ANNUAL REPORT 2009

We're not just an energy company.

We're a company with energy.

Santos

We have the energy.

ABOUT SANTOS

An Australian energy pioneer since 1954, Santos is one of the country's leading gas producers, supplying Australian and Asian customers.

Santos has been providing Australia with natural gas from the remote outback for more than 40 years. The company today is the largest producer of natural gas to the Australian domestic market, supplying 18% of the nation's gas needs.

Santos has also developed major oil and liquids businesses in Australia and operates in all mainland Australian states and the Northern Territory.

From this base, Santos is pursuing a transformational liquefied natural gas (LNG) strategy with interests in four exciting LNG projects.

This strategy is led by the cornerstone GLNG® project in Queensland – a leading project in converting coal seam gas into LNG. Also in Santos' LNG portfolio are the PNG LNG project, which was formally approved in December 2009, Bonaparte LNG, a proposed floating LNG project in the Timor Sea, and Darwin LNG, Santos' first LNG venture, which began production in 2006.

Santos has built a strong and reliable production business in Indonesia and is further developing its Asian business through development projects and exploration investment.

In 2009, Santos' total production was 54.4 million barrels of oil equivalent. We have the largest Australian exploration portfolio by area of any company – 133,800 square kilometres.

Santos has about 2,200 employees working across its operations in Australia and Asia.

VISION AND STRATEGY

Santos' vision is to be a leading energy company for Australia and Asia by 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.

Santos has a robust strategy to achieve this through:

Reliable base business:

- Eastern Australia: margin growth and resource conversion
- Indonesia: established business with incremental growth
- Western Australia: growing a material domestic gas business

Transformational LNG:

- GLNG: a leading CSG-to-LNG project underpinned by quality reserves
- PNG LNG: approved in 2009 with first production in 2014
- Darwin LNG: LNG production since 2006, mature brownfield growth
- Bonaparte LNG: innovative proposed floating LNG project

Focused growth in Asia:

- Vietnam: develop Chim Sáo and exploration-led growth
- India/Bangladesh: Bay of Bengal exploration-led growth
- Kyrgyz Republic: exploration prospects in proven oil and gas provinces

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.

Cover: Operator maintainer Bill Loof at Fairview in Santos' eastern Queensland fields.

This page: Drilling and completions rig, Arcadia Valley coal seam gas fields, eastern Queensland.

We're a company with energy

The energy to explore the remotest and harshest terrain …

The energy to unlock vast resources in places where many said nothing would be found …

The energy to spearhead innovations like CSG to LNG conversion …

The clean energy to fuel homes and industry throughout Australia and Asia as well as power nations now and into the future …

The energy to take bold initiatives to grow our own business.

In short, we have **the energy to make things happen.**

Santos
We have the energy.

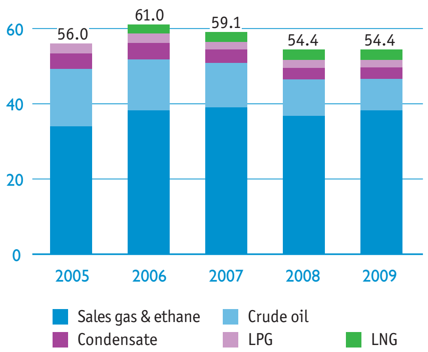
2009 operating and financial highlights

- SALES REVENUE $2,181 MILLION, DOWN 21%; PRODUCTION 54.4 MMBOE, WITHIN GUIDANCE.
- NET PROFIT AFTER TAX $434 MILLION.
- UNDERLYING NET PROFIT AFTER TAX $257 MILLION, COMPARED TO $548 MILLION IN 2008.
- 2009 FULL YEAR DIVIDEND OF 42 CENTS PER SHARE, UNCHANGED FROM 2008.
- PROVEN AND PROBABLE (2P) RESERVES INCREASED 42% TO 1.44 BILLION BARRELS.
- STRONG BALANCE SHEET: $2.2 BILLION OF CASH.

	2009	2008	% change
Sales ($million)	**2,181.0**	2,762.0	(21)
Operating profit before tax ($million)	**717.0**	2,533.0	(72)
Cash flow from operations ($million)	**1,155.0**	1,385.0	(17)
Earnings per share (cents)	**52.1**	251.9	(79)
Ordinary dividends per share (cents)	**42.0**	42.0	0
Cash flow per share (cents)	**148.2**	216.5	(32)
Total shareholders' funds ($million)	**6,967.0**	4,478.0	56
Return on average ordinary equity (%)	**7.5**	50.6	(85)
Return on average capital employed (%)	**7.3**	34.1	(79)
Net debt/(net debt plus equity) (%)	**(9.5)**	10.2	(193)
Net interest cover (times)	**(45.4)**	38.5	(218)

