7.6 |
| Arts and culture | 4.3 |
| Industry | 1.9 |
| Indigenous | 1.8 |
| Environment | 1.0 |
| Santos Community Fund | 0.7 |
| Youth | 0.4 |

Santos’ sponsorship program provides support to education, environment, art and culture and a range of youth development activities.

**SPONSORSHIP BY AREA 2008** %



| | |
|---|---|
| Royal Institution of Australia | 67.1 |
| Australian School of Petroleum | 13.3 |
| South Australia | 6.5 |
| Queensland | 4.9 |
| Indonesia | 4.8 |
| Northern Territory | 1.0 |
| Victoria | 0.8 |
| New South Wales | 0.6 |
| Western Australia | 0.4 |
| Papua New Guinea | 0.2 |
| New Zealand | 0.2 |
| Vietnam | 0.2 |

Santos’ sponsorship program is geographically distributed in a manner consistent with the spread of the company’s operations in each area.

# Board of Directors

## PETER ROLAND COATES

**Deputy Chairman**

BSc (Mining Engineering)

Age 63. Independent non-executive Director since 18 March 2008 and appointed Deputy Chairman on 10 December 2008. Chairman of the Remuneration Committee and member of the Audit Committee of the Board. Non–executive Chairman of Xstrata Australia since January 2008. Previously Chief Executive of Xstrata Coal, Xstrata plc's global coal business. Appointed non-executive director of Minara Resources Limited on 1 April 2008 and appointed Chairman on 9 May 2008. Appointed non-executive director of Downer EDI Limited on 30 October 2008. Past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association. Member of the APEC 2007 Business Consultative Group and the Emissions Trading Task Group. Current member of the NSW Minerals Ministerial Advisory Council and the Business Council of Australia.

## KENNETH CHARLES BORDA

LLB, BA

Age 56. Independent non-executive Director since 14 February 2007 and Chairman of the Finance Committee of the Board. Board member of Fullerton Funds Management, owned by Temasek, Singapore, since February 2007. Non-executive director of Ithmaar Bank (Bahrain) since 16 February 2007 and Leighton Contractors Pty Ltd since 1 July 2007. Appointed a director of Talent2 International Ltd on 1 August 2008 and to the Asian Advisory Board of Aviva Pte Ltd in Singapore on 1 February 2009. Previously a Board member of SFE Corporation for over five years until its acquisition by the Australian Stock Exchange Ltd in July 2006. CEO of Middle East and North Africa, Deutsche Bank before retirement on 1 May 2007. Formerly Regional CEO Asia Pacific and CEO Australia and New Zealand, Deutsche Bank. Director of Deutsche Bank Malaysia from 2002 until retirement on 1 May 2007.

## STEPHEN GERLACH

**Chairman**

LLB

Age 63. Independent non-executive Director since 5 September 1989 and Chairman since 4 May 2001. Chairman of the Nomination Committee of the Board. Member of the Environment, Health, Safety and Sustainability Committee, Finance Committee and Remuneration Committee of the Board. Chairman of Futuris Corporation Ltd since 2003, having been appointed a non-executive director in 1996. Chairman and director of Challenger Listed Investments Ltd from 1994 until 5 December 2007. Former Managing Partner of the Adelaide legal firm, Finlaysons. A Trustee of the Australian Cancer Research Foundation, Chairman of Foodbank SA and a director of Foodbank Australia. Previous directorships include Southcorp Holdings Ltd 1994-2005, Elders Rural Bank 1998-2006, Chairman of Elders Australia Ltd 1993-2006 and Chairman of Equatorial Mining Ltd 1994-2002.

## ROY ALEXANDER FRANKLIN OBE

BSc (Hons)

Age 55. Independent non-executive Director since 28 September 2006 and member of the Environment, Health, Safety and Sustainability Committee of the Board. Non-executive Chairman of Bateman Litwin NV since May 2006. Chairman of Novera Energy plc since May 2007. Non-executive director of Keller Group plc since 19 July 2007 and StatoilHydro ASA since 1 October 2007. Former Chief Executive Officer of Paladin Resources plc 1997-2005 and former Group Managing Director of Clyde Petroleum plc. Former Chairman of BRINDEX, the trade association for UK independent oil and gas companies 2002-2005 and a former member of PILOT, the joint industry/UK Government task force set up to maximise hydrocarbon recovery from the UK North Sea 2002-2005. In 2004 awarded the OBE for services to the UK oil and gas industry.

PROF JUDITH SLOAN

BA (Hons), MA, MSc

Age 54. Independent non-executive Director since 5 September 1994. Member of the Nomination Committee of the Board. Appointed non-executive Director of the Westfield Group on 26 February 2008. Chairman of Lend Lease Primelife Ltd (previously Babcock & Brown Communities Group) since July 2007. Commissioner of the Australian Fair Pay Commission since March 2006 and part-time Commissioner of the Productivity Commission since 1998. Non-executive Chairman of Primelife Corporation Ltd July 2006-July 2007, Board member then Deputy Chairman of the Australian Broadcasting Corporation 1999–2004 and director of Mayne Group Ltd 1995–2004. Previous appointments include Chairman of SGIC Holdings Ltd, director of the South Australian Ports Corporation, Professor of Labour Studies at the Flinders University of South Australia and Director of the National Institute of Labour Studies.

RICHARD MICHAEL HARDING

MSc

Age 59. Independent non-executive Director since 1 March 2004. Chairman of the Environment, Health, Safety and Sustainability Committee of the Board. Member of the Audit, Nomination and Remuneration Committees of the Board. Independent non-executive Chairman of Clough Ltd, having been appointed as director in May 2006. Non-executive director of Downer EDI Limited since 1 July 2008. Non-executive Deputy Chairman of Arc Energy Ltd until 25 May 2007 (appointed as non-executive director on 26 August 2003). Chairman of the Ministry of Defence Project Governance Board – Land Systems Division (Army) 2003 – 1 February 2009. Former President and General Manager of BP Developments Australia Ltd with over 25 years of extensive international experience with BP. Former Vice-Chairman and Council member of the Australian Petroleum Production and Exploration Association (APPEA).

DAVID JOHN WISSLER KNOX

**Chief Executive Officer and Managing Director**

BSc (Hons) Mech Eng, MBA

Age 51. Appointed Chief Executive Officer and Managing Director in 2008. Member of the Environment, Health, Safety and Sustainability Committee of the Board. Responsible for the overall performance and strategic direction of the company. Leads major strategic initiatives, develops top level external relationships, leads and manages the Santos Leadership Team and takes responsibility for the management succession process. Joined Santos in September 2007 as Executive Vice President Growth Businesses and was appointed Acting Chief Executive Officer in March 2008. Previously Managing Director of BP Exploration & Production in Australasia and an Executive Member of APPEA. David has a wealth of upstream oil and gas experience, having held management and engineering roles at BP, ARCO and Shell across Australia, United Kingdom, Pakistan, United States, Netherlands and Norway.

KENNETH ALFRED DEAN

BCom (Hons), FCPA, MAICD

Age 56. Independent non-executive Director since 23 February 2005. Chairman of the Audit Committee and member of the Finance Committee of the Board. Director of Santos Finance Ltd since 30 September 2005. Chief Financial Officer of Alumina Ltd, 4 October 2005 – 3 February 2009, alternate director of Alumina Ltd, 27 October 2005 – 3 February 2009, and non-executive director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies, 27 October 2005 – 3 February 2009. Director of Shell Australia Ltd from 1997 to 2001 and Woodside Petroleum Ltd from 1998 to 2004. Over 30 years' experience in the oil and gas industry. Fellow of the Australian Society of Certified Practising Accountants and member of the Australian Institute of Company Directors. Former Chief Executive Officer of Shell Financial Services and member of the La Trobe University Council.

# Santos Leadership Team

## MARTYN EAMES

**Vice President Asia Pacific**

BSc (Hons)

Martyn Eames is responsible for Santos' activities in the Asia Pacific region. These comprise Santos' business interests in Indonesia, Papua New Guinea, India, Bangladesh, Kyrgyzstan and Vietnam.

Martyn joined Santos in December 2004 and was formerly Vice President Strategy and Business Planning with BP Angola. His career spans more than 25 years with BP, working various upstream roles in Angola, Canada, Australia, Papua New Guinea, Norway, United Kingdom and United States.

## JAMES BAULDERSTONE

**Vice President Corporate Development and Legal; Company Secretary**

LLB (Hons), BSc (Hons)

James Baulderstone is responsible for the M&A team, the Commercial and Marketing Excellence function and Legal and Secretariat. James is also Company Secretary of the Santos Group.

James joined Santos in January 2007 as General Counsel and Company Secretary after previously holding similar roles at Mayne Group and BlueScope Steel. James has extensive legal, commercial and business development experience across many countries including the United States, Germany, United Kingdom, Malaysia, China and India.

## PETER WASOW

**Chief Financial Officer and Executive Vice President**

BCom, GradDipMgmt, FCPA

Peter Wasow is responsible for strategy and planning, corporate finance, accounting, taxation, treasury, investor relations, risk and audit, and public affairs.

Peter joined Santos in May 2002 following a 23-year career with BHP Billiton. His roles included Vice President Finance and Administration for BHP Petroleum in Houston, Texas. His most recent role was Vice President Finance, in the BHP corporate office, Melbourne.

## MARK MACFARLANE

**Vice President Eastern Australia**

BEng (Hons) Mechanical

Mark Macfarlane is responsible for Santos' eastern Australia activities, including commercial and finance, business development, exploration and development, production operations, plant operations and reliability, and human resources.

Mark joined Santos in 1997 after a nine-year career with Esso in Australia and Malaysia. He has worked in a variety of leadership roles at Santos, including reservoir management, corporate planning, gas and oil exploitation and optimisation, and operations. Mark's most recent role was Vice President Development.

## DAVID KNOX

**Chief Executive Officer and Managing Director**

BSc (Hons) Mech Eng, MBA

David Knox joined Santos in September 2007 as EVP Growth Businesses and was appointed Acting CEO in March 2008. After a global search he was appointed CEO and MD in July 2008. He was previously Managing Director of BP Exploration & Production in Australasia and an Executive Member of APPEA.

David has a wealth of upstream oil and gas experience, having held management and engineering roles at BP, ARCO and Shell across Australia, United Kingdom, Pakistan, United States, Netherlands and Norway.

## MARY LYNCH

**Vice President Human Resources**

BTech, GradDipHRMgmt

Mary Lynch is responsible for human resources strategy and activities throughout Santos, including remuneration and benefits, organisational effectiveness, talent management, learning and development, recruitment and payroll.

Mary joined Santos in September 2003 as Group Executive Human Resources. She previously held the position of National Manager, Human Resources in Telstra Corporation's Infrastructure Services Group and has held senior Human Resources positions with KPMG Consulting Australia and Mobil Oil Australia.


## RICK WILKINSON

**President GLNG and Queensland**

BSc (Hons)

Rick Wilkinson is responsible for the Queensland assets, including overseeing the total GLNG business including the commercial, marketing and financial aspects.

Rick was formerly Vice President Commercial. Before joining Santos in 1997, he was Group Manager Energy Retail for the Victorian Gas and Fuel Corporation, responsible for energy trading, customer relations, marketing and sales. He has also held various engineering, strategy and management positions with Schlumberger, McKinsey & Co and Pilkington Glass.

## TREVOR BROWN

**Vice President Exploration**

BSc (Hons)

Trevor Brown leads a team of highly qualified geoscientists to implement a challenging exploration strategy and is responsible for enhancing Santos' geoscience excellence across all exploration, appraisal, development and new venture activities.

Trevor joined the company in 2001 from the US independent oil company Unocal where he was part of a very active exploration team. He has held various roles at Santos including Manager New Ventures, Manager Growth Projects and Vice President Geoscience and New Ventures. Trevor has over 20 years experience in the oil and gas industry including 11 years in Indonesia managing onshore and offshore exploration programs.

## JOHN ANDERSON

**Vice President Western Australia and Northern Territory**

LLB, BEc, GDCL

John Anderson is responsible for Santos' activities in Western Australia and Northern Territory, including commercial and finance, business development, exploration, development and operated assets.

John joined Santos in 1996 as Corporate Counsel for the former Queensland Northern Territory Business Unit after 10 years as a solicitor with Freehills. He has held a range of roles at Santos including Manager Legal and Business Services, Group Executive Business Development, Vice President Strategic Projects and most recently Vice President Commercial.

## RAY BETROS

**Executive Vice President Technical**

BEng Chemical,
GradDip Process Plant Engineering

Ray Betros is responsible for driving overall performance; enhancing Santos' technical excellence across subsurface and surface engineering disciplines; leading environment, health and safety and clean energy strategies; and overseeing delivery of key technical services (drilling, IT, and procurement and logistics).

Ray joined Santos in January 2009 from BG Group where he was the Technical Director and Chief Operating Officer for the Asian, Middle Eastern and African regions. During his more than 30-year career, he has also held senior positions with BHP Billiton and Hoechst.

## ROGER KENNETT

**Vice President GLNG Operations**

BSc Chemical Technology

Roger Kennett is responsible for the project management, engineering, construction and operation of the coal seam gas field development in eastern Queensland, the 435 kilometre pipeline from Fairview to Gladstone, and the GLNG plant and facilities.

Roger joined Santos in 1984, and has held a range of operations and technical leadership roles during his 25 year career with Santos. His most recent role was Vice President Operations. Before joining Santos, Roger worked for 13 years in chemical and fertiliser industries.

Nick Lemon, Senior Staff Sedimentologist and Petrologist, discussing core samples with the Santos Leadership Team at the company's core library, which is housed at Santos' Regional Distribution Centre at Port Adelaide.

# Corporate governance

## INTRODUCTION

The Board and management of Santos believe that, for the Company to achieve its vision of becoming a leading energy company for Australia and Asia, it is necessary for the Company to strive for the highest standards of personnel safety, environmental performance, governance and business conduct across its operations in Australia and internationally.

To achieve the highest standards of corporate governance, the Board has established corporate governance policies and charters (Policies). The Policies, or a summary of the Policies, are publicly available on the Company's website, www.santos.com.

The Company's Policies meet the requirements of both the *Corporations Act 2001 (Cth)* (the Act) and the Listing Rules of the Australian Securities Exchange (ASX), and, in the opinion of the Board, comply with best practice, including the ASX Principles of Good Corporate Governance and Good Practice Recommendations (ASX Principles).

The table on page 31 indicates where specific ASX Principles are dealt with in this Statement.

## PART 1: COMPOSITION OF THE BOARD

**Relevant policies and charters**
**See www.santos.com**

- Board Guidelines
- Company Constitution

### 1.1 Composition

The composition of the Board is determined in accordance with the Company's Constitution and the Board Guidelines which, among other things, require that:

- the Board comprises a minimum of five directors (exclusive of the Chief Executive Officer/Managing Director (CEO)), and a maximum of ten directors;
- the Board should comprise a substantial majority of independent, non-executive Directors;
- there should be a separation of the roles of Chairman and CEO of the Company;
- the Chairman of the Board should be an independent, non-executive Director; and
- performance of the Board and its members should be reviewed regularly and objectively.

The names and details of the experience, qualifications, special responsibilities, and term of office of each Director of the Company and the Company Secretary are set out on pages 26 to 29 of this Annual Report.

**In 2008, the Board introduced the new role of Deputy Chairman as part of the Board's succession planning and Board renewal process. Peter Coates was appointed as Deputy Chairman on 10 December 2008.**

### 1.2 Director independence

The Board has adopted the definition of independence set out in the ASX Principles.

Having regard to this definition, the Board generally considers a Director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company. The Board will assess the materiality of any given relationship that may affect independence on a case-by-case basis and has adopted materiality guidelines to assist in that assessment.

Under these guidelines, the following interests are regarded as material in the absence of any mitigating factors:

- a holding of 5% or more of the Company's voting shares or a direct association with an entity that holds more than 5% of the Company's voting shares; or
- an affiliation with an entity which accounts for 5% or more of the revenue or expense of the Company.

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focussing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to promptly disclose to the Board their interests in contracts, family ties and cross-directorships which may be relevant in considering their independence.

Currently, the Board comprises seven non-executive Directors, all of whom are considered independent under the principles set out above, and one executive Director (the Managing Director/CEO).

### 1.3 Conflicts of interest

The Board has an obligation to ensure that Directors avoid conflicts between their duty to the Company and their own personal interests. Directors are required to declare actual or potential conflicts of interest both on their appointment to the Board and on an ongoing basis. Where a material personal interest arises with respect to a matter that is to be considered by the Board, the Director is required to declare that interest and must not take part in any Board discussion or vote in relation to that matter, unless permitted in accordance with the Act.

### 1.4 Appointment of new Directors, term of office and re-election

The Board Guidelines include the following principles:

- non-executive Directors are to be appointed on the basis that their nomination for re-election as a Director is subject to review and support by the Board;
- there should be appropriate circumstances justifying re-election after a specified period of service as a Director; and
- the contribution of the Board, Board Committees, and of individual Directors is the subject of formal review and discussion in accordance with the process set out below.

Prospective candidates for election and re-election to the Board are reviewed by the Nomination Committee. The Committee considers the business experience, skills and expertise of the candidates and the requirements of the Board, to ensure that the Board's overall composition enables it to meet its responsibilities. The Nomination Committee makes appropriate recommendations to the Board regarding possible appointments of Directors.

| ASX PRINCIPLES AND RECOMMENDATIONS | REFERENCE IN CORPORATE GOVERNANCE STATEMENT |
|---|---|
| **Principle 1 - Lay solid foundations for management and oversight** | |
| 1.1 Establish and disclose the functions reserved to the Board and those delegated to management. | 2.1 |
| 1.2 Disclose the process for evaluating the performance of senior executives. | 1.6 |
| 1.3 Provide the information indicated in the guide to reporting on Principle 1. | 1.6, 2 |
| **Principle 2 - Structure the Board to add value** | |
| 2.1 A majority of the Board should be independent Directors. | 1.2 |
| 2.2 The chairperson should be an independent Director. | 1.1 |
| 2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual. | 1.1 |
| 2.4 The Board should establish a Nomination Committee consisting of a minimum of three members, the majority being independent Directors. | 3.1, 3.2, 3.3 |
| 2.5 Disclose the process for evaluating the performance of the Board, its committees and individual directors. | 1.6 |
| 2.6 Provide the information indicated in the guide to reporting on Principle 2. | 1.1, 1.2, 1.4, 1.6, 2.2, 3.1, 3.2, 3.3 |
| **Principle 3 - Promote ethical and responsible decision-making** | |
| 3.1 Establish a code of conduct to guide the Directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: | 5.1, 5.2 |
| 3.1.1 the practices necessary to maintain confidence in the Company's integrity; | |
| 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders; | |
| 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | |
| 3.2 Disclose the policy concerning trading in Company securities by Directors, senior executives and employees. | 5.3 |
| 3.3 Provide the information indicated in the guide to reporting on Principle 3. | 5.1, 5.2, 5.3 |
| **Principle 4 - Safeguard integrity in financial reporting** | |
| 4.1 The Board should establish an Audit Committee. | 3.2, 3.3 |
| 4.2 Structure the Audit Committee so that it: | 3.1, 3.2, 3.3 |
| • consists only of non-executive Directors; | |
| • consists of a majority of independent Directors; | |
| • is chaired by an independent chair, who is not a chair of the Board; and | |
| • has at least three members. | |
| 4.3 The Audit Committee should have a formal charter. | 3 |
| 4.4 Provide the information indicated in the guide to reporting on Principle 4. | 3.2 |
| **Principle 5 - Make timely and balanced disclosure** | |
| 5.1 Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. | 5 |
| 5.2 Provide the information indicated in the guide to reporting on Principle 5. | 5 |
| **Principle 6 - Respect the rights of shareholders** | |
| 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings. | 5.4 |
| 6.2 Provide the information indicated in the guide to reporting on Principle 6. | 5.4 |
| **Principle 7 - Recognise and manage risk** | |
| 7.1 Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | 4.1 |
| 7.2 Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to the Board on whether those risks are being managed effectively. | 4.1, 4.2 |
| 7.3 Disclose whether the Board has received assurance from the chief executive officer and the chief financial officer that the declaration provided under s295A of the Act is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks. | 4.2 |
| 7.4 Provide the information indicated in the guide to reporting on Principle 7. | 4.1, 4.2 |
| **Principle 8 - Remunerate fairly and responsibly** | |
| 8.1 The Board should establish a remuneration committee. | 3.2, 3.3 |
| 8.2 Distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | 3.3 |
| 8.3 Provide the information indicated in the guide to reporting on Principle 8. | 3.2, 3.3 |

Under the Company's Constitution, approximately one third of Directors retire by rotation each year. Directors appointed during the year are also required to submit themselves for election by shareholders at the Company's next Annual General Meeting. The Nomination Committee considers candidates for re-election and makes recommendations to the Board, taking into account performance, internal and external Board and Director review results and the requirements of the Board.

**In 2008:**

- **John Ellice-Flint retired as Managing Director and CEO on 25 March 2008;**
- **David Knox was appointed as Acting CEO on 25 March 2008 and as CEO and Managing Director on 28 July 2008; and**
- **Peter Coates was appointed as Director on 18 March 2008 and as Deputy Chairman on 10 December 2008.**

### 1.5 Director induction and continuing education

Prior to appointment, each Director is provided with a letter of appointment which includes copies of the Company's Constitution, Board Guidelines, Committee Charters, relevant policies and functional overviews of the Company's strategic objectives and operations. Additionally, the expectations of the Board in respect of a proposed appointee to the Board and the workings of the Board and its Committees are conveyed in interviews with the Chairman. Induction procedures include access to appropriate executives in relation to details of the business of the Company.

Directors are expected to continue their education by attending both internal and external training and education relevant to their role.

### 1.6 Review of Board, Director and executive performance

An external review of the Board and individual Directors is carried out on a biennial basis. In addition, internal reviews of individual Directors are conducted annually.

The external reviews are carried out by an independent consultant, based on a scope agreed in advance with the Board. Internal reviews are facilitated by the Chairman, in consultation with the Nomination Committee, and involve formal interviews with each Director culminating in a written report prepared by the Chairman.

In addition, Board Committees conduct their own internal review of their performance, structure, objectives and purpose from time to time.

Performance evaluation of senior executives is undertaken twice a year by the CEO, the results of which are used by him in association with the Remuneration Committee in determining future remuneration and generally for review by the Board in relation to management succession planning.

An external review of the Board was undertaken in late 2007 and internal reviews were undertaken in January 2009. In addition, performance reviews were conducted for each of the senior executives, including the CEO, during the year.

These reviews were carried out in accordance with the process set out above against the following criteria:

- analysing performance against agreed measures;
- examining the effectiveness and quality of the individual in their given role;
- assessing key contributions;
- identifying areas of potential improvement; and
- assessing whether various expectations of shareholders have been met.

**As a result of recommendations arising from the external Board review, a number of initiatives have been introduced; for example, increasing time spent on strategic issues and improving the style and format of Board papers.**

**The performance evaluations of senior executives that were conducted in accordance with the above procedures directly impacted their short-term incentive awards.**

**Details of the remuneration received by Directors and senior executives are set out in the Remuneration Report commencing on page 50 of the Annual Report.**

## PART 2: BOARD RESPONSIBILITIES

**Relevant policies and charters**
**See www.santos.com**

- Board Guidelines

In addition to the Board Guidelines, the Board has endorsed a formal document outlining the Role of the Board. The overriding objective is to increase shareholder value to top quartile performance. The Board endeavours to do this by use of a management framework which protects the rights and interests of shareholders and ensures the Company is properly managed through the implementation of sound strategies and action plans and the development of an integrated framework of risk management and control over the Company's economic resources.

### 2.1 Responsibilities

The Board is responsible for the overall corporate governance of the Company, including approving the strategic direction and financial objectives, oversight of the Company and its management, establishing goals for management and monitoring the attainment of these goals.

Specifically, the Board is responsible for:

- the provision of strategic direction and oversight of management;
- significant acquisitions and disposals of assets;
- significant expenditure decisions outside of the Board-approved corporate budget;
- hedging of product sales, sales contracts and financing arrangements;
- the approval of, and monitoring of, financial performance against strategic plans and corporate budgets;
- the approval of delegations of authority to management;
- ethical standards and codes of conduct;
- the selection and evaluation of, and succession planning for, Directors and the CEO;

- the remuneration of Directors and the CEO; and
- oversight of the integrity of material business risk management including financial and non-financial risks.

The Board has also established a number of Board Committees to assist with the effective discharge of its duties.

Each Director is required to ensure that they are able to devote sufficient time to discharge their duties and to prepare for Board and Committee meetings and associated activities. The Board delegates management of the Company's resources to the Company's executive management team, under the leadership of the CEO, to deliver the strategic direction and goals approved by the Board. This is formally documented in the Company's Delegation of Authority which details the responsibilities delegated by the Board to management for:

- implementing corporate strategies;
- maintaining and reporting on effective risk management; and
- operating under approved budgets and written delegations of authority.

### 2.2 Indemnity, access to information and independent professional advice

The Board Guidelines set out the circumstances and procedures pursuant to which a Director, in furtherance of his or her duties, may seek independent professional advice at the Company's expense. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant expert and, under normal circumstances, the provision of the expert's advice to the Board.

Pursuant to a deed executed by the Company and each Director, a Director also has the right to access all documents which have been presented to meetings of the Board or to any Committee of the Board or otherwise made available to the Director whilst in office. This right continues for a term of seven years after ceasing to be a Director or such longer period as is necessary to determine relevant legal proceedings that commenced during that term. Information in respect of indemnity and insurance arrangements for Directors and certain senior executives appears in the Directors' Statutory Report on page 48 of this Annual Report.

## PART 3: BOARD COMMITTEES

**Relevant policies and charters**
**See www.santos.com**

- Audit Committee Charter
- Environment, Health, Safety & Sustainability Committee Charter
- Finance Committee Charter
- Nomination Committee Charter
- Remuneration Committee Charter

### 3.1 Role and membership

The Board has established a number of Committees to assist with the effective discharge of its duties. The membership and role of each Committee is set out in section 3.3.

All Committees are chaired by and comprise only non-executive, independent Directors, except the Environment, Health, Safety and Sustainability Committee, which includes the CEO as a member. Each Committee has no less than three members. Other composition requirements specific to the individual Committees are set out in section 3.3. Non-Committee members may attend Committee meetings by invitation.

Each Committee operates under a specific charter approved by the Board. The Board Committee Charters have been reviewed in accordance with the revised ASX Principles.

Board Committees have access to internal and external resources, including access to advice from external consultants or specialists without management present.

The Chairman of each Committee provides a report together with the minutes and recommendations of the Committee at the next Board meeting.

Following is a summary of the membership of the Board Committees. Details of the qualifications and experience of each Director is set out on pages 26 to 27.

**Membership of Board Committees**

| | | Audit Committee | Environment, Health, Safety & Sustainability Committee | Finance Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|---|---|
| K C Borda | Non-executive Director | | | Chairman | | |
| P R Coates | Non-executive Director (Deputy Chairman) | Member | | | | Chairman |
| K A Dean | Non-executive Director | Chairman | | Member | | |
| R A Franklin | Non-executive Director | | Member | | | |
| S Gerlach | Non-executive Director (Chairman) | | Member | Member | Chairman | Member |
| R M Harding | Non-executive Director | Member | Chairman | | Member | Member |
| D J W Knox | Executive Director (Managing Director/CEO) | | Member | | | |
| J Sloan | Non-executive Director | | | | Member | |

### 3.2 Board and Committee meetings

The Board Guidelines prescribe that the Board is to meet at least eight times a year, including a strategy meeting of two days' duration. Board members are expected to attend any additional meetings as required. In 2008, a total of 12 meetings were held.

Details of the Board and Committee meetings held and attendances at those meetings appear in the Directors' Statutory Report on page 46 of this Annual Report.

In addition to the Board meetings, several meetings of the non-executive Directors are scheduled each year. The Managing Director/CEO (as an executive Director) and members of management do not attend these meetings.

Also, in accordance with the Board Guidelines, at least four Board dinners are held each year, of which at least one is attended exclusively by non-executive Directors.

Members of management attend Board and Committee meetings, at which they report to Directors within their respective areas of responsibility. Where appropriate, advisors to the Company attend meetings of the Board and of its Committees.

### 3.3 Role and Membership of Committees

| Committee | Members and Composition | Role |
|---|---|---|
| Audit | Mr K A Dean (Chairman)<br>Mr P R Coates<br>Mr R M Harding<br><br>During the year, as part of an annual review and succession planning process, Mr Coates was appointed to the Committee and Professor Sloan ceased to be a member.<br><br>The Committee is required to consist of:<br>• members who are financially literate;<br>• at least one member with past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background; and<br>• at least one member with an understanding of the exploration and production industry.<br><br>The Chairman of the Board is precluded from being the Chairman of the Audit Committee. | The primary objective of the Audit Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities related to financial accounting practices, external financial reporting, financial risk management and internal control, the internal and external audit function, and compliance with laws and regulations relating to these areas of responsibility.<br><br>Specifically, the role of the Audit Committee includes:<br>• reviewing the effectiveness of the Company's risk management and internal compliance and control systems relating to financial reporting;<br>• evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board;<br>• reviewing the process adopted by the CEO and Chief Financial Officer (CFO) when certifying to the Board that the Company's financial reports are true and fair and that they are based on a sound system of risk management and internal compliance and control that is operating effectively in all material respects;<br>• examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices;<br>• meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures;<br>• where the external auditor provides non-audit services, reporting to the Board as to whether the Committee is satisfied that the provision of those services has not compromised the auditor's independence;<br>• reviewing the performance of the internal and external auditors and providing them with confidential access to the Board;<br>• receiving from the external auditors a formal written statement delineating all relationships between the auditors and the Company and confirming compliance with all professional and regulatory requirements relating to auditor independence;<br>• referring matters of concern to the Board, as appropriate, and considering issues which may impact on the financial reports of the Company;<br>• recommending proposed dividends to the Board for final adoption; and<br>• recommending to the Board the appointment and dismissal of the head of internal audit. |

<table>
<tr><th>Committee</th><th>Members and Composition</th><th>Role</th></tr>
<tr><td>Environment, Health, Safety and Sustainability</td><td>Mr R M Harding (Chairman)<br>Mr R A Franklin<br>Mr S Gerlach<br>Mr D J W Knox</td><td>The role of the Environment, Health, Safety and Sustainability Committee includes:<br>• monitoring and review of the Environment, Health and Safety and Greenhouse Policies and related systems;<br>• monitoring and review of the development of the Company's Sustainability Management Framework and the performance of sustainability aspects of this framework under the categories of Environment, Community and Our People (excluding sustainability aspects under the category of Economy); and<br>• review of the regular internal and external environmental, health and safety audits.<br><br>The Committee was named the Safety, Health and Environment Committee until February 2008, when the Committee's charter was expanded to incorporate a sustainability component.</td></tr>
<tr><td>Nomination</td><td>Mr S Gerlach (Chairman)<br>Mr R M Harding<br>Professor J Sloan</td><td>It is the responsibility of the Nomination Committee to devise the criteria for, and review membership of, and nominations to, the Board (including the re-election of incumbent Directors).<br><br>The primary criterion adopted in selection of suitable Board candidates, and used in the assessment of incumbent directors seeking re-election, is their capacity to contribute to the ongoing development of the Company, having regard to the location and nature of the Company's significant business interests and to the candidates' qualifications and experience by reference to the attributes of existing Board members. When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination Committee has responsibility for proposing candidates for consideration by the Board and, where appropriate, engages the services of external consultants.</td></tr>
<tr><td>Remuneration</td><td>Mr P R Coates (Chairman)<br>Mr S Gerlach<br>Mr R M Harding<br><br>During 2008, as part of an annual review, Mr Coates was appointed to the Committee as Chairman to replace Professor Sloan.</td><td>The Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including:<br>• the compensation arrangements for the non-executive and executive Directors (including the CEO), and senior executives;<br>• the Company's superannuation arrangements; and<br>• employee share and option plans.<br><br>The Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements. The structure and details of the remuneration paid to Directors, the CEO and other senior executives during the period are set out in the Remuneration Report commencing on page 50 of this Annual Report and note 32 to the financial statements commencing on page 125 of this Annual Report.</td></tr>
<tr><td>Finance</td><td>Mr K C Borda (Chairman)<br>Mr K A Dean<br>Mr S Gerlach<br><br>During 2008, Mr Borda replaced Mr Gerlach as Chairman of the Finance Committee as part of succession planning and the annual Committee review. Mr Gerlach remains a member of the Committee.</td><td>The role of the Finance Committee includes:<br>• responsibility for considering and making recommendations to the Board on the Company's capital management strategy and the Company's funding requirements and specific funding proposals;<br>• formulating and monitoring compliance with treasury policies and practices; and<br>• the management of credit, liquidity and commodity market risks.</td></tr>
</table>

## PART 4: RISK MANAGEMENT

**Relevant policies and charters**
**See www.santos.com**

- Board Guidelines
- Risk Management Policy

### 4.1 Risk management systems

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Company's risk management and internal compliance and control systems. These systems require management to be responsible for identifying and managing the Company's material business risks, which include financial and non-financial risks, such as environmental, exploration and investment risks.

An Enterprise-Wide Risk Management approach forms the cornerstone of Risk Management activities of the Company and is based on the relevant Australian Standard (AS/NZS 4360: 2004). This approach is incorporated in the Company's Risk Management Policy and aims to ensure that material business risks (both financial and non-financial) facing the Company are consistently identified, analysed and evaluated, and that active management plans and controls are in place for the ongoing management of these risks. Independent validation of controls is undertaken by internal audit as part of its risk-based approach. The internal audit function is independent of the external auditor and reports to the Audit Committee.

### 4.2 Management reporting on risk

Management reporting on risk operates on a number of levels.

All reports to the Board on strategic and operational issues incorporate an assessment by management of the associated risks, which ensures that the Board is in a position to make fully-informed business judgements on these issues.

In addition, the Board receives dedicated risk management updates which address the material business risks facing the Company and the systems and policies in place to manage those risks. In addition to these periodic updates, the Board and management give ongoing consideration to the effectiveness of the Company's risk management and internal compliance and control systems, and whether there is scope for further improvement of these systems. The Board also receives written certifications from the CEO and the CFO in relation to the Company's financial reporting processes. For the 2008 financial year, the CEO and CFO certified that:

"The declaration provided in accordance with section 295A of the Corporations Act in respect of the Consolidated Financial Report for the year ended 31 December 2008 is founded on a sound system of risk management and internal control, and the system is operating effectively in all material respects in relation to financial reporting risks."

### 4.3 Examples of business risks

Examples of management of specific business risks, and the systems Santos has in place to manage these risks, include the following:

| Type of risk | Method of management |
|---|---|
| Environmental and safety risk | Environmental and safety risk is managed through:<br>• a comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001;<br>• environment, health and safety committees at Board and management levels;<br>• the retention of specialist environmental, health and safety staff and advisors;<br>• regular internal and external environmental, health and safety audits; and<br>• imposing environmental care and health and safety accountability as line management responsibilities. |
| Exploration and reserves risk | Exploration risk and uncertainty is managed through:<br>• internal control systems which include formalised risk and resource assessment of exploration prospects;<br>• corporate review in both prospect and hindsight; and<br>• Board approval of exploration budgets.<br>The Company has a Reserves Management System that is consistent with the Society of Petroleum Engineers Petroleum Resources Management System. External reserves reviews and audits are also undertaken as necessary. |
| Investment risk | The Company has clearly defined procedures for capital allocation and expenditure. These include:<br>• a portfolio management system;<br>• annual budgets;<br>• detailed appraisal and review procedures;<br>• project management processes;<br>• levels of authority; and<br>• due diligence requirements where assets are being acquired. |

| | | |
|---|---|---|
| Financial reporting and treasury | • | A comprehensive budgeting system exists with an annual budget approved by the Board. |
| | • | Monthly actual results are reported against budget and quarterly forecasts for the year are prepared and reported to the Board. |
| | • | Treasury operations are subject to a comprehensive system of internal control, and speculative financial transactions are prohibited. |
| | • | Further details relating to financial instruments and commodity price risk management are included in Note 38 to the Consolidated Financial Statements. |
| | • | Regular treasury and market risk reports are made to the Finance Committee of the Board. |
| Operational risk | • | All significant areas of Company operations are subject to regular reporting to the Board. |
| | • | The Board receives regular reports on the performance of each Business Unit and functional area, including: Australia; Asia; GLNG and Queensland; Corporate Development and Legal; Finance and Investor Relations; Human Resources; Government and Media; Environment, Health, Safety and Sustainability. |

## PART 5: ETHICS AND CONDUCT

**Relevant policies and charters**
**See www.santos.com**

- Code of Conduct
- Reporting Misconduct Policy
- Guidelines for Dealing in Securities
- Continuous Disclosure Policy
- Shareholder Communications and Market Disclosure Policy

### 5.1 Ethical standards and Code of Conduct

To promote high standards of corporate governance and business conduct, the Company has provided its employees with a clear set of rules, values and guidelines to follow when carrying out their work as a Santos employee and representative. These rules, values and guidelines set out what is expected of Directors, employees, contractors and agents of Santos.

In particular, the Company has in place an integrated Code of Conduct which:

- sets out the Company's key rules, values and guidelines with respect to workplace and environment, business conduct and sustainability; and
- outlines the processes for reporting and investigating suspected breaches, and the penalties that may be imposed where a breach is found to have occurred.

Key issues addressed by the Code of Conduct include:

- achieving compliance with all applicable laws of the countries in which Santos operates;
- avoiding conflicts, by prioritising the interests of the Company and its stakeholders over personal interests;
- prohibiting inappropriate gifts, hospitalities, bribes, commissions and inducements;
- communicating regularly, accurately and effectively with investors, other stakeholders, the media and the market generally;
- treating employees and prospective employees fairly and equitably in all matters;
- protecting rights of privacy and confidentiality, both at an individual and Company level;
- ensuring Company assets are used solely to promote the interests of the Company and its stakeholders;
- operating with a view to long-term sustainability, through a focus on health, safety and the environment; and
- acting as a responsible corporate citizen in all communities of which the Company is part, and actively contributing to the needs of the communities.

The standards of conduct expected of Santos staff, including those directed at the broader stakeholder constituency of shareholders, employees, customers and the community, are also recorded in separate guidelines and policies relating to dealing in securities (discussed below), the environment, occupational health and safety and human resources.

Further, a Finance Code of Conduct, based on a code developed by the Group of 100 (an association of senior finance executives from Australia's business enterprises) applies to the CFO 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 the Company and its financial performance. Santos treats actual or suspected breaches of its guidelines and policies seriously, and has adopted an Issue Resolution Policy and a Reporting Misconduct Policy to ensure that suspected breaches are reported and acted upon fairly and effectively. Where a serious breach is found to have occurred, penalties may be imposed ranging from counselling to dismissal.

**In 2008, the Company's Code of Conduct was revised and re-launched. An education program for all employees was conducted including a mandatory online training module. This education program is now part of the compulsory induction program for all new employees.**

### 5.2 Reporting misconduct

Santos is committed to practising high standards of business conduct and corporate governance and complying with legal requirements wherever the Company operates.

A Reporting Misconduct Policy is in place at Santos, to enable employees to confidentially report misconduct without fear of reprisal or discrimination. Misconduct is defined as non-compliance with laws, regulations and company policy and procedures. The Reporting Misconduct Policy is an additional mechanism, over and above existing reporting and support avenues. It is expected that, in most circumstances, the normal channels are used to report misconduct in the first instance. An independent hotline is available for reporting. Matters are investigated without bias and anyone using the hotline in good faith will be protected from reprisals and discrimination and their identity will be protected (if desired by them or otherwise required by law).

**5.3 Guidelines for dealing in securities**

The Company has developed specific written guidelines that prohibit Directors and executives (and their respective associates) from acquiring, selling or otherwise trading in the Company's shares, or another company's shares, if they possess material price-sensitive information which is not in the public domain. Pursuant to these guidelines, no person may deal in securities while they are in the possession of price-sensitive information. In other circumstances, Directors must provide notice of their intention and receive acknowledgement from the Chairman or his representative (and for executives, from the Company Secretary or a person appointed by the Board) prior to any dealings in securities either by themselves or by their associates, and must promptly notify details following the dealing.

The Company's policy is that trading in Santos securities is permitted, with approval as set out above, only during the following periods:

- the period commencing two clear days after the announcement of the Company's annual results and ending 1 July; and
- the period commencing two clear days after the announcement of the Company's half-yearly results and ending 1 January.

Directors and executives may not deal in securities on considerations of a short-term nature.

**5.4 Continuous disclosure and shareholder communication**

The Company 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 policies establish procedures to ensure that Directors and Management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NASDAQ. Employees must notify their departmental manager or a designated Disclosure Officer as soon as they become aware of information that should be considered for release to the market.

When the Company makes an announcement to the market, that announcement is released to both exchanges where its shares and securities are listed: ASX and NASDAQ. The Company Secretary and Group Executive Investor Relations are responsible for communications with the exchanges. All material information disclosed to the ASX is posted on the Company's website at www.santos.com. This includes ASX announcements, annual reports, notices of meetings, CEO briefings, media releases, and materials presented at investor, media and analyst briefings. An email alert facility is also offered to shareholders. Webcasting of material presentations, including annual and half-yearly results presentations, is provided for the benefit of shareholders, regardless of their location.

The Board is conscious of its obligations to shareholders and will seek their approval as required by the Company's Constitution, the Act and the ASX Listing Rules, or where otherwise considered appropriate by the Directors.

Additionally, the Company's external auditor attends Annual General Meetings to be available to answer shareholder questions relevant to the conduct of the audit.

**5.5 Independence of auditors and non-audit services**

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor. The policy ensures the external auditor's independence and impartiality by prescribing that:

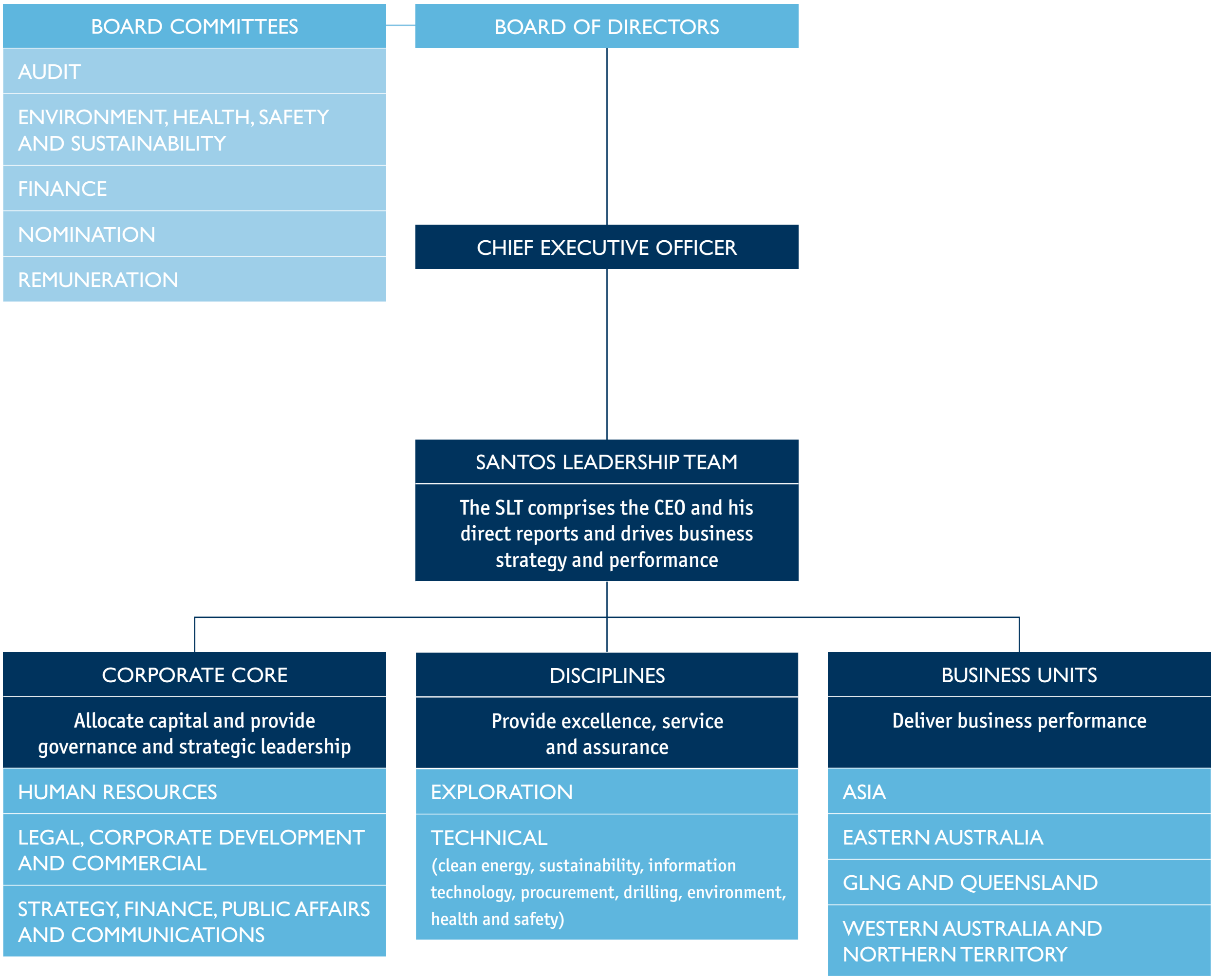
- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years and there will be a period of at least two successive years before that partner can again be involved in the Company's audit; and
- the internal audit function, if outsourced, will be provided by a firm other than the external audit firm. The nature and amount of non-audit services provided by the external auditors is detailed in the Directors' Statutory Report on page 48, together with the Directors' reasons for being satisfied that the provision of those services did not compromise the auditor independence requirements of the Act.

The policy requires that services which are considered to be in conflict with the role of statutory auditor are not performed by the Company's external auditor and prescribes the approval process for all non-audit services where the Company's external auditor is used. The Audit Committee Chairman is responsible for the final approval of these services.

Non-assurance service work in 2008 represented only 5% of the fees paid to the Company's external auditor or associates.

A copy of the auditor's independence declaration as required under section 307C of the Act is set out on page 142 of the Annual Report.

# Organisational chart



# Santos Group interests

## as at 28 February 2009

| Licence area | % interest |
|---|---|
| Note: In South Australia PPL = Petroleum Production Licence and PL = Pipeline Licence. In Queensland PPL = Pipeline Licence and PL = Petroleum Lease. | |
| **SOUTH AUSTRALIA** | |
| **Cooper Basin**[1] (Fixed Factor Area) | |
| (PPLs 6-20, 22-61, 63-75, 78-111, 113-117, 119, 120, 124, 126-130, 132-135, 137-141, 143-146, 148-151, 153-155, 157, 159-166, 169-181, 183-186, 188-190, 192, 193, 195, 196, 198 & 199) | 66.6 |
| **Patchawarra East Joint Operating Area**[1] | |
| (PPLs 26, 76, 77, 118, 121-123, 125, 131, 136, 142, 147, 152, 156, 158, 167, 182, 187, 191, 197, 200 & 201) | 60.4 |
| **SCAB Patchawarra East** (PPL 26, 76, 77, 118, 121-123, 125, 131, 136, 142, 147, 152, 156, 158, 167, 182, 187, 191, 197, 200, 201) | 72.3 |
| **Reg Sprigg West** (PPL 194) | 54.2 |
| **Derrilyn Unit**[1] (PPL 206) | 65.0 |
| PEL 114[1] | 100.0 |
| PL2[1] | 66.6 |
| PL17[1] | 70.0 |
| **QUEENSLAND** | |
| **South-West Queensland**[1] | |
| ATP 259P | |
| Naccowlah (PLs 23-26, 35, 36, 62, 76-79, 82, 87, 107, 109, 133, 149, 175, 181, 182 & 189, 287) | 55.5 |
| Total 66 (PLs 34, 37, 63, 68, 75, 84, 88, 110, 129, 130, 134, 140, 142-144, 150, 168, 178, 186, 193, 241, PPL 8 & 14) | 70.0 |
| Wareena (PLs 113, 114, 141, 145, 148, 153, 157, 158, 187 & 188) | 61.2 |
| Innamincka (PLs 58, 80, 136, 137, 156 & 159) | 70.0 |
| Alkina | 72.0 |
| Aquitaine A (PLs 86, 131, 146, 177, 208) | 52.8 |
| Aquitaine B (PLs 59-61, 81, 83, 85, 97, 108, 111, 112, 132, 135, 139, 147, 151, 152, 155, 205, 207, 288) | 55.0 |
| Aquitaine C (PLs 138 & 154) | 47.8 |
| 50/40/10 (PL 55) | 60.0 |
| SWQ Unit (PPLs 13, 16-18, 31, 34-40, 46 48, 62, 64-72, 78-82, 84, 86, 94-96, 98, 100, 101, 105 & 113 and in South Australia PLs 5 & 9) | 60.1 |
| ATP 267P (Nockatunga)(PLs 33, 50,51, 244 & 245) | 59.1 |
| ATP 299P(Tintaburra)(PLs 29, 38, 39, 52, 57, 95, 169 & 170, PPLs 109, 110, 111 & 112) | 89.0 |
| PPL 127 (Tickalara to SA Border) | 100.0 |
| PPL 128 (Jackson to Tickalara) | 100.0 |
| ATP 543P (PL117) | 100.0 |
| ATP 543P S | 50.0 |

| Licence area | % interest |
|---|---|
| ATP 616P | 60.0 |
| ATP 626P | 50.0 |
| ATP 636P (Under Application) | 100.0 |
| ATP 661P (Under Application) | 100.0 |
| ATP 752P B (Barta)[2] | 40.0 |
| ATP 752P W (Wampi)[2] | 40.0 |
| ATP 765 Farmin (Under Application) | 100.0 |
| ATP 766 Farmin (Under Application) | 100.0 |
| ATP 820P (Under Application) | 100.0 |
| **Surat Basin** | |
| ATP 212P (Major) (PL 56) | 15.0 |
| ATP 269P (Bodalla) | 4.9 |
| ATP 336P (R) – PETRONAS (PLs 3-9, 13, 93)[1] | 60.0 |
| ATP 336P (Roma) (PLs 10W, 11W & 12W)[1] | 100.0 |
| ATP 336P (Waldegrave) (PLs 10-12, 28, 69 & 89)[1] | 53.8 |
| ATP 470P (Redcap) | 10.0 |
| ATP 470P (Formosa Downs) | 5.5 |
| ATP 471P (Bainbilla) | 16.7 |
| PL 119 & PPL 58 (Bainbilla) | 12.5 |
| PL 119 (Downlands East Exclusion) | 21.7 |
| PL 192 (Myall) | 51.0 |
| PPL 87 | 51.0 |
| Boxleigh (PL15 Sublease)[1] | 100.0 |
| PL 1 (Moonie)[1] | 100.0 |
| PL 1 (2) (Cabawin Exclusion)[1] | 100.0 |
| PL 1 (FO) (Cabawin Farm-out)[1] | 50.0 |
| PL 2 (A & B) (Kooroon)[1] | 52.5 |
| PL 2 (Alton)[1] | 100.0 |
| PL 2C (Alton Farm-out)[1] | 63.5 |
| PL 5K (Drillsearch)[1] | 25.0 |
| PL 5M (Mascotte)[1] | 50.0 |
| PL 11 (Snake Creek East)[1] | 53.7 |
| PL 12 (Trinidad)[1] | 53.7 |
| PL 12 (Oberina)[1] | 100.0 |
| PL 15 (Boxleigh)[1] | 100.0 |
| PL 17 Upper Stratum Farmin[1] | 100.0 |
| PL 21, 22, 27, 64 (Balonne) | 12.5 |
| PL 30 | 7.5 |
| PL 64 (Cogoon River) | 12.5 |
| PL 71 (Parknook) | 8.0 |
| PL 74 | 7.5 |
| PL 195 | 4.0 |
| PL 200 (Spring Gully) | 2.7 |
| PL 203 | 4.0 |
| PL 204 (Spring Gully) | 0.2 |
| PL 213 (Churchie West) | 16.7 |
| ATP 526P (PLs 90,91, 92, 99, 100, 232, 233, 234, 235, 236)[1] | 69.7 |
| ATP 606P | 2.6 |
| ATP 631P[1] | 79.9 |
| ATP 653P (Fairview)[1] | 69.7 |

| Licence area | % interest |
|---|---|
| ATP 665P[1] | 100.0 |
| ATP 708P (Fairview)[1] | 100.0 |
| ATP 745P (Fairview)[1] | 100.0 |
| ATP 803P[1] | 100.0 |
| ATP 804P[1] | 68.7 |
| ATP 868P[1] | 100.0 |
| ATP 972P | 2.6 |
| EPC 937[1] | 100.0 |
| **Bowen Basin** | |
| ATP 592P | 4.0 |
| ATP 337P (Mahalo)[1] | 30.0 |
| ATP 337P (Denison Trough)) (PLs 41-45, 54, 67, 173, 183, 218, PPL10 & PL11) | 50.0 |
| PL176 (Scotia)[1] | 100.0 |
| ATP 526P (PLs 90-92, 99, 100, 232-236 PPLs 76, 92) | 69.7 |
| ATP 553P (Denison)[1] | 50.0 |
| ATP 592P | 4.0 |
| ATP 655P (Taringa)[1] | 100.0 |
| ATP 685P (Cockatoo Creek) | 50.0 |
| **Facilities** | |
| Wungoona Processing Facilities (PPL 4)[1] | 50.0 |
| Moonie to Brisbane Pipeline[1] | 100.0 |
| Comet Ridge to Wallumbilla Pipeline (PPL 118)[1] | 100.0 |
| **NEW SOUTH WALES** | |
| **Gunnedah Basin**[2] | |
| PEL 1 | 25.0 |
| PEL 12 | 25.0 |
| PEL 450 | 25.0 |
| PEL 452 | 25.0 |
| PEL 456 | 25.0 |
| PEL 462 | 25.0 |
| PELA 5 | 75.0 |
| **VICTORIA** | |
| **Otway Basin** | |
| VIC/P44[1] | 50.0 |
| VIC/RL7 (La Bella) | 10.0 |
| VIC/L22 (Minerva) | 10.0 |
| VIC/L24 (Casino)[1] | 50.0 |
| VIC/L30 (Henry)[1] | 50.0 |
| **Gippsland Basin** | |
| VIC/RL3 (Sole)[1] | 100.0 |
| VIC/L21 (Patricia-Baleen)[1] | 100.0 |
| VIC/L25 (Kipper) | 18.0 |
| VIC/P55[1] | 100.0 |
| **OFFSHORE TASMANIA** | |
| **Sorell Basin**[1] | |
| T/32P | 37.5 |
| T/33P | 55.0 |
| T/35P | 37.5 |

| Licence area | % interest |
|---|---|
| T/36P | 50.0 |
| T/40P | 100.0 |
| T/48P | 100.0 |

## NORTHERN TERRITORY

| Licence area | % interest |
|---|---|
| **Amadeus Basin** | |
| OL 3 (Palm Valley) | 48.0 |
| OLs 4 and 5 (Mereenie)[1] | 65.0 |
| RL2 (Dingo)[1] | 65.7 |
| PL2 Mereenie Pipeline[1] | 65.0 |

## OFFSHORE NORTHERN AUSTRALIA

| Licence area | % interest |
|---|---|
| **Carnarvon Basin** | |
| EP 61 | 28.6 |
| EP 62 | 28.6 |
| EP 357 | 35.7 |
| L1H (Barrow Island) | 28.6 |
| L10 | 28.6 |
| L12 (Crest) | 35.7 |
| L13 (Crest) | 35.7 |
| TL/2 (Airlie) | 15.0 |
| TL/3 (Banta-Triller) | 28.6 |
| TL/4 | 35.7 |
| TL/7 (Thevenard) | 35.7 |
| TP/2 | 28.6 |
| TP/7 (1-2) | 43.7 |
| TP/7 (3) | 63.4 |
| TP/7 (4) | 18.7 |
| TR/4 (Australind) | 35.7 |
| WA-1-P | 22.6 |
| WA-4-R (Spar) | 100.0 |
| WA-7-L | 28.6 |
| WA-8-L (Talisman) | 37.4 |
| WA-13-L (East Spar) | 45.0 |
| WA-15-L (Stag) | 66.7 |
| WA-20-L (Legendre) | 22.6 |
| WA-26-L (Mutineer)[1] | 33.4 |
| WA-27-L (Exeter)[1] | 33.4 |
| WA-29-L (John Brookes) | 45.0 |
| WA-33-R (Maitland) | 18.7 |
| WA-191-P (Mutineer-Exeter)[1] | 33.4 |
| WA-208-P[1] | 31.3 |
| WA-209-P (Reindeer) | 45.0 |
| WA-214-P (John Brookes) | 45.0 |
| WA-246-P | 15.0 |
| WA-358-P | 37.5 |
| WA-264-P[1] | 50.0 |
| WA-290-P | 15.0 |
| **Browse Basin[1]** | |
| WA-274-P | 30.0 |
| WA-281-P | 47.9 |
| WA-410-P | 30.0 |
| WA-411-P | 63.6 |
| **Houtman Basin** | |
| WA-328-P | 33.0 |
| **Bonaparte Basin[1]** | |
| NT/P67 | 100.0 |
| NT/RL1 (Petrel) | 95.0 |
| WA-6-R (Petrel West) | 95.0 |
| WA-18-P (Tern) | 100.0 |
| WA-27-R (Tern) | 100.0 |
| **Timor Sea** | |
| AC/L1 (Jabiru) | 10.3 |
| AC/L2 (Challis) | 10.3 |
| AC/L3 (Cassini) | 10.3 |
| NT/P48 (Evans Shoal) | 40.0 |
| NT/P61 | 40.0 |
| NT/P69 | 40.0 |
| **Timor Gap** | |
| JPDA 03-12 | 19.3 |
| Bayu-Undan Gas Field | 11.4 |
| Elang | 21.4 |

## BANGLADESH

| Licence area | % interest |
|---|---|
| Block 5[3] | 45.0 |
| Block 10 | 45.0 |
| Block 16 | 37.5 |
| Sangu Development Area | 37.5 |

## EGYPT

| Licence area | % interest |
|---|---|
| South East July[1] | 40.0 |
| North Qarun[4] | 25.0 |

## INDIA

| Licence area | % interest |
|---|---|
| NEC-DWN-2004/1[1] | 100.0 |
| NEC-DWN-2004/2[1] | 100.0 |

## INDONESIA

| Licence area | % interest |
|---|---|
| **East Java Basin** | |
| Madura Offshore (Maleo)[1] | 67.5 |
| Sampang (Oyong)[1] | 45.0 |
| **Kutei Basin** | |
| Donggala[1] | 50.0[5] |
| Papalang | 20.0 |
| Popodi | 20.0 |
| **West Natuna Basin** | |
| Kakap | 9.0 |
| **West Papua Basin** | |
| Warim | 20.0 |

## KYRGYZSTAN[6]

**Closed Joint Stock Company South Petroleum Company (SPC)**

The Santos Group holds a 70% equity interest in SPC which is the legal and beneficial holder of the following exploration licences: Tuzluk, Soh, West Soh, Nuashkent, Nanai.

**Joint Stock Company Textonic (Textonic)**

The Santos Group is beneficially entitled to 60% of Textonic which is the legal and beneficial owner of the following exploration licences: Sulukta, Katran, Ak-Bura, Charvak, East Mailisu, Ashvaz and West Mailisu.

**Closed Joint Stock Company KNG Hydrocarbons (KNG HC)**

The Santos Group holds a 75% equity interest in Zhibek Resources Limited (English company) which in turn owns 72% of KNG HC (Kyrgyz company), which is the legal and beneficial holder of the Tashkumyr and Pishkoran exploration licences.

## PAPUA NEW GUINEA

| Licence area | % interest |
|---|---|
| PDL 1 (Hides) | 31.0 |
| PDL 3[1] | 15.9 |
| PRL 5[1] | 50.3 |
| PRL 9[1] | 42.6 |
| SE Gobe Unit (Unitisation of PDLs 3 & 4) | 9.4 |

## VIETNAM

| Licence area | % interest |
|---|---|
| Block 101-100/04 | 55.0 |
| 12W | 37.5 |
| Block 123 | 50.0 |

1 Santos operated.
2 Subject to farm-in commitments.
3 Notification has been given to Petrobangla of withdrawal from Block 5 and Petrobangla have sought further information to enable them to finalise the withdrawal.
4 Relinquishment/withdrawal from interest is near completion and is only subject to final Governmental approval, which is expected shortly.
5 Licence expired on 21 November 2007 and is in the process of being extended, and at the same time Santos is moving to a 100% interest.
6 Some of the Kyrgyzstan licences are in the process of being renewed or extended and are awaiting Government approval.

# 10-year summary 1999–2008

| As at 31 December | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|---|---|---|---|---|
| Santos average realised oil price (A$/bbl) | 27.57 | 46.54 | 45.53 | 44.74 | 43.59 | 51.83 | 73.83 | 89.35 | 92.0 | **117.45** |
| **Financial performance ($million)** | | | | | | | | | | |
| Product sales revenue | 944.5 | 1,497.1 | 1,459.7 | 1,478.4 | 1,465.0 | 1,500.9 | 2,462.8 | 2,750.3 | 2,488.5 | **2,761.8** |
| Total revenue[1] | 972.1 | 1,537.1 | 1,501.9 | 1,518.5 | 1,486.3 | 1,526.4 | 2,491.8 | 2,779.3 | 2,518.0 | **2,805.0** |
| Foreign currency gains/(losses)[2] | 0.3 | 2.7 | 0.2 | (0.7) | (7.9) | 2.6 | (3.8) | 0.8 | 0.4 | **24.4** |
| Profit from ordinary activities before tax[2] | 339.6 | 725.9 | 627.6 | 493.3 | 430.9 | 518.8 | 1,133.50 | 964.7 | 718.6 | **2,533.2** |
| Income tax relating to ordinary activities[2] | 30.5 | 239.1 | 181.7 | 171.2 | 103.9 | 164.1 | 371.4 | 321.3 | 195.7 | **768.4** |
| Royalty related taxes[3] | | | | | | | | | 163.6 | **114.7** |
| Net profit after income tax attributable to the shareholders of Santos Ltd[2] | 309.1 | 486.8 | 445.9 | 322.1 | 327.0 | 354.7 | 762.1 | 643.4 | 359.3 | **1,650.1** |
| **Financial position ($million)** | | | | | | | | | | |
| Total assets[2] | 4,338.7 | 4,659.8 | 5,048.7 | 5,320.8 | 5,218.3 | 4,836.6 | 6,191.3 | 6,902.9 | 7,320.2 | **9,801.9** |
| Net debt[2] | 1,301.1 | 866.6 | 1,060.8 | 1,162.9 | 897.6 | 1,133.3 | 1,598.9 | 1,449.7 | 1,838.7 | **506.0** |
| Total equity[2] | 2,056.7 | 2,310.9 | 2,726.6 | 2,863.9 | 3,087.9 | 2,357.8 | 2,964.0 | 3,355.5 | 3,093.1 | **4,478.3** |
| **Reserves and production (mmboe)** | | | | | | | | | | |
| Proven plus Probable reserves (2P) | 941 | 921 | 724 | 732 | 636 | 643 | 774 | 819 | 879 | **1,013** |
| Production | 49.2 | 56.0 | 55.7 | 57.3 | 54.2 | 47.1 | 56.0 | 61.0 | 59.1 | **54.4** |
| **Exploration[4]** | | | | | | | | | | |
| Wells drilled (number) | 34 | 42 | 26 | 18 | 19 | 16 | 22 | 25 | 10 | **13** |
| Expenditure ($million) | 78.1 | 100.1 | 93.4 | 133.1 | 136.4 | 125.6 | 187.0 | 258.5 | 149.8 | **233.1** |
| **Other capital expenditure ($million)** | | | | | | | | | | |
| Delineation and development[4] | 116.8 | 187.1 | 308.1 | 308.8 | 519.0 | 672.7 | 666.1 | 865.5 | 954.6 | **1,290.3** |
| Buildings, plant and equipment | 102.5 | 153.5 | 258.7 | 319.0 | 94.9 | 131.1 | 106.0 | 182.1 | 202.2 | **105.1** |

## Share information

### Share issues

| As as 31 December | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|---|---|---|---|---|
| | Employee Share Plan/ Executive Share Plan | Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Restricted Shares | Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Share Buy-back/ Schemes of Arrangement | Employee Share Plan/ Executive Share Plan/ Exercise of Options | Employee Share Plan/ Executive Share Plan/ Exercise of Options | Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Preference Share Buy-Back/ Issue of FUELS/ Convertible Preference Shares | Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan | Employee Share Plan/ Executive Share Plan/ Exercise of options/ Dividend Reinvestment Plan | Employee Share Plan/ Executive Share Plan/ Non-Executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy back | Employee Share Plan/ Executive Share Plan/ Non-Executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy back |
| Number of issued ordinary shares at year end (million) | 608.2 | 610.4 | 579.3 | 583.1 | 584.7 | 585.7 | 594.4 | 598.5 | 586.1 | **584.9** |
| Weighted average number of ordinary shares (million) | 606.1 | 608.3 | 612.0 | 580.9 | 583.4 | 584.9 | 587.9 | 596.2 | 590.5 | **590.7** |
| Dividends per ordinary share | | | | | | | | | | |
| - ordinary (¢) | 25.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 36.0 | 40 | 40 | **42** |
| - special (¢) | - | - | 10.0 | - | - | - | - | - | - | **-** |
| Dividends | | | | | | | | | | |
| - ordinary ($million) | 151.5 | 182.0 | 184.2 | 174.2 | 175.0 | 175.5 | 212.4 | 238.1 | 235.1 | **248.3** |
| - special ($million) | - | - | 61.2 | - | - | - | - | - | - | |
| Number of issued preference shares at year end (million) | - | - | 3.5 | 3.5 | 3.5 | 6.0 | 6.0 | 6.0 | 6.0 | **6.0** |
| Dividends per preference share | | | | | | | | | | |
| - ordinary ($) | - | - | - | 5.40 | 6.57 | 6.59 | 5.10 | 5.06 | 5.59 | **6.33** |
| - special ($) | - | - | - | - | - | 5.00 | - | - | - | **-** |
| Dividends | | | | | | | | | | |
| - ordinary ($million) | - | - | - | 18.9 | 23.0 | 23.0 | 30.6 | 30.4 | 33.5 | **38.0** |
| - special ($million) | - | - | - | - | - | 14.3 | - | - | - | |
| Earnings per share (¢)[2] | 51.0 | 80.0 | 72.9 | 51.9 | 52.1 | 54.2 | 124.4 | 102.8 | 55.2 | **272.9** |
| Return on total revenue (%)[1] | 31.8 | 31.7 | 29.7 | 21.2 | 22.0 | 23.2 | 30.6 | 23.1 | 14.3 | **58.8** |
| Return on average ordinary equity (%)[2] | 15.5 | 22.3 | 19.0 | 13.1 | 12.3 | 19.9 | 35.1 | 23.8 | 12.8 | **48.6** |
| Return on average capital employed (%)[2] | 11.4 | 16.5 | 13.9 | 8.9 | 8.8 | 11.7 | 19.8 | 15.1 | 8.5 | **34.1** |
| Net debt/(net debt + equity) (%)[2] | 38.7 | 27.3 | 28.0 | 28.9 | 22.5 | 32.5 | 35.0 | 30.2 | 37.3 | **10.2** |
| Net interest cover (times)[2] | 5.2 | 9.1 | 9.7 | 8.1 | 8.5 | 9.1 | 14.9 | 10.1 | 7.4 | **38.5** |
| **General** | | | | | | | | | | |
| Number of employees (excluding contractors) | 1,645 | 1,631 | 1,713 | 1,737 | 1,700 | 1,526 | 1,521 | 1,679 | 1,786 | **1,940** |
| Number of shareholders | 81,416 | 76,457 | 86,472 | 85,888 | 84,327 | 78,976 | 78,157 | 83,566 | 77,498 | **78,933** |
| Market capitalisation ($million) | 2,516 | 3,670 | 3,589 | 3,509 | 4,017 | 4,965 | 7,280 | 5,907 | 8,274 | **8,696** |
| Netback | - | - | - | 18.9 | 18.4 | 19.8 | 29.5 | 32.9 | 32.9 | **35.9** |

1 From 2005, 'Total operating revenue' has been reclassified to 'Total revenue' and prior year amounts have been restated.
2 From 2004, amounts reflect Australian equivalents to International Financial Reporting Standards. Prior year amounts reflect Australian Generally Accepted Accounting Principles and have not been restated.
3 From 2007, 'Royalty related taxes' have been accounted for as a tax.
4 From 2001, appraisal and near-field exploration wells have been reclassified from exploration to delineation expenditure. Prior year amounts have not been restated.

# Financial Report

## Contents

# Directors' Statutory Report

**The Directors present their report together with the financial report of Santos Limited (*Santos* or *Company*) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 December 2008, and the auditor's report thereon. Information in the Annual Report referred to by page number in this report, including the Remuneration Report, or contained in a Note to the financial statements referred to in this report is to be read as part of this report.**

## 1. DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

The names of Directors of the Company in office at the date of this report and details of the relevant interest of each of those Directors in shares in the Company at that date are as set out below:

| Surname | Other Names | Shareholdings in Santos Ltd | |
|---|---|---|---|
| | | Ordinary Shares | Franked Unsecured Equity Listed Securities |
| Borda | Kenneth Charles | 45,172 | - |
| Coates | Peter Roland | 7,440 | - |
| Dean | Kenneth Alfred | 6,868 | - |
| Franklin | Roy Alexander | - | - |
| Gerlach (Chairman) | Stephen | 54,364 | - |
| Harding | Richard Michael | 1,757 | - |
| Knox | David John Wissler | - | - |
| Sloan | Judith | 20,135 | 195 |

The above named Directors held office during and since the end of the financial year, except for Mr P R Coates, who was appointed a Director of the Company on 18 March 2008 and Mr D J W Knox, who was appointed Managing Director of the Company on 6 August 2008.

Mr J C Ellice-Flint held office as Managing Director of the Company until his retirement on 25 March 2008.

Except where otherwise indicated, all shareholdings are of fully paid ordinary shares.

At the date of this report, Mr D J W Knox holds 544,974 options under the Santos Executive Share Option Plan and subject to the further terms described in Note 31 to the financial statements. Details of the options granted to Mr Knox during the year are set out in the Remuneration Report on page 56.

Details of the qualifications, experience and special responsibilities of each Director and the Company Secretary are set out on the Directors' and Executives' biography pages of the Annual Report on pages 26 to 29. This information includes details of other directorships held during the last three years.

# Directors' Statutory Report
(continued)

**Directors' Meetings**

The number of Directors' Meetings and meetings of committees of Directors held during the financial year and the number of meetings attended by each Director are as follows:

| Surname | Other Names | Directors' Meetings** | | Audit Committee | | Environment, Health, Safety and Sustainability Committee | | Remuneration Committee | | Finance Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | No. of Mtgs Held* | No. of Mtgs Attended | No. of Mtgs Held* | No. of Mtgs Attended | No. of Mtgs Held* | No. of Mtgs Attended | No. of Mtgs Held* | No. of Mtgs Attended | No. of Mtgs Held* | No. of Mtgs Attended | No. of Mtgs Held* | No. of Mtgs Attended |
| Borda | Kenneth Charles | 12 | 12 | - | - | - | - | - | - | 4 | 4 | - | - |
| Coates | Peter Roland | 10 | 8 | 2 | 2 | - | - | 1 | 1 | - | - | - | - |
| Dean | Kenneth Alfred | 12 | 12 | 5 | 5 | - | - | - | - | 4 | 4 | - | - |
| Ellice-Flint | John Charles | 2 | 2 | - | - | 1 | 1 | - | - | - | - | - | - |
| Franklin | Roy Alexander | 12 | 12 | - | - | 4 | 4 | - | - | - | - | - | - |
| Gerlach | Stephen | 12 | 12 | - | - | 4 | 4 | 5 | 5 | 4 | 4 | 1 | 1 |
| Harding | Richard Michael | 12 | 10 | 5 | 4 | 4 | 4 | 5 | 5 | - | - | 1 | 1 |
| Knox | David John Wissler | 5 | 5 | - | - | 3 | 3 | - | - | - | - | - | - |
| Sloan | Judith | 12 | 11 | 3 | 3 | - | - | 4 | 4 | - | - | 1 | 1 |

* Reflects the number of meetings held during the time the Director held office, or was a member of the Committee, during the year.

** In addition to formal meetings, the Board participated in a site visit to the PETRONAS operations in Malaysia. (PETRONAS is the joint venture partner for GLNG.)

As at the date of this report, the Company had an Audit Committee of the Board of Directors.

Particulars of the Company's corporate governance practices appear in the Corporate Governance Statement commencing on page 30 of the Annual Report.

## 2. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were: petroleum exploration, the production, treatment and marketing of natural gas, crude oil, condensate, naphtha, liquid petroleum gas, and the transportation by pipeline of crude oil. No significant change in the nature of these activities has occurred during the year.

## 3. REVIEW AND RESULTS OF OPERATIONS

A detailed review of the operations of the consolidated entity during the financial year, the results of those operations and the financial position of the consolidated entity as at the end of the financial year is contained in the reports by the Chairman, Chief Executive Officer and Chief Financial Officer in the Annual Report. Further details regarding the operations, results and business strategies of the consolidated entity appear in the individual reports providing more detailed discussion of business activities and outlook in the Annual Report.

In summary, the consolidated net profit after income tax attributable to the shareholders was $1,650.1 million, a 359.3% increase from the previous period comparative result of $359.3 million. Sales revenue was a record $2,761.8 million, up 11.0% from 2007.

In particular, total revenue for the Australian segment was $2,563.4 million, an 8.8% increase from the 2007 result of $2,356.4 million. International operations recorded revenue growth of 49.5% from 2007 to $241.6 million in 2008.

Total production was down by 8.0% to 54.4 million barrels of oil equivalent (mmboe), reflecting natural field decline, Mutineer Exeter FPSO down time, the Varanus Island plant incident and the Stag shut-in, partially offset by commencement of production from the Sampang field, increased production contributions from Maleo, the acquisition of the Sangu field and increased contributions from Cooper Oil.

## 4. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Directors consider that matters or circumstances that have significantly affected, or may significantly affect, the operations, results of operations or the state of affairs of the Company in subsequent financial years are:

- The selection of PETRONAS, one of the world's largest LNG producers, to be the Company's 40% partner in the development, operation and marketing of the Company's proposed GLNG project;
- The transfer of the Company's interest in the Brantas Production Sharing Contract (PSC) in Indonesia, including the Banjar Panji-1 well, to a company associated with the operator of the PSC;
- The signing of a Gas Agreement between the Government of Papua New Guinea (PNG) and the PNG LNG joint venture and the project formally entering into Front End Engineering Design (FEED); and
- Government of South Australia legislation preventing any one shareholder having an entitlement to more than 15% of the Company's shares was repealed effective 29 November 2008.

## 5. DIVIDENDS

On 19 February 2009, the Directors:

(i) resolved to pay a fully franked final dividend of $0.20 per fully paid ordinary share on 31 March 2009 to shareholders registered in the books of the Company at the close of business on 3 March 2009. This final dividend amounts to approximately $117.0 million; and

(ii) declared that in accordance with the Terms of Issue, a fully franked dividend of $2.9989 per Franked Unsecured Equity Listed Security be paid on 31 March 2009 to holders registered in the books of the Company at the close of business on 3 March 2009, amounting to $18.0 million.

A fully franked final dividend of $117.2 million (20 cents per share) was paid on 31 March 2008 on the 2007 results. Indication of this dividend payment was disclosed in the 2007 Annual Report. In addition, a fully franked interim dividend of $131.1 million (22 cents per fully paid ordinary share) was paid to members on 30 September 2008.

In accordance with the Terms of Issue, a fully franked final dividend of $2.9983 per Franked Unsecured Equity Listed Security ($18.0 million) was paid on 31 March 2008. Indication of this dividend payment was disclosed in the 2007 Annual Report. A fully franked interim dividend of $3.3365 per Franked Unsecured Equity Listed Securities ($20.0 million) was paid on 30 September 2008.

## 6. ENVIRONMENTAL REGULATION

The consolidated entity's Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation, including under applicable petroleum legislation, under authorisations in respect of its South Australian operations (numbers EPA 888, 1259, 2164, 2569, 14145, 14427, 45080036, 45080037, 45080038 and 45080092 issued under the *Environment Protection Act 1993*), its Queensland operations (numbers EA 150029, 150101, 150125, 150224, 150225, 150238, 150245, 150271, 150275, 150288, 150313, 150347, 150351, 150343, 150355, 150359, 150368, 150381, 150382, 150274, 150166, 150390, 170526, 170533, 170562, and numbers EA PEN 2000018207, 2000054807, 2000054007, 200054107, 200214208, 200196508, 10021028, 100188208, 200039307, 200196208, 200196308, 200196408, 100030807, 200194208, 200196608, 200012400, 200214308, 2100214408 and 100090007 issued under the *Environmental Protection Act 1994*) and its Victorian operations (number LA 54626 issued under the *Environment Protection Act 1970*). Applicable legislation and requisite environmental licences are specified in the entity's EHS Compliance Database, which forms part of the consolidated entity's overall Environmental Management System. Compliance performance is monitored on a regular basis and in various forms, including environmental audits conducted by regulatory authorities and by the Company, either through internal or external resources.

During the financial year, no fines were imposed and no prosecutions were instituted in respect of the above-referenced environmental regulations. Since the end of the financial year, Santos has received a minor infringement notice for a breach of the *Environmental Protection Act 1994* (Qld). Apart from this, Santos has not been the subject of any enforcement action under the environmental protection legislation to which its operations are subject. Appropriate corrective measures have been taken to preclude a recurrence of the circumstances which led to the issuing of this notice. In February 2008, Santos received a notice of non-compliance from the Department of Primary Industries and Resources South Australia in relation to the disturbance of cultural heritage sites during clear and grade activities on the Jackson to Moomba Pipeline right of way. This incident was formally investigated by Santos and appropriate corrective measures have been taken to preclude a recurrence.

## 7. EVENTS SUBSEQUENT TO BALANCE DATE

Except as mentioned below, in the opinion of the Directors there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Dividends declared after 31 December 2008 are set out in Item 5 of this Directors' Report and Note 24 to the financial statements.

## 8. LIKELY DEVELOPMENTS

Certain likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are referred to in the reports in the Annual Report by the Chairman, Chief Executive Officer and Chief Financial Officer on pages 4 to 9.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity. Further details regarding likely developments appear in the individual reports providing more detailed discussion of business activities and outlook in the Annual Report.

## 9. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and senior management (including shares and options granted during the financial year) are set out in the Remuneration Report commencing on page 50 of this report.

## 10. INDEMNIFICATION

Rule 61 of the Company's Constitution provides that the Company indemnifies, on a full indemnity basis and to the full extent permitted by law, officers of the Company for all losses or liabilities incurred by the person as an officer of the Company, a related body corporate or trustee of a company-sponsored superannuation fund. Rule 61 does not indemnify an officer for any liability involving a lack of good faith. Rule 61 also permits the Company to purchase and maintain a Directors' and Officers' insurance policy. No indemnity has been granted to an auditor of the Company in their capacity as auditor of the Company.

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain senior executives of the consolidated entity. The indemnities operate to the full extent permitted by law and are not subject to a monetary limit. Santos is not aware of any liability having arisen, and no claims have been made, during or since the financial year under the Deeds of Indemnity.

During the year, the Company paid premiums in respect of Directors' and Officers' Liability and Legal Expenses insurance contracts for the year ending 31 December 2008 and since the end of the year the Company has paid, or agreed to pay, premiums in respect of such contracts for the year ending 31 December 2009. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company and its controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

## 11. NON-AUDIT SERVICES

During the year the Company's auditor, Ernst & Young, was paid the following amounts in relation to non-audit services it provided:

| | |
|---|---|
| Taxation services | $38,000 |
| Assurance services | $388,000 |
| Other services | $42,000 |

The Directors are satisfied, based on the advice of the Audit Committee, that the provision of the non-audit services detailed above by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The reason for forming this opinion is that all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 142 of the financial statements.

## 12. SHARES UNDER OPTION

Unissued ordinary shares of Santos Ltd under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares* | Number under option |
|---|---|---|---|
| 15 June 2004 | 14 June 2009 | $6.95 | 50,000 |
| 23 May 2005 | 22 May 2015 | $8.46 | 22,850 |
| 23 May 2005 | 22 May 2015 | $8.46 | 159,450 |
| 24 October 2006 | 24 October 2016 | $10.48 | 736,000 |
| 4 May 2006 | 3 May 2016 | $11.36 | 2,500,000 |
| 1 July 2007 | 30 June 2017 | $14.14 | 227,500 |
| 1 July 2007 | 30 June 2017 | $14.14 | 59,800 |
| 3 September 2007 | 2 September 2017 | $12.81 | 100,000 |
| 3 May 2008 | 2 May 2018 | $15.39 | 644,949 |
| 3 May 2008 | 2 May 2018 | $15.39 | 281,573 |
| 28 July 2008 | 27 July 2018 | $17.36 | 94,193 |
| 28 July 2008 | 27 July 2018 | $17.36 | 131,976 |
| 28 July 2008 | 27 July 2018 | $17.36 | 131,976 |
| | | | **5,140,267** |

* This is the exercise price payable by the option holder.

Options do not confer an entitlement to participate in a bonus or rights issue, prior to the exercise of the option.

## 13. SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Santos Ltd were issued during the year ended 31 December 2008 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan. No amounts are unpaid on any of the shares.

| Date options granted | Issue price of shares | Number of shares issued |
|---|---|---|
| 15 June 2004 | $6.95 | 50,000 |
| 15 June 2004 | $6.95 | 46,178 |
| 23 May 2005 | $8.46 | 11,100 |
| 23 May 2005 | $8.46 | 132,100 |
| 24 October 2006 | $10.48 | 64,205 |
| | | **303,583** |

## 14. ROUNDING

Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998, applies to the Company and accordingly amounts have been rounded off in accordance with that Class Order, unless otherwise indicated.

This report is made on 19 February 2009 in accordance with a resolution of the Directors.

Stephen Gerlach

Director

David Knox

Director

# Remuneration Report

The Directors of Santos Limited present the Remuneration Report for the Company and its controlled entities for the year ended 31 December 2008. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act*. This Remuneration Report forms part of the Directors' Report.

In order to achieve its objective of delivering top quartile strategic operating and shareholder value performance compared to its peers in the Australian and international exploration and production industry, the Company needs to have highly capable staff. Consistent with this objective, the Company's remuneration strategy is designed to attract and retain appropriately qualified and experienced directors, executives and staff with the necessary skills and attributes to lead and manage the Company. The Company's remuneration strategy is therefore critical to the delivery of the Company's overall strategic objectives.

In addition to attracting and retaining talent, Santos' remuneration strategy also aims to encourage its employees to strive for superior performance by rewarding the achievement of targets that are fair, challenging, clearly understood and within the control of employees to achieve through their own actions. For the Company's most senior staff, performance targets are primarily aligned with long-term shareholder value creation.

The Remuneration Report sets out remuneration information for the Company's non-executive Directors, Managing Director and Senior Executives who are the key management personnel accountable for planning, directing and controlling the affairs of the consolidated entity. They include the five highest remunerated executives of the Company and Group for the 2008 financial year, and are listed in Table 1 below.

## TABLE 1: NON-EXECUTIVE DIRECTORS, MANAGING DIRECTOR AND SENIOR EXECUTIVES

**Executive**

| *Name* | *Position* |
|---|---|
| D J W Knox | Managing Director and Chief Executive Officer[1] |
| J H Anderson | Vice President Commercial[2] |
| J L Baulderstone | General Counsel and Company Secretary |
| T J Brown | Vice President Geoscience and New Ventures |
| M E J Eames | Vice President Corporate and People |
| R M Kennett | Vice President Operations[3] |
| M S Macfarlane | Vice President Development |
| P C Wasow | Chief Financial Officer |
| R J Wilkinson | Vice President GLNG[4] |
| *Former* | |
| J C Ellice-Flint | Managing Director and Chief Executive Officer[5] |

**Non-Executive**

| *Name* | *Position* |
|---|---|
| S Gerlach | Chairman |
| K C Borda | Director |
| P R Coates | Deputy Chairman[6] |
| K A Dean | Director |
| R A Franklin | Director |
| R M Harding | Director |
| J Sloan | Director |

1 Appointed on 28 July 2008, formerly Acting Chief Executive Officer (from 25 March 2008 to 27 July 2008) and Executive Vice President Growth Businesses (until 24 March 2008).
2 Appointed on 1 September 2008, formerly Vice President Strategic Projects.
3 Seconded to GLNG Operations Pty Ltd on 24 July 2008.
4 Appointed on 1 September 2008, formerly Vice President Commercial.
5 Departed 25 March 2008.
6 Appointed Director on 18 March 2008. Appointed Deputy Chairman on 10 December 2008.