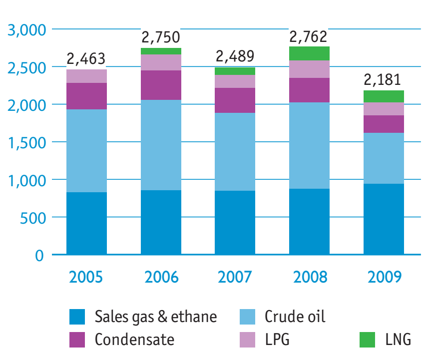
PRODUCTION BY PRODUCT

54.4 mmboe



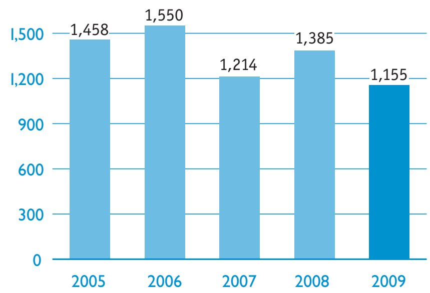
SALES REVENUE

$2,181 million



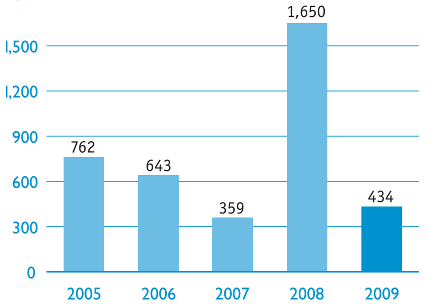
OPERATING CASH FLOW

$1,155 million



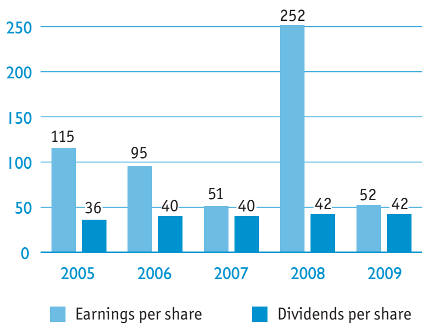
NET PROFIT AFTER TAX

$434 million



EARNINGS & DIVIDENDS PER SHARE

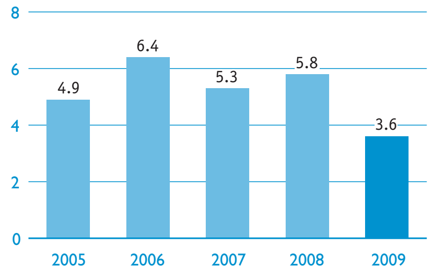
42 cents



SAFETY PERFORMANCE

3.6

Total recordable case frequency rate (per millions hours worked)



Continuing to progress our growth strategy in 2009

LNG projects
Page 15

- GLNG signs gas sales agreement with project partner PETRONAS for up to three million tonnes per annum of LNG; submits Environmental Impact Statement to Queensland Government.
- PNG LNG project formally approved.
- Bonaparte LNG: proposed floating LNG processing facility in the Timor Sea.

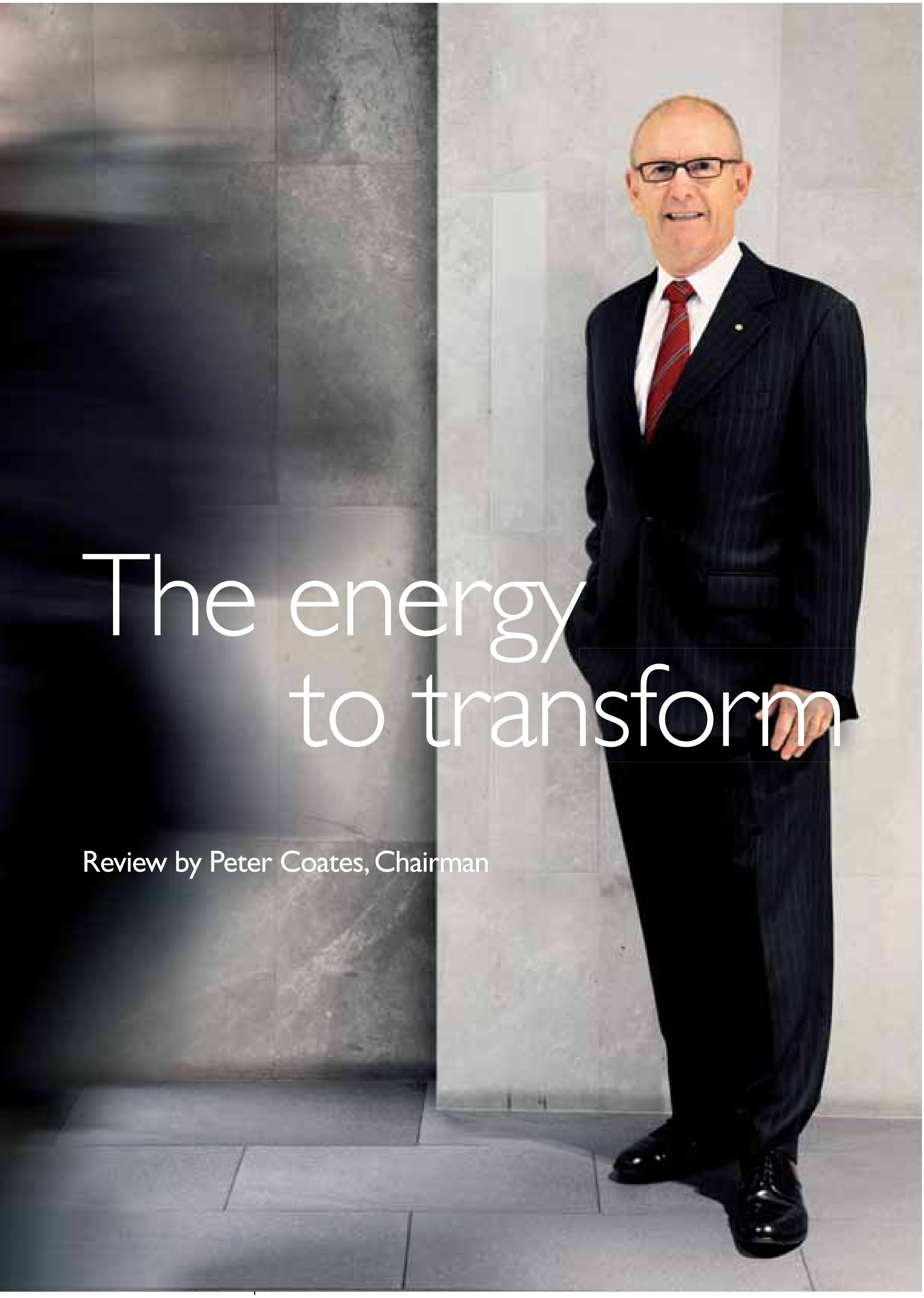
Australia
Page 17

- Santos celebrates 40 years of natural gas delivery from Moomba processing plant in the Cooper Basin. The basin retains significant development potential.
- Newly sanctioned projects offshore Victoria; Reindeer project offshore Western Australia well underway.
- Acquisition of significant new acreage in Gunnedah Basin, NSW.

Asia
Page 19

- Indonesia firmly established in Santos' base business. Continues incremental growth in producing assets.
- Oyong Phase-2 project in Indonesia online. Delivered safely and ramped up to production within 20 days.
- Chim Sáo, Santos' first oil project in Vietnam, formally approved.

Operator maintainer Mark Bunker and operations superintendent Belinda Wells near Scotia in Santos' eastern Queensland coal seam gas fields.



The energy to transform

Review by Peter Coates, Chairman

Santos made great progress in delivering its growth strategy in 2009 and is well equipped to meet the significant challenges ahead. It has a clear set of strategic priorities, an exciting pipeline of growth projects, a sound balance sheet, high quality partners and a talented executive team led by its Chief Executive Officer, David Knox who, since becoming CEO in 2008, has led a transformation of the company's perception by the investment market and its shareholders.

While our underlying financial performance was down on 2008 due to lower oil prices, our base business performed well with consistent production, an improved cost performance and excellent project delivery.

STRATEGIC PROGRESS IN 2009

Our strategy is underpinned by the twin pillars of growing demand for primary energy in Australia and Asia, and the role that natural gas can play as a cleaner fuel in meeting that demand.

Some of the significant strategic milestones achieved during 2009 were:

- In December, we sanctioned the Papua New Guinea LNG project. PNG LNG will provide Santos with long-term production and cash flow when it comes online in 2014 and create a legacy asset for decades to come.
- Our Gladstone Liquified Natural Gas (GLNG) project took major steps forward as it moves towards a final investment decision. In June, GLNG signed a binding offtake agreement to sell two million tonnes per annum of LNG to project partner PETRONAS, with an option for a further one million tonnes per annum at GLNG's sole option. This agreement underpins the first LNG train, or processing unit, of two planned for the initial phase of the project.
- We focused the business, selling a number of non-core assets and growing our strategic position in the Gunnedah Basin, Australia's next major coal seam gas (CSG) province.

SOLID FINANCIAL PERFORMANCE

Santos recorded a net profit of $434 million in 2009. This compares with the $1.7 billion result reported for 2008 which was boosted by a $1.2 billion profit from the sale of a 40% interest in the GLNG project to PETRONAS.