## DELIVERING ON PERFORMANCE CRITERIA

2008 was an important year in Santos' history, during which the achievement of key milestones shaped the Company's future. The Company's ambition to be a significant supplier of energy to Asia took a major step forward through two significant achievements. First, the sale of a 40% interest in the Company's GLNG project, and the resultant joint venture with PETRONAS, the leading LNG player in the region. Second, the entry into FEED in the PNG LNG project. These achievements, together with the Company meeting its production guidance, placed Santos as one of the premium growth stocks on the ASX as well as in the broader energy sector. Santos was one of only eight ASX 100 companies whose share price grew during the severe stock market downturn in 2008 and was also one of the top performing exploration and production companies internationally. The achievement of these significant milestones was an important aspect in the Company's 2008 remuneration deliberations.

David Knox assumed the position of Acting Chief Executive Officer upon the retirement of John Ellice-Flint on 25 March 2008, and was subsequently appointed Managing Director and Chief Executive Officer (CEO) on 28 July 2008, following an international search by the Company. The terms of Mr Knox's appointment were outlined in an ASX release dated 29 July 2008, and are summarised on pages 54 to 57. Details of Mr Ellice-Flint's retirement package were communicated to the market on 14 May 2008 and are summarised on page 65.

## REMUNERATION POLICY

The Company's remuneration policy as set by the Board is summarised below.

| | **Policy objective** | **Implementation approach** |
|---|---|---|
| Non-executive Directors | To enable the Company to prudently secure and retain the services of suitable individuals to serve as Directors. | Directors' fees are set taking into account, among other things, fees paid for similar roles in comparable companies, the commitment, risk and responsibility accepted by non-executive Directors, and recognition of their commercial expertise and experience. |
| | To promote independence and impartiality. | Non-executive Director remuneration does not vary according to the performance of the Company. |
| | To align non-executive Director and shareholder interests by encouraging the creation of long-term shareholder value. | Purchase of the Company's shares by Directors is facilitated via the Non-executive Director Share Plan. |
| Managing Director and Senior Executives | To enable the Company to prudently secure and retain the services of suitable individuals able to contribute towards meeting its strategic objectives. | Executive remuneration levels are market-aligned by comparison against similar roles in comparable companies. |
| | To encourage executives to strive for superior performance by rewarding achievement of targets that are fair, challenging, clearly understood and within the control of employees to achieve through their own actions. | A significant component of executive remuneration is driven by Company and individual performance through the Company's short-term and long-term incentive programs. These components of remuneration are "at risk", so executives only derive value from participating in these programs where they satisfy challenging performance hurdles.<br><br>Individual performance also affects base remuneration. The Board intends the base remuneration of consistently high-performing executives to be higher, in market terms, than that of others. |
| | To align executive and shareholder interests by encouraging the creation of long-term shareholder value. | Part of executive remuneration is delivered in share-based payments, in order to align executive and shareholder interests.<br><br>Consistent with the objective of creating a meaningful alignment of interests, Directors and Senior Executives are not permitted to hedge their shareholdings or Long-term Incentives (LTIs) unless those securities have fully vested and are no longer subject to restrictions. Breaches of this policy will be subject to appropriate sanctions, which could include disciplinary action or termination of employment. |

## DETAILS OF REMUNERATION POLICY IMPLEMENTATION IN 2008

**Non-executive Director remuneration**

*Maximum aggregate amount*

Total non-executive Directors' fees paid in a year, including Board committee fees, cannot exceed $2,100,000. This amount was approved by shareholders at the Annual General Meeting held on 2 May 2008. Directors may also be paid additional fees for special duties or exertions, and are entitled to be reimbursed for all business-related expenses. These payments are not included in the maximum aggregate amount approved by shareholders. No additional fees were paid during the year.

*2008 non-executive Directors' fees*

Within the maximum aggregate amount approved by shareholders, fees are set for Board and Committee responsibilities. An external review of Directors' fees was undertaken by Egan Associates in December 2007, which included benchmarking comparisons of non-executive Directors' fees for similar companies and consideration of the responsibilities and time commitments required from each Director to discharge their duties. Recommendations arising from this review resulted in approval by the Board of a revised scale of payment, effective from 1 July 2008. An extension of this review, conducted in January 2009 by Egan Associates, also provided benchmark data for remuneration for the new Deputy Chairman's role. The Board adopted the recommended fees with effect from the date of appointment of the Deputy Chairman on 10 December 2008. Directors' fee rates are provided in Table 2 below.

### TABLE 2: NON-EXECUTIVE DIRECTORS' FEES PER ANNUM

| | Board | | | Committees | |
|---|---|---|---|---|---|
| | Chair[1] | Deputy Chair[1] | Member | Chair | Member |
| Annual fees | $435,000 | $217,500 | $145,000 | $12,000-$30,000 | $5,000-$15,000 |

1 The Chairman and Deputy Chairman of the Board do not receive any additional fees for serving on or chairing any Board committee.

*Superannuation and retirement benefits*

Superannuation contributions are made on behalf of non-executive Directors in accordance with the requirements of the Company's statutory superannuation obligations.

Non-executive Directors appointed prior to 1 January 2004 (Participating Directors) are contractually entitled to receive benefits upon their retirement pursuant to agreements entered into upon their appointment, the terms of which were approved by shareholders at the 1989 AGM. Non-executive Directors appointed after 1 January 2004 are not entitled to receive a benefit upon retirement other than statutory entitlements.

The retirement benefits of Participating Directors were frozen with effect from 30 June 2004, at which time their entitlements ceased to accrue. However, to prevent erosion in the real value of the frozen benefits, the Board determined that from 1 July 2007 the benefits would be indexed annually against the five-year Australian Government Bond Rate.

Table 3 below shows the increase in Participating Directors' frozen benefits as a result of indexation in 2008. Full provision has been made for these retirement benefits.

### TABLE 3: NON-EXECUTIVE DIRECTOR RETIREMENT BENEFITS

| Director | Benefit as at 1 January 2008 | Increase as a result of indexation | Benefit as at 31 December 2008 |
|---|---|---|---|
| S Gerlach | $1,168,650 | $39,897 | $1,208,547 |
| J Sloan | $358,382 | $12,235 | $370,617 |

*Non-executive Director Share Plan*

The Non-executive Director Share Plan (NED Share Plan) was introduced in July 2007 following shareholder approval at the 2007 Annual General Meeting. Participation in the NED Share Plan is voluntary and all present and future non-executive Directors are eligible to participate. Under the NED Share Plan, Directors elect to sacrifice all or part of their pre-tax fees in return for an allocation of shares of equivalent value. The NED Share Plan therefore does not involve any additional remuneration for participating Directors.

Shares are allocated quarterly and are either issued as new shares or purchased on the ASX at the prevailing market price. The shares are registered in the name of the participating Director, but are subject to a restriction on dealing. In the absence of exceptional circumstances, the restriction will apply until the Director ceases to hold office or until ten years have elapsed since the allocation of the shares, whichever is earlier.

Details of the shares allocated to Directors under the NED Share Plan during the year are set out in Table 4 below.

## TABLE 4: 2008 NED SHARE PLAN ALLOCATIONS

| Director | Q1 2008 allocation[1] | Q2 2008 allocation[2] | Q3 2008 allocation[3] | Q4 2008 allocation[4] | Total |
|---|---|---|---|---|---|
| K C Borda | 2,316 | 1,654 | 2,188 | 2,770 | 8,928 |
| P R Coates | 336 | 1,564 | 2,412 | 3,105 | 7,417 |
| K A Dean | 697 | 497 | 639 | 807 | 2,640 |
| S Gerlach | 985 | 703 | 911 | 1,151 | 3,750 |
| R M Harding | 296 | 211 | 273 | 345 | 1,125 |
| J Sloan | 2,746 | 1,961 | 2,143 | 2,646 | 9,496 |

1 Shares were allocated to the participating Directors on 4 April 2008 at $14.8381 per share.
2 Shares were allocated to the participating Directors on 3 July 2008 at $20.7745 per share.
3 Shares were allocated to the participating Directors on 7 October 2008 at $17.8867 per share.
4 Shares were allocated to the participating Directors on 30 December 2008 at $14.1676 per share.

*Details of remuneration paid to non-executive Directors*

Details of the fees and other benefits paid to Directors during 2008 are set out in Table 5 below.

## TABLE 5: 2008 NON-EXECUTIVE DIRECTOR REMUNERATION DETAILS

| | Short-term benefits | | | Retirement benefits | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Directors' fees (incl. Committee fees)[1] | Fees for special duties or exertions | Other[2] | Superannuation contributions[3] | Increase to retirement benefit | NED Share Plan | Total |
| S Gerlach | $350,625 | - | $4,796 | $13,437 | $39,897 | $61,875 | $470,630 |
| K C Borda | $0 | - | - | $13,060 | - | $147,141 | $160,201 |
| P R Coates | $0 | - | - | $10,246 | - | $124,644 | $134,890 |
| K A Dean | $130,687 | - | - | $13,437 | - | $43,563 | $187,687 |
| R A Franklin | $150,250 | - | - | $813 | - | - | $151,063 |
| R M Harding | $167,287 | - | - | $6,872 | - | $18,588 | $192,747 |
| J Sloan | $0 | - | - | $13,376 | $12,235 | $157,342 | $182,953 |

1 Refer Table 2 above for details of annual Directors' fees and Committee fees. Figure shown is after fee sacrifice to NED Share Plan.
2 This figure represents the value of car parking provided to the Chairman in the Company's head office in Adelaide.
3 Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin only in relation to days worked in Australia.

TABLE 6: 2007 NON-EXECUTIVE DIRECTOR REMUNERATION DETAILS

| | Short-term benefits | | | Retirement benefits | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Directors' fees (incl. Committee fees)[1] | Fees for special duties or exertions | Other[2] | Superannuation contributions[3] | Increase to retirement benefit | NED Share Plan | Total |
| S Gerlach | $252,229 | - | $4,788 | $111,678 | $37,925 | $39,000 | $445,620 |
| K C Borda | $51,704 | - | - | $10,672 | - | $68,750 | $131,126 |
| K A Dean | $107,575 | - | - | $54,282 | - | $16,550 | $178,407 |
| R A Franklin | $140,512 | - | - | $3,195 | - | - | $143,707 |
| R M Harding | $39,600 | - | - | $136,440 | - | $8,800 | $184,840 |
| C J Recny[4] | $19,589 | - | - | $1,763 | - | - | $21,352 |
| J Sloan | $0 | - | - | $94,407 | $11,630 | $81,500 | $187,537 |

1 Figure shown is after fee sacrifice to superannuation and/or NED Share Plan.
2 This figure represents the value of car parking provided to the Chairman in the Company's head office in Adelaide.
3 Includes superannuation guarantee payments and any voluntary fee sacrifice to superannuation.
4 Payment to deceased estate.

**Managing Director and CEO remuneration**

*Remuneration components and their relative weightings*

Total remuneration for the Managing Director and CEO, Mr D J W Knox, is made up of the following components:

- Base remuneration – comprising salary and superannuation;
- Short-term Incentive (STI) – an annual bonus linked to Company performance and achievement of strategic objectives; and
- Long-term Incentive (LTI) – equity grants tied to vesting conditions dependent on Santos' achievement of superior performance relative to the ASX 100.

The Board received external advice on Mr Knox's remuneration package, which is benchmarked against the remuneration paid to Managing Directors/CEOs of comparable companies in the industry.

The relative weightings of the three components comprising the Managing Director and CEO's total remuneration are provided below.

TABLE 7: RELATIVE WEIGHTINGS OF REMUNERATION COMPONENTS[1]

| | % of total remuneration (annualised) | | |
|---|---|---|---|
| | Fixed remuneration | Performance-based remuneration | |
| | | STI | LTI |
| Managing Director | 37% | 26% | 37% |

1 These figures reflect the annualised weightings of the Managing Director and CEO's remuneration components (based on target performance for the "at risk" components). The figures do not reflect the relative weightings of the remuneration components paid to Mr Knox in 2008, as Mr Knox did not serve as Managing Director for the full period. These figures do not reflect the relative value derived by Mr Knox from each of the components, which is dependent on actual performance against targets for the "at risk" components. This is discussed in the STI and LTI sections below.

*Base remuneration*

Mr Knox is paid Total Fixed Remuneration (TFR), out of which the Company makes contributions into his accumulation superannuation fund of at least the minimum statutory amount. He may, if he wishes, salary sacrifice part of his TFR for additional superannuation contributions or other benefits such as a novated car lease. Under his service agreement, TFR for the Managing Director and CEO is set at $1.75 million per annum, subject to annual review. Mr Knox's TFR for the 2008 financial year (as set out in Table 9 below) was pro-rated according to the various roles he held during the period.

*Short-term Incentive (STI)*

The Managing Director and CEO has a maximum annual STI opportunity of 100% of TFR, subject to achievement of applicable performance targets set by the Board. For the 2008 financial year, Mr Knox's maximum STI was pro-rated for the various roles he held during the period (that is, his maximum STI amount of $1,358,167 reflects a pro-rated portion of the maximum amount he could have earned from the roles held during the year).

Consistent with his role as Managing Director and CEO, Mr Knox's performance measures comprise a combination of financial and operational targets, all of which are directly related to strategic objectives set by the Board. The Board believes that this method of setting performance targets focuses the Managing Director and CEO's attention on achieving the key conditions and milestones necessary to achieve the Board's strategic plan for the Company.

At the end of each financial year, the Remuneration Committee assesses performance against the objectives set by the Board, and makes recommendations to the Board regarding Mr Knox's performance and the appropriate level of STI award. The Board believes this method of assessment provides a balanced assessment of the Managing Director and CEO's overall performance.

For the 2008 performance period, as outlined above, Mr Knox's STI targets were based on agreed objectives linked to Company performance targets and delivery of its strategic growth initiatives. Consistent with his role as Managing Director and CEO, these performance measures for 2008 included the Company's strategic positioning in Australia and Asia, furtherance of its LNG projects (including formation of a strategic joint venture for its GLNG project) and achievement of financial, operational and safety performance milestones.

Based on performance against these targets during the year, Mr Knox was awarded an STI payment of $1,100,000 or 81% of the maximum STI payable. The difference between actual STI paid and maximum STI was forfeited.

*Long-term Incentive (LTI)*

*Overview of grants made to Mr Knox in 2008*

On 3 May 2008, the Company made equity grants to its Senior Executives for the Long-term Incentive (LTI) component of their remuneration for 2008. Mr Knox participated in these grants in his capacity as Acting Chief Executive Officer. The grants comprised:

- a performance-based component, equal to 71% of the total grant value (Performance Award); and
- a service-based component, equal to 29% of the total grant value (Deferred Award).

The key terms of the Performance Award and Deferred Award are set out on pages 59 to 60.

Upon his formal appointment as CEO, Mr Knox received a further grant of equity awards (CEO Performance Award) to supplement the grants already made to him in his Senior Executive capacity.

The grants made to Mr Knox in 2008 constitute his full LTI entitlement for the 2008, 2009 and 2010 financial years.

All LTI grants were delivered in the form of:

- Share Acquisition Rights (SARs) – a conditional entitlement to a fully paid ordinary share at zero price, subject to satisfaction of vesting conditions; or
- Options – an entitlement to acquire a fully paid ordinary share at a predetermined price, subject to satisfaction of vesting conditions.

Table 8 below contains details of the number and value of SARs and options granted to Mr Knox in 2008.

TABLE 8: SARS AND OPTIONS GRANTED TO MR KNOX IN 2008[1]

| Grant name | Number of SARs granted | | Number of Options granted | | Maximum value of grant[2] | |
|---|---|---|---|---|---|---|
| ***CEO Performance Award*** | Tranche 1 | 35,973 | Tranche 1 | 94,193 | Tranche 1 | $1,040,640 |
| | Tranche 2 | 50,403 | Tranche 2 | 131,976 | Tranche 2 | $990,405 |
| | Tranche 3 | 50,403 | Tranche 3 | 131,976 | Tranche 3 | $990,066 |
| ***2008 Awards prior to CEO Appointment*** | | | | | | |
| *Performance Award* | | - | | 64,992 | | $341,208 |
| *Deferred Award* | | - | | 21,837 | | $159,410 |

1 The grants made to Mr Knox during the year constitute his full LTI awards for the 2008, 2009 and 2010 financial years. As the SARs and options only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs or options detailed above were forfeited during the year.
2 Maximum value represents the fair value of the LTI Awards as at their grant date (being 3 May 2008 for the Performance Award and Deferred Award and 28 July 2008 for the CEO Performance Award). The fair value per instrument at the grant date was:

| | |
|---|---|
| CEO Performance Award | Tranche 1: SARs – $13.82, Options – $5.77 |
| | Tranche 2: SARs – $8.60, Options – $4.22 |
| | Tranche 3: SARs – $8.41, Options – $4.29 |
| Performance Award | Options - $5.25 |
| Deferred Award | Options - $7.30 |

Monte Carlo simulation was used to determine the value of the SARs and options granted. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

These grants have been structured to provide Mr Knox with an annual LTI opportunity of 100% of TFR (based on the 2008 level of $1.75 million) for each of the 2008, 2009 and 2010 years, subject to achieving applicable vesting conditions.

*Summary of CEO Performance Award*

The CEO Performance Award operates on the same terms as the performance-based LTI granted to other Senior Executives described on pages 56 to 60 below, that is, it is subject to performance hurdles based on the Company's TSR relative to the ASX 100 over a three-year performance period. The Board believes the chosen performance hurdles effectively align the CEO's interests with that of the Company's shareholders, as TSR is a fair measure of shareholder returns and the ASX 100 represents the companies in which most of the Company's shareholders could invest as an alternative to Santos.

As the CEO Performance Award forms part of the Managing Director and CEO's remuneration for each of the 2008, 2009 and 2010 financial years, it is divided into 3 tranches as follows:

*Tranche 1:* Tested over the period from 1 January 2008 to 31 December 2010

*Tranche 2:* Tested over the period from 1 January 2009 to 31 December 2011

*Tranche 3:* Tested over the period from 1 January 2010 to 31 December 2012.

Depending on Santos' relative TSR over the applicable performance period, each tranche of the CEO Performance Award will vest in accordance with the following schedule:

| TSR percentile ranking | % of grant vesting |
|---|---|
| < 50th percentile | 0% |
| = 50th percentile | 37.5% |
| 51st to 75th percentile | 39% to 75% |
| 76th to 100th percentile | 76% to 100% |

Full vesting of the CEO Performance Award will only occur where Santos' TSR growth over the performance period exceeds that of all other companies in the comparator group, and therefore requires exceptional performance.

There is no re-testing of the performance conditions. SARs or options which remain unvested following testing of the performance condition will lapse.

Upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to restrictions until the earlier of ten years from the grant date, cessation of employment, or the date at which the Board approves, at Mr Knox's request, the removal of the restrictions. Options may be exercised at any time between the vesting date and the expiry date (27 July 2018), subject to payment of the exercise price of $17.36 per option (being the volume weighted average price in the week up to and including the grant date).

*2008 Remuneration details for Mr DJW Knox*

### TABLE 9: 2008 REMUNERATION DETAILS FOR MR DJW KNOX[1]

| Short-term employee benefits | | | Post-employment | Share-based payments[2] | | Termination | Other long-term benefits[3] | Total | % at risk |
|---|---|---|---|---|---|---|---|---|---|
| Base salary | STI[4] | Other | Super-annuation | SARs | Options | | | | |
| $1,200,115 | $1,100,000 | - | $54,745 | $381,824 | $418,382 | - | $39,593 | $3,194,659 | 59% |

1 Remuneration paid to Mr Knox in 2008 varied according to each of the three positions he held during the year.
2 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that Mr Knox may ultimately realise should the equity instruments vest. The notional value of SARs and options as at their date of grant was determined in accordance with AASB 2 "Share Based Payment" applying the Monte Carlo simulation method. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. Of the total remuneration for Mr Knox for the year, 25% consisted of SARs and options.
3 This amount represents the value of long service leave accrued in 2008.
4 This amount represents the STI award made for the 2008 financial year, which will be paid in March 2009.

*Service agreement*

The Company entered into a service agreement with the Managing Director and CEO on 28 July 2008, which is ongoing until termination by the Managing Director and CEO, or the Company.

The service agreement provides that the Company may terminate the Managing Director and CEO's employment on giving 12 months' notice. Where the Company exercises this general right to terminate, it must make a payment to the Managing Director and CEO equivalent to his TFR for the full notice period. Pro-rata STI entitlements, subject to performance, will apply to the date of termination and the Board retains discretion to vest any outstanding LTI, having regard to performance and reasons for termination.

The Company may terminate the Managing Director and CEO's employment at any time for cause. No payment in lieu of notice, nor any payment in respect of STI or LTI will be made in this circumstance.

Mr Knox may initiate termination of his service agreement by giving the Company six months' notice, in which case he will be entitled to payment of TFR in respect of the notice period and pro-rata STI to the date of termination, subject to performance. The Board retains discretion to vest any outstanding LTI, having regard to performance and reasons for termination. Mr Knox may also initiate termination of his service agreement immediately if there is a fundamental change in his role or responsibilities without his consent. In this circumstance the service agreement provides for payment of 12 months' TFR, full STI for the year in which employment is terminated and a pro rata portion of the following year's STI, subject to current year performance. Pro-rata vesting of outstanding LTI will apply, based on the expired portion of the performance period and performance achieved to the termination date.

**Senior Executive remuneration**

*Remuneration components and their relative weightings*

Total remuneration for Senior Executives is made up of the following components:

- Base remuneration – comprising salary and superannuation;
- Short-term incentives (STI) – annual bonuses tied to individual and Company performance; and
- Long-term incentives (LTI) – equity grants tied to vesting conditions tested over a three-year period.

Santos' executive remuneration structure is consistent with the Company's "pay for performance" policy.

The relative weightings of the three components comprising the Senior Executives' total remuneration are provided in Table 10 below.

TABLE 10: RELATIVE WEIGHTINGS OF REMUNERATION COMPONENTS[1]

| | % of total remuneration (annualised) | | |
|---|---|---|---|
| | Fixed remuneration | Performance-based remuneration | |
| | **TFR** | **STI** | **LTI** |
| Executive Vice Presidents and Chief Financial Officer | 52% | 27% | 21% |
| Other Senior Executives | 57% | 20% | 23% |

1 These figures reflect the relative weightings used by the Company to determine the size of STI and LTI allocations to Senior Executives. The figures do not reflect the relative value derived by Senior Executives from each of the components, which is dependent on actual performance against targets for the "at risk" components.

*Base remuneration*

| | |
|---|---|
| Salary and superannuation | Senior Executives are paid Total Fixed Remuneration (TFR), out of which the Company makes contributions into their superannuation funds of at least the minimum statutory amount. They may, if they wish, salary sacrifice part of their TFR for additional superannuation contributions or other benefits such as novated car leases. |
| Benefits | Senior Executives do not receive any benefits in addition to TFR. |
| Market alignment | Executive remuneration levels are market-aligned by comparison to similar roles in ASX 100 energy, materials and utilities companies, excluding BHP Billiton and Rio Tinto due to their disproportionately larger size and market capitalisation. This broad industry group is used as there are too few Australian exploration and production companies of similar size to Santos for benchmarking purposes. |

*Short-term Incentive*

| | |
|---|---|
| Frequency | STI is assessed and paid annually. |
| Maximum STI | 75% of TFR for Executive Vice Presidents. |
| | 50% of TFR for other Senior Executives. |
| Performance measures | To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 70% of their STI is based on Company performance. The remaining 30% is based on the executive's individual performance. |
| | A range of Company performance metrics is used in order to drive balanced business performance. These metrics include lagging indicators to assess the Company's past performance, as well as forward-looking indicators to ensure the Company is positioning itself effectively for future growth. The metrics include reserve growth, reserve replacement cost, production, margin, new growth options, shareholder value creation, people, environment, health and safety and continuous improvement. Individual performance is assessed against targets set within each executive's area of responsibility. |
| Assessment of performance | Individual performance is assessed by the Managing Director and CEO. |
| | Company performance is assessed by the Remuneration Committee. Each metric is assessed against target and assigned a score on a five-point scale. The average of these scores forms the overall Company performance score. |
| | The Board believes the above methods of assessment are rigorous and transparent and provide a balanced assessment of the executive's performance. |
| Payment method | Cash. |
| STI awarded in 2008 | Company performance against the metrics in 2008 resulted in an average STI of 80% of maximum payable to all eligible employees. |
| | 2008 STI awards made to individual Senior Executives ranged from 56% to 94% of maximum. The difference between actual STI paid and maximum STI was forfeited. |

*Long-term Incentives*

During the year, the Company made equity grants to its Senior Executives as the Long-term Incentive (LTI) component of their remuneration for 2008. The grants comprised:

- a performance-based component, equal to 71% of the total grant value (Performance Award); and
- a service-based component, equal to 29% of the total grant value (Deferred Award).

All LTI grants were delivered, at the executive's election, in the form of either:

- Share Acquisition Rights (SARs) – a conditional entitlement to a fully paid ordinary share at zero price, subject to satisfaction of vesting conditions; or
- Options – an entitlement to acquire a fully paid ordinary share at a predetermined price, subject to satisfaction of vesting conditions.

Grant sizes were market-aligned.

For the Performance Award, an additional 50% of the award was added to the standard grant for Relative TSR performance above the 75th percentile, up to the 100th percentile of the comparator group. Consistent with its remuneration philosophy, the Board believes it is appropriate to provide executives with an additional incentive to strive for exceptional performance, recognising that executives will only benefit from the additional 50% where Santos achieves a ranking in the top quartile of its comparator group. Executives will only receive the full benefit of this additional component where Santos outperforms all other companies in the comparator group in delivering superior returns to shareholders.

Vesting details of the Performance Award and the Deferred Award are summarised in Table 11 below. In addition, Table 12 contains details of the number and value of SARs and options granted to Senior Executives in 2008 under the Performance Award and the Deferred Award.

## TABLE 11: PERFORMANCE AWARD AND DEFERRED AWARD VESTING DETAILS

| | **Performance Award** | | **Deferred Award** |
|---|---|---|---|
| Vesting period | 1 January 2008 to 31 December 2010. | | 3 May 2008 to 2 May 2011. |
| Vesting condition | Vesting of this grant is based on relative TSR against ASX 100 companies as at 1 January 2008. | | Vesting of the Deferred Award is based on continuous service to 2 May 2011, or three years from the grant date. |
| Vesting schedule | *Santos TSR percentile ranking* | *% of standard grant vesting* | 0% if the continuous service condition is not met.<br><br>100% if the continuous service condition is met. |
| | < 50th percentile | 0% | |
| | = 50th percentile | 50% | |
| | 51st to 75th percentile | 52% to 100% | |
| | 76th to 100th percentile | 102% to 150% | |
| Exercise price | $15.39 for options, being the volume weighted average price in the week up to and including the grant date of 3 May 2008.<br><br>SARs have no exercise price. | | As for Performance Award. |
| Exercise period | Options may be exercised at any time between the vesting date and the expiry date.<br><br>Upon vesting of SARs, shares will automatically be allocated to the executive. | | As for Performance Award. |

| | Performance Award | Deferred Award |
|---|---|---|
| Expiry/lapse | SARs and options that do not vest upon testing of the performance condition will lapse. There is no re-testing of the performance condition if it is not satisfied.<br><br>Vested options will expire if not exercised before 3 May 2018. | SARs and options will lapse where the service condition is not satisfied.<br><br>Vested options will expire if not exercised before 3 May 2018. |
| Cessation/change of control | Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited.<br><br>However, if cessation occurs due to death, disability or redundancy, or in special circumstances approved by the Board, then a proportion of the SARs and options may vest and become exercisable.<br><br>Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest. | As for Performance Award. |

## TABLE 12: SARS AND OPTIONS GRANTED TO SENIOR EXECUTIVES IN 2008[1]

| Executive | Grant name | Number of SARs granted | Number of Options granted | Maximum value of grant[2] |
|---|---|---|---|---|
| J H Anderson | Performance Award | - | 34,290 | 180,023 |
| | Deferred Award | - | 11,247 | 82,103 |
| J L Baulderstone | Performance Award | - | 31,384 | 164,766 |
| | Deferred Award | - | 10,294 | 75,146 |
| T J Brown | Performance Award | - | 33,925 | 178,106 |
| | Deferred Award | - | 9,092 | 66,372 |
| M E J Eames | Performance Award | - | 40,412 | 212,163 |
| | Deferred Award | - | 13,255 | 96,762 |
| R M Kennett | Performance Award | 13,304 | - | 149,404 |
| | Deferred Award | 4,364 | - | 73,010 |
| M S Macfarlane | Performance Award | - | 34,602 | 181,661 |
| | Deferred Award | - | 10,380 | 75,774 |
| P C Wasow | Performance Award | 17,485 | - | 196,357 |
| | Deferred Award | 5,735 | - | 95,947 |
| R J Wilkinson | Performance Award | 13,641 | - | 153,188 |
| | Deferred Award | 4,474 | - | 74,850 |

1 The grants made to the Senior Executives during the year constitute their full LTI awards for the 2008 financial year. As the SARs and options only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs or options detailed above were forfeited during the year.

2 Maximum value represents the fair value of the Performance Award and Deferred Award as at their grant date (being 3 May 2008). The fair value per instrument at the grant date was:

*Performance Award* SARs – $11.23, Options – $5.25
*Deferred Award* SARs – $16.73, Options – $7.30

Monte Carlo simulation was used to determine the value of the SARs and options granted. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

*Prior year LTI grants to Senior Executives*

The following LTI grants were still in progress or were tested during 2008:

| Grant year | Grant type | Vesting condition(s) | Performance/vesting period | Status |
|---|---|---|---|---|
| 2005 | Performance Award | • Relative TSR performance against ASX 100 companies (50% of grant)<br>• Relative TSR performance against Australian and international E&P companies (50% of grant) | 1 January 2005 to 31 December 2007 | Grant tested during the year, resulting in:<br>• Full vesting of 50% of the grant as the Company's TSR ranked at the 75th percentile of the ASX 100 comparator group; and<br>• No vesting of 50% of the grant as the Company ranked below the 50th percentile of the E&P comparator group. |
| 2006 | Performance Award | • Relative TSR performance against ASX 100 companies (50% of grant)<br>• Relative TSR performance against Australian and international E&P companies (50% of grant) | 1 January 2006 to 31 December 2008 | Grant tested *after* the end of financial year resulting in full vesting of the grant as the Company's TSR ranked above the 75th percentile of both the ASX 100 comparator group and the E&P comparator group. |
| 2007 | Performance Award | • Relative TSR performance against Australian and international E&P companies (50% of grant)<br>• Absolute TSR target of 11% per annum compound (50% of grant) | 1 January 2007 to 31 December 2009 | Still in progress. |
| | Deferred Award | Continuous service | 1 July 2007 to 30 June 2010 | Still in progress. |
| 2008 | Performance Award | Relative TSR performance against ASX 100 companies | 1 January 2008 to 31 December 2010 | Still in progress. |
| | Deferred Award | Continuous service | 3 May 2008 to 2 May 2011 | Still in progress. |

The value derived by Senior Executives during 2008 in respect of LTIs granted in previous financial years is set out in Table 13 below. Table 13 also contains details of prior year LTIs that lapsed or were forfeited during 2008.

# Remuneration Report
(continued)

TABLE 13: SENIOR EXECUTIVES' LTI REMUNERATION OUTCOMES IN 2008

| | Vested | | Exercised[1] | | Forfeited/Lapsed | |
|---|---|---|---|---|---|---|
| | Number | Value[2] | Number | Value[3] | Number | Value[4] |
| J H Anderson | | | | | | |
| SARs | - | - | - | - | - | - |
| Options | 14,400 | 74,592 | 12,744 | 188,611 | 14,400 | 16,560 |
| J L Baulderstone | | | | | | |
| SARs | - | - | - | - | - | - |
| Options | - | - | - | - | - | - |
| T J Brown | | | | | | |
| SARs | - | - | - | - | - | - |
| Options | 14,400 | 74,592 | - | - | 14,400 | 16,560 |
| M E J Eames | | | | | | |
| SARs | 9,800 | 133,672 | - | - | 9,800 | 45,374 |
| Options | - | - | - | - | 25,000 | 28,750 |
| R M Kennett | | | | | | |
| SARs | 4,500 | 61,380 | - | - | 4,500 | 20,835 |
| Options | - | - | - | - | - | - |
| M S Macfarlane | | | | | | |
| SARs | 4,800 | 65,472 | - | - | 4,800 | 22,224 |
| Options | - | - | - | - | - | - |
| P C Wasow | | | | | | |
| SARs | 11,800 | 160,952 | - | - | 11,800 | 54,634 |
| Options | - | - | - | - | - | - |
| R J Wilkinson | | | | | | |
| SARs | 8,850 | 120,714 | - | - | 8,850 | 40,976 |
| Options | - | - | - | - | - | - |
| **Total SARs** | **39,750** | **542,190** | **-** | **188,611** | **39,750** | **184,043** |
| **Total options** | **28,800** | **149,184** | **12,744** | **-** | **53,800** | **61,870** |

1 For each option exercised during the year, the relevant executive received one fully paid ordinary share in the Company. Options were exercised on 20 June 2008, at an exercise price of $6.95 per option.
2 The value of each SAR on the date of vesting is based on the closing market price of Santos Limited shares on ASX on the preceding trading day. The value of each option on the date of vesting is based on the difference between the closing market price of Santos Limited shares on ASX on the preceding trading day and the relevant exercise price.
3 The value of each option exercised during the year is based on the difference between the closing market price of Santos Limited shares on ASX on the preceding trading day and the relevant exercise price.
4 The value of a SAR or option on the day it lapsed represents the benefit foregone as determined by the Monte Carlo valuation method at the date the SAR or option was granted.

*2008 Senior Executive Remuneration Details*

## TABLE 14: 2008 SENIOR EXECUTIVE REMUNERATION DETAILS

| | Short-term employee benefits | | | Post-employment | Share-based payments[2] (LTI) | | Termin-ation | Other long-term benefits[3] | Total | % at risk |
|---|---|---|---|---|---|---|---|---|---|---|
| | Base salary | STI[4] | Other | Super-annuation | SARs | Options | | | | |
| J H Anderson | $468,021 | $205,000 | - | $48,689 | $122,742 | $80,852 | - | $12,228 | $937,532 | 44% |
| J L Baulderstone | $465,734 | $250,000 | - | $46,326 | $111,832 | $119,641 | - | $12,030 | $1,005,563 | 48% |
| T J Brown | $500,023 | $145,000 | - | $18,523[1] | $123,651 | $77,719 | - | $11,803 | $876,720 | 40% |
| M E J Eames | $551,505 | $220,000 | - | $57,455 | $173,306 | $68,556 | - | $14,078 | $1,084,901 | 43% |
| R M Kennett[5] | $484,297 | $235,000 | $22,430[6] | $64,315[1] | $147,201 | - | - | $12,983 | $966,226 | 40% |
| M S Macfarlane | $471,282 | $205,000 | - | $49,029 | $122,742 | $79,811 | - | $12,056 | $939,919 | 43% |
| P C Wasow | $830,548 | $585,000 | - | $13,289 | $265,239 | - | - | $22,639 | $1,716,716 | 50% |
| R J Wilkinson | $485,676 | $255,000 | $5,282[6] | $90,260 | $201,462 | - | - | $11,681 | $1,049,361 | 43% |

1 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contribution made during 2008 by the Company in respect of the current and future entitlements of T J Brown and R M Kennett was $13,289 and $57,526 respectively.

2 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at their date of grant was determined in accordance with AASB 2 "Share Based Payment" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. The amounts set out above include a proportion of the value of SARs and Options granted during 2008 under the Performance Award and Deferred Award as well as a proportion of the value of SARs and options granted in previous financial years that had not vested as at 1 January 2008. The percentage of each Senior Executive's total remuneration for the year that consisted of SARs and options is as follows:

| | | | |
|---|---|---|---|
| J H Anderson | 22% | R M Kennett | 15% |
| J L Baulderstone | 23% | M S Macfarlane | 22% |
| T J Brown | 23% | P C Wasow | 15% |
| M E J Eames | 22% | R J Wilkinson | 19% |

3 These amounts represent Senior Executives' long service leave accruals in 2008.

4 This amount represents the STI award made for the 2008 financial year, which will be paid in March 2009.

5 R M Kennett was seconded to GLNG Operations Pty Ltd on 24 July 2008. Figures in this table represent his remuneration for the full 2008 year.

6 This amount represents allowances paid to R M Kennett for relocation to Brisbane and for incidental expenses for R J Wilkinson relating to commuting between Adelaide and Brisbane.

*2007 Senior Executive Remuneration Details*

TABLE 15: 2007 SENIOR EXECUTIVE REMUNERATION DETAILS

| | Short-term employee benefits | | | Post-employment | Share-based payments[3] (LTI) | | Termin-ation | Other long-term benefits[4] | Total | % at risk |
|---|---|---|---|---|---|---|---|---|---|---|
| | Base salary | STI | Other[1] | Super-annuation | SARs | Options | | | | |
| J H Anderson | $426,902 | $199,500 | $1,944 | $44,542 | $61,371 | $35,458 | - | $10,961 | $780,678 | 38% |
| J L Baulderstone | $379,833 | $167,000 | $1,463 | $38,340 | $55,916 | $33,200 | - | - | $675,751 | 38% |
| T J Brown | $465,358 | $163,700 | $1,944 | $17,627[2] | $61,826 | $36,330 | - | $11,031 | $757,816 | 35% |
| M E J Eames | $505,228 | $235,100 | $1,944 | $52,766 | $135,576 | $22,181 | - | $ 12,916 | $965,711 | 41% |
| R M Kennett | $391,597 | $187,500 | $1,976 | $66,082[2] | $72,549 | - | - | $10,304 | $730,008 | 36% |
| D J W Knox[5] | $230,403 | $143,300 | - | $21,792 | $65,429 | $28,143 | - | - | $489,067 | 48% |
| M S Macfarlane | $426,902 | $180,700 | $1,944 | $44,542 | $78,517 | $22,682 | - | $10,961 | $766,248 | 37% |
| P C Wasow | $631,261 | $406,900 | $1,944 | $12,686 | $158,421 | - | - | $14,904 | $1,226,117 | 46% |
| R J Wilkinson | $411,455 | $207,800 | $1,944 | $81,752 | $118,370 | - | - | $10,524 | $831,846 | 39% |

1 These amounts represent the cost of car parking provided partly in the Company's old head office premises in Adelaide and partly in its current premises, up to 30 April 2007. On 1 May 2007, the cost of parking in the Company's current head office was added to TFR, and from then on executives were required to obtain parking via salary sacrifice.

2 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contributions made during 2007 by the Company in respect of the current and future entitlements of TJ Brown and RM Kennett were $12,686 and $51,180 respectively.

3 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at their date of grant was determined in accordance with AASB 2 "Share Based Payment" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. The amounts set out above include a proportion of the value of SARs and Options granted during 2007 under the Performance Grant and Growth Awards as well as a proportion of the value of SARs and options granted in previous financial years that had not vested as at 1 January 2007.
The percentages of each Senior Executive's total remuneration for the year that consisted of SARs and options are as follows:

| | | | |
|---|---|---|---|
| J H Anderson | 11% | R M Kennett | 19% |
| J L Baulderstone | 13% | D J W Knox | 12% |
| T J Brown | 12% | P C Wasow | 12% |
| M E J Eames | 16% | R J Wilkinson | 13% |
| M S Macfarlane | 8% | | |

4 These amounts represent Senior Executives' long service leave accruals in 2007.

5 Mr D J W Knox was appointed on 3 September 2007.

*Service Agreements – Senior Executives*

The Company has entered into service agreements with the Senior Executives. The service agreements are ongoing until termination by the Company upon giving 12 months' notice or the Senior Executive upon giving six months' notice. In a Company-initiated termination, the Company may make a payment in lieu of notice equivalent to the TFR the executive would have received over the notice period. All Senior Executives' service agreements may be terminated immediately for cause, whereupon no payments in lieu of notice or other termination payments apply.

**Former Managing Director and CEO**

Mr J C Ellice-Flint retired as Managing Director and CEO on 25 March 2008.

Consistent with the terms of his service agreement, Mr Ellice-Flint received the following benefits upon cessation of his employment:

- a payment of $1.85 million equivalent to 12 months' base salary;
- a payment of $855,262 in respect of annual and long service leave accrued at the date his employment ceased;
- 2,312,500 options, which had not previously vested, were vested and became exercisable. In accordance with the original terms of issue approved by shareholders, these options are exercisable, at an exercise price of $11.36 per option, until 3 May 2016; and
- a pro-rated amount of his short-term incentive potential for the period from 1 January to 31 March 2008 ($520,312).

Whilst Mr Ellice-Flint officially stepped down as CEO on 25 March 2008, he continued to provide services to the Company until 30 June 2008 in a consultancy capacity, for which he was paid $492,337.

Details of Mr Ellice-Flint's remuneration are shown in Table 16 below.

## TABLE 16: DETAILS OF 2007 AND 2008 REMUNERATION FOR MR J C ELLICE-FLINT

| | Short-term employee benefits | | | Post-employment | Share-based payments (LTI) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base salary | STI | Other | Superannuation[1] | Options[2] | Termination | Other long-term benefits[4] | Total | % at risk |
| 2008 | $433,135 | $520,312 | - | $1,172,553 | $1,570,522 | $2,705,262 | - | $6,401,784 | 33% |
| 2007 | $1,702,694 | $1,950,000 | $1,944[3] | $987,357 | $1,898,273 | - | $42,601 | $6,582,869 | 58% |

1 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contribution made by the Company in respect of Mr Ellice-Flint's entitlements was $1,094,334 in 2007 and $208,250 in 2008.

2 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The notional value of SARs and options as at their date of grant was determined in accordance with AASB 2 "Share Based Payment" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements. The amounts set out above include a proportion of the value of options granted to Mr Ellice-Flint in 2006 that had not vested as at 1 January 2007 and 1 January 2008. Of Mr Ellice-Flint's total remuneration for the year, 29% consisted of options in 2007 and 25% consisted of options in 2008.

3 This amount represents the cost of car parking provided in the period 1 January 2007–30 April 2007. From 1 May 2007, the cost of parking in the Company's new head office was paid by the Managing Director.

4 This amount represents long service leave accrued in 2007.

## LINK BETWEEN COMPANY PERFORMANCE, SHAREHOLDER WEALTH AND REMUNERATION 2004–2008

Table 17 sets out the Group's performance over the past five years in respect of the key financial and non-financial indicators used to measure year-on-year performance. Table 17 also shows how the size of the STI pool available to Senior Executives has varied over this period based on the level of performance achieved each year across these key indicators.

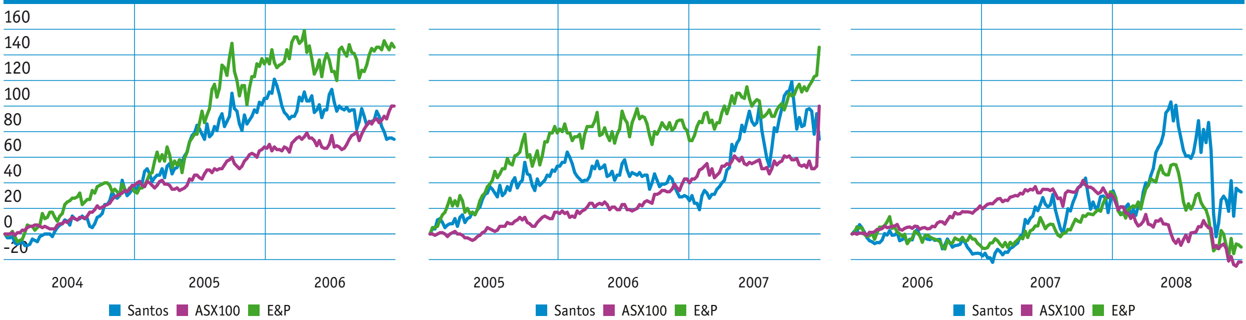
### TABLE 17: KEY INDICATORS OF SHORT-TERM COMPANY PERFORMANCE 2004–2008

| | 2004 | 2005 | 2006 | 2007 | **2008** |
|---|---|---|---|---|---|
| Safety (total recordable case frequency rate) | 6.4 | 4.9 | 6.4 | 5.3 | **5.8** |
| Production (mmboe) | 47.1 | 56.0 | 61.0 | 59.1 | **54.4** |
| Reserve replacement cost – 1P (A$/boe) | 17 | 13 | 15 | 13 | **13** |
| Reserve replacement rate – 1P (%) | 121 | 218 | 143 | 175 | **160** |
| Proven plus probable reserves – 2P (mmboe) | 643 | 774 | 819 | 879 | **1,013** |
| Netback (A$/boe) | 20 | 30 | 33 | 33 | **36** |
| Net profit after tax ($m) | 355 | 762 | 643 | 359 | **1,650** |
| Earnings per share (cents) | 54 | 124 | 103 | 55 | **273** |
| Dividends per ordinary share (cents) | 30 | 36 | 40 | 40 | **42** |
| Size of STI pool (% of maximum) | 80.0 | 85.0 | 70.0 | 80.0 | **80.0** |

The graphs below show the relationship over the past five years between the Company's TSR and share price growth, being two key indicators of long-term Company performance, and the percentage of LTI grants to Senior Executives that vested. The graphs demonstrate how the level of Senior Executive reward derived from their LTI grants is dependent upon the delivery of sustained above-average returns to shareholders.

### TSR OF SANTOS, ASX100 AND AUSTRALIAN AND INTERNATIONAL EXPLORATION AND PRODUCTION COMPANIES 2004–2008

%



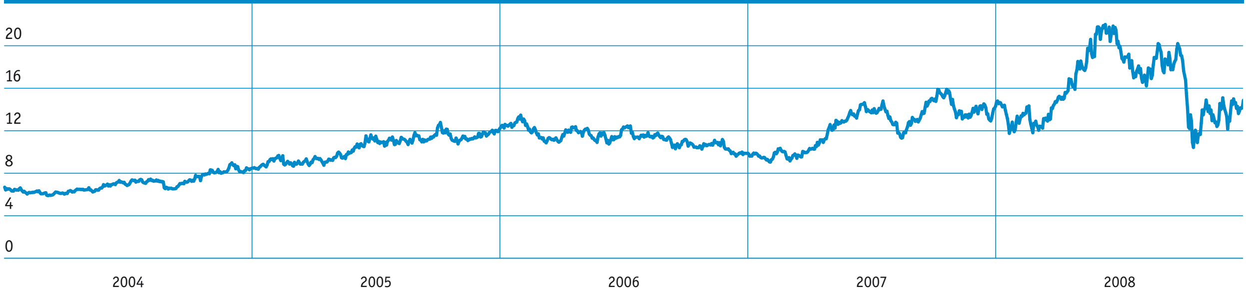

LTI vesting for 2004–2006 performance period = 0%

LTI vesting for 2005–2007 performance period = 50%

LTI vesting for 2006–2008 performance period = 100%

### SANTOS SHARE PRICE 2004–2008

$



The TSR growth shown above incorporates dividends and capital returns the Company made to shareholders during the past five years. Dividends paid by the Company in the past five years are as follows:

(Dividends per ordinary share)

| | |
|---|---|
| 2004 | $0.30 |
| 2005 | $0.36 |
| 2006 | $0.40 |
| 2007 | $0.40 |
| 2008 | $0.42 |

The following capital returns were made in the 2004–2008 period:

- In conjunction with its $600 million offering of Redeemable Convertible Preference Shares (or FUELS), on 30 September 2004 the Company redeemed and bought back the entire 3,500,000 Reset Convertible Preference Shares on issue at that date. 2,865,821 were redeemed at face value and reinvested in FUELS, 489,774 shares were bought back for $105 each and cancelled, and 144,405 were redeemed at face value.
- On 30 June 2007, the Company bought back 24,671,275 fully paid ordinary shares, representing 4.10% of fully paid ordinary shares on issue at that date, at a price of $12.16 per share.
- On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid shares on issue at that date, at a price of $16.23 per share.

# Income Statements
for the year ended 31 December 2008

| | Note | Consolidated 2008 Continuing $million | Consolidated 2008 Discontinued $million | Consolidated 2008 Total $million | Consolidated 2007 Continuing $million | Consolidated 2007 Discontinued $million | Consolidated 2007 Total $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|---|---|---|---|
| Product sales | 3 | **2,761.8** | **–** | **2,761.8** | 2,458.4 | 30.1 | 2,488.5 | **872.5** | 974.3 |
| Cost of sales | 4 | **(1,422.6)** | **–** | **(1,422.6)** | (1,329.1) | (5.8) | (1,334.9) | **(520.7)** | (603.1) |
| **Gross profit** | | **1,339.2** | **–** | **1,339.2** | 1,129.3 | 24.3 | 1,153.6 | **351.8** | 371.2 |
| Other revenue | 3 | **43.2** | **–** | **43.2** | 29.5 | – | 29.5 | **64.3** | 901.3 |
| Other income | 3 | **1,734.6** | **–** | **1,734.6** | 81.7 | (69.6) | 12.1 | **1.1** | 15.6 |
| Other expenses | 4 | **(493.4)** | **–** | **(493.4)** | (317.8) | (20.5) | (338.3) | **(210.6)** | 169.7 |
| **Operating profit/(loss) before net financing costs** | | **2,623.6** | **–** | **2,623.6** | 922.7 | (65.8) | 856.9 | **206.6** | 1,457.8 |
| Financial income | 6 | **63.3** | **–** | **63.3** | 13.6 | 0.8 | 14.4 | **183.0** | 188.8 |
| Financial expenses | 6 | **(153.7)** | **–** | **(153.7)** | (152.7) | – | (152.7) | **(286.4)** | (294.4) |
| **Net financing (costs)/income** | | **(90.4)** | **–** | **(90.4)** | (139.1) | 0.8 | (138.3) | **(103.4)** | (105.6) |
| **Profit/(loss) before tax** | | **2,533.2** | **–** | **2,533.2** | 783.6 | (65.0) | 718.6 | **103.2** | 1,352.2 |
| Income tax expense | 7 | **(768.4)** | **–** | **(768.4)** | (195.1) | (0.6) | (195.7) | **(51.4)** | (50.1) |
| Royalty related taxation expense | 7 | **(114.7)** | **–** | **(114.7)** | (163.6) | – | (163.6) | **(31.7)** | (31.9) |
| Total taxation expense | | **(883.1)** | **–** | **(883.1)** | (358.7) | (0.6) | (359.3) | **(83.1)** | (82.0) |
| **Net profit/(loss) for the period attributable to equity holders of Santos Ltd** | | **1,650.1** | **–** | **1,650.1** | 424.9 | (65.6) | 359.3 | **20.1** | 1,270.2 |
| **Earnings per share attributable to the ordinary equity holders of Santos Ltd (¢)** | | | | | | | | | |
| Basic earnings per share | 25 | **272.9** | | **272.9** | 66.3 | | 55.2 | | |
| Diluted earnings per share | 25 | **261.7** | | **261.7** | 66.0 | | 54.9 | | |
| **Dividends per share ($)** | | | | | | | | | |
| Ordinary shares | 24 | | | **0.42** | | | 0.40 | | |
| Redeemable preference shares | 24 | | | **6.3348** | | | 5.5864 | | |

The income statements are to be read in conjunction with the notes to the consolidated financial statements.

# Balance Sheets
as at 31 December 2008

| | Note | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 9 | **1,552.9** | 200.5 | **1,402.9** | 56.8 |
| Trade and other receivables | 10 | **581.6** | 607.4 | **693.9** | 208.5 |
| Inventories | 11 | **289.7** | 241.5 | **136.0** | 115.9 |
| Derivative financial instruments | 12 | **59.2** | 6.9 | **–** | – |
| **Total current assets** | | **2,483.4** | 1,056.3 | **2,232.8** | 381.2 |
| **Non-current assets** | | | | | |
| Receivables | 10 | **6.0** | – | **1,300.9** | 1,304.8 |
| Derivative financial instruments | 12 | **336.3** | 77.2 | **–** | – |
| Exploration and evaluation assets | 13 | **427.5** | 332.4 | **42.7** | 15.5 |
| Oil and gas assets | 14 | **6,254.8** | 5,584.4 | **1,777.7** | 1,650.1 |
| Other land, buildings, plant and equipment | 15 | **159.9** | 134.8 | **109.7** | 107.4 |
| Available-for-sale financial assets | 17 | **2.1** | 15.6 | **2.1** | 15.6 |
| Other financial assets | 18 | **20.9** | 32.7 | **3,440.8** | 3,488.6 |
| Deferred tax assets | 19 | **111.0** | 86.8 | **–** | – |
| **Total non-current assets** | | **7,318.5** | 6,263.9 | **6,673.9** | 6,582.0 |
| **Total assets** | | **9,801.9** | 7,320.2 | **8,906.7** | 6,963.2 |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | **604.8** | 609.7 | **723.0** | 625.1 |
| Deferred income | | **55.2** | 12.0 | **1.8** | 1.7 |
| Interest-bearing loans and borrowings | 21 | **98.6** | 103.1 | **0.6** | – |
| Current tax liabilities | | **469.2** | 71.7 | **454.2** | 46.5 |
| Provisions | 22 | **116.7** | 112.4 | **65.8** | 65.1 |
| Other current liabilities | 23 | **8.1** | 15.4 | **–** | – |
| **Total current liabilities** | | **1,352.6** | 924.3 | **1,245.4** | 738.4 |
| **Non-current liabilities** | | | | | |
| Deferred income | | **54.1** | 8.8 | **–** | – |
| Interest-bearing loans and borrowings | 21 | **2,355.8** | 1,992.9 | **4,085.4** | 2,478.2 |
| Deferred tax liabilities | 19 | **744.1** | 743.0 | **134.0** | 109.2 |
| Provisions | 22 | **808.0** | 543.6 | **310.9** | 167.8 |
| Other non-current liabilities | 23 | **9.0** | 14.5 | **–** | – |
| **Total non-current liabilities** | | **3,971.0** | 3,302.8 | **4,530.3** | 2,755.2 |
| **Total liabilities** | | **5,323.6** | 4,227.1 | **5,775.7** | 3,493.6 |
| **Net assets** | | **4,478.3** | 3,093.1 | **3,131.0** | 3,469.6 |
| **Equity** | | | | | |
| Issued capital | 24 | **2,530.8** | 2,331.6 | **2,530.8** | 2,331.6 |
| Reserves | 24 | **(188.8)** | (272.9) | **(2.0)** | 7.4 |
| Retained earnings | 24 | **2,136.0** | 1,034.4 | **602.2** | 1,130.6 |
| Equity attributable to equity holders of Santos Ltd | | **4,478.0** | 3,093.1 | **3,131.0** | 3,469.6 |
| Equity attributable to minority interests | 24 | **0.3** | – | **–** | – |
| **Total equity** | | **4,478.3** | 3,093.1 | **3,131.0** | 3,469.6 |

The balance sheets are to be read in conjunction with the notes to the consolidated financial statements.

# Cash Flow Statements
## for the year ended 31 December 2008

| | Note | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **3,100.9** | 2,555.1 | **985.3** | 1,036.6 |
| Dividends received | | **–** | – | **–** | 874.0 |
| Interest received | | **48.8** | 14.2 | **39.4** | 188.7 |
| Overriding royalties received | | **14.8** | 14.7 | **24.2** | 22.0 |
| Insurance proceeds received | | **12.5** | 18.3 | **–** | – |
| Pipeline tariffs and other receipts | | **64.3** | 83.0 | **41.4** | 2.0 |
| Payments to suppliers and employees | | **(1,089.0)** | (808.4) | **(401.7)** | (313.4) |
| Royalty and excise paid | | **(102.2)** | (76.3) | **(47.5)** | (33.9) |
| Borrowing costs paid | | **(133.5)** | (128.4) | **(0.3)** | (280.6) |
| Income taxes paid | | **(291.8)** | (384.6) | **(229.0)** | (231.1) |
| Royalty related taxes paid | | **(151.6)** | (73.7) | **(35.4)** | (22.4) |
| **Net cash provided by operating activities** | 29 | **1,473.2** | 1,213.9 | **376.4** | 1,241.9 |
| **Cash flows from investing activities** | | | | | |
| Payments for: | | | | | |
| Exploration and evaluation expenditure | | **(353.5)** | (279.8) | **(84.7)** | (80.5) |
| Oil and gas assets expenditure | | **(1,178.5)** | (919.4) | **(358.9)** | (324.3) |
| Other land, buildings, plant and equipment | | **(39.6)** | (58.5) | **(13.8)** | (47.7) |
| Acquisitions of oil and gas assets | | **–** | (33.5) | **(0.7)** | – |
| Acquisitions of controlled entities | | **(7.5)** | (75.7) | **(6.2)** | (4.5) |
| Restoration expenditure | | **(54.9)** | (34.4) | **(2.6)** | (2.7) |
| Share subscriptions in controlled entities | | **–** | – | **–** | (245.2) |
| Advances to related entities | | **(6.0)** | – | **–** | – |
| Other investing activities | | **3.9** | 3.5 | **3.2** | (1.8) |
| Proceeds from disposal of non-current assets | | **2,080.0** | 0.6 | **1.2** | – |
| Proceeds from disposal of discontinued operations: | | | | | |
| Non-current assets | | **–** | 6.1 | **–** | – |
| Controlled entities | | **–** | 73.4 | **–** | – |
| Proceeds from disposal of other investments | | **0.4** | 52.2 | **0.4** | 23.8 |
| **Net cash provided by/(used in) investing activities** | | **444.3** | (1,265.5) | **(462.1)** | (682.9) |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | **(251.2)** | (217.0) | **(251.2)** | (217.0) |
| Proceeds from issues of ordinary shares | | **220.5** | 93.8 | **220.5** | 93.8 |
| Off-market buy-back of ordinary shares | | **(301.9)** | (302.0) | **(301.9)** | (302.0) |
| Repayments of borrowings | | **(752.2)** | (1,703.1) | **(0.7)** | – |
| Drawdown of borrowings | | **500.0** | 2,182.6 | **–** | – |
| Receipts from controlled entities | | **–** | – | **2,816.7** | 166.8 |
| Payments to controlled entities | | **–** | – | **(1,052.6)** | (296.4) |
| **Net cash (used in)/provided by financing activities** | | **(584.8)** | 54.3 | **1,430.8** | (554.8) |
| **Net increase in cash** | | **1,332.7** | 2.7 | **1,345.1** | 4.2 |
| **Cash and cash equivalents at the beginning of the year** | | **200.5** | 200.0 | **56.8** | 52.8 |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | | **19.7** | (2.2) | **1.0** | (0.2) |
| **Cash and cash equivalents at the end of the year** | 9 | **1,552.9** | 200.5 | **1,402.9** | 56.8 |

The cash flow statements are to be read in conjunction with the notes to the consolidated financial statements.

# Statements of Recognised Income and Expense
## for the year ended 31 December 2008

| | Note | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|
| Adjustment to retained earnings on initial adoption of Interpretation 1003 *Australian Petroleum Resource Rent Tax* | | **–** | (136.1) | **–** | (51.3) |
| Adjustment to retained earnings on initial adoption of Interpretation 11 *AASB 2 Group and Treasury Share Transactions* | | **–** | – | **–** | 0.2 |
| Exchange differences on translation of foreign operations | | **269.0** | (101.8) | **–** | – |
| (Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations | | **(177.0)** | 62.6 | **–** | – |
| Change in fair value of available-for-sale financial assets, net of tax | | **(9.3)** | 17.4 | **(9.3)** | 14.7 |
| Share-based payment transactions | 31 | **8.3** | 5.2 | **8.3** | 5.2 |
| Actuarial (loss)/gain on defined benefit plan, net of tax | 30 | **(25.5)** | 4.4 | **(25.5)** | 4.4 |
| **Net income/(expense) recognised directly in equity** | | **65.5** | (148.3) | **(26.5)** | (26.8) |
| Transfers (net of any related tax): | | | | | |
| Transfer to profit on sale of available-for-sale financial assets | | **(0.1)** | (23.6) | **(0.1)** | (9.7) |
| Transfer to profit on disposal of foreign operation | | **1.5** | (27.2) | **–** | – |
| **Profit for the period** | | **1,650.1** | 359.3 | **20.1** | 1,270.2 |
| **Total recognised income and expense for the period attributable to equity holders of Santos Ltd** | | **1,717.0** | 160.2 | **(6.5)** | 1,233.7 |

Other movements in equity arising from transactions with owners as owners are set out in note 24.

The statements of recognised income and expense are to be read in conjunction with the notes to the consolidated financial statements.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The financial report of Santos Ltd ("the Company") for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the Directors on 19 February 2009.

Santos Ltd (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") and is the ultimate parent entity in the Group. The consolidated financial report of the Company for the year ended 31 December 2008 comprises the Company and its controlled entities ("the Group").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### (A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

### (B) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis, except for derivative financial instruments, fixed rate notes that are hedged by an interest rate swap and available-for-sale financial assets, which are measured at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by Class Order 05/641 effective 28 July 2005), and in accordance with that Class Order amounts in the financial report and Directors' Report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

***Change in accounting policy***

From 1 January 2008 the Group has adopted Interpretation 1003 *Australian Petroleum Resource Rent Tax*, which is applicable for annual reporting periods ending on or after 30 June 2008.

The adoption of Interpretation 1003 has resulted in the Group recognising some royalty-based taxes, including petroleum resource rent tax, resource rent royalty and additional profits tax as an income tax under AASB 112 *Income Taxes*. This change has been accounted for by adjusting the opening balance of current and deferred tax liabilities and retained earnings at 1 January 2007.

The effect of the change in the accounting policy for these royalty-based taxes from 1 January 2007 is shown below:

| | Consolidated | | | Santos Ltd | | |
|---|---|---|---|---|---|---|
| | $million | Impact of change in accounting policy $million | Restated amount $million | $million | Impact of change in accounting policy $million | Restated amount $million |
| **31 December 2007** | | | | | | |
| Cost of sales | 1,452.5 | (117.6) | 1,334.9 | 643.3 | (40.2) | 603.1 |
| Profit before tax | 601.0 | 117.6 | 718.6 | 1,312.0 | 40.2 | 1,352.2 |
| Income tax expense | 160.4 | 35.3 | 195.7 | 38.0 | 12.1 | 50.1 |
| Royalty related taxation expense | – | 163.6 | 163.6 | – | 31.9 | 31.9 |
| Profit after tax | 440.6 | (81.3) | 359.3 | 1,274.0 | (3.8) | 1,270.2 |
| Basic earnings per share (¢) | 68.9 | (13.7) | 55.2 | – | – | – |
| Diluted earnings per share (¢) | 68.7 | (13.8) | 54.9 | – | – | – |
| Trade and other payables | 650.9 | (41.2) | 609.7 | 642.9 | (17.8) | 625.1 |
| Current tax liabilities | 30.5 | 41.2 | 71.7 | 28.7 | 17.8 | 46.5 |
| Deferred tax liabilities | 525.6 | 217.4 | 743.0 | 54.1 | 55.1 | 109.2 |
| Retained earnings | 1,251.8 | (217.4) | 1,034.4 | 1,185.7 | (55.1) | 1,130.6 |
| **1 January 2007** | | | | | | |
| Trade and other payables | 441.8 | (12.5) | 429.3 | 562.9 | – | 562.9 |
| Current tax liabilities | 213.5 | 12.5 | 226.0 | 207.8 | – | 207.8 |
| Deferred tax liabilities | 517.5 | 136.1 | 653.6 | 65.3 | 51.3 | 116.6 |
| Retained earnings | 1,301.4 | (136.1) | 1,165.3 | 401.7 | (51.3) | 350.4 |

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Adoption of new accounting standards and interpretations***

The Group has also adopted the following standards and interpretations, which became applicable on 1 January 2008. Adoption of these standards and interpretations has only affected the disclosure in these financial statements. There has not been any impact on the financial position or performance of the Group.

- AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11*
- AASB 2007-7 *Amendments to Australian Accounting Standards*
- AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*
- AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets*
- AASB 2008-12 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets – Effective Date and Transition*
- Interpretation 11 *AASB 2 Group and Treasury Share Transactions*
- Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

The adoption of Interpretation 11 had a minor impact on the 2007 opening retained earnings of the Company ($0.2 million) for shares issued to employees of subsidiaries (refer note 1(R)).

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2008. These are outlined in the following table:

| Reference | Title | Summary | Effective for annual reporting periods beginning on or after | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 3 | *Business Combinations* | Adopts the acquisition method to account for business combinations; acquisition costs expensed; contingent consideration recognised at fair value on acquisition date. | 1 July 2009 | Recognition of future acquisitions. | 1 January 2010 |
| AASB 8 | *Operating Segments* | Segment disclosure based on components of an entity that management monitors in making decisions about allocating resources to segments and in assessing their performance. | 1 January 2009 | Minor disclosure impact. | 1 January 2009 |
| AASB 101 | *Presentation of Financial Statements* (issued in September 2007) | Changes the titles of financial statements; requires all non-owner changes in equity be presented in statement of comprehensive income; additional statement of financial position at beginning of earliest comparative period required for changes in accounting policy or reclassifications; income tax relating to each component of comprehensive income to be disclosed. | 1 January 2009 | Minor impact. Presentation of financial statements will change from 2009 onwards. | 1 January 2009 |
| AASB 123 | *Borrowing Costs* | Removes option to expense borrowing costs related to qualifying assets. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 127 | *Consolidated and Separate Financial Statements* | Changes in a parent's ownership in a subsidiary that result in a loss of control requires reserves to be recycled and remaining ownership interest to be measured at fair value; changes that do not result in a loss of control are accounted for as equity transactions. | 1 July 2009 | Unlikely to have impact. | 1 January 2010 |
| AASB 2007-3 | *Amendments to Australian Accounting Standards arising from AASB 8* | Consequential amendments to a number of standards following release of AASB 8 *Operating Segments*. | 1 January 2009 | No impact. | 1 January 2009 |

# Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Reference | Title | Summary | Effective for annual reporting periods beginning on or after | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2007-6 | *Amendments to Australian Accounting Standards arising from AASB 123* | Consequential amendments to a number of standards following release of AASB 123 *Borrowing Costs*. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 2007-8 | *Amendments to Australian Accounting Standards arising from AASB 101* | Consequential amendments to a number of standards following issue of a revised AASB 101 *Presentation of Financial Statements* in September 2007. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 2007-10 | *Further Amendments to Australian Accounting Standards arising from AASB 101* | Changes terminology in Australian Accounting Standards to align with IFRS. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 2008-1 | *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations* | Clarifies the definition of vesting conditions; introduces concept of non-vesting conditions; requires non-vesting conditions to be reflected in grant date fair value; provides the accounting treatment for non-vesting conditions and cancellations. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 2008-2 | *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* | Introduces exception to the definition of financial liability to classify certain puttable financial instruments as equity instruments. | 1 January 2009 | No impact. | 1 January 2009 |
| AASB 2008-3 | *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* | Consequential amendments to a number of standards following the issue of the revised AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*. | 1 July 2009 | No impact. | 1 January 2010 |
| AASB 2008-5 | *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* | Amends 15 standards, including where entity committed to sale plan involving loss of control of subsidiary then all of subsidiary's assets and liabilities are classified as held for sale (AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*); additional disclosures where recoverable amount is based on fair value less costs to sell (AASB 136 *Impairment of Assets*). | 1 January 2009 | Unlikely to have material impact. | 1 January 2009 |
| AASB 2008-6 | *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* | Terminology or editorial amendments to eight standards that are expected to have no or minimal effects on accounting practices. | 1 July 2009 | No impact. | 1 January 2010 |

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Reference | Title | Summary | Effective for annual reporting periods beginning on or after | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2008-7 | *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* | Removes the definition of the cost method in AASB 127 *Consolidated and Separate Financial Statements*; requires all dividends from subsidiaries, jointly controlled entities or associates to be recognised as income; receipt of dividend may be indicator of impairment if certain criteria met; specified accounting for certain transactions where newly formed entity becomes parent of another entity in a group. | 1 January 2009 | No Group impact. Potential impairment impact on investments held by the Company if intercompany dividends are received. | 1 January 2009 |
| AASB 2008-8 | *Amendments to Australian Accounting Standards – Eligible Hedged Items* | Clarifies the hedge accounting provisions of AASB 139 *Financial Instruments: Recognition and Measurement* to address inflation in a financial hedged item, and one-sided risk in a hedged item. | 1 July 2009 | No impact. | 1 January 2010 |
| AASB 2008-13 | *Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-Cash Assets to Owners* | Consequential amendments to existing standards following the issue of Interpretation 17 *Distributions of Non-Cash Assets to Owners*. | 1 July 2009 | No impact. | 1 January 2010 |
| Interpretation 16 | *Hedges of net investments in foreign operations* | Provides guidance on net investment hedging. | 1 October 2008 | No impact. | 1 January 2009 |
| Interpretation 17 | *Distributions of Non-Cash Assets to Owners* | Provides guidance on when and how a liability for certain distributions of non-cash assets is recognised and measured, and how to account for that liability. Does not apply to common control transactions. | 1 July 2009 | No impact. | 1 January 2010 |

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been consistently applied by the Group.

### (C) BASIS OF CONSOLIDATION

***Subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition of subsidiaries is accounted for using the purchase method of accounting, which involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (refer note 1(G)).

Investments in subsidiaries are carried at their cost of acquisition, less any impairment charges, in the Company's financial statements.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

***Minority interests***

Minority interests in the net assets of consolidated entities are allocated their share of net profit after tax in the income statement, and are identified separately from the Group's equity in those entities. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Where the minority interest has losses greater than its equity interest in the consolidated subsidiary, the excess and any further losses applicable to the minority interest are allocated against the Group's interest. If the minority interest subsequently reports profits, the profits are allocated to the Group until the minority's share of losses previously absorbed by the Group have been fully recovered.

***Jointly controlled assets***

Santos' exploration and production activities are often conducted through joint venture arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships. A summary of the Group's interests in its significant joint ventures is included in note 28.

A joint venture characterised as a jointly controlled asset involves the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of expenses incurred. Each venturer has control over its share of future economic benefits through its share of jointly controlled assets.

The interests of the Company and of the Group in unincorporated joint ventures are brought to account by recognising in the financial statements the Group's share of jointly controlled assets, share of expenses and liabilities incurred, and the income from the sale or use of its share of the production of the joint venture in accordance with the revenue policy in note 1(X).

***Jointly controlled entities***

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have contractual arrangements that establish joint control over the economic activities of the entities. The Group recognises its interest in jointly controlled entities using proportionate consolidation, by combining its share of the assets, liabilities, income and expenses of the joint venture with similar line items in the consolidated financial statements.

### (D) FOREIGN CURRENCY

***Functional and presentation currency***

Both the functional and presentation currency of Santos Ltd is Australian dollars. Some subsidiaries have a functional currency of United States dollars which is translated to presentation currency (see below).

***Transactions and balances***

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Foreign exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation are recognised in equity in the consolidated financial statements.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

***Group companies***

The results of subsidiaries with a functional currency of United States dollars are translated to Australian dollars as at the date of each transaction. The assets and liabilities are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to the foreign currency translation reserve. They are released into the income statement upon disposal of the foreign operation.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to changes in foreign exchange rates, commodity prices and interest rates arising in the normal course of business. The principal derivatives that may be used are forward foreign exchange contracts, foreign currency swaps and options, interest rate swaps and commodity crude oil price swap and option contracts. Their use is subject to a comprehensive set of policies, procedures and limits approved by the Board of Directors. The Group does not trade in derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged; otherwise the gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of commodity swap and option contracts is their quoted market price at the balance sheet date.

***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### (F) HEDGING

***Fair value hedge***

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

***Cash flow hedge***

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedging is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (that is, when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding paragraph, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

***Hedge of monetary assets and liabilities***

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

***Hedge of net investment in a foreign operation***

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

### (G) ACQUISITION OF ASSETS

All assets acquired are recorded at their cost of acquisition, being the amount of cash or cash equivalents paid, and the fair value of assets given, shares issued or liabilities incurred. The cost of an asset comprises the purchase price including any incidental costs directly attributable to the acquisition; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating; and the estimate of the costs of dismantling and removing the asset and restoring the site on which it is located determined in accordance with note 1(Q).

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Business combinations***

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination.
Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the costs of the business combination over the net fair value of the identifiable net assets of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (H) EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditure to be expensed in the period it is incurred, except the costs of successful wells and the costs of acquiring interests in new exploration assets, which are capitalised as intangible exploration and evaluation. The costs of wells are initially capitalised pending the results of the well.

An area of interest refers to an individual geological area where the presence of oil or a natural gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual prospective oil or gas field.

Exploration and evaluation expenditure is recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

(i) such expenditure is expected to be recovered through successful development and commercial exploitation of the area of interest, or alternatively, by its sale; or

(ii) the exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

The carrying amounts of the Group's exploration and evaluation assets are reviewed at each balance sheet date, in conjunction with the impairment review process referred to in note 1(P), to determine whether any of the following indicators of impairment exist:

(i) tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed;

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned;

(iii) exploration for and evaluation of resources in the specific area has not led to the discovery of commercially viable quantities of resources, and the Group has decided to discontinue activities in the specific area; or

(iv) sufficient data exists to indicate that although a development is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

Where an indicator of impairment exists a formal estimate of the recoverable amount is made, and any resultant impairment loss is recognised in the income statement.

When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to oil and gas assets – assets in development.

### (I) OIL AND GAS ASSETS

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities, the individual oil or gas fields and the associated production facilities are managed and reported as a single oil and gas asset.

***Assets in development***

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated, the field enters its development phase. The costs of oil and gas assets in the development phase are separately accounted for as tangible assets and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When commercial operation commences the accumulated costs are transferred to oil and gas assets – producing assets.

***Producing assets***

The costs of oil and gas assets in production are separately accounted for as tangible assets and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

These costs are subject to depreciation and depletion in accordance with note 1(K).

***Ongoing exploration and evaluation activities***

Often the initial discovery and development of an oil or gas asset will lead to ongoing exploration for, and evaluation of potential new oil or gas fields in the vicinity with the intention of producing any near field discoveries using the infrastructure in place.

Exploration and evaluation expenditure associated with oil and gas assets is accounted for in accordance with the policy in note 1(H). Exploration and evaluation expenditure amounts capitalised in respect of oil and gas assets are separately disclosed in note 14.

### (J) LAND, BUILDINGS, PLANT AND EQUIPMENT

Land and buildings are measured at cost less accumulated depreciation on buildings, less any impairment losses recognised.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of rotable spares and insurance spares that are purchased for back up or rotation with specific plant and equipment items. Similarly, the cost of major cyclical maintenance is recognised in the carrying amount of the related plant and equipment as a replacement only if it is eligible for capitalisation. Any remaining carrying amount from the cost of the previous major cyclical maintenance is derecognised. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation on buildings, plant and equipment is calculated in accordance with note 1(K).

### (K) DEPRECIATION AND DEPLETION

Depreciation charges are calculated to write off the depreciable value of buildings, plant and equipment over their estimated economic useful lives to the Group. Each component of an item of buildings, plant and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately. The residual value, useful life and depreciation method applied to an asset is reviewed at the end of each annual reporting period.

Depreciation of onshore buildings, plant and equipment and corporate assets is calculated using the straight-line method of depreciation on an individual asset basis from the date the asset is available for use.

The estimated useful lives for each class of onshore assets for the current and comparative periods are as follows:

- Buildings 20 – 50 years
- Plant and equipment
  - Computer equipment 3 – 5 years
  - Motor vehicles 4 – 7 years
  - Furniture and fittings 10 – 20 years
  - Pipelines 10 – 30 years
  - Plant and facilities 10 – 50 years

Depreciation of offshore plant and equipment is calculated using the units of production method on a cash-generating unit basis (refer note 1(P)) from the date of commencement of production.

Depletion charges are calculated using a unit of production method based on heating value which will amortise the cost of carried forward exploration, evaluation and subsurface development expenditure (“subsurface assets”) over the life of the estimated Proven plus Probable (“2P”) reserves in a cash-generating unit, together with future subsurface costs necessary to develop the hydrocarbon reserves in the respective cash-generating units.

The heating value measurement used for the conversion of volumes of different hydrocarbon products is barrels of oil equivalent.

Depletion is not charged on costs carried forward in respect of assets in the development stage until production commences.

### (L) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial instruments held by the Group and the Company which are classified as being available for sale are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of financial instruments classified as available for sale is their quoted bid price at the close of business on the balance sheet date.

Financial instruments classified as available for sale are recognised/derecognised by the Group and the Company on the date it commits to purchase/sell the investments. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

### (M) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined as follows:

(i) drilling and maintenance stocks, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted average cost; and

(ii) petroleum products, which comprise extracted crude oil, liquefied petroleum gas, condensate and naphtha stored in tanks and pipeline systems and processed sales gas and ethane stored in subsurface reservoirs, are valued using the absorption cost method in a manner which approximates specific identification.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (N) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value, which in practice is the equivalent of cost, less any impairment losses.

Long-term receivables are discounted and are stated at amortised cost, less impairment losses.

Trade and other receivables are assessed for indicators of impairment at each balance sheet date. Where a receivable is impaired the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. Changes in the allowance account are recognised in profit or loss.

### (O) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and short-term deposits that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and generally have an original maturity of three months or less.

### (P) IMPAIRMENT

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Where an indicator of impairment exists a formal estimate of the recoverable amount is made.

Oil and gas assets, land, buildings, plant and equipment are assessed for impairment on a cash-generating unit ("CGU") basis. A cash-generating unit is the smallest grouping of assets that generates independent cash inflows, and generally represents an individual oil or gas field. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis.

Exploration and evaluation assets are assessed for impairment in accordance with note 1(H).

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Where a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

For oil and gas assets the estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available.

***Reversals of impairment***

An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognised.

Impairment losses recognised on equity instruments classified as available-for-sale financial assets are not reversed.

### (Q) PROVISIONS

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation using a discounted cash flow methodology. If the effect of the time value of money is material, the provision is discounted using a current pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

***Restoration***

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the balance sheet date, with a corresponding change in the cost of the associated asset.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.

### (R) EMPLOYEE BENEFITS

***Wages, salaries, annual leave and sick leave***

Liabilities for wages and salaries, including non-monetary benefits, and annual leave that are expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-vesting sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

***Long-term service benefits***

A liability for long service leave is recognised and measured as the present value of the estimated future cash outflows to be made in respect of employees' services up to the balance sheet date. The obligation is calculated using expected future increases in wage and salary rates, experience of employee departures and periods of service. Expected future payments are discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the Group's obligations.

***Defined contribution plans***

The Company and its controlled entities contribute to several defined contribution superannuation plans. Obligations for contributions are recognised as an expense in the income statement as incurred.

***Defined benefit plan***

The Group's net obligation in respect of the defined benefit superannuation plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains or losses that arise in calculating the Group's obligation in respect of the plan are recognised directly in retained earnings.

When the calculation results in plan assets exceeding liabilities to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

***Share-based payment transactions***

The Santos Executive Share Option Plan allows eligible executives to acquire shares in the capital of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive becomes unconditionally entitled to the options. The fair value of the options granted is measured using the Monte Carlo simulation method, taking into account the terms and market conditions upon which the options were granted. The amount recognised as an expense is only adjusted when the options do not vest due to non-market related conditions.

The fair value of Share Acquisition Rights ("SARs") issued to eligible executives under the Executive Long-term Incentive Programme is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive becomes unconditionally entitled to the SARs. The fair value of the SARs granted is measured using the Monte Carlo simulation method, taking into account the terms and market conditions upon which the SARs were granted. The amount recognised as an expense is only adjusted when the SARs do not vest due to non-market-related conditions.

The fair value of shares issued to eligible employees under the Santos Employee Share Acquisition Plan, to eligible executives and employees under the Santos Employee Share Purchase Plan, and new shares issued to Non-executive Directors under the Non-executive Director Share Plan, is recognised as an increase in issued capital on grant date.

Shares issued under the Santos Employee Share Acquisition Plan to employees of subsidiaries are recognised in the Company's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by the Company in relation to equity-settled awards only represents the expense associated with grants to employees of the Company. The expense recognised by the Group is the total expense.

### (S) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

# Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed rate notes that are hedged by an interest rate swap are recognised at fair value (refer note 1(F)).

### (T) BORROWING COSTS

Borrowing costs, including interest and finance charges relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate (refer note 21). Borrowing costs incurred after commencement of commercial operations are expensed.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

### (U) DEFERRED INCOME

A liability is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received.

Deferred income is also recognised on asset sale agreements where consideration is received prior to all conditions precedent being fulfilled.

### (V) TRADE AND OTHER PAYABLES

Trade and other payables are recognised when the related goods or services are received, at the amount of cash or cash equivalent that will be required to discharge the obligation, gross of any settlement discount offered. Trade payables are non-interest-bearing and are settled on normal terms and conditions.

### (W) SHARE CAPITAL

***Ordinary share capital***

Ordinary share capital is classified as equity.

***Preference share capital***

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or it is redeemable only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

***Dividends***

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

***Transaction costs***

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

### (X) REVENUE

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration or contributions received, net of goods and services tax, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

***Sales revenue***

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering the pipeline.

Revenue earned under a production sharing contract ("PSC") is recognised on a net entitlements basis according to the terms of the PSC.

***Dividends***

Dividend revenue from controlled entities is recognised as the dividends are declared, and from other parties as the dividends are received.

***Overriding royalties***

Royalties recognised on farmed-out operating lease rights are recognised as revenue as they accrue in accordance with the terms of the overriding royalty agreements.

***Pipeline tariffs and processing tolls***

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the Group are recognised as revenue as they accrue in accordance with the terms of the tariff and tolling agreements.

***Trading revenue***

Trading revenue represents the net revenue derived from the purchase and subsequent sale of hydrocarbon products from third parties where the risks and benefits of ownership of the product do not pass to the Group, or where the Group acts as an agent or broker with compensation on a commission or fee basis.

### (Y) OTHER INCOME

Other income is recognised in the income statement at the fair value of the consideration received or receivable, net of goods and services tax, when the significant risks and rewards of ownership have been transferred to the buyer or when the service has been performed.

The gain or loss arising on disposal of a non-current asset is included as other income at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Interest income is recognised in the income statement as it accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (Z) LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Assets under finance lease are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### (AA) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (AB) TAXATION

***Royalty related taxation***

Petroleum resource rent tax, resource rent royalty and additional profits tax are recognised as an income tax under AASB 112 *Income Taxes*.

***Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the amount of income tax payable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet approach, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the appropriate tax bases. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Santos Ltd is the head entity in the tax-consolidated group. Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated among the members of the tax-consolidated group using a "stand-alone taxpayer" approach in accordance with Interpretation 1052 *Tax Consolidation Accounting* and are recognised in the separate financial statements of each entity. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The Company and the other entities in the tax-consolidated group have entered into a tax funding agreement. Tax contribution amounts payable under the tax funding agreement are recognised as payable to or receivable by the Company and each other member of the tax-consolidated group. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period under the tax funding agreement is different from the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period assumed by the Company, the difference is recognised as a contribution from (or distribution to) equity participants.

The Company and the other entities in the tax-consolidated group have also entered into a tax sharing agreement pursuant to which the other entities may be required to contribute to the tax liabilities of the Company in the event of default by the Company or upon leaving the tax-consolidated group.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (AC) DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale, and that represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the balance sheet.

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group) but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

### (AD) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

***Estimates of reserve quantities***

The estimated quantities of Proven plus Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes.
The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

***Exploration and evaluation***

The Group's policy for exploration and evaluation expenditure is discussed in note 1(H). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

The carrying amount of exploration and evaluation assets is disclosed in note 13.

***Provision for restoration***

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation, the extent of restoration activities required and future removal technologies.

The carrying amount of the provision for restoration is disclosed in note 22.

***Impairment of oil and gas assets***

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of oil and gas assets and the assumptions used in the estimation of recoverable amount are discussed in notes 14 and 16 respectively.