Underlying net profit in 2009 of $257 million compares with $548 million in the prior year. Lower product prices reduced sales revenue by nearly $600 million compared with 2008.

Production from the base business of 54.4 million barrels of oil equivalent was the same as the previous year and within the company's guidance range. Importantly, cost reduction initiatives in the base business delivered early benefits.

In November, Santos celebrated the 40th anniversary of the first delivery of natural gas from the Moomba processing plant in the Cooper Basin. The Cooper Basin has underpinned the growth of Santos for four decades and will continue to play a very important role in providing primary energy for eastern Australia.

SUCCESSFUL EQUITY RAISING

Santos issued new equity in 2009 to raise approximately $3 billion to fund PNG LNG, future growth and redeem the FUELS hybrid security. The equity raising was very successful with strong support from institutional and retail shareholders.

On behalf of the Board, I would like to thank shareholders for their support.

DIVIDEND MAINTAINED

At a time when many companies were cutting or eliminating their dividends, the Board maintained the Santos dividend at 42 cents per share fully franked, the same as the previous year. This dividend was paid on the expanded capital base following the equity raising.

BOARD RENEWAL

The ongoing process of Board renewal has continued, with the retirement of two longstanding directors and two new appointments.

Jane Hemstritch and Greg Martin have joined the Board and are already making significant contributions.

Judith Sloan retired from the Board following the Annual General Meeting in May after serving shareholders and the company with distinction over her 14 years as a director.

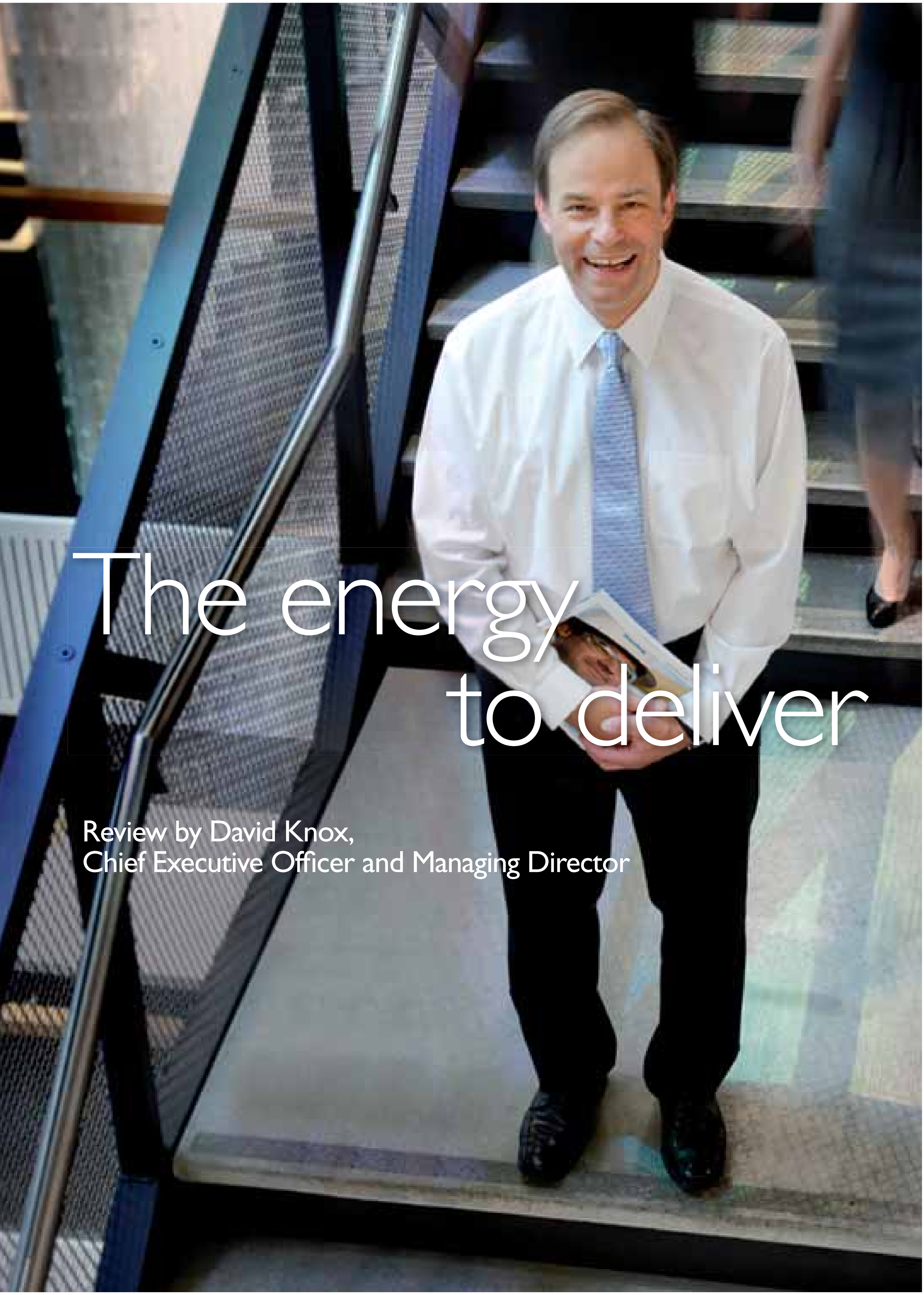
Stephen Gerlach retired from the Board in December after 20 years of service as a Director and the last eight years as Chairman.

Stephen oversaw the transformation of Santos from a Cooper Basin focused domestic business to one with a clear vision of becoming a major energy supplier to Australia and Asia. On behalf of the Board and all shareholders, I thank Stephen for his 20 years of service to the company.

I am delighted to assume the Chairmanship at this critical point in the company's history, when it is on the cusp of major transformation from a domestic focused natural gas producer into a leading energy company for Australia and Asia.

On behalf of the Directors, I would like to thank David and the team at Santos for their hard work and dedication to delivering value for shareholders.

Peter Coates AO
Chairman



The energy to deliver

Review by David Knox,
Chief Executive Officer and Managing Director

Santos' vision is to be a leading energy company in Australia and Asia. We have a simple and robust strategy to achieve this: we will drive performance in our base business, deliver a suite of LNG projects and pursue focused opportunities in Asia.

In 2009, we demonstrated our determination to deliver the vision, making significant progress on all our strategic fronts.

MEETING AN ENERGY CHALLENGE

Australasia faces the challenge of achieving energy security for its growing economies in a carbon-constrained world. Natural gas as a fuel for electricity generation has the potential to underwrite significant cuts in greenhouse gas emissions while meeting energy needs.

Importantly, natural gas is abundant, affordable and available now.

We are Australia's largest producer of gas for domestic consumption, and 95% of our proved and probable reserves are gas or associated gas liquids.

There is sufficient natural gas in eastern Australia to meet domestic needs and, at the same time, build a new LNG export industry on the east coast.

Australia – and Santos in particular – is poised to capture a significant market opportunity in LNG, demand for which is expected to double in Asia in the next 15 years.

LNG GROWTH STRATEGY

Santos' LNG growth portfolio is unique for a company of our size.

We have made substantial progress on our flagship GLNG project and we are moving towards a final investment decision in the middle of 2010. GLNG has all the ingredients for success: an ideal site, high quality reserves, a binding sales contract and the experience and expertise of our partner PETRONAS, the largest LNG supplier in Asia.

Elsewhere, the PNG LNG project was approved for development at the end of 2009. The project has signed binding long-term LNG sales agreements with four Asian buyers and first sales are expected in 2014. The existing Darwin LNG project – our first LNG investment – delivered another excellent year of production.

Finally, in 2009 we added our fourth LNG project, Bonaparte LNG, in partnership with GDF SUEZ. This project exposes Santos to floating LNG technology and GDF SUEZ is targeting 2013 for the final investment decision.

BASE BUSINESS PROGRESS

Our growth strategy is not all about LNG. We have a pipeline of base business projects that will grow production in the near term before our LNG ventures deliver a step change in production and earnings from 2014.

In 2009, progress on the base projects was excellent, with two reaching initial production, three progressing to schedule and the approval of a sixth, the Chim Sáo oil project in Vietnam.

Our Oyong gas project in Indonesia delivered first gas in October 2009 on schedule, on budget and with an excellent safety record. In Vietnam, the Chim Sáo oil project was approved – our first in that country.

In Australia, we completed the upgrade of the Patricia-Baleen plant in Victoria to process gas from the offshore Longtom field. The Kipper and Henry gas projects in Victoria and the Reindeer project in Western Australia progressed well, with first gas from Henry achieved on schedule in early 2010.

SAFETY PERFORMANCE

Tragically, in August, a contractor was killed during a drilling rig move in our eastern Queensland fields. It was a sobering reminder of the need to always be conscious of risks in everything we do.

Overall in 2009, we achieved the lowest injury rate in the company's history, which is pleasing. This result was built on strong safety systems and a series of initiatives that were implemented to improve our focus on safety.

SUSTAINABILITY

Santos has reduced its carbon footprint by 1.5 million tonnes of carbon dioxide equivalent over the past five years. I encourage you to read our Sustainability Report 2009 and find out more about what sustainability means to Santos and what we are doing to achieve it.