## 2. SEGMENT INFORMATION

The Group operates predominantly in one business, namely the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons and the transportation of crude oil.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise dividend revenue, interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### GEOGRAPHIC SEGMENTS

The Group operates primarily in Australia but also has international operations in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh, Kyrgyz Republic and Egypt.

| | Continuing operations | | | | | | Discontinued operations | | Total operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Australia | | International | | Total | | | | | |
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| ***Primary reporting*** | | | | | | | | | | |
| **Geographic segments** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Revenue from Australian customers | **947.8** | 895.5 | **–** | – | **947.8** | 895.5 | **–** | – | **947.8** | 895.5 |
| Revenue from international customers | **1,615.6** | 1,460.9 | **241.6** | 131.5 | **1,857.2** | 1,592.4 | **–** | 30.1 | **1,857.2** | 1,622.5 |
| **Total revenue** | **2,563.4** | 2,356.4 | **241.6** | 131.5 | **2,805.0** | 2,487.9 | **–** | 30.1 | **2,805.0** | 2,518.0 |
| **Results** | | | | | | | | | | |
| Segment results | **2,785.7** | 1,027.5 | **(58.0)** | (45.3) | **2,727.7** | 982.2 | **–** | (65.8) | **2,727.7** | 916.4 |
| Unallocated corporate expenses | | | | | **(104.1)** | (59.5) | **–** | – | **(104.1)** | (59.5) |
| **Earnings before interest and tax ("EBIT")** | | | | | **2,623.6** | 922.7 | **–** | (65.8) | **2,623.6** | 856.9 |
| Unallocated net financing (costs)/income | | | | | **(90.4)** | (139.1) | **–** | 0.8 | **(90.4)** | (138.3) |
| **Profit/(loss) before tax** | | | | | **2,533.2** | 783.6 | **–** | (65.0) | **2,533.2** | 718.6 |
| Income tax expense | | | | | **(768.4)** | (195.1) | **–** | (0.6) | **(768.4)** | (195.7) |
| Royalty related taxation expense | | | | | **(114.7)** | (163.6) | **–** | – | **(114.7)** | (163.6) |
| Total taxation expense | | | | | **(883.1)** | (358.7) | **–** | (0.6) | **(883.1)** | (359.3) |
| **Net profit/(loss) for the period** | | | | | **1,650.1** | 424.9 | **–** | (65.6) | **1,650.1** | 359.3 |

| 2. SEGMENT INFORMATION (CONTINUED) | Continuing operations | | | | | | Discontinued operations | | Total operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Australia | | International | | Total | | | | | |
| | 2008 $million | 2007 $million | 2008 $million | 2007 $million | 2008 $million | 2007 $million | 2008 $million | 2007 $million | 2008 $million | 2007 $million |
| *Primary reporting (continued)* | | | | | | | | | | |
| **Geographic segments (continued)** | | | | | | | | | | |
| **Non-cash expenses** | | | | | | | | | | |
| Depreciation and depletion | **593.0** | 707.2 | **48.1** | 27.0 | **641.1** | 734.2 | **–** | – | **641.1** | 734.2 |
| Unallocated corporate depreciation and depletion | | | | | **22.8** | 25.1 | **–** | – | **22.8** | 25.1 |
| Total depreciation and depletion | | | | | **663.9** | 759.3 | **–** | – | **663.9** | 759.3 |
| Exploration and evaluation expensed | **114.4** | 131.7 | **64.6** | 94.4 | **179.0** | 226.1 | **–** | 8.7 | **179.0** | 234.8 |
| Net impairment loss on oil and gas assets | **66.7** | – | **149.5** | – | **216.2** | – | **–** | – | **216.2** | – |
| Net impairment loss on receivables | **0.4** | – | **–** | – | **0.4** | – | **–** | – | **0.4** | – |
| **Total non-cash expenses** | | | | | **1,059.5** | 985.4 | **–** | 8.7 | **1,059.5** | 994.1 |
| **Acquisitions and additions of non-current assets** | | | | | | | | | | |
| Controlled entities | **–** | 12.4 | **13.6** | 77.0 | **13.6** | 89.4 | **–** | – | **13.6** | 89.4 |
| Oil and gas assets, property, plant and equipment | **1,429.2** | 1,095.4 | **406.7** | 193.6 | **1,835.9** | 1,289.0 | **–** | – | **1,835.9** | 1,289.0 |
| Unallocated corporate acquisition of oil and gas assets, property, plant and equipment | | | | | **47.9** | 42.4 | **–** | – | **47.9** | 42.4 |
| **Total acquisitions and additions of non-current assets** | | | | | **1,897.4** | 1,420.8 | **–** | – | **1,897.4** | 1,420.8 |
| **Assets** | | | | | | | | | | |
| Segment assets | **6,605.8** | 6,036.7 | **802.2** | 634.5 | **7,408.0** | 6,671.2 | **–** | – | **7,408.0** | 6,671.2 |
| Unallocated corporate assets | | | | | **2,393.9** | 649.0 | **–** | – | **2,393.9** | 649.0 |
| **Consolidated total assets** | | | | | **9,801.9** | 7,320.2 | **–** | – | **9,801.9** | 7,320.2 |
| **Liabilities** | | | | | | | | | | |
| Segment liabilities | **2,421.8** | 1,936.3 | **126.0** | 149.8 | **2,547.8** | 2,086.1 | **–** | – | **2,547.8** | 2,086.1 |
| Unallocated corporate liabilities | | | | | **2,775.8** | 2,141.0 | **–** | – | **2,775.8** | 2,141.0 |
| **Consolidated total liabilities** | | | | | **5,323.6** | 4,227.1 | **–** | – | **5,323.6** | 4,227.1 |

*Secondary reporting*

**Business segments**

As described above, the Group operates predominantly in one business. Accordingly there are no additional business segment disclosures to be made.

| 3. REVENUE AND OTHER INCOME | Consolidated 2008 Continuing $million | Consolidated 2008 Discontinued $million | Consolidated 2008 Total $million | Consolidated 2007 Continuing $million | Consolidated 2007 Discontinued $million | Consolidated 2007 Total $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|---|---|---|
| Product sales: | | | | | | | | |
| Gas, ethane and liquefied gas | **1,051.6** | **–** | **1,051.6** | 920.8 | 23.3 | 944.1 | **301.3** | 311.6 |
| Crude oil | **1,150.6** | **–** | **1,150.6** | 1,034.4 | 2.4 | 1,036.8 | **407.2** | 497.2 |
| Condensate and naphtha | **321.2** | **–** | **321.2** | 325.7 | 4.4 | 330.1 | **80.5** | 94.1 |
| Liquefied petroleum gas | **238.4** | **–** | **238.4** | 177.5 | – | 177.5 | **83.5** | 71.4 |
| | **2,761.8** | **–** | **2,761.8** | 2,458.4 | 30.1 | 2,488.5 | **872.5** | 974.3 |
| Other revenue: | | | | | | | | |
| Overriding royalties | **16.1** | **–** | **16.1** | 13.3 | – | 13.3 | **23.9** | 20.2 |
| Pipeline tariffs and tolls | **9.3** | **–** | **9.3** | 4.4 | – | 4.4 | **3.5** | – |
| Trading revenue | **12.5** | **–** | **12.5** | 6.6 | – | 6.6 | **8.4** | 6.1 |
| Dividends from controlled entities | **–** | **–** | **–** | – | – | – | **27.0** | 874.0 |
| Other | **5.3** | **–** | **5.3** | 5.2 | – | 5.2 | **1.5** | 1.0 |
| | **43.2** | **–** | **43.2** | 29.5 | – | 29.5 | **64.3** | 901.3 |
| Total revenue | **2,805.0** | **–** | **2,805.0** | 2,487.9 | 30.1 | 2,518.0 | **936.8** | 1,875.6 |
| Other income: | | | | | | | | |
| Insurance recoveries | **35.8** | **–** | **35.8** | 2.4 | – | 2.4 | **–** | – |
| Net gain on redetermination of unitised field | **–** | **–** | **–** | 46.8 | – | 46.8 | **–** | – |
| Net gain on sale of available-for-sale financial assets | **0.3** | **–** | **0.3** | 33.4 | – | 33.4 | **0.3** | 13.9 |
| Net loss on sale of discontinued operations* | **–** | **–** | **–** | – | (67.7) | (67.7) | **–** | – |
| Net gain on sale of non-current assets | **1,698.5** | **–** | **1,698.5** | (0.9) | (1.9) | (2.8) | **0.8** | 1.7 |
| | **1,734.6** | **–** | **1,734.6** | 81.7 | (69.6) | 12.1 | **1.1** | 15.6 |

* *Includes impairment loss on measurement to fair value less costs to sell of $97.6 million, net of $27.2 million gain recycled into profit and loss on the reversal of associated amounts previously deferred in the foreign currency translation reserve.*

## 4. EXPENSES

| | Consolidated 2008 Continuing $million | Consolidated 2008 Discontinued $million | Consolidated 2008 Total $million | Consolidated 2007 Continuing $million | Consolidated 2007 Discontinued $million | Consolidated 2007 Total $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|---|---|---|
| Cost of sales: | | | | | | | | |
| Cash cost of production | | | | | | | | |
| Production costs: | | | | | | | | |
| Production expenses | **464.8** | **–** | **464.8** | 377.9 | 3.0 | 380.9 | **155.3** | 115.3 |
| Production facilities operating leases | **78.6** | **–** | **78.6** | 67.9 | – | 67.9 | **29.4** | 27.7 |
| | **543.4** | **–** | **543.4** | 445.8 | 3.0 | 448.8 | **184.7** | 143.0 |
| Other operating costs: | | | | | | | | |
| Pipeline tariffs, tolls and other | **84.1** | **–** | **84.1** | 68.9 | – | 68.9 | **20.8** | 23.1 |
| Royalty and excise | **100.5** | **–** | **100.5** | 71.3 | 2.8 | 74.1 | **43.4** | 30.8 |
| | **184.6** | **–** | **184.6** | 140.2 | 2.8 | 143.0 | **64.2** | 53.9 |
| Total cash cost of production | **728.0** | **–** | **728.0** | 586.0 | 5.8 | 591.8 | **248.9** | 196.9 |
| Depreciation and depletion | **661.5** | **–** | **661.5** | 756.8 | – | 756.8 | **272.9** | 418.2 |
| Third party gas purchases | **62.0** | **–** | **62.0** | 20.1 | – | 20.1 | **7.4** | 3.7 |
| Increase in product stock | **(28.9)** | **–** | **(28.9)** | (33.8) | – | (33.8) | **(8.5)** | (15.7) |
| Total cost of sales | **1,422.6** | **–** | **1,422.6** | 1,329.1 | 5.8 | 1,334.9 | **520.7** | 603.1 |

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

| 4. EXPENSES (CONTINUED) | Consolidated 2008 Continuing $million | Consolidated 2008 Discontinued $million | Consolidated 2008 Total $million | Consolidated 2007 Continuing $million | Consolidated 2007 Discontinued $million | Consolidated 2007 Total $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|---|---|---|
| Other expenses: | | | | | | | | |
| Selling | **17.6** | **–** | **17.6** | 12.5 | – | 12.5 | **10.5** | 7.5 |
| Corporate | **97.0** | **–** | **97.0** | 62.8 | 11.8 | 74.6 | **87.3** | 64.3 |
| Depreciation | **2.4** | **–** | **2.4** | 2.5 | – | 2.5 | **0.4** | 1.1 |
| | **117.0** | **–** | **117.0** | 77.8 | 11.8 | 89.6 | **98.2** | 72.9 |
| Foreign exchange (gains)/losses | **(24.4)** | **–** | **(24.4)** | (0.4) | – | (0.4) | **(7.1)** | 0.7 |
| Change in fair value of financial assets designated as at fair value through profit or loss | **12.5** | **–** | **12.5** | 11.9 | – | 11.9 | **–** | 1.3 |
| Fair value hedges, (gains)/losses: | | | | | | | | |
| On the hedging instrument | **(236.2)** | **–** | **(236.2)** | (56.7) | – | (56.7) | **–** | – |
| On the hedged item attributable to the hedged risk | **228.9** | **–** | **228.9** | 59.1 | – | 59.1 | **–** | – |
| Exploration and evaluation expensed | **179.0** | **–** | **179.0** | 226.1 | 8.7 | 234.8 | **22.2** | 54.2 |
| Net impairment loss on oil and gas assets | **216.2** | **–** | **216.2** | – | – | – | **71.2** | 56.6 |
| Net impairment loss on receivables | **0.4** | **–** | **0.4** | – | – | – | **0.3** | – |
| Impairment (reversal)/loss on receivables due from controlled entities | **–** | **–** | **–** | – | – | – | **(23.8)** | 25.3 |
| Net impairment loss/(reversal) on investments in controlled entities | **–** | **–** | **–** | – | – | – | **49.6** | (380.7) |
| | **493.4** | **–** | **493.4** | 317.8 | 20.5 | 338.3 | **210.6** | (169.7) |
| **Profit before tax includes the following:** | | | | | | | | |
| Depreciation and depletion: | | | | | | | | |
| Depletion of subsurface assets | **401.7** | **–** | **401.7** | 431.3 | – | 431.3 | **181.2** | 265.7 |
| Depreciation of plant and equipment | **256.6** | **–** | **256.6** | 323.6 | – | 323.6 | **89.7** | 151.3 |
| Depreciation of buildings | **5.6** | **–** | **5.6** | 4.4 | – | 4.4 | **2.4** | 2.3 |
| Total depreciation and depletion | **663.9** | **–** | **663.9** | 759.3 | – | 759.3 | **273.3** | 419.3 |
| Employee benefits expense | **216.7** | **–** | **216.7** | 173.8 | 6.5 | 180.3 | **210.4** | 176.8 |
| Net write-down of inventories | **0.6** | **–** | **0.6** | 0.2 | – | 0.2 | **0.2** | 0.3 |
| Operating lease rentals: | | | | | | | | |
| Minimum lease payments | **88.4** | **–** | **88.4** | 59.1 | 0.2 | 59.3 | **39.0** | 41.1 |
| Contingent rentals | **0.4** | **–** | **0.4** | 0.5 | – | 0.5 | **0.2** | 0.1 |

| 5. EARNINGS | Continuing 2008 $million | Discontinued 2008 $million | Total 2008 $million | Continuing 2007 $million | Discontinued 2007 $million | Total 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|---|---|---|---|
| | **Consolidated** | | | Consolidated | | | **Santos Ltd** | |
| Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") is calculated as follows: | | | | | | | | |
| Profit/(loss) before tax | **2,533.2** | **–** | **2,533.2** | 783.6 | (65.0) | 718.6 | **103.2** | 1,352.2 |
| Add back: | | | | | | | | |
| Net financing costs/(income) | **90.4** | **–** | **90.4** | 139.1 | (0.8) | 138.3 | **103.4** | 105.6 |
| Earnings before interest and tax ("EBIT") | **2,623.6** | **–** | **2,623.6** | 922.7 | (65.8) | 856.9 | **206.6** | 1,457.8 |
| Add back: | | | | | | | | |
| Depreciation and depletion | **663.9** | **–** | **663.9** | 759.3 | – | 759.3 | **273.3** | 419.3 |
| Exploration and evaluation expensed | **179.0** | **–** | **179.0** | 226.1 | 8.7 | 234.8 | **22.2** | 54.2 |
| Net impairment loss on oil and gas assets | **216.2** | **–** | **216.2** | – | – | – | **71.2** | 56.6 |
| Net impairment loss on receivables | **0.4** | **–** | **0.4** | – | – | – | **0.3** | – |
| Impairment (reversal)/loss on receivables due from entities | **–** | **–** | **–** | – | – | – | **(23.8)** | 25.3 |
| Net impairment loss/(reversal) on investments in controlled entities | **–** | **–** | **–** | – | – | – | **49.6** | (380.7) |
| EBITDAX | **3,683.1** | **–** | **3,683.1** | 1,908.1 | (57.1) | 1,851.0 | **599.4** | 1,632.5 |
| **Amounts that are unusual because of their nature, size, or incidence:** | | | | | | | | |
| Net gain on sale of non-current assets includes the gain on sale of 40% interest in Fairview and Roma assets to PETRONAS | **1,697.4** | **–** | **1,697.4** | – | – | – | **–** | – |
| Remediation and related costs of the Moonie to Brisbane pipeline incidents | **(31.5)** | **–** | **(31.5)** | (38.0) | – | (38.0) | **–** | – |

## 6. NET FINANCING COSTS

| | Continuing 2008 | Discontinued 2008 | Total 2008 | Continuing 2007 | Discontinued 2007 | Total 2007 | Santos Ltd 2008 | Santos Ltd 2007 |
|---|---|---|---|---|---|---|---|---|
| Interest income: | | | | | | | | |
| Controlled entities | **–** | **–** | **–** | – | – | – | **(129.2)** | (186.2) |
| Other entities | **(63.3)** | **–** | **(63.3)** | (13.6) | (0.8) | (14.4) | **(53.8)** | (2.6) |
| Financial income | **(63.3)** | **–** | **(63.3)** | (13.6) | (0.8) | (14.4) | **(183.0)** | (188.8) |
| Interest expense: | | | | | | | | |
| Controlled entities | **–** | **–** | **–** | – | – | – | **276.1** | 279.7 |
| Other entities | **131.5** | **–** | **131.5** | 129.5 | – | 129.5 | **1.2** | 0.6 |
| Less borrowing costs capitalised | **(9.5)** | **–** | **(9.5)** | (6.3) | – | (6.3) | **–** | – |
| | **122.0** | **–** | **122.0** | 123.2 | – | 123.2 | **277.3** | 280.3 |
| Unwind of the effect of discounting on provisions | **31.3** | **–** | **31.3** | 23.9 | – | 23.9 | **8.7** | 8.5 |
| Interest component of finance leases | **0.4** | **–** | **0.4** | – | – | – | **0.4** | – |
| Other | **–** | **–** | **–** | 5.6 | – | 5.6 | **–** | 5.6 |
| Financial expenses | **153.7** | **–** | **153.7** | 152.7 | – | 152.7 | **286.4** | 294.4 |
| Net financing costs/(income) | **90.4** | **–** | **90.4** | 139.1 | (0.8) | 138.3 | **103.4** | 105.6 |

# Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

| 7. TAXATION EXPENSE | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Recognised in the income statement:** | | | | |
| *Income tax expense* | | | | |
| **Current tax expense** | | | | |
| Current year | **726.7** | 236.2 | **(8.0)** | 48.5 |
| Adjustments for prior years | **(8.5)** | (23.2) | **13.6** | 10.7 |
| | **718.2** | 213.0 | **5.6** | 59.2 |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | **89.6** | 12.1 | **42.4** | 1.5 |
| Benefit of tax losses recognised | **(27.9)** | (19.2) | **(27.9)** | – |
| Adjustments for prior years | **(11.5)** | (10.2) | **31.3** | (10.6) |
| | **50.2** | (17.3) | **45.8** | (9.1) |
| Total income tax expense | **768.4** | 195.7 | **51.4** | 50.1 |
| *Royalty related taxation expense* | | | | |
| **Current tax expense** | | | | |
| Current year | **79.3** | 94.8 | **27.8** | 28.1 |
| Adjustments for prior years | **6.7** | (12.5) | **2.0** | – |
| | **86.0** | 82.3 | **29.8** | 28.1 |
| **Deferred tax expense** | | | | |
| Origination and reversal of temporary differences | **28.7** | 81.3 | **1.9** | 3.8 |
| Total royalty related taxation expense | **114.7** | 163.6 | **31.7** | 31.9 |
| **Numerical reconciliation between tax expense and pre-tax net profit:** | | | | |
| Profit before tax | **2,533.2** | 718.6 | **103.2** | 1,352.2 |
| Prima facie income tax at 30% (2007: 30%) | **760.0** | 215.6 | **31.0** | 405.7 |
| Increase in income tax expense due to: | | | | |
| Non-deductible depreciation and depletion | **2.9** | 3.5 | **1.7** | 25.5 |
| Net impairment loss/(reversal) of investments in controlled entities | **–** | – | **14.8** | (114.2) |
| Net impairment loss/(reversal) of receivables from controlled entities | **–** | – | **(7.1)** | 7.6 |
| Benefit arising from previously unrecognised tax losses or temporary differences that is used to reduce current tax expense | **(2.1)** | (10.1) | **–** | (6.6) |
| Foreign losses not recognised | **26.4** | 38.5 | **–** | – |
| Dividends from controlled entities | **–** | – | **(10.2)** | (262.2) |
| Tax losses recognised | **(27.9)** | (19.2) | **(27.9)** | – |
| Under/(over) provided in prior years | **19.1** | (33.4) | **44.9** | 0.1 |
| Other | **(10.0)** | 0.8 | **4.2** | (5.8) |
| Income tax expense | **768.4** | 195.7 | **51.4** | 50.1 |
| Royalty related taxation expense | **114.7** | 163.6 | **31.7** | 31.9 |
| Total taxation expense | **883.1** | 359.3 | **83.1** | 82.0 |
| Total taxation expense is attributable to: | | | | |
| Continuing operations | **883.1** | 358.7 | **83.1** | 82.0 |
| Discontinued operations | **–** | 0.6 | **–** | – |
| | **883.1** | 359.3 | **83.1** | 82.0 |
| **Deferred tax (credited)/charged directly to equity:** | | | | |
| (Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations | **(82.0)** | 26.8 | **–** | – |
| Change in fair value of available-for-sale financial assets | **(4.0)** | (3.3) | **(4.0)** | 1.5 |
| Off-market share buy-back transaction costs | **(0.6)** | (0.6) | **(0.6)** | (0.6) |
| Actuarial (loss)/gain on defined benefit plan | **(11.0)** | 1.9 | **(11.0)** | 1.9 |
| | **(97.6)** | 24.8 | **(15.6)** | 2.8 |

## 8. DISCONTINUED OPERATIONS

During 2007, the Group disposed of its exploration and production activities in the United States for US$70.0 million (A$85.6 million). The results of the discontinued operations for 2007 are disclosed in the income statement, with further details provided in notes 3, 4 and 6.

## 9. CASH AND CASH EQUIVALENTS

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Cash at bank and in hand | **273.2** | 128.6 | **154.5** | 49.3 |
| Short-term deposits | **1,279.7** | 71.9 | **1,248.4** | 7.5 |
| Cash and cash equivalents in the cash flow statements | **1,552.9** | 200.5 | **1,402.9** | 56.8 |

The carrying amounts of cash and cash equivalents represent fair value. Bank balances and short-term deposits earn interest at floating rates based upon market rates.

Short-term deposits generally have an original maturity of three months or less. The Group currently has a significant amount of funds invested in numerous short-term deposits that are held with a range of different counterparties, and that have varying maturity dates of between three to six months based on when the cash is likely to be required and to take advantage of a range of investment yields. These funds are managed as part of the Group's total cash management procedures and are readily convertible to cash if required.

**Restricted cash balances**

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2008 of US$10.2 million (2007: US$14.5 million) which can only be repatriated to Australia with the permission of the Internal Revenue Commission of Papua New Guinea in accordance with the financing plan submitted in respect of PDL 3.

Santos (BBF) Pty Ltd, a wholly-owned Australian subsidiary, has cash and cash equivalents at 31 December 2008 of US$20.4 million (2007: US$23.7 million) that are held to cover obligations under a reserve-based facility.

## 10. TRADE AND OTHER RECEIVABLES

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| **Current receivables** | | | | |
| Trade receivables | **327.6** | 429.0 | **121.3** | 145.2 |
| Allowance for impairment loss | **(0.4)** | – | **(0.3)** | – |
| | **327.2** | 429.0 | **121.0** | 145.2 |
| Tax related balances owing by controlled entities | **–** | – | **532.8** | 20.0 |
| Non-trade receivables and prepayments | **254.4** | 178.4 | **40.1** | 43.3 |
| | **581.6** | 607.4 | **693.9** | 208.5 |
| The ageing of trade receivables at the reporting date is as follows: | | | | |
| Past due not impaired: | | | | |
| Less than one month | **310.0** | 394.0 | **121.0** | 143.7 |
| One to three months | **11.2** | 20.1 | **–** | 0.7 |
| Three to six months | **2.4** | 13.3 | **–** | – |
| Six to twelve months | **2.9** | – | **–** | 0.1 |
| Greater than twelve months | **0.7** | 1.6 | **–** | 0.7 |
| Considered impaired: | | | | |
| Greater than twelve months | **0.4** | – | **0.3** | – |
| | **327.6** | 429.0 | **121.3** | 145.2 |

Trade receivables are non-interest-bearing and settlement terms are generally within 30 days.

Trade receivables that are neither past due nor impaired relate to a number of independent customers for whom there is no recent history of default.

**Impaired receivables**

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $0.4 million was recognised by the Group during the year ($0.3 million by the Company), in relation to a disputed invoice ($0.3 million) and balances owed from companies that have gone into receivership ($0.1 million).

| 10. TRADE AND OTHER RECEIVABLES (CONTINUED) | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Non-current receivables** | | | | |
| Receivables due from controlled entities: | | | | |
| Non-interest-bearing | **–** | – | **108.0** | 29.1 |
| Interest-bearing | **–** | – | **1,192.9** | 1,275.7 |
| Receivables due from other related entities | **6.0** | – | **–** | – |
| | **6.0** | – | **1,300.9** | 1,304.8 |

Receivables due from controlled entities are shown net of impairment losses of $7.8 million (2007: $31.6 million).

Receivables due from controlled entities are for loans made in the ordinary course of business for an indefinite period. Interest-bearing amounts owing by controlled entities are at normal market terms and conditions.

Receivables due from other related entities are for loans made in the ordinary course of business for a term of five years, and interest is calculated on normal market terms and conditions.

## 11. INVENTORIES

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| Petroleum products | **163.4** | 165.4 | **82.0** | 86.7 |
| Drilling and maintenance stocks | **126.3** | 76.1 | **54.0** | 29.2 |
| Total inventories at the lower of cost and net realisable value | **289.7** | 241.5 | **136.0** | 115.9 |
| Drilling and maintenance stocks included above that are stated at net realisable value | **106.2** | 59.7 | **53.3** | 28.6 |

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Current derivative financial instruments** | | | | |
| Cross-currency swap contracts | **59.2** | – | **–** | – |
| Fair value of embedded derivatives | **–** | 6.9 | **–** | – |
| | **59.2** | 6.9 | **–** | – |
| **Non-current derivative financial instruments** | | | | |
| Cross-currency swap contracts | **32.8** | – | **–** | – |
| Interest rate swap contracts | **303.5** | 77.2 | **–** | – |
| | **336.3** | 77.2 | **–** | – |

| 13. EXPLORATION AND EVALUATION ASSETS | Consolidated Subsurface assets $million | Consolidated Plant and equipment $million | Consolidated Total $million | Santos Ltd Subsurface assets $million | Santos Ltd Plant and equipment $million | Santos Ltd Total $million |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2008** | **427.4** | **0.1** | **427.5** | **42.6** | **0.1** | **42.7** |
| Balance at 31 December 2007 | 332.3 | 0.1 | 332.4 | 15.4 | 0.1 | 15.5 |
| **Reconciliation of movements** | | | | | | |
| Balance at 1 January 2008 | **332.3** | **0.1** | **332.4** | **15.4** | **0.1** | **15.5** |
| Acquisition of controlled entities | **15.0** | **–** | **15.0** | **–** | **–** | **–** |
| Acquisition of exploration and evaluation assets | **27.8** | **–** | **27.8** | **–** | **–** | **–** |
| Additions | **357.1** | **–** | **357.1** | **81.4** | **–** | **81.4** |
| Exploration and evaluation expensed | **(179.0)** | **–** | **(179.0)** | **(22.2)** | **–** | **(22.2)** |
| Disposals | **(0.1)** | **–** | **(0.1)** | **–** | **–** | **–** |
| Net impairment losses | **(1.1)** | **–** | **(1.1)** | **–** | **–** | **–** |
| Transfer to oil and gas assets | **(182.9)** | **–** | **(182.9)** | **(32.0)** | **–** | **(32.0)** |
| Exchange differences | **58.3** | **–** | **58.3** | **–** | **–** | **–** |
| **Balance at 31 December 2008** | **427.4** | **0.1** | **427.5** | **42.6** | **0.1** | **42.7** |
| Balance at 1 January 2007 | 359.7 | 0.6 | 360.3 | 20.6 | 0.1 | 20.7 |
| Acquisition of controlled entities | 56.3 | – | 56.3 | – | – | – |
| Acquisition of exploration and evaluation assets | 11.5 | – | 11.5 | – | – | – |
| Additions | 311.9 | – | 311.9 | 95.2 | – | 95.2 |
| Exploration and evaluation expensed | (226.1) | – | (226.1) | (54.2) | – | (54.2) |
| Disposals | (1.0) | (0.5) | (1.5) | – | – | – |
| Transfer to oil and gas assets | (163.3) | – | (163.3) | (46.2) | – | (46.2) |
| Exchange differences | (16.7) | – | (16.7) | – | – | – |
| Balance at 31 December 2007 | 332.3 | 0.1 | 332.4 | 15.4 | 0.1 | 15.5 |

| 14. OIL AND GAS ASSETS | Consolidated Subsurface assets $million | Consolidated Plant and equipment $million | Consolidated Total $million | Santos Ltd Subsurface assets $million | Santos Ltd Plant and equipment $million | Santos Ltd Total $million |
|---|---|---|---|---|---|---|
| **2008** | | | | | | |
| Cost at 31 December 2008 | 7,811.1 | 6,070.8 | 13,881.9 | 2,809.0 | 2,377.4 | 5,186.4 |
| Less accumulated depreciation, depletion and impairment | (4,555.8) | (3,071.3) | (7,627.1) | (1,947.7) | (1,461.0) | (3,408.7) |
| **Balance at 31 December 2008** | 3,255.3 | 2,999.5 | 6,254.8 | 861.3 | 916.4 | 1,777.7 |
| **Reconciliation of movements** | | | | | | |
| ***Assets in development*** | | | | | | |
| Balance at 1 January 2008 | 220.4 | 0.4 | 220.8 | – | – | – |
| Additions | 133.8 | 123.5 | 257.3 | – | – | – |
| Transfer from exploration and evaluation assets | 135.8 | – | 135.8 | – | – | – |
| Exchange differences | 38.5 | (0.8) | 37.7 | – | – | – |
| Balance at 31 December 2008 | 528.5 | 123.1 | 651.6 | – | – | – |
| ***Producing assets*** | | | | | | |
| Balance at 1 January 2008 | 2,906.6 | 2,457.0 | 5,363.6 | 749.8 | 900.3 | 1,650.1 |
| Acquisition of oil and gas assets | – | – | – | 0.7 | – | 0.7 |
| Additions | 593.2 | 600.5 | 1,193.7 | 301.1 | 117.3 | 418.4 |
| Transfer from exploration and evaluation assets | 47.1 | – | 47.1 | 32.0 | – | 32.0 |
| Disposals | (350.7) | (0.7) | (351.4) | – | 0.4 | 0.4 |
| Depreciation and depletion expense | (401.6) | (239.5) | (641.1) | (181.2) | (71.5) | (252.7) |
| Net impairment losses | (138.0) | (77.1) | (215.1) | (41.1) | (30.1) | (71.2) |
| Exchange differences | 70.2 | 136.2 | 206.4 | – | – | – |
| Balance at 31 December 2008 | 2,726.8 | 2,876.4 | 5,603.2 | 861.3 | 916.4 | 1,777.7 |
| **Total oil and gas assets** | 3,255.3 | 2,999.5 | 6,254.8 | 861.3 | 916.4 | 1,777.7 |
| **Comprising:** | | | | | | |
| Exploration and evaluation expenditure pending commercialisation | 222.9 | 0.7 | 223.6 | – | – | – |
| Other capitalised expenditure | 3,032.4 | 2,998.8 | 6,031.2 | 861.3 | 916.4 | 1,777.7 |
| | 3,255.3 | 2,999.5 | 6,254.8 | 861.3 | 916.4 | 1,777.7 |

| 14. OIL AND GAS ASSETS (CONTINUED) | Consolidated Subsurface assets $million | Consolidated Plant and equipment $million | Consolidated Total $million | Santos Ltd Subsurface assets $million | Santos Ltd Plant and equipment $million | Santos Ltd Total $million |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| Cost at 31 December 2007 | 7,143.2 | 5,212.1 | 12,355.3 | 2,475.2 | 2,259.7 | 4,734.9 |
| Less accumulated depreciation, depletion and impairment | (4,016.2) | (2,754.7) | (6,770.9) | (1,725.4) | (1,359.4) | (3,084.8) |
| Balance at 31 December 2007 | 3,127.0 | 2,457.4 | 5,584.4 | 749.8 | 900.3 | 1,650.1 |
| **Reconciliation of movements** | | | | | | |
| ***Assets in development*** | | | | | | |
| Balance at 1 January 2007 | 204.6 | 2.9 | 207.5 | – | – | – |
| Additions | 52.1 | 14.6 | 66.7 | – | – | – |
| Transfer from exploration and evaluation assets | 109.6 | – | 109.6 | – | – | – |
| Transfer to producing assets | (133.0) | (14.1) | (147.1) | – | – | – |
| Exchange differences | (12.9) | (3.0) | (15.9) | – | – | – |
| Balance at 31 December 2007 | 220.4 | 0.4 | 220.8 | – | – | – |
| ***Producing assets*** | | | | | | |
| Balance at 1 January 2007 | 2,651.9 | 2,373.3 | 5,025.2 | 856.3 | 863.2 | 1,719.5 |
| Acquisition of controlled entities | 50.5 | – | 50.5 | – | – | – |
| Acquisition of oil and gas assets | 20.9 | – | 20.9 | – | – | – |
| Additions | 447.8 | 413.2 | 861.0 | 160.4 | 176.4 | 336.8 |
| Transfer from assets in development | 133.0 | 14.1 | 147.1 | – | – | – |
| Transfer from exploration and evaluation assets | 53.7 | – | 53.7 | 46.2 | – | 46.2 |
| Depreciation and depletion expense | (431.3) | (303.2) | (734.5) | (265.7) | (130.1) | (395.8) |
| Net impairment losses | – | – | – | (47.4) | (9.2) | (56.6) |
| Exchange differences | (19.9) | (40.4) | (60.3) | – | – | – |
| Balance at 31 December 2007 | 2,906.6 | 2,457.0 | 5,363.6 | 749.8 | 900.3 | 1,650.1 |
| Total oil and gas assets | 3,127.0 | 2,457.4 | 5,584.4 | 749.8 | 900.3 | 1,650.1 |
| **Comprising:** | | | | | | |
| Exploration and evaluation expenditure pending commercialisation | 197.3 | 0.4 | 197.7 | – | – | – |
| Other capitalised expenditure | 2,929.7 | 2,457.0 | 5,386.7 | 749.8 | 900.3 | 1,650.1 |
| | 3,127.0 | 2,457.4 | 5,584.4 | 749.8 | 900.3 | 1,650.1 |

# Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

| 15. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT | Consolidated Land and buildings $million | Consolidated Plant and equipment $million | Consolidated Total $million | Santos Ltd Land and buildings $million | Santos Ltd Plant and equipment $million | Santos Ltd Total $million |
|---|---|---|---|---|---|---|
| Cost at 31 December 2008 | **35.6** | **275.5** | **311.1** | **5.1** | **247.6** | **252.7** |
| Less accumulated depreciation | **(3.2)** | **(148.0)** | **(151.2)** | **(0.6)** | **(142.4)** | **(143.0)** |
| **Balance at 31 December 2008** | **32.4** | **127.5** | **159.9** | **4.5** | **105.2** | **109.7** |
| Cost at 31 December 2007 | 27.1 | 236.1 | 263.2 | 4.8 | 224.9 | 229.7 |
| Less accumulated depreciation | (2.5) | (125.9) | (128.4) | (0.6) | (121.7) | (122.3) |
| Balance at 31 December 2007 | 24.6 | 110.2 | 134.8 | 4.2 | 103.2 | 107.4 |
| **Reconciliation of movements** | | | | | | |
| Balance at 1 January 2008 | **24.6** | **110.2** | **134.8** | **4.2** | **103.2** | **107.4** |
| Additions | **8.5** | **39.4** | **47.9** | **0.3** | **22.6** | **22.9** |
| Depreciation | **(0.7)** | **(22.1)** | **(22.8)** | **–** | **(20.6)** | **(20.6)** |
| **Balance at 31 December 2008** | **32.4** | **127.5** | **159.9** | **4.5** | **105.2** | **109.7** |
| Balance at 1 January 2007 | 20.0 | 97.2 | 117.2 | 4.3 | 89.9 | 94.2 |
| Additions | 5.1 | 37.3 | 42.4 | – | 36.7 | 36.7 |
| Depreciation | (0.5) | (24.3) | (24.8) | (0.1) | (23.4) | (23.5) |
| Balance at 31 December 2007 | 24.6 | 110.2 | 134.8 | 4.2 | 103.2 | 107.4 |

## 16. IMPAIRMENT OF CASH-GENERATING UNITS

At 31 December 2008 the Group reassessed the carrying amount of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. As a result of the significant decrease in the oil price, decreases in reserves and increases in the discount rates applied, the recoverable amounts of some cash-generating units were formally reassessed resulting in an impairment loss of $216.2 million.

Estimates of recoverable amounts are based on the asset's value in use, determined by discounting each asset's estimated future cash flows at asset specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates between 8.8% and 15.8% (2007: 8.0% and 10.6%) depending on the nature of the risks specific to each asset. Where an asset does not generate cash flows that are largely independent of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

| | | Consolidated | | | Santos Ltd | | |
|---|---|---|---|---|---|---|---|
| **CGU** | **Description** | **Subsurface assets $million** | **Plant and equipment $million** | **Total $million** | **Subsurface assets $million** | **Plant and equipment $million** | **Total $million** |
| **2008** | | | | | | | |
| Sampang | Oil field | **97.5** | **30.9** | **128.4** | **–** | **–** | **–** |
| Sangu | Gas field | **20.0** | **–** | **20.0** | **–** | **–** | **–** |
| Other – impairment losses | | **1.1** | **–** | **1.1** | **–** | **–** | **–** |
| International | | **118.6** | **30.9** | **149.5** | **–** | **–** | **–** |
| Cooper Basin | Oil and gas field | **–** | **44.6** | **44.6** | **–** | **24.4** | **24.4** |
| Patricia Baleen | Gas field | **20.5** | **1.6** | **22.1** | **9.7** | **0.7** | **10.4** |
| Mutineer-Exeter | Oil field | **–** | **–** | **–** | **31.4** | **5.0** | **36.4** |
| Australia | | **20.5** | **46.2** | **66.7** | **41.1** | **30.1** | **71.2** |
| Total impairment loss | | **139.1** | **77.1** | **216.2** | **41.1** | **30.1** | **71.2** |
| **2007** | | | | | | | |
| Mutineer-Exeter | Oil field | – | – | – | 39.3 | 8.6 | 47.9 |
| Other – impairment losses | | – | – | – | 8.1 | 0.6 | 8.7 |
| Australia | | – | – | – | 47.4 | 9.2 | 56.6 |
| Total impairment loss | | – | – | – | 47.4 | 9.2 | 56.6 |

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Equity securities available for sale | **2.1** | 15.6 | **2.1** | 15.6 |

Investments in equity securities available for sale consist of investments in ordinary shares listed on the Australian Securities Exchange, and have no fixed maturity date or coupon rate.

## 18. OTHER FINANCIAL ASSETS

| | | | | |
|---|---|---|---|---|
| Investments in controlled entities | **–** | – | **3,421.9** | 3,472.5 |
| Other | **20.9** | 32.7 | **18.9** | 16.1 |
| | **20.9** | 32.7 | **3,440.8** | 3,488.6 |

# Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

| 19. DEFERRED TAX ASSETS AND LIABILITIES | Assets 2008 $million | Assets 2007 $million | Liabilities 2008 $million | Liabilities 2007 $million | Net 2008 $million | Net 2007 $million |
|---|---|---|---|---|---|---|
| **Recognised deferred tax assets and liabilities** | | | | | | |
| Deferred tax assets and liabilities are attributable to the following: | | | | | | |
| **Consolidated** | | | | | | |
| Exploration and evaluation assets | **–** | – | **(73.5)** | (18.5) | **(73.5)** | (18.5) |
| Oil and gas assets | **–** | – | **(289.2)** | (351.5) | **(289.2)** | (351.5) |
| Other land, buildings, plant and equipment | **46.4** | 63.5 | **–** | – | **46.4** | 63.5 |
| Other investments | **0.8** | – | **–** | (3.3) | **0.8** | (3.3) |
| Trade receivables | **–** | – | **(3.6)** | (5.7) | **(3.6)** | (5.7) |
| Other receivables | **–** | – | **(4.4)** | (0.1) | **(4.4)** | (0.1) |
| Inventories | **–** | – | **(26.7)** | (20.1) | **(26.7)** | (20.1) |
| Prepayments | **–** | – | **(1.9)** | (2.2) | **(1.9)** | (2.2) |
| Derivative financial instruments | **–** | – | **(117.0)** | (19.1) | **(117.0)** | (19.1) |
| Other assets | **–** | – | **(9.6)** | – | **(9.6)** | – |
| Equity-raising costs | **0.8** | 0.6 | **–** | – | **0.8** | 0.6 |
| Trade payables | **–** | 6.5 | **–** | – | **–** | 6.5 |
| Interest-bearing loans and borrowings | **85.8** | – | **–** | (87.1) | **85.8** | (87.1) |
| Employee benefits | **21.3** | 19.3 | **–** | – | **21.3** | 19.3 |
| Defined benefit obligation | **13.3** | 3.4 | **–** | – | **13.3** | 3.4 |
| Other liabilities | **–** | – | **(3.4)** | – | **(3.4)** | – |
| Provisions | **31.9** | 11.1 | **–** | – | **31.9** | 11.1 |
| Royalty related taxes | **–** | – | **(257.7)** | (217.4) | **(257.7)** | (217.4) |
| Other items | **–** | – | **(52.1)** | (54.1) | **(52.1)** | (54.1) |
| Tax value of carry-forward losses recognised | **5.7** | 18.5 | **–** | – | **5.7** | 18.5 |
| Tax assets/(liabilities) | **206.0** | 122.9 | **(839.1)** | (779.1) | **(633.1)** | (656.2) |
| Set-off of tax | **(95.0)** | (36.1) | **95.0** | 36.1 | **–** | – |
| Net tax assets/(liabilities) | **111.0** | 86.8 | **(744.1)** | (743.0) | **(633.1)** | (656.2) |
| **Santos Ltd** | | | | | | |
| Exploration and evaluation assets | **–** | – | **(10.2)** | (4.5) | **(10.2)** | (4.5) |
| Oil and gas assets | **–** | – | **(77.2)** | (71.7) | **(77.2)** | (71.7) |
| Other land, buildings, plant and equipment | **–** | – | **(9.0)** | (7.7) | **(9.0)** | (7.7) |
| Other investments | **0.8** | – | **–** | (3.3) | **0.8** | (3.3) |
| Trade receivables | **–** | – | **(3.0)** | (5.0) | **(3.0)** | (5.0) |
| Other receivables | **–** | – | **(4.4)** | – | **(4.4)** | – |
| Inventories | **–** | – | **(15.3)** | (12.5) | **(15.3)** | (12.5) |
| Other assets | **1.2** | 2.7 | **–** | – | **1.2** | 2.7 |
| Equity-raising costs | **0.8** | 0.6 | **–** | – | **0.8** | 0.6 |
| Employee benefits | **20.3** | 18.3 | **–** | – | **20.3** | 18.3 |
| Defined benefit obligation | **13.3** | 3.4 | **–** | – | **13.3** | 3.4 |
| Provisions | **12.2** | 8.2 | **–** | – | **12.2** | 8.2 |
| Other liabilities | **–** | – | **(0.2)** | – | **(0.2)** | – |
| Royalty related taxes | **–** | – | **(60.8)** | (55.1) | **(60.8)** | (55.1) |
| Other items | **–** | 8.4 | **(2.5)** | – | **(2.5)** | 8.4 |
| Tax value of carry-forward losses recognised | **–** | 9.0 | **–** | – | **–** | 9.0 |
| Tax assets/(liabilities) | **48.6** | 50.6 | **(182.6)** | (159.8) | **(134.0)** | (109.2) |
| Set-off of tax | **(48.6)** | (50.6) | **48.6** | 50.6 | **–** | – |
| Net tax liabilities | **–** | – | **(134.0)** | (109.2) | **(134.0)** | (109.2) |

| 19. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED) | Consolidated 2008 $million | 2007 $million | Santos Ltd 2008 $million | 2007 $million |
|---|---|---|---|---|
| **Unrecognised deferred tax assets** | | | | |
| Deferred tax assets have not been recognised in respect of the following items: | | | | |
| Temporary differences in relation to investments in subsidiaries | **1,017.1** | 834.4 | **–** | – |
| Deductible temporary differences | **73.7** | 75.8 | **–** | – |
| Tax losses | **45.9** | 72.8 | **–** | 27.8 |
| | **1,136.7** | 983.0 | **–** | 27.8 |

Deferred tax assets have not been recognised in respect of these items because it is not probable that the temporary differences will reverse in the future and that there will be sufficient future taxable profits against which the benefits can be utilised. Unrecognised deductible temporary differences and tax losses of $45.8 million (2007: $44.9 million) will expire between 2009 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

## 20. TRADE AND OTHER PAYABLES

| | | | | |
|---|---|---|---|---|
| Trade payables | **391.3** | 432.4 | **132.0** | 180.6 |
| Non-trade payables and accrued expenses | **213.5** | 177.3 | **64.8** | 55.3 |
| Amounts owing to controlled entities | **–** | – | **526.2** | 389.2 |
| | **604.8** | 609.7 | **723.0** | 625.1 |

## 21. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 38.

| | | | | |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Obligations under finance leases | **0.6** | – | **0.6** | – |
| Bank loans – secured | **24.1** | 1.4 | **–** | – |
| Bank loans – unsecured | **27.6** | 17.3 | **–** | – |
| Commercial paper | **–** | 64.6 | **–** | – |
| Medium-term notes | **–** | 19.8 | **–** | – |
| Long-term notes | **46.3** | – | **–** | – |
| | **98.6** | 103.1 | **0.6** | – |
| **Non-current liabilities** | | | | |
| Amounts owing to controlled entities | **–** | – | **4,082.8** | 2,478.2 |
| Obligations under finance leases | **2.6** | – | **2.6** | – |
| Bank loans – secured | **19.7** | 46.4 | **–** | – |
| Bank loans – unsecured | **194.0** | 304.5 | **–** | – |
| Medium-term notes | **457.2** | 438.8 | **–** | – |
| Long-term notes | **1,682.3** | 1,203.2 | **–** | – |
| | **2,355.8** | 1,992.9 | **4,085.4** | 2,478.2 |

The amounts owing to controlled entities are for loans made in the ordinary course of business on normal market terms and conditions and are not repayable for a minimum of nine years.