It is important that we make meaningful contributions to the communities in which we operate. In 2009, we continued to support many community, education, arts, environment and indigenous organisations and initiatives throughout Australia, plus community programs in Indonesia and Vietnam.

Our partnership with the Santos Tour Down Under was the headline act of our community sponsorship program. The event attracted worldwide attention and was watched by 750,000 spectators over its six days.

LOOKING TO THE FUTURE

Looking forward, our excellent portfolio of current and future projects positions us well to achieve our growth strategies. Our focus remains on executing our transformational LNG growth projects and delivering production from our base businesses in Australia and Asia.

We are committed to doing all that safely and sustainably to deliver maximum value for our shareholders.

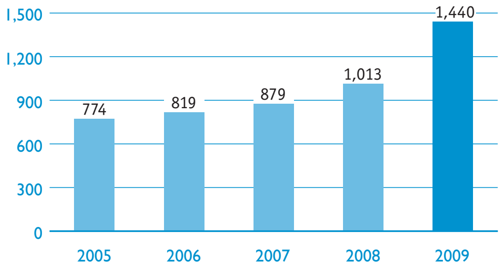
David Knox

David Knox
Chief Executive Officer
and Managing Director

Strong balance sheet to fund growth

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

2P RESERVES
mmboe



Five-year compound growth rate = 18%

In 2009, the company continued to deliver on its strategy: improving performance from the base business; commercialising contingent resources and growing reserves; and building a strong financial position to fund its future growth. Much of this growth will result from realising our LNG ambitions, progress against which was detailed in the CEO's Review.

BUILDING A BETTER BASE BUSINESS

Despite our efforts, we were not immune from the effects of the economic downturn which resulted in lower selling prices across our portfolio and reduced profits compared to last year.

Santos achieved a net profit of $434 million after tax in 2009. This compares to the $1.7 billion result reported for 2008, which was boosted by a $1.2 billion profit from the sale of a 40% interest in the GLNG project to PETRONAS.

Underlying net profit in 2009 of $257 million compares to $548 million in the prior year. Lower oil and gas prices significantly impacted the 2009 result, reducing sales revenue by almost $600 million compared to the previous year.

Production of 54.4 million barrels of oil equivalent (mmboe) was the same as the previous year and in the middle of the company's guidance range. Sales volumes were up by 8% to 60.1 mmboe. Strong gas production in Western Australia and Indonesia, combined with new production from Oyong Phase-2 in Indonesia, offset natural field decline in mature assets.

The company undertook a major cost reduction program at the start of the year and achieved improved performance in both cost of sales and cost of production. Pleasingly, we had a very good result on our major expense item, depreciation and depletion, where costs reduced by almost $50 million compared to last year.

Operating cash flow of $1,155 million was 17% lower, primarily due to product prices, but was offset by lower cash costs and income taxes paid.

We expect 2010 production to be between 51 and 54 mmboe. Production growth will resume in 2011 as the company's pipeline of new projects, including Reindeer, Kipper and Chim Sáo, come on stream.

RESERVES GROWTH AND RESOURCE CONVERSION

Reserves growth and resource conversion have been key features of our strategy.

Our track record of commercialising contingent resources was again a feature in 2009. In total we commercialised more than 750 mmboe by either converting these resources to reserves or divesting them for cash.

Santos increased its proved and probable (2P) reserves by 427 mmboe, taking the company's total 2P reserves to a record 1,440 mmboe. 2P reserve life, on 2009 production rates, has increased to over 26 years: around twice the reserve life of five years ago.

The quality of the reserve base is also improving. We now have almost half of our reserves targeted at the higher margin LNG business, and about a third of those are conventional reserves at PNG LNG and Darwin LNG.

STRONG BALANCE SHEET

Despite the uncertainty in financial markets which marked most of 2009, we were able to successfully raise more than $5 billion in new capital. This has put us in a very strong position to continue to advance our strategy.

Santos successfully issued new equity in 2009 to raise approximately $3 billion to fund PNG LNG, future growth and redeem the FUELS hybrid security.

Cash and term deposits at the end of the year totalled more than $2.2 billion. Santos has committed but undrawn corporate debt facilities of $700 million. In addition, the company has committed debt facilities of $2.1 billion to fund the PNG LNG project. Total funding capacity therefore stood at $5 billion at year end.