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.74% as at 31 December 2008 (2007: 6.62%). All borrowings are unsecured, with the exception of the secured bank loan, and arranged through a controlled entity, Santos Finance Ltd, and guaranteed by Santos Ltd.

## 21. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

**Details of major credit facilities**

(A) BANK LOANS – SECURED

A reserve-based lending facility for US$65.0 million was entered into in the 2006 reporting period which bears a floating rate of interest. The facility is secured by a first charge over the Group's interests in the Maleo and Kakap assets in Indonesia with a carrying amount at 31 December 2008 of A$122.3 million. The average rate for the year was 7.04%, and A$43.8 million was outstanding at the balance sheet date (2007: A$47.8 million). The facility is available until 2012, and the current amount drawn down is expected to be fully repaid by 2011.

(B) BANK LOANS – UNSECURED

The Group has access to the following committed revolving bank facilities:

| Year of maturity | Currency | 2008 A$million | 2007 A$million |
|---|---|---|---|
| 2011 | Multi-currency | **225.0** | 225.0 |
| 2012 | Multi-currency | **375.0** | 375.0 |
| 2013 | Multi-currency | **100.0** | 100.0 |
| | | **700.0** | 700.0 |

Revolving bank facilities bear interest at the relevant interbank reference rate plus 0.15% to 0.20%. The amount drawn at 31 December 2008 is $nil (2007: $130.0 million).

**Term bank loans**

| Year of maturity | Currency | 2008 A$million | 2007 A$million |
|---|---|---|---|
| 2008 | USD | **–** | 17.3 |
| 2009 | USD | **27.6** | 21.4 |
| 2010 | USD | **28.1** | 22.2 |
| 2011 | USD | **29.1** | 22.9 |
| 2012 | USD | **25.0** | 19.7 |
| 2013 | USD | **20.9** | 16.4 |
| 2014 | USD | **22.0** | 17.3 |
| 2015 | USD | **22.4** | 17.7 |
| 2016 | USD | **22.8** | 18.0 |
| 2017 | USD | **23.7** | 18.9 |
| | | **221.6** | 191.8 |

Term bank loans bear interest at the relevant interbank reference rate plus a margin of up to 0.75%. The amount outstanding at 31 December 2008 is US$153.1 million (A$221.6 million) (2007: US$168.1 million (A$191.8 million)) at a weighted average annual effective interest rate of 5.03% (2007: 5.99%).

(C) COMMERCIAL PAPER

The Group has an $800.0 million (2007: $800.0 million) Australian commercial paper programme supported by the revolving bank facilities referred to in (B) above. At 31 December 2008, no commercial paper is on issue (2007: $64.6 million) and the weighted average annual effective interest rate is nil (2007: 7.59%).

## 21. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

**Details of major credit facilities (continued)**

(D) MEDIUM-TERM NOTES

The Group has a $1,000.0 million (2007: $1,000.0 million) Australian medium-term note programme.

**Medium-term notes on issue**

| Year of issue | Year of maturity | Effective interest rate | 2008 $million | 2007 $million |
|---|---|---|---|---|
| 1998 | 2008 | – | **–** | 19.8 |
| 2005 | 2011 | 4.63% * | **349.4** | 349.0 |
| 2005 | 2015 | 8.10% | **107.8** | 89.8 |
| | | | **457.2** | 458.6 |

* *Floating rate of interest.*

(E) LONG-TERM NOTES

**Long-term notes on issue**

| Year of issue | Year of maturity | Effective interest rate | 2008 US$million | 2007 US$million | 2008 A$million | 2007 A$million |
|---|---|---|---|---|---|---|
| 2000 | 2007 to 2015 | 5.72% | **211.5** | 203.1 | **306.1** | 231.8 |
| 2002 | 2009 to 2022 | 5.39% | **336.6** | 307.3 | **487.1** | 350.7 |
| 2007 | 2017 to 2027 | 3.81% | **646.3** | 544.0 | **935.4** | 620.7 |
| | | | **1,194.4** | 1,054.4 | **1,728.6** | 1,203.2 |

| 22. PROVISIONS | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Current** | | | | |
| Liability for annual leave | **23.5** | 23.7 | **22.7** | 22.9 |
| Liability for long service leave | **39.0** | 35.7 | **38.3** | 35.2 |
| Restoration | **52.6** | 51.5 | **3.2** | 5.5 |
| Non-executive Directors' retirement benefits | **1.6** | 1.5 | **1.6** | 1.5 |
| | **116.7** | 112.4 | **65.8** | 65.1 |
| **Non-current** | | | | |
| Liability for long service leave | **4.2** | 3.5 | **4.1** | 3.2 |
| Liability for defined benefit obligations (refer note 30) | **61.5** | 16.3 | **61.5** | 16.3 |
| Restoration | **742.3** | 523.8 | **245.3** | 148.3 |
| | **808.0** | 543.6 | **310.9** | 167.8 |

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

| | Total restoration $million | Total Non-executive Directors' retirement benefits $million | Total $million |
|---|---|---|---|
| **Consolidated** | | | |
| Balance at 1 January 2008 | **575.3** | **1.5** | **576.8** |
| Provisions made during the year | **148.8** | **0.1** | **148.9** |
| Provisions used during the year | **(73.4)** | **–** | **(73.4)** |
| Unwind of discount | **31.3** | **–** | **31.3** |
| Change in discount rate | **100.9** | **–** | **100.9** |
| Exchange differences | **12.0** | **–** | **12.0** |
| **Balance at 31 December 2008** | **794.9** | **1.6** | **796.5** |
| **Santos Ltd** | | | |
| Balance at 1 January 2008 | **153.8** | **1.5** | **155.3** |
| Provisions made during the year | **55.5** | **0.1** | **55.6** |
| Provisions used during the year | **(2.6)** | **–** | **(2.6)** |
| Unwind of discount | **8.7** | **–** | **8.7** |
| Change in discount rate | **33.1** | **–** | **33.1** |
| **Balance at 31 December 2008** | **248.5** | **1.6** | **250.1** |

**Restoration**

Provisions for future removal and restoration costs are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

**Non-executive Directors' retirement benefits**

Agreements exist with the Non-executive Directors appointed prior to 1 January 2004 providing for the payment of a sum on retirement from office as a Director in accordance with shareholder approval at the 1989 Annual General Meeting. Such benefits ceased to accrue with effect from 30 June 2004. These benefits have been fully provided for by the Company.

In June 2007, the Board resolved to adopt a policy of indexation of these frozen benefits to prevent further erosion of the real value. The entitlements are annually indexed to the five-year government bond rate.

| 23. OTHER LIABILITIES | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Current** | | | | |
| Cross-currency swap contracts | **–** | 3.4 | **–** | – |
| Interest rate swap contracts | **–** | 9.9 | **–** | – |
| Fair value of embedded derivatives | **5.6** | – | **–** | – |
| Other | **2.5** | 2.1 | **–** | – |
| | **8.1** | 15.4 | **–** | – |
| **Non-current** | | | | |
| Cross-currency swap contracts | **–** | 7.1 | **–** | – |
| Other | **9.0** | 7.4 | **–** | – |
| | **9.0** | 14.5 | **–** | – |

## 24. CAPITAL AND RESERVES

**Reconciliation of movement in capital and reserves attributable to equity holders of Santos Ltd**

| | Share capital $million | Translation reserve $million | Fair value reserve $million | Retained earnings $million | Total equity $million |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 January 2008 | **2,331.6** | **(280.3)** | **7.4** | **1,034.4** | **3,093.1** |
| Movement per recognised income and expense statement | **–** | **93.5** | **(9.4)** | **1,632.9** | **1,717.0** |
| Share options exercised by employees | **2.5** | **–** | **–** | **–** | **2.5** |
| Shares issued | **253.1** | **–** | **–** | **–** | **253.1** |
| Share buy-back | **(56.4)** | **–** | **–** | **(245.0)** | **(301.4)** |
| Dividends to shareholders | **–** | **–** | **–** | **(286.3)** | **(286.3)** |
| Equity attributable to equity holders of Santos Ltd | **2,530.8** | **(186.8)** | **(2.0)** | **2,136.0** | **4,478.0** |
| Equity attributable to minority interests | **0.5** | **–** | **–** | **(0.2)** | **0.3** |
| **Balance at 31 December 2008** | **2,531.3** | **(186.8)** | **(2.0)** | **2,135.8** | **4,478.3** |
| Balance at 1 January 2007 | 2,254.4 | (213.9) | 13.6 | 1,301.4 | 3,355.5 |
| Movement per recognised income and expense statement | – | (66.4) | (6.2) | 232.8 | 160.2 |
| Share options exercised by employees | 3.0 | – | – | – | 3.0 |
| Shares issued | 144.4 | – | – | – | 144.4 |
| Share buy-back | (70.2) | – | – | (231.2) | (301.4) |
| Dividends to shareholders | – | – | – | (268.6) | (268.6) |
| Balance at 31 December 2007 | 2,331.6 | (280.3) | 7.4 | 1,034.4 | 3,093.1 |
| **Santos Ltd** | | | | | |
| Balance at 1 January 2008 | **2,331.6** | **–** | **7.4** | **1,130.6** | **3,469.6** |
| Movement per recognised income and expense statement | **–** | **–** | **(9.4)** | **2.9** | **(6.5)** |
| Share options exercised by employees | **2.5** | **–** | **–** | **–** | **2.5** |
| Shares issued | **253.1** | **–** | **–** | **–** | **253.1** |
| Share buy-back | **(56.4)** | **–** | **–** | **(245.0)** | **(301.4)** |
| Dividends to shareholders | **–** | **–** | **–** | **(286.3)** | **(286.3)** |
| **Balance at 31 December 2008** | **2,530.8** | **–** | **(2.0)** | **602.2** | **3,131.0** |
| Balance at 1 January 2007 | 2,254.4 | – | 2.4 | 401.7 | 2,658.5 |
| Movement per recognised income and expense statement | – | – | 5.0 | 1,228.7 | 1,233.7 |
| Share options exercised by employees | 3.0 | – | – | – | 3.0 |
| Shares issued | 144.4 | – | – | – | 144.4 |
| Share buy-back | (70.2) | – | – | (231.2) | (301.4) |
| Dividends to shareholders | – | – | – | (268.6) | (268.6) |
| Balance at 31 December 2007 | 2,331.6 | – | 7.4 | 1,130.6 | 3,469.6 |

## 24. CAPITAL AND RESERVES (CONTINUED)

**Translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation.

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$million** | $million | **$million** | $million |
| **Share capital** | | | | |
| 584,812,875 (2007: 585,964,352) ordinary shares, fully paid | **1,946.4** | 1,747.2 | **1,946.4** | 1,747.2 |
| 88,000 (2007: 88,000) ordinary shares, paid to one cent | **–** | – | **–** | – |
| 6,000,000 (2007: 6,000,000) redeemable convertible preference shares | **584.4** | 584.4 | **584.4** | 584.4 |
| | **2,530.8** | 2,331.6 | **2,530.8** | 2,331.6 |

In accordance with changes to the *Corporations Law* effective 1 July 1998, the shares issued do not have a par value and there is no limit on the authorised share capital of the Company.

| | Note | **2008** | 2007 | **2008** | 2007 |
|---|---|---|---|---|---|
| | | **Number of shares** | | **$million** | $million |
| **Movement in fully paid ordinary shares** | | | | | |
| Balance at the beginning of the year | | **585,964,352** | 598,524,106 | **1,747.2** | 1,670.0 |
| Santos Employee Share Acquisition Plan | 31(A) | **111,153** | 100,650 | **1.4** | 1.3 |
| Santos Employee Share Purchase Plan | 31(A) | **300,100** | 400 | **3.3** | – |
| Shares issued on exercise of options | 31(B) | **303,583** | 455,398 | **2.5** | 3.0 |
| Shares issued on vesting of Share Acquisition Rights | 31(B) | **141,330** | – | **–** | – |
| Santos Executive Share Plan | 31(C) | **–** | – | **–** | – |
| Non-executive Director Share Plan | 31(D) | **33,356** | 14,847 | **0.5** | 0.2 |
| Dividend Reinvestment Plan ("DRP") | 24(A) | **2,323,249** | 4,695,296 | **35.1** | 51.6 |
| DRP underwriting agreement | 24(A) | **14,123,057** | 6,844,930 | **212.8** | 91.3 |
| Off-market buy-back | 24(B) | **(18,487,305)** | (24,671,275) | **(56.4)** | (70.2) |
| Balance at the end of the year | | **584,812,875** | 585,964,352 | **1,946.4** | 1,747.2 |
| **Redeemable convertible preference shares** | | | | | |
| Balance at the beginning and end of the year | 24(C) | **6,000,000** | 6,000,000 | **584.4** | 584.4 |

Fully paid ordinary shares carry one vote per share, entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the redeemable convertible preference shares. The market price of the Company's ordinary shares on 31 December 2008 was $14.87 (2007: $14.12).

### (A) DIVIDEND REINVESTMENT PLAN

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the business day after the Dividend Record Date. At this time, the Board has determined that no discount will apply. The Dividend Reinvestment Plan has been fully underwritten since payment of the 2007 interim dividend.

## 24. CAPITAL AND RESERVES (CONTINUED)

### (B) OFF-MARKET BUY-BACK

On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid ordinary shares on issue at that date, at a price of $16.23 per share. $56.4 million was debited against the Company's capital account (including $1.3 million transaction costs, net of tax) and $245.0 million was debited against retained earnings.

On 30 June 2007, the Company bought back 24,671,275 fully paid ordinary shares, representing 4.10% of fully paid ordinary shares on issue at that date, at a price of $12.16 per share. $70.2 million was debited against the Company's capital account (including $1.4 million transaction costs, net of tax) and $231.2 million was debited against retained earnings.

### (C) REDEEMABLE CONVERTIBLE PREFERENCE SHARES

On 30 September 2004, the Company issued 6,000,000 redeemable convertible preference shares at $100 each, which resulted in an amount of $600,000,000 being credited to the Company's capital account before deducting the costs of issue.

Redeemable convertible preference shareholders receive a floating preferential, non-cumulative dividend which incorporates the value of franking credits (i.e. it is on a grossed-up basis), set at the Bank Bill Swap Rate for 180-day bills plus a margin. Dividends on redeemable convertible preference shares are in priority to any dividend declared on ordinary class shares. Redeemable convertible preference shareholders are not entitled to vote at any general meetings, except in the following circumstances:

(i) on a proposal:

  (1) to reduce the share capital of the Company;

  (2) that affects rights attached to the redeemable convertible preference shares;

  (3) to wind up the Company; or

  (4) for the disposal of the whole of the property, business and undertaking of the Company;

(ii) on a resolution to approve the terms of a buy-back agreement;

(iii) during a period in which a dividend or part of a dividend on the redeemable convertible preference shares is in arrears; or

(iv) during the winding up of the Company.

In the event of the winding up of the Company, redeemable convertible preference shares will rank for repayment of capital behind all creditors of the Company, but ahead of the ordinary class shares.

The redeemable convertible preference shares may, at the sole discretion of the Company, be converted into ordinary class shares and/or exchanged.

**Capital risk management**

The Group's objective when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio. The Group undertakes this on a forecast and actual results basis. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents and value of financial derivatives used to hedge net debt. Total capital is calculated as total equity as shown in the balance sheet plus net debt. Equity includes redeemable convertible preference shares.

| 24. CAPITAL AND RESERVES (CONTINUED) | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| During 2008 the Group's target was to maintain a gearing ratio below 45% and a BBB+ Standard & Poor's credit rating. The gearing ratios at 31 December 2008 and 31 December 2007 were as follows: | | | | |
| Total interest-bearing loans and borrowings (note 21) | **2,454.4** | 2,096.0 | **4,086.0** | 2,478.2 |
| Less: | | | | |
| Cash and cash equivalents (note 9) | **(1,552.9)** | (200.5) | **(1,402.9)** | (56.8) |
| Net fair value of financial derivatives used to hedge debt (notes 12 and 23): | | | | |
| Cross-currency swap contracts | **(92.0)** | 10.5 | **–** | – |
| Interest rate swap contracts | **(303.5)** | (67.3) | **–** | – |
| Net debt | **506.0** | 1,838.7 | **2,683.1** | 2,421.4 |
| Total equity | **4,478.3** | 3,093.1 | **3,131.0** | 3,469.6 |
| Total capital | **4,984.3** | 4,931.8 | **5,814.1** | 5,891.0 |
| **Gearing ratio** | **10.2%** | 37.3% | **46.1%** | 41.1% |

The decrease in the Group gearing ratio resulted primarily from the receipt of proceeds from the sell-down of the Gladstone LNG project during the year.

**Dividends**
Dividends recognised during the year by the Company are:

| | Dollars per share | Total $million | Franked/ unfranked | Payment date |
|---|---|---|---|---|
| **2008** | | | | |
| Interim 2008 redeemable preference | **$3.3365** | **20.0** | **Franked** | **30 Sep 2008** |
| Final 2007 redeemable preference | **$2.9983** | **18.0** | **Franked** | **31 Mar 2008** |
| Interim 2008 ordinary | **$0.22** | **131.1** | **Franked** | **30 Sep 2008** |
| Final 2007 ordinary | **$0.20** | **117.2** | **Franked** | **31 Mar 2008** |
| | | **286.3** | | |
| **2007** | | | | |
| Interim 2007 redeemable preference | $2.8592 | 17.1 | Franked | 2 Oct 2007 |
| Final 2006 redeemable preference | $2.7272 | 16.4 | Franked | 2 Apr 2007 |
| Interim 2007 ordinary | $0.20 | 115.4 | Franked | 2 Oct 2007 |
| Final 2006 ordinary | $0.20 | 119.7 | Franked | 2 Apr 2007 |
| | | 268.6 | | |

Franked dividends paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences.

| | | | | |
|---|---|---|---|---|
| Final 2008 redeemable preference | **$2.9989** | **18.0** | **Franked** | **31 Mar 2009** |
| Final 2008 ordinary | **$0.20** | **117.0** | **Franked** | **31 Mar 2009** |
| | | **135.0** | | |

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2008 and will be recognised in subsequent financial reports.

## 24. CAPITAL AND RESERVES (CONTINUED)

| | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|
| **Dividend franking account** | | |
| 30% franking credits available to shareholders of Santos Ltd for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December 2008 | **1,061.6** | 661.6 |

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $57.9 million (2007: $57.9 million).

## 25. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Santos Ltd (after deducting dividends paid on redeemable convertible preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Santos Ltd (after adding back the dividends paid on redeemable convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

| | Consolidated 2008 $million | Consolidated 2007 $million |
|---|---|---|
| Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows: | | |
| Net profit attributable to ordinary equity holders of Santos Ltd from continuing operations | **1,650.1** | 424.9 |
| Net loss attributable to ordinary equity holders of Santos Ltd from discontinued operations | **–** | (65.6) |
| Net profit attributable to ordinary equity holders of Santos Ltd | **1,650.1** | 359.3 |
| Dividends paid on redeemable convertible preference shares | **(38.0)** | (33.5) |
| Earnings used in the calculation of basic earnings per share | **1,612.1** | 325.8 |
| Dividends paid on redeemable convertible preference shares | **38.0** | 33.5 |
| Earnings used in the calculation of diluted earnings per share | **1,650.1** | 359.3 |

| | 2008 Number of shares | 2007 Number of shares |
|---|---|---|
| The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows: | | |
| Basic earnings per share | **590,706,516** | 590,505,305 |
| Partly paid shares | **71,222** | 65,864 |
| Executive share options | **1,446,209** | 818,109 |
| Share acquisition rights | **1,694,044** | 1,846,671 |
| Redeemable convertible preference shares | **36,650,691** | – |
| Diluted earnings per share | **630,568,682** | 593,235,949 |

## 25. EARNINGS PER SHARE (CONTINUED)

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan, Share Acquisition Rights ("SARs") issued to eligible executives and redeemable convertible preference shares have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2008. The number of shares included in the calculation are those assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

Redeemable convertible preference shares have not been included in the calculation of diluted earnings per share for 2007 as their impact was not dilutive.

During the year, 303,583 options (2007: 455,398) and 141,330 SARs (2007: nil) were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 181,447 (2007: 321,982).

460,385 options (2007: 335,900) and 236,426 SARs (2007: 273,100) lapsed during the year. The diluted earning per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options or SARs lapsed.
The weighted average number included is 177,527 (2007: 104,179).

To calculate earnings per share amounts for the discontinued operations, the loss figure used in the numerator and the weighted average number of ordinary shares for both basic and diluted amounts are per the above tables.

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **cents** | cents |
| **Earnings per share for continuing and discontinued operations** | | |
| Basic earnings per share: | | |
| From continuing operations | **272.9** | 66.3 |
| From discontinued operations | **–** | (11.1) |
| | **272.9** | 55.2 |
| Diluted earnings per share: | | |
| From continuing operations | **261.7** | 66.0 |
| From discontinued operations | **–** | (11.1) |
| | **261.7** | 54.9 |

## 26. CONSOLIDATED ENTITIES

| Name | Country of incorporation |
|---|---|
| **Santos Ltd (Parent Entity)** | AUST |
| **Controlled entities[1]:** | |
| Alliance Petroleum Australia Pty Ltd[2] | AUST |
| Basin Oil Pty Ltd | AUST |
| Boston L.H.F. Pty Ltd | AUST |
| Bridgefield Pty Ltd | AUST |
| Bridge Oil Developments Pty Limited[2] | AUST |
| Bronco Energy Pty Limited | AUST |
| Canso Resources Pty Ltd | AUST |
| Coveyork Pty Ltd | AUST |
| Doce Pty Ltd | AUST |
| Fairview Pipeline Pty Ltd | AUST |
| Farmout Drillers Pty Ltd | AUST |
| Gidgealpa Oil Pty Ltd | AUST |
| Kipper GS Pty Ltd | AUST |
| *Controlled entity of Kipper GS Pty Ltd* | |
| Santos Carbon Pty Ltd | AUST |
| Moonie Pipeline Company Pty Ltd | AUST |
| Reef Oil Pty Ltd[2] | AUST |
| Santos Asia Pacific Pty Ltd | AUST |
| *Controlled entities of Santos Asia Pacific Pty Ltd* | |
| Santos (Sampang) Pty Ltd | AUST |
| Santos (Warim) Pty Ltd | AUST |
| Santos Australian Hydrocarbons Pty Ltd | AUST |
| Santos (BOL) Pty Ltd[2] | AUST |
| *Controlled entity of Santos (BOL) Pty Ltd* | |
| Bridge Oil Exploration Pty Limited | AUST |
| Santos CSG Pty Ltd | AUST |
| Santos Darwin LNG Pty Ltd[2] | AUST |
| Santos Direct Pty Ltd | AUST |
| Santos Facilities Pty Ltd | AUST |
| Santos Finance Ltd | AUST |
| Santos GLNG Pty Ltd[3] | AUST |
| *Controlled entity of Santos GLNG Pty Ltd* | |
| GLNG Operations Pty Ltd[1, 3] | AUST |
| Santos (Globe) Pty Ltd | AUST |
| Santos International Holdings Pty Ltd | AUST |
| *Controlled entities of Santos International Holdings Pty Ltd* | |
| Barracuda Limited | PNG |
| CJSC South Petroleum Company[1] | KGZ |
| Lavana Limited | PNG |
| Santos Petroleum Ventures B.V. *(previously Petroleum Ventures B.V.)* | NL |
| Sanro Insurance Pte Ltd | SG |
| Santos Americas and Europe Corporation | USA |
| *Controlled entities of Santos Americas and Europe Corporation* | |
| Santos TPY Corp | USA |
| *Controlled entities of Santos TPY Corp* | |
| Santos Queensland Corp | USA |
| Santos TOG Corp | USA |
| *Controlled entities of Santos TOG Corp* | |
| Santos TOGA Pty Ltd | AUST |
| *Controlled entity of Santos TOGA Pty Ltd* | |
| Santos TPC Pty Ltd | AUST |
| Santos TPY CSG Corp | USA |
| Santos Bangladesh Limited (*previously Cairn Energy Bangladesh Limited*) | UK |
| Santos (Bawean) Pty Ltd | AUST |
| Santos (BBF) Pty Ltd | AUST |
| *Controlled entities of Santos (BBF) Pty Ltd* | |
| Santos (SPV) Pty Ltd | AUST |
| *Controlled entities of Santos (SPV) Pty Ltd* | |
| Novus Nominees Pty Ltd | AUST |
| Santos Brantas Pty Ltd | AUST |
| Santos (Madura Offshore) Pty Ltd | AUST |
| Santos UK (Kakap 2) Limited | UK |
| Santos (Donggala) Pty Ltd | AUST |
| Santos Egypt Pty Ltd | AUST |
| Santos Hides Ltd | PNG |
| Santos International Operations Pty Ltd | AUST |
| Santos International Ventures Pty Ltd | AUST |
| Santos Niugini Exploration Limited | PNG |
| Santos (Nth Bali 1) Pty Ltd | AUST |
| Santos (Papalang) Pty Ltd | AUST |
| Santos (Popodi) Pty Ltd | AUST |
| Santos Vietnam Pty Ltd | AUST |
| Zhibek Resources Limited[1, 4] | UK |
| *Controlled entity of Zhibek Resources Limited* | |
| CJSC KNG Hydrocarbons[1, 4] | KGZ |
| Santos (JBJ1) Pty Ltd | AUST |
| *Controlled entities of Santos (JBJ1) Pty Ltd* | |
| Santos (JBJ2) Pty Ltd | AUST |
| *Controlled entity of Santos (JBJ2) Pty Ltd* | |
| Shaw River Power Station Pty Ltd (*previously Santos (JBJ3) Pty Ltd*) | AUST |
| Santos (JPDA 06-104) Pty Ltd | AUST |
| Santos (JPDA 91-12) Pty Ltd | AUST |
| Santos (NARNL Cooper) Pty Ltd[2] | AUST |
| Santos (N.T.) Pty Ltd | AUST |
| *Controlled entity of Santos (N.T.) Pty Ltd* | |
| Bonaparte Gas & Oil Pty Limited | AUST |
| Santos Offshore Pty Ltd[2] | AUST |
| Santos Oil Exploration (Malaysia) Sdn Bhd (*in liquidation*) | MY |
| Santos Petroleum Pty Ltd[2] | AUST |
| Santos QNT Pty Ltd[2] | AUST |
| *Controlled entities of Santos QNT Pty Ltd* | |
| Santos QNT (No. 1) Pty Ltd[2] | AUST |
| *Controlled entities of Santos QNT (No. 1) Pty Ltd* | |
| Santos Petroleum Management Pty Ltd[2] | AUST |
| Santos Petroleum Operations Pty Ltd | AUST |
| TMOC Exploration Proprietary Limited | AUST |
| Santos QNT (No. 2) Pty Ltd[2] | AUST |
| *Controlled entities of Santos QNT (No. 2) Pty Ltd* | |
| Moonie Oil Pty Ltd | AUST |
| Petromin Pty Ltd | AUST |
| Santos (299) Pty Ltd (*in liquidation*)[5] | AUST |
| Santos Exploration Pty Ltd | AUST |
| Santos Gnuco Pty Ltd | AUST |
| Transoil Pty Ltd | AUST |
| Santos Resources Pty Ltd | AUST |
| Santos (TGR) Pty Ltd | AUST |
| Santos Timor Sea Pipeline Pty Ltd | AUST |
| Sesap Pty Ltd | AUST |
| Vamgas Pty Ltd[2] | AUST |

***Notes***

*1 Beneficial interests in all controlled entities are 100%, except:*
- *CJSC South Petroleum Company (70%);*
- *CJSC KNG Hydrocarbons (54%);*
- *Zhibek Resources Limited (75%); and*
- *GLNG Operations Pty Ltd. Refer note 28(B).*

*2 Company is party to a Deed of Cross Guarantee. Refer note 37.*
*3 Company incorporated during the year.*
*4 Company acquired during the year. Refer note 27.*
*5 Company placed into voluntary liquidation during the year.*
*6 Associated Petroleum Pty Ltd and Santos (NGA) Pty Ltd were liquidated on 12 December 2008.*

**Country of incorporation**

AUST – Australia
KGZ – Kyrgyz Republic
MY – Malaysia
NL – Netherlands
PNG – Papua New Guinea
SG – Singapore
UK – United Kingdom
USA – United States of America

In the financial statements of the Company, investments in controlled entities are recognised at cost, less any impairment losses.

## 27. ACQUISITIONS OF SUBSIDIARIES

During the financial year the following controlled entities were acquired and their operating results have been included in the income statement from the date of acquisition:

| Name of entity | Date of acquisition | Beneficial interest acquired % | Purchase consideration $million | Contribution to consolidated profit since acquisition $million |
|---|---|---|---|---|
| Zhibek Resources Limited | 17 November 2008 | 75 | 0.1 | – |
| CJSC KNG Hydrocarbons | 17 November 2008 | 54 | – | (0.7) |

CJSC KNG Hydrocarbons is a subsidiary of Zhibek Resources Limited and is engaged in exploration for oil in the Kyrgyz Republic, both have no operating revenues. If the acquisition had occurred on 1 January 2008, there would be no impact on Group revenue and net profit.

The consideration for the acquisition comprises an initial payment of £31,200 (A$73,265), and deferred consideration of US$1.3 million (A$2.0 million), being the commitment to fund the minority interest's share of phase 1 of the exploration programme over 2009.

The Group has the right to withdraw from the exploration programme either within 60 days of completion of the seismic programme and subject to paying US$3.0 million to Xtract International Ltd, the original owner of Zhibek Resources Limited, or within 60 days after completion of phase 2, or within 60 days after the drilling and completion of the first qualifying well or if the Tashkumyr licence is not renewed or extended.

During the year, the Group committed to fund the minority interest's share of phase 2 of the exploration programme associated with the 2006 acquisition of CJSC South Petroleum Company. Accordingly an increase in the exploration and evaluation assets acquired and deferred consideration payable of $11.6 million has been recognised during the current year.

The acquisitions had the following effect on the Group's assets and liabilities:

| | Carrying amounts $million | Fair value adjustments $million | Recognised values $million |
|---|---|---|---|
| Cash and cash equivalents | 0.1 | – | 0.1 |
| Trade and other receivables | 1.1 | – | 1.1 |
| Exploration and evaluation assets | 0.5 | 14.5 | 15.0 |
| Trade and other payables | (1.0) | – | (1.0) |
| Deferred tax liabilities | – | (1.6) | (1.6) |
| Net identifiable assets and liabilities | 0.7 | 12.9 | 13.6 |

| | |
|---|---|
| The cost of the acquisitions is as follows: | |
| Cash paid | 0.1 |
| Deferred consideration | 13.5 |
| Total cost of the acquisitions | 13.6 |

| | |
|---|---|
| The cash outflow on acquisition of controlled entities is as follows: | |
| Cash paid | (0.1) |
| Net cash acquired with subsidiaries | 0.1 |
| Deferred consideration paid* | (7.5) |
| Net consolidated cash outflow | (7.5) |

* *Deferred consideration paid in 2008 comprises:*
- *$6.2 million paid in early settlement of the performance payments associated with the 2007 Bronco Energy Pty Limited acquisition ($8.0 million). The value of the oil and gas assets acquired has been decreased by $1.8 million accordingly.*
- *$1.3 million paid in relation to the 2006 acquisition of CJSC South Petroleum Company, in lieu of the US$1.0 million worth of shares in Santos Ltd that were to be issued on the Group committing to fund the minority interests' share of phase 2 of the exploration programme.*

## 27. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

In 2007, the Group acquired 100% beneficial interest in the following controlled entities:

| Name of entity | Date of acquisition | Purchase consideration $million |
|---|---|---|
| Petroleum Ventures B.V. | 22 January 2007 | 14.1 |
| Gidgealpa Oil Pty Ltd | 7 June 2007 | 1.7 |
| Bronco Energy Pty Limited | 25 June 2007 | 10.7 |
| Cairn Energy Bangladesh Limited | 25 October 2007 | 62.9 |

## 28. INTERESTS IN JOINT VENTURES

(A) The following are the significant joint ventures in which the Group is a joint venturer:

| Joint venture | Cash-generating unit | Principal activities | % interest |
|---|---|---|---|
| **Oil and gas assets – Producing assets** | | | |
| Bayu-Undan Liquids | Bayu-Undan | Gas production | 11.4 |
| Bayu-Undan LNG | Bayu-Undan | Gas production | 11.4 |
| Casino | Casino | Gas production | 50.0 |
| Fairview | Fairview | Gas production | 45.7* |
| Madura PSC (Maleo) | Madura PSC | Gas production | 67.5 |
| Mereenie | Mereenie | Oil and gas production | 65.0 |
| John Brookes | John Brookes | Gas production | 45.0 |
| Mutineer-Exeter | Mutineer-Exeter | Oil production | 33.4 |
| Sampang PSC (Oyong, Wortel, Jeruk) | Sampang PSC | Oil and gas production | 45.0 |
| Sangu | Sangu PSC | Gas production | 37.5 |
| Stag | Stag | Oil and gas production | 66.7 |
| SA Fixed Factor Area | Cooper Basin | Oil and gas production | 66.6 |
| SWQ Unit | Cooper Basin | Gas production | 60.1 |
| **Oil and gas assets – Assets in development** | | | |
| Hides | Hides | Gas development | 31.0 |
| Kipper | Kipper | Gas development | 50.0 |
| Reindeer | Reindeer | Gas development | 45.0 |
| **Exploration and evaluation assets** | | | |
| Evans Shoal | – | Contingent gas resource | 40.0 |

* *The Group's interest in Fairview decreased from 76.1% to 45.7% as a result of the sale of 40% interest to PETRONAS during the year.*

(B) The Group recognises its interests in the following jointly controlled entities using the proportionate consolidation method of accounting:

| Joint venture entity | % interest |
|---|---|
| Darwin LNG Pty Ltd | 11.4 |
| Easternwell Drilling Services Holdings Pty Ltd | 50.0 |
| Fairview Power Pty Ltd (in liquidation) | 50.0 |
| GLNG Operations Pty Ltd | 60.0 |

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **28. INTERESTS IN JOINT VENTURES (CONTINUED)** | $million | $million | $million | $million |
| The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities, which are included in the consolidated financial statements using the proportionate consolidation method of accounting, are as follows: | | | | |
| Current assets | **49.8** | 46.1 | **–** | – |
| Non-current assets | **194.7** | 148.8 | **–** | – |
| | **244.5** | 194.9 | **–** | – |
| Current liabilities | **(98.0)** | (63.1) | **–** | – |
| Non-current liabilities | **(15.3)** | (4.3) | **–** | – |
| Net assets | **131.2** | 127.5 | **–** | – |
| Revenue | **237.5** | 120.0 | **–** | – |
| Expenses | **(213.7)** | (96.0) | **–** | – |
| Profit before income tax | **23.8** | 24.0 | **–** | – |
| (C) The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are: | | | | |
| Capital expenditure commitments | **366.3** | 287.4 | **93.0** | 154.4 |
| Minimum exploration commitments | **186.5** | 336.0 | **7.2** | 35.0 |

## 29. NOTES TO THE CASH FLOW STATEMENTS

### (A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Profit after income tax** | **1,650.1** | 359.3 | **20.1** | 1,270.2 |
| Add/(deduct) non-cash items: | | | | |
| Depreciation and depletion | **663.9** | 759.3 | **273.3** | 419.3 |
| Net impairment loss/(reversal) on investment in controlled entities | **–** | – | **49.6** | (380.7) |
| Net impairment (reversal)/loss on receivables due from controlled entities | **–** | – | **(23.8)** | 25.3 |
| Net impairment loss on receivables | **0.4** | – | **0.3** | – |
| Dividends distributed by controlled entities | **–** | – | **(27.0)** | – |
| Net borrowing costs charged by controlled entities | **–** | – | **146.9** | – |
| Exploration and evaluation expensed | **179.0** | 234.8 | **22.2** | 54.2 |
| Net impairment loss on oil and gas assets | **216.2** | – | **71.2** | 56.6 |
| Net (gains)/losses on fair value hedges | **(7.3)** | 2.4 | **–** | – |
| Share-based payments expense | **8.3** | 5.2 | **8.3** | 5.2 |
| Borrowing costs capitalised | **(9.5)** | (6.3) | **–** | – |
| Unwind of the effect of discounting on provisions | **31.3** | 23.9 | **8.7** | 8.5 |
| Change in fair value of financial assets designated as at fair value through profit or loss | **12.5** | 11.9 | **–** | 1.3 |
| Defined benefit plan expense | **3.0** | 5.6 | **1.8** | 5.6 |
| Foreign exchange (gains)/losses | **(24.4)** | (0.4) | **(7.1)** | 0.7 |
| Net (gain)/loss on sale of non-current assets | **(1,698.5)** | 2.8 | **(0.8)** | (1.7) |
| Net gain on sale of available-for-sale financial assets | **(0.3)** | (33.4) | **(0.3)** | (13.9) |
| Net loss on sale of discontinued operations | **–** | 67.7 | – | – |
| Net cash provided by operating activities before changes in assets or liabilities | **1,024.7** | 1,432.8 | **543.4** | 1,450.6 |
| Add/(deduct) change in operating assets or liabilities net of acquisitions or disposals of businesses: | | | | |
| Decrease/(increase) in trade and other receivables | **10.5** | (90.2) | **49.4** | (0.9) |
| Increase in inventories | **(58.4)** | (49.8) | **(20.1)** | (38.8) |
| (Increase)/decrease in other assets | **(0.5)** | 2.1 | **(7.0)** | (1.9) |
| Net increase/(decrease) in deferred tax assets and deferred tax liabilities | **73.5** | 34.5 | **39.9** | (10.7) |
| Increase/(decrease) in current tax liabilities | **398.0** | (181.2) | **(174.4)** | (178.5) |
| (Decrease)/increase in trade and other payables | **(25.5)** | 59.6 | **(60.8)** | 19.4 |
| Increase in provisions | **50.9** | 6.1 | **6.0** | 2.7 |
| **Net cash provided by operating activities** | **1,473.2** | 1,213.9 | **376.4** | 1,241.9 |

## 29. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

### (B) NON-CASH FINANCING AND INVESTING ACTIVITIES

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| Dividend Reinvestment Plan | **35.1** | 51.6 | **35.1** | 51.6 |
| Dividends distributed by controlled entities | **–** | – | **33.9** | – |
| Share subscriptions in controlled entities | **–** | – | **(13.6)** | – |
| Income tax transferred from controlled entities | **–** | – | **612.9** | – |
| Net borrowing costs charged by controlled entities | **–** | – | **(146.9)** | – |

## 30. EMPLOYEE BENEFITS

### (A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS

Defined benefit members of the Santos Superannuation Plan receive a lump sum benefit on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| **Defined benefit plan** | | | | |
| Amount recognised in the balance sheet: | | | | |
| Deficit in plan recognised in non-current provisions (refer note 22) | **61.5** | 16.3 | **61.5** | 16.3 |
| Other financial assets (refer note 18) | **(17.1)** | (4.9) | **(17.1)** | (4.9) |
| | **44.4** | 11.4 | **44.4** | 11.4 |
| **Movements in the liability for net defined benefit obligations recognised in the balance sheet** | | | | |
| Liability at the beginning of the year | **11.4** | 18.4 | **11.4** | 18.4 |
| Expense recognised in income statement | **3.0** | 5.6 | **1.8** | 5.6 |
| Amount capitalised in oil and gas assets | **2.3** | – | **1.2** | – |
| Amount recognised in retained earnings | **36.5** | (6.3) | **36.5** | (6.3) |
| Defined benefit receivable from controlled entities | **–** | – | **2.3** | – |
| Employer contributions | **(8.8)** | (6.3) | **(8.8)** | (6.3) |
| Liability at the end of the year | **44.4** | 11.4 | **44.4** | 11.4 |
| **Expense recognised in the income statements** | | | | |
| Service cost | **3.5** | 6.4 | **2.1** | 6.4 |
| Interest cost | **3.6** | 5.6 | **2.2** | 5.6 |
| Expected return on Plan assets | **(4.1)** | (6.4) | **(2.5)** | (6.4) |
| | **3.0** | 5.6 | **1.8** | 5.6 |
| **The expense is recognised in the following line items in the income statements:** | | | | |
| Other expenses | **3.0** | – | **1.8** | – |
| Financial expenses | **–** | 5.6 | **–** | 5.6 |
| | **3.0** | 5.6 | **1.8** | 5.6 |
| **Amounts recognised in statements of recognised income and expense** | | | | |
| Actuarial (loss)/gain in the year | **(36.5)** | 6.3 | **(36.5)** | 6.3 |
| Tax effect | **11.0** | (1.9) | **11.0** | (1.9) |
| Net actuarial (loss)/gain in the year | **(25.5)** | 4.4 | **(25.5)** | 4.4 |
| Cumulative actuarial (loss)/gain recognised in the statement of recognised income and expense, net of tax | **(23.4)** | 2.1 | **(23.4)** | 2.1 |

## 30. EMPLOYEE BENEFITS (CONTINUED)

(A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (CONTINUED)

**Historical information for the current and previous periods**

| | **2008 $million** | 2007 $million | 2006 $million | 2005 $million | 2004 $million |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Present value of defined benefit obligations | **174.8** | 161.8 | 158.2 | 129.5 | 126.5 |
| Fair value of Plan assets | **(113.3)** | (145.5) | (131.9) | (113.4) | (108.7) |
| Deficit in Plan | **61.5** | 16.3 | 26.3 | 16.1 | 17.8 |
| Experience adjustments loss/(gain) on Plan assets | **43.2** | (4.0) | (6.3) | (8.0) | (5.5) |
| Experience adjustments (gain)/loss on Plan liabilities | **(13.7)** | (1.2) | 17.5 | (0.1) | (4.5) |
| **Santos Ltd** | | | | | |
| Present value of defined benefit obligations | **174.8** | 161.8 | 158.2 | 129.5 | 126.5 |
| Fair value of Plan assets | **(113.3)** | (145.5) | (131.9) | (113.4) | (108.7) |
| Deficit in Plan | **61.5** | 16.3 | 26.3 | 16.1 | 17.8 |
| Experience adjustments loss/(gain) on Plan assets | **43.2** | (4.0) | (6.3) | (8.0) | (5.5) |
| Experience adjustments (gain)/loss on Plan liabilities | **(13.7)** | (1.2) | 17.5 | (0.1) | (4.5) |

| | **Consolidated** | | **Santos Ltd** | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| **Reconciliation of the present value of the defined benefit obligations** | | | | |
| Opening defined benefit obligations | **161.8** | 158.2 | **161.8** | 158.2 |
| Service cost | **8.4** | 9.1 | **8.4** | 9.1 |
| Interest cost | **8.7** | 8.0 | **8.7** | 8.0 |
| Contributions by Plan participants | **7.9** | 9.1 | **7.9** | 9.1 |
| Actuarial losses/(gains) | **6.8** | (5.0) | **6.8** | (5.0) |
| Benefits paid | **(16.2)** | (15.7) | **(16.2)** | (15.7) |
| Taxes and premiums paid | **(2.7)** | (2.2) | **(2.7)** | (2.2) |
| Transfers in | **0.1** | 0.3 | **0.1** | 0.3 |
| Closing defined benefit obligations | **174.8** | 161.8 | **174.8** | 161.8 |
| **Reconciliation of the fair value of Plan assets** | | | | |
| Opening fair value of Plan assets | **145.5** | 131.9 | **145.5** | 131.9 |
| Expected return on Plan assets | **10.0** | 9.1 | **10.0** | 9.1 |
| Actuarial (losses)/gains | **(43.2)** | 4.0 | **(43.2)** | 4.0 |
| Employer contributions | **11.9** | 9.0 | **11.9** | 9.0 |
| Contributions by Plan participants | **7.9** | 9.1 | **7.9** | 9.1 |
| Benefits paid | **(16.2)** | (15.7) | **(16.2)** | (15.7) |
| Taxes and premiums paid | **(2.7)** | (2.2) | **(2.7)** | (2.2) |
| Transfers in | **0.1** | 0.3 | **0.1** | 0.3 |
| Closing fair value of Plan assets | **113.3** | 145.5 | **113.3** | 145.5 |

| 30. EMPLOYEE BENEFITS (CONTINUED) | Consolidated 2008 % | Consolidated 2007 % | Santos Ltd 2008 % | Santos Ltd 2007 % |
|---|---|---|---|---|
| (A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (CONTINUED) | | | | |
| **Plan assets** | | | | |
| The percentage invested in each asset class at the balance sheet date: | | | | |
| Australian equity | **28** | 33 | **28** | 33 |
| International equity | **27** | 28 | **27** | 28 |
| Fixed income | **10** | 13 | **10** | 13 |
| Property | **13** | 9 | **13** | 9 |
| Other | **10** | – | **10** | – |
| Cash | **12** | 17 | **12** | 17 |

**Fair value of Plan assets**
The fair value of Plan assets includes no amounts relating to:

- any of the Group's own financial instruments; or
- any property occupied by, or other assets used by, the Group.

| Actual return on Plan assets | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| Actual return on Plan assets | **(24.2)** | 9.2 | **(24.2)** | 9.2 |

**Expected rate of return on Plan assets**
The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for asset-based administration expenses has been deducted from the expected return.