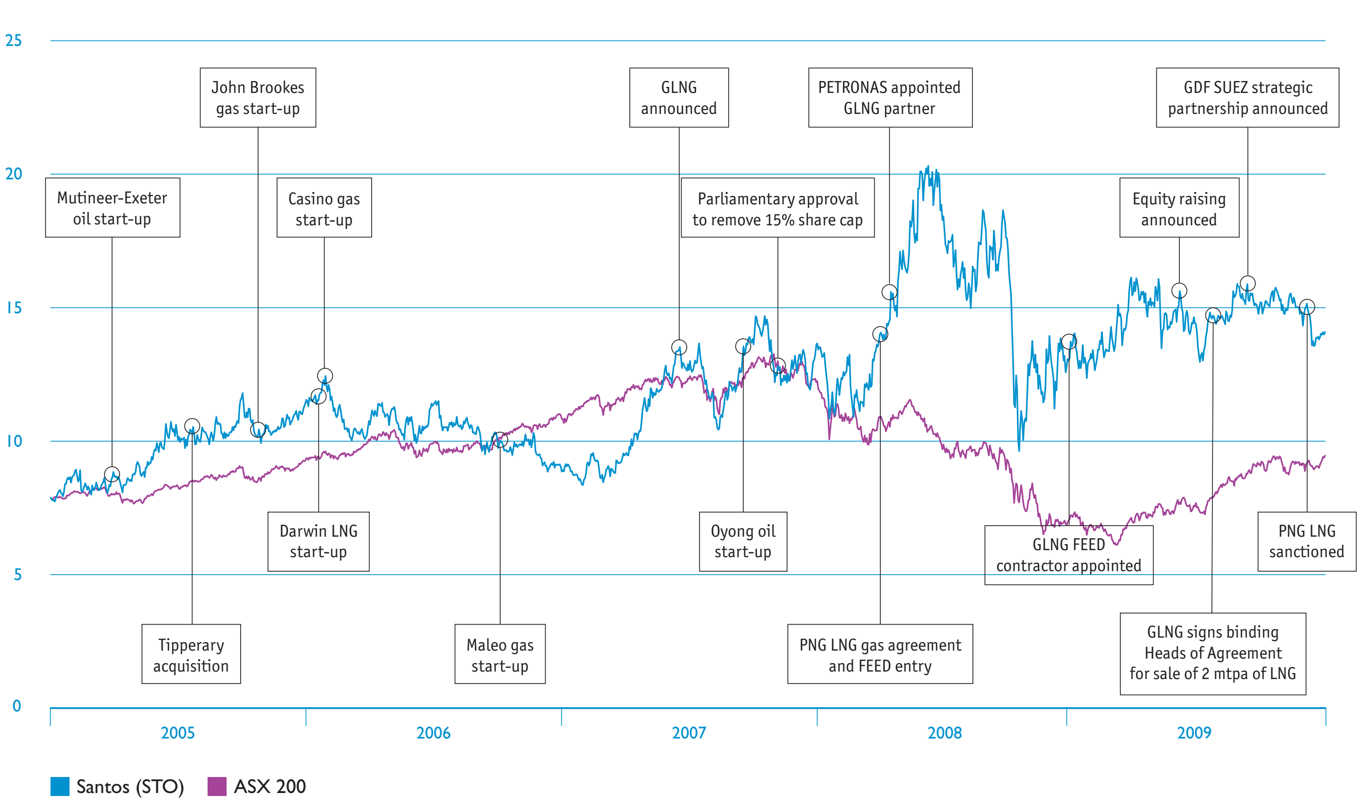
As part of actively managing our portfolio of assets, Santos generated over $300 million in proceeds from asset sales during 2009.

A total of US$200 million was realised through the sale of 60% of the Petrel, Tern and Frigate fields to GDF SUEZ as part of the Bonaparte LNG transaction. Santos also sold its interests in Petroleum Retention Licence 5 in Papua New Guinea, the Kakap Joint Venture in Indonesia, oil and gas assets in Egypt and the Churchie oil and gas assets in Queensland.

Santos also announced the acquisition of significant additional CSG acreage in the Gunnedah Basin in northern New South Wales and investment in leading local CSG company Eastern Star Gas Limited for $476 million. The acquisition combines the proven CSG experience of Santos and Eastern Star with the ability of Santos to deliver major projects and develop various channels to market.

Santos maintained its fully franked dividend at 42 cents per share in 2009.