**Principal actuarial assumptions at the balance sheet date (expressed as weighted average)**

| | 2008 % pa | 2007 % pa |
|---|---|---|
| Discount rate | **4.0** | 5.3 |
| Expected rate of return on Plan assets | **7.0** | 6.9 |
| Expected average salary increase rate over the life of the Plan | **6.0** | 6.0 |

The expected rate of return on Plan assets includes a reduction to allow for the administrative expenses of the Plan.

**Expected contributions**
The Group expects to contribute $8.3 million to the defined benefit superannuation plan in 2009.

(B) DEFINED CONTRIBUTION PLANS

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $8.4 million (2007: $8.5 million).

## 31. SHARE-BASED PAYMENT PLANS

### (A) CURRENT GENERAL EMPLOYEE SHARE PLANS

The Company currently operates two general employee share plans:

- the Santos Employee Share Acquisition Plan ("SESAP"); and
- the Santos Employee Share Purchase Plan ("SESPP").

Both of these plans have operated since 1997.

**SESAP**
Broadly, SESAP provides for permanent eligible employees with at least a minimum period of service determined by Directors as at the offer date (one year of completed service for issues so far) to be entitled to acquire shares under this Plan. Executives participating in the Executive Long-term Incentive Programme in 2008, and casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

The Plan provides for grants of fully paid ordinary shares in the capital of the Company up to a value determined by the Board which, to date, has been $1,000 per annum per eligible employee. A trustee is funded by the Group to acquire shares directly from the Company or on market. The shares are then held by the trustee on behalf of eligible employees who participate in the Plan.

The employee's ownership of shares allocated under the Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period determined by the Board (being three years) and the time when he or she ceases to be an employee. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues during the restriction period. Shares are granted to eligible employees at no cost to the employee.

Summary of share movements in the SESAP during 2008 (and comparative 2007 information):

| | Opening balance | Granted during the year | | Distributions during the year | | Closing balance | |
|---|---|---|---|---|---|---|---|
| Grant date | Number | Number | Fair value per share $ | Number | Fair value aggregate $ | Number | Fair value aggregate $ |
| **2008** | | | | | | | |
| 18 November 2005 | **89,848** | **–** | **–** | **89,848** | **1,164,977** | **–** | **–** |
| 17 November 2006 | **105,156** | **–** | **–** | **7,176** | **117,648** | **97,980** | **1,456,963** |
| 20 November 2007 | **99,825** | **–** | **–** | **7,200** | **119,379** | **92,625** | **1,377,334** |
| 21 November 2008 | **–** | **111,153** | **12.62** | **474** | **6,621** | **110,679** | **1,656,797** |
| | **294,829** | **111,153** | | **104,698** | **1,408,625** | **301,284** | **4,491,094** |
| **2007** | | | | | | | |
| 22 November 2004 | 127,002 | – | – | 127,002 | 1,679,902 | – | – |
| 18 November 2005 | 96,272 | – | – | 6,424 | 81,065 | 89,848 | 1,268,654 |
| 17 November 2006 | 113,620 | – | – | 8,464 | 107,105 | 105,156 | 1,484,803 |
| 20 November 2007 | – | 100,650 | 13.33 | 825 | 11,471 | 99,825 | 1,409,529 |
| | 336,894 | 100,650 | | 142,715 | 1,879,543 | 294,829 | 4,162,986 |

Shares are allocated at a price equal to the weighted average sale price of the Company's ordinary shares on the ASX during the one-week period up to and including the Grant Date. This is shown as fair value per share for shares granted during the year. The fair value of shares distributed from the trust during the year and remaining in the trust at the end of the financial year is the market price of shares of the Company on the ASX as at close of trading on the respective dates.

Distributions during the year occurred at various dates throughout the year and therefore have not been separately listed.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

The amounts recognised in the financial statements of the Group and the Company in relation to SESAP during the year were:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Employee expenses | **1.4** | 1.3 | **1.4** | 1.3 |
| Issued ordinary share capital | **1.4** | 1.3 | **1.4** | 1.3 |

At 31 December 2008, the total number of shares acquired under the Plan since its commencement was 2,307,190.

**SESPP**

The general employee offer under SESPP is open to all employees (other than a casual employee or Director of the Company) determined by the Board who are continuing employees at the date of the offer. However, employees who are not resident in Australia at the time of an offer under the Plan and those who have participated in the Executive Long-term Incentive Programme during the year will not be eligible to participate in that offer unless the Board otherwise decides.

Under the Plan, eligible employees may be offered the opportunity to subscribe for or acquire fully paid ordinary shares in the capital of the Company at a discount to market price, subject to restrictions, including on disposal, determined by the Board (which has been a period of one year for issues so far). The subscription or acquisition price is Market Value (being the weighted average sale price of the Company's ordinary shares on the ASX during the one-week period up to and including the offer date) less any discount determined by the Board (5% for issues so far). Under the Plan, at the discretion of the Board, financial assistance may be provided to employees to subscribe for and acquire shares under the Plan. The 5% discount constitutes financial assistance for these purposes. Participants are entitled to vote, receive dividends and participate in bonus and rights issues while the shares are restricted.

On 21 November 2008, the Company issued 300,100 ordinary shares to 397 eligible employees at a subscription price of $10.91 per share under the Plan, being a 5% discount on the Market Value of $11.48. The total market price of those shares on the issue date was $3,766,255, based on the market price at the close of trade on the date of issue $12.55. The total amount received from employees for those shares was $3,274,091.

A summary of share movements in the SESPP are set out below:

| Grant date | Opening balance | Granted during the year | | Restriction ceased during the year | | Closing balance |
|---|---|---|---|---|---|---|
| | Number | Number | Fair value per share $ | Number | Date | Number |
| **2008** | | | | | | |
| 20 November 2007 | **400** | **–** | **–** | **400** | **20 November 2008** | **–** |
| 21 November 2008 | **–** | **300,100** | **11.48** | **–** | **–** | **300,100** |
| | **400** | **300,100** | | **400** | | **300,100** |
| **2007** | | | | | | |
| 17 November 2006 | 62,900 | – | – | 62,900 | 17 November 2007 | – |
| 20 November 2007 | – | 400 | 15.72 | – | – | 400 |
| | 62,900 | 400 | | 62,900 | | 400 |

The fair value per share for shares granted during the year is Market Value (as defined above). The consideration received by the Company per share is Market Value less the discount of 5% referred to above.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

The amounts recognised in the financial statements of the Group and the Company in relation to the general employee offer under the SESPP during the year were:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Issued ordinary share capital | **3.3** | – | **3.3** | – |

At 31 December 2008, the total number of shares acquired under the general employee offer of the Plan since its commencement was 1,122,400.

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME

The Company's Executive Long-term Incentive Programme provides for invitations to be extended to eligible executives selected by the Board.

The Programme currently consists of an offer of securities under:

- the Santos Employee Share Purchase Plan ("SESPP"); and
- the Santos Executive Share Option Plan ("SESOP").

SESOP has operated since 1997 and the SESPP has been used as a component of executive compensation since 2003.

**SARs and options**
Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.

SARs and options carry no voting or dividend rights until the performance conditions are satisfied and, in the case of options, when the options are exercised or, in the case of SARs, when the SARs vest.

***Chief Executive Officer ("CEO") and Managing Director***
Mr D J W Knox was appointed as CEO and Managing Director on 28 July 2008.

On 3 May 2008, the Company made equity grants to its Senior Executives for the long-term incentive ("LTI") component of their remuneration for 2008. Mr Knox participated in these grants in his capacity as Acting Chief Executive Officer. The grants comprised:

- a performance-based component, equal to 71% of the total grant value ("Performance Award"); and
- a service-based component, equal to 29% of the total grant value ("Deferred Award").

The key terms of the Performance Award and Deferred Award are set out in the Eligible Senior Executives section below.

Upon his formal appointment as CEO, Mr Knox received a further grant of equity awards ("CEO Performance Award") to supplement the grants already made to him in his Senior Executive capacity.

The grants made to Mr Knox in 2008 constitute his full LTI entitlement for the 2008, 2009 and 2010 financial years.

All LTI awards were granted, at Mr Knox's election, as either Share Acquisition Rights ("SARs") (under SESPP) or options (under SESOP).

SARs and options were granted at no cost to the CEO, with the number of SARs awarded being determined by dividing the amount of the award by the volume weighted average price of the Company's shares over the week up to and including the award date. The number of options awarded is of equivalent value calculated by an independent expert based on an acceptable valuation method.

The CEO Performance Award operates on the same terms as the performance-based LTI granted to other Senior Executives described below, that is, it is subject to performance hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a three-year performance period. The Board believes the chosen performance hurdles effectively align the CEO's interests with that of the Company's shareholders, as TSR is a fair measure of shareholder returns and the ASX 100 represents the companies in which most of the Company's shareholders could invest as an alternative to Santos.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

As the CEO Performance Award forms part of the CEO's remuneration for each of the 2008, 2009 and 2010 financial years, it is divided into three tranches as follows:

*Tranche 1:* Tested over the period from 1 January 2008 to 31 December 2010;
*Tranche 2:* Tested over the period from 1 January 2009 to 31 December 2011;
*Tranche 3:* Tested over the period from 1 January 2010 to 31 December 2012.

The following numbers of SARs and options were granted to the CEO in 2008:

| | SARs | Options |
|---|---|---|
| Performance Award (F1) | – | 64,992 |
| Deferred Award (F2) | – | 21,837 |
| CEO Performance Award: | | |
| Tranche 1 (F3) | 35,973 | 94,193 |
| Tranche 2 (F4) | 50,403 | 131,976 |
| Tranche 3 (F5) | 50,403 | 131,976 |
| Total | 136,779 | 444,974 |

Depending on Santos' relative TSR over the applicable performance period, each tranche of the CEO Performance Award will vest in accordance with the following schedule:

| TSR percentile ranking | % of grant vesting |
|---|---|
| < 50th percentile | 0% |
| = 50th percentile | 37.5% |
| 51st to 75th percentile | 39% to 75% |
| 76th to 100th percentile | 76% to 100% |

Full vesting of the CEO Performance Award will only occur where Santos' TSR growth over the performance period exceeds that of all other companies in the comparator group, and therefore requires exceptional performance.

There is no re-testing of the performance conditions. SARs or options which remain unvested following testing of the performance condition will lapse.

Upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to restrictions until the earlier of 10 years from the grant date, cessation of employment, or the date at which the Board approves, at Mr Knox's request, the removal of the restrictions. Options may be exercised at any time between the vesting date and the expiry date (27 July 2018), subject to payment of the exercise price of $17.36 per option (being the volume weighted average price in the week up to and including the grant date).

During the financial year, the Company granted 444,974 options over unissued shares to the CEO as set out below:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Weighted average exercise price $** | **Number** | Weighted average exercise price $ | Number |
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **16.98** | **444,974** | – | – |
| Outstanding at the end of the year | **16.98** | **444,974** | – | – |
| Exercisable at the end of the year | **–** | **–** | – | – |

The options outstanding at 31 December 2008 have an exercise price in the range of $15.39 to $17.36, and a weighted average contractual life of ten years.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

During the year no options were exercised (2007: nil).

The fair value of shares issued as a result of exercising the options or vesting of SARs during the reporting period at their issue date is the market price of shares of the Company on the ASX as at close of trading.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the models.

| | 2008 | | | | | 2007 |
|---|---|---|---|---|---|---|
| | Performance Award | Deferred Award | CEO Performance Awards | | | |
| **Option grant** | **F1** | **F2** | **F3** | **F4** | **F5** | |
| Fair value at grant date ($) | **5.25** | **7.30** | **5.77** | **4.22** | **4.29** | – |
| Share price on grant date ($) | **17.71** | **17.71** | **17.40** | **17.40** | **17.40** | – |
| Exercise price ($) | **15.39** | **15.39** | **17.36** | **17.36** | **17.36** | – |
| Expected volatility (weighted average, % pa) | **30.7** | **30.7** | **30.9** | **30.9** | **30.9** | – |
| Option life (weighted average) | **10 years** | **10 years** | **10 years** | **10 years** | **10 years** | – |
| Expected dividends (% pa) | **2.3** | **2.3** | **2.3** | **2.3** | **2.3** | – |
| Risk-free interest rate (based on Australian government bond yields) (% pa) | **6.29** | **6.29** | **6.05** | **6.05** | **6.05** | – |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

During the financial year, the Company granted 136,779 SARs to the CEO as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

| | Number of SARs | |
|---|---|---|
| | **2008** | 2007 |
| Outstanding at the beginning of the year | **–** | – |
| Granted during the year | **136,779** | – |
| Outstanding at the end of the year | **136,779** | – |
| Exercisable at the end of the year | **–** | – |

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into the Monte Carlo simulation method.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

| | 2008 CEO Performance Award | | | 2007 |
|---|---|---|---|---|
| **SARs grant** | **F3** | **F4** | **F5** | |
| Fair value at grant date ($) | **13.82** | **8.60** | **8.41** | – |
| Share price on grant date ($) | **17.40** | **17.40** | **17.40** | – |
| Exercise price ($) | **–** | **–** | **–** | – |
| Expected volatility (weighted average, % pa) | **30.9** | **30.9** | **30.9** | – |
| Right life (weighted average) | **10 years** | **10 years** | **10 years** | – |
| Expected dividends (% pa) | **2.3** | **2.3** | **2.3** | – |
| Risk-free interest rate (based on Australian government bond yields) (% pa) | **6.05** | **6.05** | **6.05** | – |

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

***Former CEO***

Mr J C Ellice-Flint retired on 25 March 2008. Consistent with the terms of his service agreement, 2,312,500 of Mr Ellice-Flint's options which had not previously vested, were vested and became exercisable upon cessation of his employment.

Each option entitles Mr Ellice-Flint to acquire one fully paid ordinary share in the Company at a predetermined price, subject to satisfaction of vesting conditions. The grant size is determined by reference to the median grant size given to executives in similar roles in comparable companies.

No options have been granted to Mr Ellice-Flint since 2006.

At the 2006 AGM, shareholder approval was given for the grant of three tranches of options to Mr Ellice-Flint as follows:

| Tranche | Number of options | Performance period |
|---|---|---|
| 1 | 500,000 | 4 May 2006 – 26 August 2007 |
| 2 | 1,000,000 | 4 May 2006 – 26 August 2008 |
| 3 | 1,000,000 | 4 May 2006 – 26 August 2009 |

At 31 December 2008, the 2,500,000 options are on issue, and are exercisable. The exercise price for the options granted is $11.36, being the volume weighted average price in the ten days up to and including 9 March 2006 as approved by shareholders on 4 May 2006. The options have a contractual life of ten years.

***Eligible senior executives – SARs and options***

During 2008, the Company made equity grants to its Senior Executives as the LTI component of their remuneration for 2008. The grants comprised:

- a performance-based component, equal to 71% of the total grant value ("Performance Award"); and
- a service-based component, equal to 29% of the total grant value ("Deferred Award").

For the Performance Award, an additional 50% of the award was added to the standard grant for Relative TSR performance above the 75th percentile, up to the 100th percentile of the comparator group. Consistent with its remuneration philosophy, the Board believes it is appropriate to provide executives with an additional incentive to strive for exceptional performance, recognising that executives will only benefit from the additional 50% where Santos achieves a ranking in the top quartile of its comparator group. Executives will only receive the full benefit of this additional component where Santos outperforms every other company in the comparator group in delivering superior returns to shareholders.

Both the Performance Award and the Deferred Award were delivered, at the executive's election, in the form of either SARs (under the SESPP) or options (under the SESOP).

SARs and options were granted at no cost to the executives with the number of SARs awarded being determined by dividing the amount of the award by the volume weighted average price of the Company's shares over the week up to and including the award date. The number of options awarded is of equivalent value calculated by an independent expert based on an acceptable valuation method.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Vesting details of the Performance Award and the Deferred Award are summarised below:

**Performance Award**

| | |
|---|---|
| Vesting period | 1 January 2008 to 31 December 2010. |
| Vesting condition | Vesting of the Performance Award is based on relative TSR against ASX 100 companies as at 1 January 2008. |
| Vesting schedule | **Relative TSR condition**<br>***Santos TSR percentile ranking*** — ***% of grant vesting***<br>< 50th percentile — 0%<br>= 50th percentile — 50%<br>51st to 75th percentile — 52% to 100%<br>76th to 100th percentile — 102% to 150% |
| Exercise price | $15.39 for options, being the volume weighted average price in the week up to and including the grant date of 3 May 2008.<br>SARs have no exercise price. |
| Expiry/lapse | Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited.<br>There is no re-testing of the performance conditions if they are not satisfied. |

**Deferred Award**

| | |
|---|---|
| Vesting period | 3 May 2008 to 2 May 2011. |
| Vesting condition | Vesting of the Deferred Award is based on continuous service to 2 May 2011, or three years from the grant date. |
| Vesting schedule | 0% if the continuous service condition is not met.<br>100% if the continuous service condition is met. |
| Exercise price | As for Performance Award. |
| Expiry/lapse | As for Performance Award. |

Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in special circumstances approved by the Board, then a proportion of the SARs and options may vest and become exercisable.

Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.

During the financial year, the Company granted 880,533 options over unissued shares as set out below:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Weighted average exercise price $** | **Number** | Weighted average exercise price $ | Number |
| Outstanding at the beginning of the year | **10.27** | **2,078,728** | 8.76 | 2,448,826 |
| Granted during the year | **15.39** | **880,533** | 13.82 | 421,200 |
| Forfeited during the year | **9.71** | **(460,385)** | 8.75 | (335,900) |
| Exercised during the year | **8.41** | **(303,583)** | 6.57 | (455,398) |
| Outstanding at the end of the year | **12.70** | **2,195,293** | 10.27 | 2,078,728 |
| Exercisable at the end of the year | **8.14** | **232,300** | 7.23 | 180,128 |

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

The options outstanding at 31 December 2008 have an exercise price in the range of $6.95 to $15.39, and a weighted average contractual life of 9.88 years.

During the year 303,583 options were exercised (2007: 455,398). The weighted average share price at the dates of exercise was $17.81 (2007: $13.96).

The fair value of shares issued as a result of exercising the options or vesting of SARs during the reporting period at their issue date is the market price of shares of the Company on the ASX as at close of trading.

The amounts recognised in the financial statements of the Group and the Company in relation to executive share options exercised during the financial year were:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$million** | $million | **$million** | $million |
| Issued ordinary share capital | **2.5** | 3.0 | **2.5** | 3.0 |

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the models.

| | **2008** | | 2007 | | |
|---|---|---|---|---|---|
| | **Performance Award** | **Deferred Award** | Performance Award | Growth Award | |
| **Option grant** | **F1** | **F2** | E1 | GA1 | GA2 |
| Fair value at grant date ($) | **5.25** | **7.30** | 3.32 | 3.87 | 1.97 |
| Share price on grant date ($) | **17.71** | **17.71** | 13.94 | 13.94 | 13.25 |
| Exercise price ($) | **15.39** | **15.39** | 14.14 | 14.14 | 12.81 |
| Expected volatility (weighted average, % pa) | **30.7** | **30.7** | 24.2 | 24.2 | 23.9 |
| Option life (weighted average) | **10 years** | **10 years** | 10 years | 10 years | 10 years |
| Expected dividends (% pa) | **2.3** | **2.3** | 3.5 | 3.5 | 3.5 |
| Risk-free interest rate (based on government bond yields): | | | | | |
| Australia (% pa) | **6.29** | **6.29** | 6.26 | 6.26 | 6.26 |
| United States (% pa) | **n/a** | **n/a** | 5.00 | n/a | n/a |
| United Kingdom (% pa) | **n/a** | **n/a** | 5.36 | n/a | n/a |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

During the financial year, the Company granted 241,668 SARs to eligible senior executives as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

| | Number of SARs | |
|---|---|---|
| | **2008** | 2007 |
| Outstanding at the beginning of the year | **1,365,800** | 758,900 |
| Granted during the year | **241,668** | 880,000 |
| Forfeited during the year | **(236,426)** | (273,100) |
| Vested during the year | **(141,330)** | – |
| Outstanding at the end of the year | **1,229,712** | 1,365,800 |
| Exercisable at the end of the year | **–** | – |

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into the Monte Carlo simulation method.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

| | **2008** | | 2007 | | |
|---|---|---|---|---|---|
| | **Performance Award** | **Deferred Award** | Performance Award | | Growth Award |
| **SARs grant** | **F1** | **F2** | E1 | E2 | GA1 |
| Fair value at grant date ($) | **11.23** | **16.73** | 9.95 | 9.16 | 12.78 |
| Share price on grant date ($) | **17.71** | **17.71** | 13.94 | 13.25 | 13.94 |
| Exercise price ($) | **–** | **–** | – | – | – |
| Expected volatility (weighted average, % pa) | **30.7** | **30.7** | 24.2 | 23.9 | 24.2 |
| Right life (weighted average) | **10 years** | **10 years** | 10 years | 10 years | 10 years |
| Expected dividends (% pa) | **2.3** | **2.3** | 3.5 | 3.5 | 3.5 |
| Risk-free interest rate (based on government bond yields): | | | | | |
| Australia (% pa) | **6.29** | **6.29** | 6.26 | 6.26 | 6.26 |
| United States (% pa) | **n/a** | **n/a** | 5.00 | 4.55 | n/a |
| United Kingdom (% pa) | **n/a** | **n/a** | 5.36 | 5.75 | n/a |

The amounts recognised in the income statements of the Group and the Company during the financial year in relation to equity grants issued under the Executive Long-term Incentive Programme were:

| | **Consolidated** | | **Santos Ltd** | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Employee expenses: | | | | |
| CEO share options | **0.3** | – | **0.3** | – |
| CEO SARs | **0.3** | – | **0.3** | – |
| Former CEO share options | **1.7** | 1.9 | **1.7** | 1.9 |
| Executive share options | **1.7** | 0.7 | **1.7** | 0.7 |
| Executive SARs | **4.3** | 2.6 | **4.3** | 2.6 |
| | **8.3** | 5.2 | **8.3** | 5.2 |

**Eligible senior executives – Shares**

No shares have been issued under the executive long-term incentive component of the SESPP since 2004. At 31 December 2008, the total number of shares acquired under the executive long-term incentive component of the Plan since its commencement was 220,912.

The shares allocated pursuant to the SESPP were allotted to a trustee at no cost to participants, to be held on their behalf. The allocation price is Market Value (as defined below) and the trustee was funded by the Company to subscribe for the shares.

In general the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board in its discretion could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. The shares can remain on trust for up to ten years from the date of allotment, during which time the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues while the shares are held on trust.

## 31. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (C) LEGACY PLAN – SANTOS EXECUTIVE SHARE PLAN

The Santos Executive Share Plan operated between 1987 and 1997, when it was discontinued. Under the terms of the Plan, shares were issued as partly paid to one cent. While partly paid, the Plan shares are not transferable, carry no voting right and no entitlement to dividend but are entitled to participate in any bonus or rights issue. After a "vesting" period, calls could be made for the balance of the issue price of the shares, which varied between $2.00 and the market price of the shares on the date of the call being made. Shares were issued principally on: 22 December 1987; 7 February and 5 December 1989; and 24 December 1990.

At the beginning of the financial year there were 88,000 Plan shares on issue. During the financial year no Plan shares were fully paid and no aggregate proceeds were received by the Company. As at 31 December 2008 there were 88,000 Plan shares outstanding.

### (D) NON-EXECUTIVE DIRECTOR ("NED") SHARE PLAN

In accordance with shareholder approval given at the 2007 Annual General Meeting, the Non-executive Director ("NED") Share Plan was introduced in July 2007. Participation in the NED Share Plan is voluntary and all present and future Non-executive Directors are eligible to participate. Under the NED Share Plan, Directors elect to sacrifice all or part of their pre-tax fees in return for an allocation of fully paid ordinary shares of equivalent value. The NED Share Plan therefore does not involve any additional remuneration for participating Directors.

Shares are allocated quarterly and are either issued as new shares or purchased on the ASX at the prevailing market price. The shares are registered in the name of the participating Director, but are subject to a restriction on dealing. In the absence of exceptional circumstances, the restriction will apply until the Director ceases to hold office or until ten years have elapsed since the allocation of the shares, whichever is earlier.

In 2008, 33,356 shares (2007: 14,847) were allocated to participating Directors as follows:

| Date | Number of shares | Price per share |
|---|---|---|
| 4 April 2008 | 7,376 | 14.8361 |
| 3 July 2008 | 6,590 | 20.7745 |
| 7 October 2008 | 8,566 | 17.8867 |
| 30 December 2008 | 10,824 | 14.1676 |

The amounts recognised in the financial statements of the Group and the Company in relation to the NED Share Plan during the year were:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Employee expenses | **0.5** | 0.2 | **0.5** | 0.2 |
| Issued ordinary share capital | **0.5** | 0.2 | **0.5** | 0.2 |

## 32. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (A) KEY MANAGEMENT PERSONNEL COMPENSATION

| | | | | |
|---|---|---|---|---|
| Short-term employee benefits | **10.4** | 10.7 | **10.4** | 10.7 |
| Post-employment benefits | **1.7** | 1.8 | **1.7** | 1.8 |
| Other long-term benefits | **0.2** | 0.1 | **0.2** | 0.1 |
| Termination benefits | **2.7** | – | **2.7** | – |
| Share-based payment | **4.6** | 3.3 | **4.6** | 3.3 |
| | **19.6** | 15.9 | **19.6** | 15.9 |

## 32. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (B) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL

**Options and rights holdings**

The movement during the reporting period in the number of rights and options over ordinary shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

**2008**

| Name | Balance at beginning of the year | Granted [1,2,3,4] | Options exercised/rights vested [5] | Other changes [6] | Balance at end of the year | Vested at end of the year | Vested and exercisable at end of the year | Vested but not exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| **Options** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Ellice-Flint, John Charles | 2,500,000 | – | – | (2,500,000) | – | 2,500,000 | 2,500,000 | – |
| Knox, David John Wissler | 100,000 | 444,974 | – | – | 544,974 | – | – | – |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | 105,244 | 45,537 | (12,744) | (14,400) | 123,637 | 14,400 | 14,400 | – |
| Baulderstone, James Leslie | 50,000 | 41,678 | – | – | 91,678 | – | – | – |
| Brown, Trevor John | 109,400 | 43,017 | – | (14,400) | 138,017 | 29,000 | 29,000 | – |
| Eames, Martyn Edward James | 50,000 | 53,667 | – | (25,000) | 78,667 | 25,000 | 25,000 | – |
| Kennett, Roger Maxwell | – | – | – | – | – | – | – | – |
| Macfarlane, Mark Stuart | 63,700 | 44,982 | – | – | 108,682 | – | – | – |
| Wasow, Peter Christopher | – | – | – | – | – | – | – | – |
| Wilkinson, Richard John | – | – | – | – | – | – | – | – |
| **Total** | 2,978,344 | 673,855 | (12,744) | (2,553,800) | 1,085,655 | 2,568,400 | 2,568,400 | – |
| **Rights** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Knox, David John Wissler | 50,000 | 136,779 | – | – | 186,779 | – | – | – |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | 27,000 | – | – | – | 27,000 | – | – | – |
| Baulderstone, James Leslie | 24,600 | – | – | – | 24,600 | – | – | – |
| Brown, Trevor John | 27,200 | – | – | – | 27,200 | – | – | – |
| Eames, Martyn Edward James | 71,500 | – | (9,800) | (9,800) | 51,900 | – | – | – |
| Kennett, Roger Maxwell | 38,000 | 17,668 | (4,500) | (4,500) | 46,668 | – | – | – |
| Macfarlane, Mark Stuart | 36,600 | – | (4,800) | (4,800) | 27,000 | – | – | – |
| Wasow, Peter Christopher | 83,600 | 23,220 | (11,800) | (11,800) | 83,220 | – | – | – |
| Wilkinson, Richard John | 62,100 | 18,115 | (8,850) | (8,850) | 62,515 | – | – | – |
| **Total** | 420,600 | 195,782 | (39,750) | (39,750) | 536,882 | – | – | – |

1 *With the exception of Mr D J W Knox, options granted to executives in the current year were granted on 3 May 2008, have an expiration date of 2 May 2018 and an exercise price of $15.39. At the date of grant, the options granted have a fair value of $5.25 per option (174,613 options) and $7.30 per option (54,268 options). The options were provided at no cost to the recipients. Providing vesting conditions are met, the options are exercisable no earlier than 1 January 2011.*

2 *Options granted to Mr D J W Knox in the current year were granted as follows:*
- *(i) Executive grant on 3 May 2008: expiration date of 2 May 2018, exercise price of $15.39, fair value per option on the date of grant of $5.25 (for 64,992 options) and $7.30 (for 21,837 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2011.*
- *(ii) CEO grant on 28 July 2008, tranche 1: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $5.83 per option (94,193 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2011.*
- *(iii) CEO grant on 28 July 2008, tranche 2: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $4.25 per option (131,976 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2012.*
- *(iv) CEO grant on 28 July 2008, tranche 3: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $4.32 per option (131,976 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2013.*

*The options were provided at no cost to Mr D J W Knox.*

3 *With the exception of Mr D J W Knox, SARs granted to executives in the current year were granted on 3 May 2008, have an expiration date of 2 May 2018, and vest with the recipient for no consideration. At the date of grant, 44,430 of the SARs granted have a fair value of $11.23 per SAR, and 14,573 of the SARs granted have a fair value of $16.73 per SAR.*

4 *SARs granted to Mr D J W Knox in the current year were granted on 28 July 2008, have an expiration date of 27 July 2018, and vest with Mr D J W Knox for no consideration. At the date of grant, the SARs granted have a fair value of $14.07 per SAR (35,973 SARs), $8.65 (50,403 SARs) and $8.44 (50,403 SARs).*

5 *Each option exercised or SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the exercise of options and vesting of SARs.*

6 *Other changes may include the lapse of options on the expiry of the exercise period, reductions in SARs entitlements due to performance conditions not being met, forfeiture of SARs when service conditions are not met, or the removal of an employee's equity holding from the key management personnel disclosure when they terminate employment with the Company.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 31(B).

## 32. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

**2007**

| Name | Balance at beginning of the year | Granted [1,2,3,4] | Options exercised/ rights vested [5] | Other changes [6] | Balance at end of the year | Vested at end of the year | Vested and exercisable at end of the year | Vested but not exercisable at end of the year |
|---|---|---|---|---|---|---|---|---|
| **Options** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Ellice-Flint, John Charles | 2,500,000 | – | – | – | 2,500,000 | 125,000 | 125,000 | – |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | 134,044 | – | – | (28,800) | 105,244 | 12,744 | 12,744 | – |
| Baulderstone, James Leslie | – | 50,000 | – | – | 50,000 | – | – | – |
| Brown, Trevor John | 184,769 | – | (46,369) | (29,000) | 109,400 | 14,500 | 14,500 | – |
| Eames, Martyn Edward James | 50,000 | – | – | – | 50,000 | – | – | – |
| Kennett, Roger Maxwell | – | – | – | – | – | – | – | – |
| Knox, David John Wissler | – | 100,000 | – | – | 100,000 | – | – | – |
| Macfarlane, Mark Stuart | 63,700 | – | – | – | 63,700 | – | – | – |
| Wasow, Peter Christopher | – | – | – | – | – | – | – | – |
| Wilkinson, Richard John | – | – | – | – | – | – | – | – |
| Young, Jonathon Terence | 93,200 | – | – | – | 93,200 | – | – | – |
| **Total** | 3,025,713 | 150,000 | (46,369) | (57,800) | 3,071,544 | 152,244 | 152,244 | – |
| **Rights** | | | | | | | | |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | – | 27,000 | – | – | 27,000 | – | – | – |
| Baulderstone, James Leslie | – | 24,600 | – | – | 24,600 | – | – | – |
| Brown, Trevor John | – | 27,200 | – | – | 27,200 | – | – | – |
| Eames, Martyn Edward James | 39,500 | 32,000 | – | – | 71,500 | – | – | – |
| Kennett, Roger Maxwell | 28,800 | 18,200 | – | (9,000) | 38,000 | – | – | – |
| Knox, David John Wissler | – | 50,000 | – | – | 50,000 | – | – | – |
| Macfarlane, Mark Stuart | 19,200 | 27,000 | – | (9,600) | 36,600 | – | – | – |
| Wasow, Peter Christopher | 70,200 | 37,000 | – | (23,600) | 83,600 | – | – | – |
| Wilkinson, Richard John | 51,600 | 28,200 | – | (17,700) | 62,100 | – | – | – |
| Young, Jonathon Terence | 52,000 | 39,000 | – | (26,000) | 65,000 | – | – | – |
| **Total** | 261,300 | 310,200 | – | (85,900) | 485,600 | – | – | – |

1 *With the exception of Mr D J W Knox, options were granted to executives on 1 July 2007, have an expiration date of 1 July 2017 and an exercise price of $14.14. At the date of grant, the options granted have a fair value of $3.32 per option. The options were provided at no cost to the recipients. Providing vesting conditions are met, the options are exercisable no earlier than 1 January 2010.*

2 *Options were granted to Mr D J W Knox on 3 September 2007, have an expiration date of 3 September 2017 and an exercise price of $12.81. At the date of grant, all of the options granted have a fair value of $1.97 per option. The options were provided at no cost to Mr D J W Knox. Providing vesting conditions are met, all of the options are exercisable no earlier than 3 September 2010.*

3 *With the exception of Mr D J W Knox, SARs were granted to executives on 1 July 2007, have an expiration date of 1 July 2017, and vest with the recipient for no consideration. At the date of grant, 130,100 of the SARs granted have a fair value of $9.95 per SAR, and 130,100 of the SARs granted have a fair value of $12.78 per SAR.*

4 *SARs were granted to Mr D J W Knox on 3 September 2007, have an expiration date of 3 September 2017, and vest with Mr D J W Knox for no consideration. At the date of grant, all of the SARs granted have a fair value of $9.16 per SAR.*

5 *Each option exercised or SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the exercise of options and vesting of SARs.*

6 *Other changes may include the lapse of options on the expiry of the exercise period, reductions in SARs entitlements due to performance conditions not being met, forfeiture of SARs when service conditions are not met, or the removal of an employee's equity holding from the key management personnel disclosure when they terminate employment with the Company.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 31(B).

## 32. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

**Share holdings**

The movement during the reporting period in the number of shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

**2008**

| Name | Balance at beginning of the year | Granted as compensation | Received on exercise of options | Received on vesting of rights | Redeemed | Other changes[1] | Balance at end of the year | Balance held nominally at end of the year |
|---|---|---|---|---|---|---|---|---|
| **Ordinary shares – fully paid** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Borda, Kenneth Charles | 35,207 | – | – | – | – | 9,965 | 45,172 | – |
| Coates, Peter Roland | – | – | – | – | – | 7,440 | 7,440 | – |
| Dean, Kenneth Alfred | 4,145 | – | – | – | – | 2,723 | 6,868 | – |
| Ellice-Flint, John Charles | 4,113,344 | – | – | – | – | (4,113,344) | – | – |
| Franklin, Roy Alexander | – | – | – | – | – | – | – | – |
| Gerlach, Stephen | 49,210 | – | – | – | – | 5,154 | 54,364 | – |
| Harding, Richard Michael | 608 | – | – | – | – | 1,149 | 1,757 | – |
| Knox, David John Wissler | – | – | – | – | – | – | – | – |
| Sloan, Judith | 10,639 | – | – | – | – | 9,496 | 20,135 | – |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | 6,243 | – | 12,744 | – | – | 31 | 19,018 | – |
| Baulderstone, James Leslie | – | – | – | – | – | – | – | – |
| Brown, Trevor John | 246,369 | – | – | – | – | – | 246,369 | – |
| Eames, Martyn Edward James | – | – | – | 9,800 | – | – | 9,800 | – |
| Kennett, Roger Maxwell | 59,795 | – | – | 4,500 | – | – | 64,295 | – |
| Macfarlane, Mark Stuart | 3,204 | – | – | 4,800 | – | – | 8,004 | – |
| Wasow, Peter Christopher | 27,934 | – | – | 11,800 | – | – | 39,734 | – |
| Wilkinson, Richard John | 21,441 | – | – | 8,850 | – | – | 30,291 | – |
| **Total** | 4,578,139 | – | 12,744 | 39,750 | – | (4,077,386) | 553,247 | – |
| **Redeemable convertible preference shares** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Ellice-Flint, John Charles | 225 | – | – | – | – | (225) | – | – |
| Sloan, Judith | 195 | – | – | – | – | – | 195 | – |
| ***Executives*** | | | | | | | | |
| Kennett, Roger Maxwell | 165 | – | – | – | – | – | 165 | – |
| **Total** | 585 | – | – | – | – | (225) | 360 | – |

*1 Other changes include:*
*(i) Non-executive Director ("NED") Share Plan and Dividend Reinvestment Plan ("DRP") share allocations.*
*(ii) Removal of Mr J C Ellice-Flint's equity holding from the key management personnel disclosure as a result of his ceasing to be a Director of the Company on 25 March 2008.*

## 32. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (B) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

**2007**

| Name | Balance at beginning of the year | Granted as compensation | Received on exercise of options | Received on vesting of rights | Redeemed | Other changes[1] | Balance at end of the year | Balance held nominally at end of the year |
|---|---|---|---|---|---|---|---|---|
| **Ordinary shares – fully paid** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Borda, Kenneth Charles | – | – | – | – | – | 35,207 | 35,207 | – |
| Dean, Kenneth Alfred | 3,000 | – | – | – | – | 1,145 | 4,145 | – |
| Ellice-Flint, John Charles | 4,037,940 | – | – | – | – | 75,404 | 4,113,344 | – |
| Franklin, Roy Alexander | – | – | – | – | – | – | – | – |
| Gerlach, Stephen | 44,880 | – | – | – | – | 4,330 | 49,210 | – |
| Harding, Richard Michael | – | – | – | – | – | 608 | 608 | – |
| Sloan, Judith | 5,000 | – | – | – | – | 5,639 | 10,639 | – |
| ***Executives*** | | | | | | | | |
| Anderson, John Hugh | 6,175 | – | – | – | – | 68 | 6,243 | – |
| Baulderstone, James Leslie | – | – | – | – | – | – | – | – |
| Brown, Trevor John | 200,000 | – | 46,369 | – | – | – | 246,369 | – |
| Eames, Martyn Edward James | – | – | – | – | – | – | – | – |
| Kennett, Roger Maxwell | 59,795 | – | – | – | – | – | 59,795 | – |
| Knox, David John Wissler | – | – | – | – | – | – | – | – |
| Macfarlane, Mark Stuart | 3,204 | – | – | – | – | – | 3,204 | – |
| Wasow, Peter Christopher | 27,934 | – | – | – | – | – | 27,934 | – |
| Wilkinson, Richard John | 21,441 | – | – | – | – | – | 21,441 | – |
| Young, Jonathon Terence | 280,183 | – | – | – | – | (100,000) | 180,183 | – |
| **Total** | 4,689,552 | – | 46,369 | – | – | 22,401 | 4,758,322 | – |
| **Redeemable convertible preference shares** | | | | | | | | |
| ***Directors*** | | | | | | | | |
| Ellice-Flint, John Charles | 225 | – | – | – | – | – | 225 | – |
| Sloan, Judith | 195 | – | – | – | – | – | 195 | – |
| ***Executives*** | | | | | | | | |
| Kennett, Roger Maxwell | 165 | – | – | – | – | – | 165 | – |
| **Total** | 585 | – | – | – | – | – | 585 | – |

1 *Other changes include Non-executive Director ("NED") Share Plan and Dividend Reinvestment Plan ("DRP") share allocations.*

### (C) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made, guaranteed or secured, directly or indirectly, by the Group or any of its subsidiaries at any time throughout the year with any key management person, including their related parties.

## 33. RELATED PARTIES

**Identity of related parties**

Santos Ltd and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are conducted on normal terms and conditions.

Details of related party transactions and amounts are set out in:

Note 6 as to interest charged to/by controlled entities;
Note 10 as to tax related balances and other amounts owing by controlled entities and other related entities;
Notes 20 and 21 as to amounts owing to controlled entities;
Note 21 as to guarantees by Santos Ltd of the financing facilities of controlled entities;
Note 22 as to Non-executive Directors' retirement benefits;
Notes 18 and 26 as to investments in controlled entities;
Note 28 as to interests in joint ventures; and
Note 32 as to disclosures relating to key management personnel.

| 34. REMUNERATION OF AUDITORS | Consolidated 2008 $000 | Consolidated 2007 $000 | Santos Ltd 2008 $000 | Santos Ltd 2007 $000 |
|---|---|---|---|---|
| The auditor of Santos Ltd is Ernst & Young. | | | | |
| Amounts received or due and receivable by Ernst & Young (Australia): | | | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | **1,061** | 1,181 | **813** | 827 |
| Other assurance services | **368** | 244 | **292** | 183 |
| Other services: | | | | |
| Taxation | **5** | – | **4** | – |
| Other | **38** | – | **38** | – |
| | **1,472** | 1,425 | **1,147** | 1,010 |
| Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for: | | | | |
| External audit | **122** | – | **–** | – |
| Assurance | **20** | – | **–** | – |
| Taxation | **33** | 15 | **–** | – |
| Other services | **4** | – | **–** | – |
| | **179** | 15 | **–** | – |
| Amounts received or due and receivable by overseas non-Ernst & Young audit firm for: | | | | |
| Audit of financial reports for subsidiaries incorporated in Papua New Guinea | **62** | – | **–** | – |
| Amounts received or due and receivable by related Australian practice of non-Ernst & Young audit firm for: | | | | |
| Assurance | **60** | – | **42** | – |
| Taxation | **297** | – | **69** | – |
| Other services | **190** | – | **133** | – |
| | **547** | – | **244** | – |

## 35. COMMITMENTS FOR EXPENDITURE

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$million** | $million | **$million** | $million |
| The Group has the following commitments for expenditure: | | | | |
| (A) CAPITAL COMMITMENTS | | | | |
| Capital expenditure contracted for at balance date for which no amounts have been provided in the financial statements, payable: | | | | |
| Not later than one year | **330.4** | 324.2 | **109.1** | 199.1 |
| Later than one year but not later than five years | **150.2** | 89.0 | **22.8** | 53.8 |
| Later than five years | **3.7** | – | **–** | – |
| | **484.3** | 413.2 | **131.9** | 252.9 |

Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 36 for further details).

### (B) MINIMUM EXPLORATION COMMITMENTS

| | | | | |
|---|---|---|---|---|
| Minimum exploration commitments for which no amounts have been provided in the financial statements or capital commitments, payable: | | | | |
| Not later than one year | **269.6** | 350.1 | **3.8** | 46.2 |
| Later than one year but not later than five years | **162.2** | 185.4 | **9.3** | 10.6 |
| Later than five years | **–** | 29.1 | **–** | – |
| | **431.8** | 564.6 | **13.1** | 56.8 |

The Group has certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.

### (C) OPERATING LEASE COMMITMENTS

| | | | | |
|---|---|---|---|---|
| Non-cancellable operating lease rentals are payable as follows: | | | | |
| Not later than one year | **94.0** | 92.2 | **38.4** | 38.7 |
| Later than one year but not later than five years | **167.3** | 204.5 | **67.9** | 81.1 |
| Later than five years | **49.1** | 52.8 | **46.0** | 34.2 |
| | **310.4** | 349.5 | **152.3** | 154.0 |

The Group leases floating production, storage and offtake facilities, floating storage offloading facilities and mobile offshore production units under operating leases. The leases typically run for a period of four to six years, and may have an option to renew after that time.

The Group also leases building office space and a warehouse under operating leases. The leases are generally for a period of ten years, with an option to renew the lease after that date. The lease payments typically increase by 5.0% per annum.

During the year ended 31 December 2008 the Group recognised $88.4 million (2007: $59.3 million) as an expense in the income statement in respect of operating leases.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2008

| 35. COMMITMENTS FOR EXPENDITURE (CONTINUED) | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| (D) FINANCE LEASE COMMITMENTS | | | | |
| Finance lease commitments are payable as follows: | | | | |
| Not later than one year | **0.5** | – | **0.5** | – |
| Later than one year but not later than five years | **1.4** | – | **1.4** | – |
| Later than five years | **1.3** | – | **1.3** | – |
| Total minimum lease payments | **3.2** | – | **3.2** | – |
| Less amounts representing finance charges | **(1.5)** | – | **(1.5)** | – |
| Present value of minimum lease payments | **1.7** | – | **1.7** | – |

The Group has finance leases for various items of plant and equipment with a carrying amount of $3.2 million (2007: $nil) for both the Group and the Company. The leases generally have terms of between three to twelve years with no escalation clauses and no option to renew. Title to the assets passes to the Group at the expiration of the relevant lease periods.

(E) COMMITMENT ON REMOVAL OF SHARE CAP

Pursuant to a Deed of Undertaking to the Premier of South Australia dated 16 October 2006 and as a consequence of the enactment of the *Santos Limited (Deed of Undertaking) Act 2007* on 29 November 2007, Santos has agreed to:

- Continue to make payments under its existing Social Responsibility and Community Benefits Programme specified in the Deed totalling $60.0 million over a ten-year period from the date the legislation was enacted. As at 31 December 2008, approximately $52.9 million remains to be paid over the next nine years.
- Continue to maintain the South Australian Cooper Basin asset's Head Office and Operational Headquarters together with other roles in South Australia for ten years subsequent to the date the legislation was enacted. At 31 December 2008, if this condition had not been met, the Company would have been liable to pay approximately $90.0 million to the State Government of South Australia.

Santos is required to make these payments only if the State Government of South Australia does not reintroduce a shareholder cap on the Company's shares or introduce any other restriction on or in respect of the Company's Board or senior management which have an adverse discriminatory effect in their application to the Company relative to other companies domiciled in South Australia.

| | Consolidated 2008 $million | Consolidated 2007 $million | Santos Ltd 2008 $million | Santos Ltd 2007 $million |
|---|---|---|---|---|
| (F) REMUNERATION COMMITMENTS | | | | |
| Commitments for the payment of salaries and other remuneration under the long-term employment contracts in existence at the reporting date but not recognised in liabilities, payable: | | | | |
| Not later than one year | **6.6** | 8.2 | **6.6** | 8.2 |

Amounts included as remuneration commitments include commitments arising from the service contracts of Directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

| 36. CONTINGENT LIABILITIES | Consolidated 2008 $million | 2007 $million | Santos Ltd 2008 $million | 2007 $million |
|---|---|---|---|---|
| The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. | | | | |
| Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of: | | | | |
| The Group: | | | | |
| Performance guarantees | **28.7** | 23.2 | **10.3** | 10.2 |
| Actual and possible legal claims and proceedings | **17.3** | 12.1 | **2.6** | 2.4 |
| The Group's share of contingent liabilities of joint venture operations: | | | | |
| Performance guarantees | **13.0** | 5.8 | **2.9** | 2.9 |
| Litigation and proceedings | **4.5** | – | **1.8** | – |
| | **63.5** | 41.1 | **17.6** | 15.5 |

Legal advice in relation to the actual and possible legal claims and proceedings referred to above indicates that on the basis of available information, any liability in respect of these claims is unlikely to exceed $13.7 million on a consolidated basis.

A number of the Australian interests of the Group are located within areas the subject of one or more claims or applications for native title determination. Whatever the outcome of those claims or applications, it is not believed that they will significantly impact the Group's asset base. Compliance with the "future act" provisions of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and consequently impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

Guarantees provided by Santos Ltd for borrowings in respect of controlled entities are disclosed in note 21.

Santos Ltd has provided parent company guarantees in respect of:

(a) the funding and performance obligations of a number of subsidiary companies, relating to:

- a floating storage and offloading facilities agreement for the Sampang PSC;
- a mobile offshore production unit agreement for the Madura PSC;
- performance obligations under production sharing contracts; and

(b) a subsidiary company's obligations to meet distribution charges for gas retail customers.

A subsidiary company has provided a letter of performance guarantee in respect of the performance obligations of its subsidiary company relating to a production sharing contract.

A subsidiary company has provided a letter of comfort in respect of payment obligations of associated entities.

The total expenditure commitment under these transactions and which are the subject of a parent company guarantee is $245.8 million.

**Varanus Island incident**

A pipeline rupture and subsequent fire at Varanus Island on 3 June 2008 damaged gas processing and export facilities. As a result, total production ceased both from the East Spar Joint Venture (processing and exporting gas from the John Brookes gas field) and the Harriet Joint Venture (processing and exporting gas from various Harriet fields). Santos (BOL) Pty Ltd, a controlled entity of Santos Ltd, has a 45% interest in the John Brookes gas field and the East Spar Joint Venture. Partial production by the East Spar Joint Venture recommenced on 6 August 2008, but Santos (BOL) Pty Ltd remains unable to meet the entirety of its firm gas commitments to customers under its various Gas Sales Agreements, and continues to rely on the force majeure provisions of those Agreements. It is too early to provide an estimate of the costs of managing and responding to the incident, or the potential liability (if any) to third party claims under Gas Sales Agreements or otherwise as a result of the incident.

## 36. CONTINGENT LIABILITIES (CONTINUED)

**Sidoarjo mudflow incident**
On 11 December 2008, Santos Brantas Pty Ltd ("Santos Brantas") announced that it had agreed to transfer its 18% minority interest in the Brantas Production Sharing Contract ("Brantas PSC") in Indonesia to Minarak Labuan Co (L) Ltd ("Minarak"), a company associated with Lapindo Brantas Inc ("Lapindo") which is the operator and majority owner of the Brantas PSC.

The transfer was approved by BPMIGAS, the relevant regulatory body of the Indonesian government.

The Brantas PSC includes the Banjar-Panji 1 onshore exploration well in Sidoarjo, the site of a major mudflow incident which commenced in May 2006.

Santos Brantas will pay US$22.5 million to Minarak, (US$20.0 million paid at the date of this report) with these funds to be used to support the long-term mud management programme. Santos Brantas and its related parties received a release from each of its former Brantas PSC participants and Minarak. The release covers any past, present or future claims that any of those parties may have against Santos in relation to the Brantas PSC or otherwise in connection with the incident.

The transaction does not remove possible third party claims directly against Santos Brantas. Whilst it is possible that Santos Brantas could be subjected to such claims in the future, it believes it would be able to successfully defend those claims, if ever made.

## 37. DEED OF CROSS GUARANTEE

Pursuant to Class Order 98/1418, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order the Company and each of the listed subsidiaries ("the Closed Group") have entered into a Deed of Cross Guarantee. The effect of the Deed is that the Company has guaranteed to pay any deficiency in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. The subsidiaries have also given a similar guarantee in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

Alliance Petroleum Australia Pty Ltd
Bridge Oil Developments Pty Limited
Reef Oil Pty Ltd
Santos (BOL) Pty Ltd
Santos Darwin LNG Pty Ltd
Santos (NARNL Cooper) Pty Ltd (became a party to the Deed on 28 November 2008)
Santos Offshore Pty Ltd
Santos Petroleum Management Pty Ltd
Santos Petroleum Pty Ltd
Santos QNT Pty Ltd
Santos QNT (No. 1) Pty Ltd
Santos QNT (No. 2) Pty Ltd
Vamgas Pty Ltd

## 37. DEED OF CROSS GUARANTEE (CONTINUED)

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

| | Closed Group 2008 $million | Closed Group 2007 $million |
|---|---|---|
| **Consolidated income statement** | | |
| Profit before tax | **324.0** | 1,213.5 |
| Income tax expense | **(154.4)** | (130.9) |
| Royalty related taxation expense | **(48.1)** | (90.6) |
| **Profit after tax** | **121.5** | 992.0 |
| Retained earnings at the beginning of the year | **1,556.3** | 1,218.9 |
| Adjustment to retained earnings for company added to Deed during the year | **130.6** | – |
| Adjustment to retained earnings on initial adoption of Interpretation 1003 *Australian Petroleum Resource Rent Tax* | **–** | (164.4) |
| Dividends to shareholders | **(286.3)** | (268.6) |
| Share buy-back | **(245.0)** | (231.2) |
| Share-based payment transactions | **8.3** | 5.2 |
| Actuarial (loss)/gain on defined benefit plan, net of tax | **(25.5)** | 4.4 |
| **Retained earnings at the end of the year** | **1,259.9** | 1,556.3 |
| **Consolidated balance sheet** | | |
| **Current assets** | | |
| Cash and cash equivalents | **1,422.9** | 46.6 |
| Trade and other receivables | **3,023.3** | 557.9 |
| Inventories | **256.3** | 215.7 |
| Other | **2.7** | 5.6 |
| **Total current assets** | **4,705.2** | 825.8 |
| **Non-current assets** | | |
| Receivables | **30.7** | 61.5 |
| Exploration and evaluation assets | **208.8** | 169.7 |
| Oil and gas assets | **4,172.1** | 3,725.7 |
| Other land, buildings, plant and equipment | **109.7** | 107.4 |
| Other investments | **2,507.7** | 2,672.8 |
| Deferred tax assets | **179.8** | 8.0 |
| Other | **–** | 5.9 |
| **Total non-current assets** | **7,208.8** | 6,751.0 |
| **Total assets** | **11,914.0** | 7,576.8 |
| **Current liabilities** | | |
| Trade and other payables | **757.8** | 507.6 |
| Deferred income | **50.0** | 11.9 |
| Interest-bearing loans and borrowings | **0.6** | – |
| Current tax liabilities | **623.8** | 28.7 |
| Provisions | **38.4** | 43.2 |
| **Total current liabilities** | **1,470.6** | 591.4 |
| **Non-current liabilities** | | |
| Deferred income | **6.3** | 8.8 |
| Interest-bearing loans and borrowings | **5,560.4** | 2,294.8 |
| Deferred tax liabilities | **370.5** | 340.0 |
| Provisions | **707.0** | 463.1 |
| **Total non-current liabilities** | **6,642.2** | 3,106.7 |
| **Total liabilities** | **8,114.8** | 3,698.1 |
| **Net assets** | **3,799.2** | 3,878.7 |
| **Equity** | | |
| Issued capital | **2,530.8** | 2,331.6 |
| Reserves | **8.5** | (9.2) |
| Retained earnings | **1,259.9** | 1,556.3 |
| **Total equity** | **3,799.2** | 3,878.7 |

## 38. FINANCIAL RISK MANAGEMENT

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk, and liquidity risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its business plans. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices.

The Group uses various methods to measure the types of risk to which it is exposed. These methods include Cash Flow at Risk analysis in the case of interest rate, foreign exchange and commodity price risk, and ageing analysis for credit risk.

Financial risk management is carried out by a central treasury department ("Treasury") under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (A) FOREIGN CURRENCY RISK

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting and Cash Flow at Risk analysis.

The Group is exposed to foreign currency risk principally through the sale of liquid petroleum products denominated in US dollars, US dollar borrowings and US dollar expenditure. In order to economically hedge this foreign currency risk, the Group has from time to time entered into forward foreign exchange, foreign currency swap and foreign currency option contracts.

All US dollar denominated borrowings of AUD functional currency companies (2008: US$1,140.6 million; 2007: US$1,155.8 million) are either designated as a hedge of US dollar denominated investments in foreign operations, or swapped using cross-currency swaps to Australian dollars in order to achieve an economic hedge. As a result, there were no net foreign currency gains or losses arising from translation of US denominated dollar borrowings recognised in the income statements in 2008.

The Group's risk management policy is to hedge between 0% and 50% of forecasted cash flows in US dollars for the current financial year.

Based on the Group's net financial assets and liabilities at 31 December 2008, the following table demonstrates the estimated sensitivity to a ±10 cent movement in the US dollar exchange rate (2007: ±10 cents) with all other variables held constant, on post-tax profit and equity:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Impact on post-tax profit: | | | | |
| AUD/USD +10 cents | **(0.6)** | 10.6 | **–** | – |
| AUD/USD –10 cents | **0.8** | (13.3) | **–** | – |
| Impact on equity: | | | | |
| AUD/USD +10 cents | **(0.6)** | 10.6 | **–** | – |
| AUD/USD –10 cents | **0.8** | (13.3) | **–** | – |

The above sensitivity should be used with care as the Group's financial asset and liability profile will not remain constant.

The ±10 cent sensitivity is the Group's estimate of reasonably possible changes in the US dollar exchange rate over the following financial year, based on recent volatility experienced in the market.

## 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) MARKET RISK

**Cash flow and fair value interest rate risk**

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes and long-term notes respectively. When transacted, these swaps have maturities ranging from one to 20 years, and align with the maturity of the related notes.
At 31 December 2008, the Group had interest rate swaps with a notional contract amount of $1,302.0 million (2007: $1,067.7 million).

The net fair value of swaps at 31 December 2008 was $303.5 million (2007: $67.3 million), comprising assets of $303.5 million and liabilities of $nil. These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2008, taking into account interest rates swaps, it is estimated that if interest rates changed by +0.25%/–2.0% (2007: ±1%), with all other variables held constant, the estimated impact on post-tax profit and equity would have been:

| | Consolidated | | Santos Ltd | |
|---|---|---|---|---|
| | **2008 $million** | 2007 $million | **2008 $million** | 2007 $million |
| Impact on post-tax profit: | | | | |
| Interest rates +0.25% (2007: +1%) | **(0.5)** | (11.6) | **–** | – |
| Interest rates –2.0% (2007: –1%) | **3.9** | 11.6 | **–** | – |
| Impact on equity: | | | | |
| Interest rates +0.25% (2007: +1%) | **(0.5)** | (11.6) | **–** | – |
| Interest rates –2.0% (2007: –1%) | **3.9** | 11.6 | **–** | – |

This assumes that the change in interest rates is effective from the beginning of the financial year and the net debt position and fixed/floating mix is constant over the year. However, interest rates and the debt profile of the Group are unlikely to remain constant and therefore the above sensitivity analysis should be used with care.

The +0.25%/–2.0% sensitivity is the Group's estimate of reasonably possible changes in interest rates over the following financial year, based on recent interest rate trends.

Changes in interest rates over the following year may be greater or less than the +0.25%/–2.0% sensitivity employed in the estimates above.

**Commodity price risk exposure**

The Group is exposed to commodity price fluctuations through the sale of petroleum products denominated in US dollars. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk.

At 31 December 2008 the Group has no open oil price swap contracts (2007: nil), and therefore is not exposed to movements in commodity prices on financial instruments. The Group continues to monitor oil price volatility and to assess the need for commodity price hedging.

## 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (C) CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. The majority of Santos' gas contracts are spread across major Australian energy retailers and industrial users. Contracts exist in every mainland state whilst the largest customer accounts for less than 20% of contracted gas.

The Group controls credit risk by setting minimum creditworthiness requirements of counterparties, which for banks and financial institutions is a Standard & Poor's rating of A or better.

| Rating | Approved counterparties | Total credit limit $million | Total exposure * $million | Exposure range $million |
|---|---|---|---|---|
| AA, AA– | 7 | 2,437.2 | 1,669.0 | 37.2 – 380.9 |
| A+ | 5 | 663.5 | 542.4 | 10.3 – 298.3 |

* *Cash deposits plus accrued interest, bank account balances and the mark-to-market gain and percentage of notional value weighted by term on derivatives.*

If customers are independently rated these ratings are used, otherwise the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors including credit support from a third party. Individual risk limits for banks and financial institutions are set based on external ratings in accordance with limits set by the Board. Limits for customers are determined within contract terms. The daily nomination of gas demand by customers and the utilisation of credit limits by customers is monitored by line management.

In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not hold collateral, nor does it securitise its trade and other receivables.

At the balance sheet date there were no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default by counterparties.

The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group, excluding investments, which have been recognised on the balance sheet.

## 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (D) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims at maintaining flexibility in funding to meet ongoing operational requirements, exploration and development expenditure, and small-to-medium-sized opportunistic projects and investments, by keeping committed credit facilities available.

The following table analyses the contractual maturities of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments, except for interest rate swaps. Estimated variable interest expense is based upon appropriate yield curves existing as at 31 December 2008.

| | Less than 1 year $million | 1 to 2 years $million | 2 to 5 years $million | More than 5 years $million |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **2008** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | **604.8** | **–** | **–** | **–** |
| Obligations under finance leases | **0.5** | **0.5** | **1.0** | **1.3** |
| Bank loans | **54.5** | **34.1** | **82.1** | **118.7** |
| Commercial paper | **–** | **–** | **–** | **–** |
| Medium-term notes | **18.3** | **16.9** | **375.6** | **118.8** |
| Long-term notes | **140.5** | **259.5** | **374.5** | **1,432.4** |
| **Derivative financial assets** | | | | |
| Cross-currency swap contracts | **(55.9)** | **(30.6)** | **–** | **–** |
| Interest rate swap contracts | **(42.4)** | **(57.9)** | **(73.7)** | **(184.1)** |
| | **720.3** | **222.5** | **759.5** | **1,487.1** |
| **2007** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | 609.7 | – | – | – |
| Obligations under finance leases | – | – | – | – |
| Bank loans | 41.1 | 40.8 | 259.2 | 133.7 |
| Commercial paper | 65.0 | – | – | – |
| Medium-term notes | 27.8 | 6.5 | 19.6 | 469.5 |
| Long-term notes | 75.2 | 111.7 | 502.9 | 1,151.4 |
| **Derivative financial liabilities/(assets)** | | | | |
| Cross-currency swap contracts | 12.6 | 11.8 | 7.6 | – |
| Interest rate swap contracts | (9.5) | (21.3) | (31.9) | (27.0) |
| | 821.9 | 149.5 | 757.4 | 1,727.6 |
| **Santos Ltd** | | | | |
| **2008** | | | | |
| Trade and other payables | **723.0** | **–** | **–** | **–** |
| Obligations under finance leases | **0.5** | **0.5** | **1.0** | **1.3** |
| Amounts owing to controlled entities | **–** | **–** | **–** | **4,082.8** |
| | **723.5** | **0.5** | **1.0** | **4,084.1** |
| **2007** | | | | |
| Trade and other payables | 625.1 | – | – | – |
| Obligations under finance leases | – | – | – | – |
| Amounts owing to controlled entities | – | – | – | 2,478.2 |
| | 625.1 | – | – | 2,478.2 |

Amounts owing to controlled entities are shown at their carrying value as any interest charged on the loans is added to the loan balance. The loans are made in the ordinary course of business on normal market terms and conditions and are not repayable for a minimum of nine years.

## 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES

The financial assets and liabilities of the Group and the Company are recognised on the balance sheets at their fair value in accordance with the accounting policies in note 1, except for long-term notes that are not swapped to a variable interest rate, and bank borrowings, which are recognised at face value. The carrying value of these long-term notes is US$156.5 million and their fair value is estimated at US$169.4 million based on discounting the future cash flows excluding the credit spread at the time of issue. The discount rate used is the interest rate swap rate for the remaining term to maturity of the note as at 31 December 2008. The carrying value of the bank borrowings approximates fair value as it is a floating rate instrument.

**Basis for determining fair values**
The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

***Trade and other receivables***
The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

***Available-for-sale financial assets***
The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

***Derivatives***
The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms of maturity of each contract and using market interest rates for a similar instrument at the reporting date. Where these cash flows are in a foreign currency the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

***Financial liabilities***
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

***Interest rates used for determining fair value***
The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve at the reporting date. The dealt credit spread is assumed to be the same as the market rate for the credit as at reporting date as allowed under AASB 139 *Financial Instruments: Recognition and Measurement*. The interest rates including credit spreads used to determine fair value were as follows:

| | **2008** % | 2007 % |
|---|---|---|
| Derivatives | **1.3 – 4.3** | 5.4 – 7.8 |
| Loans and borrowings | **1.7 – 4.9** | 5.8 – 9.1 |

# Directors' Declaration

## for the year ended 31 December 2008

In accordance with a resolution of the Directors of Santos Ltd ("the Company") we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 31 December 2008.

3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 37 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee between the Company and those members of the Closed Group pursuant to Class Order 98/1418.

Dated this 19th day of February 2009

On behalf of the Board:

| | |
|---|---|
| Stephen Gerlach | David Knox |
| Director | Director |

Adelaide

# Auditor's Independence Declaration to the Directors of Santos Ltd

In relation to our audit of the financial report of Santos Ltd and the entities it controlled for the year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

**Ernst & Young**

**R J Curtin**
Partner

Adelaide
Ernst & Young
19 February 2009

# Independent Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SANTOS LTD

**Report on the financial report**

We have audited the accompanying financial report of Santos Ltd, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' responsibility for the financial report***

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(A), the Directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Independence***

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, a copy of which is referred to in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

***Auditor's opinion***

In our opinion:

1. the financial report of Santos Ltd is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Santos Ltd and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Report on the remuneration report**

We have audited the remuneration report included in pages 50 to 69 of the annual report for the year ended 31 December 2008. The Directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's opinion***

In our opinion the remuneration report of Santos Ltd for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

**Ernst & Young**

**R J Curtin**
Partner

Adelaide
19 February 2009

# Securities exchange and shareholder information

Listed on Australian Securities Exchange at 27 February 2009 were 584,228,776 fully paid ordinary shares and 6,000,000 redeemable convertible preference shares. Unlisted were 46,500 partly paid Plan 0 shares, 41,500 partly paid Plan 2 shares, 300,100 fully paid ordinary shares issued pursuant to the Santos Employee Share Purchase Plan (SESPP) for General Employee Participation, 73,746 fully paid ordinary shares issued pursuant to SESPP for Senior Executive Long Term Incentive (LTI), 411,050 restricted fully paid ordinary shares issued pursuant to the vesting of LTI Share Acquisition Rights and 48,203 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan. There were: 80,479 holders of all classes of issued ordinary shares (including 6 holders of Plan 0 shares; 5 holders of Plan 2 shares; 397 holders of SESPP shares; and 40 holders of restricted shares) compared with 76,812 a year earlier; 14,378 holders of redeemable convertible preference shares; and 51 holders of the 5,120,267 options granted pursuant to the Santos Executive Share Option Plan and 67 holders of 1,117,491 Share Acquisition Rights.

The listed issued ordinary shares plus the ordinary shares issued pursuant to SESPP and the restricted ordinary shares issued pursuant to the vesting of LTI Share Acquisition Rights represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 57.80% of the total voting power in Santos (last year 57.26%) and the holdings of the 20 largest holders of redeemable convertible preference shares represent 31.14% of the issued redeemable convertible preference shares. The 20 largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 27 February 2009 were:

| Name | Number of fully paid ordinary shares | % |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 116,558,050 | 19.95 |
| National Nominees Limited | 69,344,922 | 11.87 |
| JP Morgan Nominees Australia Limited | 56,729,361 | 9.71 |
| Citicorp Nominees Pty Limited | 26,574,442 | 4.55 |
| ANZ Nominees Limited (Cash Income A/c) | 21,275,133 | 3.64 |
| Cogent Nominees Pty Limited | 6,376,300 | 1.09 |
| Australian Foundation Investment Company Limited | 4,564,289 | 0.78 |
| AMP Life Limited | 4,332,456 | 0.74 |
| Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/c) | 3,977,804 | 0.68 |
| Queensland Investment Corporation | 3,728,788 | 0.64 |
| UBS Nominees Pty Ltd | 3,519,648 | 0.60 |
| Mr John Charles Ellice-Flint | 3,000,000 | 0.51 |
| Neweconomy Com Au Nominees Pty Limited (900 A/c) | 2,746,122 | 0.47 |
| Citicorp Nominees Pty Limited (CFS WSLE Imputation Fnd A/c) | 2,692,322 | 0.46 |
| Argo Investments Limited | 2,550,000 | 0.44 |
| ANZ Nominees Limited (SL Cash Income A/c) | 2,492,734 | 0.43 |
| HSBC Custody Nominees (Australia) Limited – GSCO ECA | 2,360,735 | 0.40 |
| Citicorp Nominees Pty Limited (CFS Imputation Fund A/c) | 1,852,878 | 0.32 |
| HSBC Custody Nominees (Australia) Limited – A/c 3 | 1,558,508 | 0.27 |
| Cogent Nominees Pty Limited (SMP Accounts) | 1,444,207 | 0.25 |
| **Total** | **337,678,699** | **57.8** |

ANALYSIS OF SHARES – RANGE OF SHARES HELD

| | Fully paid ordinary shares (holders) | % of holders | % of shares held | Redeemable convertible preference shares (holders) | % of holders | % of shares held |
|---|---|---|---|---|---|---|
| 1 – 1,000 | 33,736 | 41.92 | 3.02 | 13,827 | 96.17 | 45.92 |
| 1,001 – 5,000 | 37,702 | 46.85 | 15.00 | 485 | 3.37 | 15.57 |
| 5,001 – 10,000 | 5,958 | 7.40 | 7.23 | 30 | 0.21 | 3.60 |
| 10,001 – 100,000 | 2,951 | 3.67 | 10.44 | 32 | 0.22 | 15.79 |
| 100,001 and over | 132 | 0.16 | 64.31 | 4 | 0.03 | 19.12 |
| **Total** | **80,479** | **100.00** | **100.00** | **14,378** | **100.00** | **100.00** |
| Less than a marketable parcel of $500 | 1,353 | | | 13 | | |

The 20 largest shareholders of redeemable convertible preference shares in Santos as shown in the Company's Register of Members at 27 February 2009 were:

| Name | Number of redeemable convertible preference shares | % |
|---|---|---|
| JP Morgan Nominees Australia Limited | 513,479 | 8.56 |
| HSBC Custody Nominees (Australia) Limited | 256,429 | 4.27 |
| ANZ Nominees Limited (Cash Income A/c) | 202,522 | 3.38 |
| Australian Foundation Investment Company Limited | 175,000 | 2.92 |
| Sandhurst Trustees Ltd (JM Asset Management A/c) | 80,041 | 1.33 |
| Hastings Funds Management Limited (Hasting Yield Fund A/c) | 70,000 | 1.17 |
| Cogent Nominees Pty Limited (SMP Accounts) | 64,843 | 1.08 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/c) | 64,665 | 1.08 |
| UBS Wealth Management Australia Nominees Pty Ltd | 53,121 | 0.89 |
| M F Custodians Ltd | 52,649 | 0.88 |
| Citicorp Nominees Pty Limited | 51,890 | 0.86 |
| National Nominees Limited | 42,836 | 0.71 |
| Taverner No 11 Pty Ltd (Brencorp No 11 Unit A/c) | 42,577 | 0.71 |
| Avanteos Investments Limited (Encircle IMA A/c) | 37,280 | 0.62 |
| Cogent Nominees Pty Limited | 37,213 | 0.62 |
| Questor Financial Services Limited (TPS RF A/c) | 35,240 | 0.59 |
| Cambooya Pty Limited | 30,100 | 0.50 |
| Argo Investments Limited | 20,000 | 0.33 |
| Tallen Pty Ltd | 20,000 | 0.33 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (GSENIP A/c) | 18,684 | 0.31 |
| **Total** | **1,868,569** | **31.14** |

Substantial Shareholders, as at 27 February 2009, as disclosed by notices received by the Company:

| Name | No of voting shares held |
|---|---|
| Not Applicable | Not Applicable |

For Directors' Shareholdings see the Directors' Statutory Report as set out on page 45 of this Annual Report.

## VOTING RIGHTS

Every member present in person or by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid ordinary share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

Holders of redeemable convertible preference shares (Preference Shares) do not have voting rights at any general meeting of the company except in the following circumstances:

(a) on a proposal:

   (1) to reduce the share capital of the Company;
   (2) that affects rights attached to the Preference Shares;
   (3) to wind up the Company; or
   (4) for the disposal of the whole of the property, business and undertaking of the Company;

(b) on a resolution to approve the terms of a buy-back agreement;

(c) during a period in which a dividend or part of a dividend on the Preference Shares is in arrears; or

(d) during the winding up of the Company.

# Glossary

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

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

**the company or Santos**
Santos Ltd and its subsidiaries.

**condensate**
A natural gas liquid that occurs in association with natural gas and is mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

**contingent resources**
Those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers.

**crude oil**
A general term for unrefined liquid petroleum or hydrocarbons.

**EBITDAX**
Earnings before interest, tax, depreciation, depletion, exploration and impairment.

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

**finding cost per barrel of oil equivalent**
Exploration and delineation expenditure per annum divided by reserve additions net of acquisitions and divestments.

**geoscience**
Scientific disciplines related to the study of the earth.

**hazard**
A source of potential harm.

**hydrocarbons**
Solid, liquid or gas compounds of the elements hydrogen and carbon.

**liquids**
A sales product in liquid form; for example, condensate and LPG.

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

**LPG**
Liquefied petroleum gas, the name given to propane and butane in their liquid state.

**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.

**mmbbl**
Million barrels.

**mmboe**
Million barrels of oil equivalent.

**mtpa**
Million tonnes per annum.

**netback**
Total product sales revenue less operating costs (namely production costs, tariffs/tolls, royalties, PRRT and gas purchases and movement in stock). Netback per boe is netback divided by total sales volumes.

**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 $10^{15}$.

**proven reserves (1P)**
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)**
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)**
Reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

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

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

**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.

**tcf**
Trillion cubic feet.

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

| CONVERSION | |
|---|---|
| Crude oil | 1 barrel = 1 boe |
| Sales gas | 1 petajoule = 171,937 boe |
| 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.

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# Information for shareholders

## NOTICE OF MEETING

The Annual General Meeting of Santos Ltd will be held in the Festival Theatre at Adelaide Festival Centre, King William Road, Adelaide, South Australia on Wednesday 6 May 2009 at 10:00 am.

## FINAL DIVIDEND

The 2008 final ordinary dividend will be paid on 31 March 2009 to shareholders registered in the books of the Company at the close of business on 3 March 2009 in respect of fully paid shares held at record date.

## SECURITIES EXCHANGE LISTING

Santos Ltd. Incorporated in Adelaide, South Australia, on 18 March 1954. Quoted on the official list of the Australian Securities Exchange (ordinary shares code STO; FUELS code STOPB).

## AMERICAN DEPOSITORY RECEIPTS

Santos American Depository Receipts are issued by Citibank, N.A. and are listed on NASDAQ (code STOSY).

## DIRECTORS

S Gerlach (Chairman), D J W Knox (Managing Director), K C Borda, P R Coates, K A Dean, R A Franklin, R M Harding, J Sloan.

## SECRETARY

J L Baulderstone

## CHANGE OF SHAREHOLDER DETAILS

Issuer Sponsored Shareholders wishing to update their details must notify the Share Registrar in writing. The relevant shareholder forms can be obtained from the Share Registrar or via the Investor Centre on the Santos website, www.santos.com.

Forms are available to advise the Company of changes relating to change of address, direct crediting of dividends, Tax File Number and Australian Business Number, Annual Report and Sustainability Report mailing preferences and Dividend Reinvestment Plan participation.

## INVESTOR INFORMATION AND SERVICES

### SANTOS WEBSITE

A wide range of information for investors is available from Santos' website, www.santos.com, including Annual Reports, Full Year and Interim Reports and Presentations, News Announcements, Quarterly Activities Reports and Current Well Information.

Comprehensive archives of these materials dating back to 1997 are available on the Santos website.

Other investor information available on the Santos website includes:

- webcasts of investor briefings;
- an email alert facility where people can register to be notified, free of charge, of Santos' News Announcements via email; and
- an RSS feed of Santos' News Announcements, which allows people to view these announcements using RSS reader software.

The Santos website provides shareholder forms to help shareholders manage their holdings, as well as a full history of Santos' dividend payments and equity issues. Shareholders can also check their holdings and payment history in the secure View Shareholding section.

Santos' website also provides an 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, First-Half Report and the Sustainability Report are the major sources of printed information about Santos. Printed copies of the reports are available from the Share Register or Investor Relations.

## SHAREHOLDER ENQUIRIES

Enquiries about shareholdings should be directed to:

Share Register, Santos Ltd, GPO Box 2455,
Adelaide, South Australia 5001.
Telephone: 08 8116 5000.
Email: share.register@santos.com

Investor information, other than that relating to a shareholding, can be obtained from:

Investor Relations, Santos Ltd, GPO Box 2455,
Adelaide, South Australia 5001.
Telephone: 08 8116 5000.
Email: investor.relations@santos.com

Electronic enquiries can also be submitted through the Contact Us section of the Santos website, www.santos.com.

## SHAREHOLDERS' CALENDAR

| | |
|---|---|
| 2008 Full Year Results announcement | 19 February 2009 |
| Ex-dividend date for 2008 full year dividend | 25 February 2009 |
| Record date for 2008 full year dividend | 3 March 2009 |
| Payment date for 2008 full year dividend | 31 March 2009 |
| Annual General Meeting | 6 May 2009 |
| 2009 Interim Results announcement | 20 August 2009 |
| Ex-dividend date for 2008 interim dividend | TBA |
| Record date for 2008 interim dividend | TBA |
| Payment date for 2008 interim dividend | TBA |
| Full year end | 31 December 2009 |

## QUARTERLY REPORTING CALENDAR

| | |
|---|---|
| 2009 First Quarter Activities Report | 23 April 2009 |
| 2009 Second Quarter Activities Report | 23 July 2009 |
| 2009 Third Quarter Activities Report | 22 October 2009 |
| 2009 Fourth Quarter Activities Report | 21 January 2010 |

Dates are subject to change and are published on the Santos website, www.santos.com.

# Major announcements made by Santos during 2008

| | |
|---|---|
| 24 Jan | 2007 Fourth Quarter Activities Report |
| 19 Feb | New investor relations executive appointed |
| 21 Feb | 2007 Full Year Results: net profit $441 million |
| 14 Mar | Further progress in PNG LNG |
| 18 Mar | Peter Coates appointed to Board |
| 20 Mar | Mutineer-Exeter production recommences |
| 25 Mar | Managing Director John Ellice-Flint retires |
| 28 Mar | 2007 Annual Report, Sustainability Report and Notice of Meeting released |
| 7 Apr | Reindeer project sanctioned |
| 8 Apr | Pre-FEED contractors for GLNG appointed |
| 23 Apr | 2008 First Quarter Activities Report |
| 24 Apr | Closure of the Moonie to Brisbane oil pipeline |
| 2 May | 2008 Annual General Meeting |
| 14 May | John Ellice-Flint retirement benefits and entitlements |
| 21 May | Successful testing of Chim Sao North appraisal well |
| 22 May | PNG LNG gas agreement and FEED entry |
| 29 May | Santos and PETRONAS sign historic partnership for GLNG |
| 3 Jun | Santos investor seminar |
| 4 Jun | John Brookes production interruption |
| 24 Jun | John Brookes production interruption update |
| 18 Jul | GLNG partnership transaction with PETRONAS receives regulatory approvals |
| 24 Jul | 2008 Second Quarter Activities Report |
| 29 Jul | David Knox appointed CEO and Managing Director |
| 21 Aug | 2008 Interim Results: record $304 million half-year net profit |
| 21 Aug | Gas-fired power station proposed for western Victoria |
| 21 Aug | $300 million off-market share buy-back announced |
| 8 Sep | Share buy-back booklet released |
| 15 Sep | Sidoarjo mudflow incident |
| 19 Sep | Santos purchases 100% of WA-4-R (Spar gas field) |
| 6 Oct | $300 million off-market buy-back successfully completed |
| 8 Oct | Santos secures Moly Metals gas supply contract |
| 23 Oct | 2008 Third Quarter Report |
| 27 Nov | Executive Vice President Technical appointed |
| 8 Dec | Deferral of Reindeer project |
| 11 Dec | Santos interest in Brantas PSC |
| 17 Dec | Peter Coates appointed Deputy Chairman |
| 22 Dec | Bechtel appointed downstream FEED contractor for GLNG |

Dates shown are when announcements were made to the exchanges where Santos' shares are listed: the Australian Securities Exchange (ASX) and NASDAQ.

As part of Santos' continuous disclosure, the company informs the market of information that may affect the company's share price. All material announcements disclosed to the ASX are published on Santos' website, www.santos.com.

The Santos website provides an email alert facility where people can register to be notified, free of charge, of Santos' news announcements via email. It also provides an RSS feed which allows people to view these announcements using RSS reader software.

# Santos

### Paper and printing of the Annual Report

This report is printed on Monza Recycled and ecoStar paper, which contains chlorine-free recycled fibre and fibre from sustainable plantation forests.

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An electronic version of this report is available on Santos' website www.santos.com. Shareholders who do not require a printed Annual Report, or who receive more than one copy due to multiple shareholdings, can help reduce the number of copies printed by advising the Share Register in writing of changes to their report mailing preferences.

Shareholders who choose not to receive a printed report will continue to receive all other shareholder information, including notices of shareholders' meetings.

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