SANTOS VS ASX 200 INDEX FIVE-YEAR RELATIVE PERFORMANCE



The world of Santos

OPERATED	NON-OPERATED	
●	▲	Exploration
○	△	Development
●	▲	Operations/Production

● Santos offices

REF	LOCATION	SITE/ASSET	ACTIVITY	DESCRIPTION
1	Fergana Basin, Kyrgyz Republic		▲	Non-operated exploration in six prospecting licences.
2	North East Coast Basin, offshore India		●	Operated interests in two exploration permits.
3	Bengal Basin, offshore Bangladesh	Sangu	▲ ▲	Non-operated interests in one exploration permit and gas and condensate production from Sangu development area.
4	Beibuan Trough, offshore Vietnam		●	Operated interest in one exploration permit.
5	Phu Khanh Basin, offshore Vietnam		●	Operated interest in one exploration permit.
6	Nam Con Son Basin, offshore Vietnam	Chim Sáo, Dua	▲ △	Non-operated interest in one exploration permit, which contains Chim Sáo oil (in development) and Dua oil and gas discoveries.
7	Kutei Basin, offshore Indonesia		▲	Non-operated interest in Popodi and Papalang PSCs.
8	East Java Basin, offshore Indonesia	Maleo, Oyong, Wortel	● ●	Operated interest in Sampang PSC, which contains Oyong oil and gas production, and the Wortel gas discovery (for which development planning is currently in progress). Operated interest in Madura Offshore PSC, which contains Maleo gas production.
9	Papua New Guinea	PNG LNG, Hides, Barikewa, SE Gobe	● ▲ △ ▲	Non-operated interests in the PNG LNG project and the Hides field and oil production from SE Gobe. Operated interests in the undeveloped Barikewa gas resources.
10	Timor Sea and Timor Gap	Bayu-Undan, Darwin LNG, Jabiru-Challis	▲ ▲	Non-operated interests in four production licences, which contain gas, condensate and LPG production from Bayu-Undan, LNG production from Darwin LNG, and oil production from Jabiru-Challis.
11	Bonaparte Basin, offshore northern Australia	Barossa, Caldita, Evans Shoal, Petrel-Tern-Frigate	● ▲	Operated interest in three retention licences and one exploration permit in the southern Bonaparte, which contains the Petrel-Tern-Frigate gas fields under development in a joint venture with GDF SUEZ (Bonaparte LNG). 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.
12	Darwin, Northern Territory	Wickham Point	▲	Non-operated Darwin LNG facility.
13	Browse Basin, offshore Western Australia	Burnside	●	Operated interests in four exploration permits, including the Burnside discovery.
14	Carnarvon Basin, offshore Western Australia	Mutineer-Exeter, John Brookes, Barrow Island, Legendre, Reindeer, Stag, Thevenard	● ▲ △ ● ▲	Operated interests in three production licences which include oil production from Mutineer-Exeter, ten exploration permits and one retention licence. Non-operated interests in numerous exploration permits and production licences, which contain oil production from Barrow Island, Legendre, Stag and Thevenard, and gas and condensate production from John Brookes, and the Reindeer gas development.
15	Amadeus Basin, Northern Territory	Mereenie, Palm Valley, Dingo Brewer Estate	● ○ ● ▲	Operated interests in two production licences, which contain oil, gas and condensate production from Mereenie. Non-operated interest in one production licence, which contains gas production from Palm Valley. Operated interest in one retention licence containing the Dingo field, also contains Brewer Estate liquids facility.
16	Cooper/Eromanga Basins, South Australia and Queensland	Moomba, Ballera, Jackson	● ▲ ○ ●	Operated and non-operated interests in numerous exploration and production permits across South Australia and Queensland, which contain oil, gas, condensate and LPG. Main production centres are located at Moomba, Ballera and Jackson, plus satellite facilities and associated infrastructure.
17	Spencer Gulf, South Australia	Port Bonython	●	Operated processing and load-out facility.
18	Surat/Bowen Basins, Queensland	Denison, Fairview, Spring Gully, Scotia, Roma, Moonie, Wallumbilla	● ▲ ○ △ ● ▲	Operated and non-operated interests in numerous exploration and production permits, which contain coal seam gas production from Fairview, Scotia, Spring Gully and Roma, conventional gas production from Denison and Roma and oil production from Moonie. Wallumbilla contains an LPG extraction plant and export compression facilities. Drilling of coal seam gas fields underway for GLNG.
19	Gunnedah Basin, New South Wales		● ▲ ▲	Operated interests in six exploration permits. Non-operated interests in three exploration permits, one assessment lease which is to appraise coal seam gas and one production permit which contains conventional gas production.
20	Gippsland Basin, offshore Victoria	Patricia-Baleen, Kipper, Sole	● △ ●	Operated interests in three permits, which contain Patricia-Baleen gas field and processing plant and the Sole gas resource. Non-operated interest in one permit, which contains the Kipper gas development project.
21	Otway Basin, offshore Victoria	Casino, Henry, Minerva	● ○ ● ▲	Operated interests in three permits, which contain gas and condensate production from Casino and Henry/Netherby developments. Operated exploration interests in one permit. Non-operated interest in one permit which contains gas and condensate production from Minerva.

Detailed exploration maps are available on the Santos website www.santos.com.
Percentage interests are provided in the Santos Group interests section of Santos' Annual Report 2009.

Production statistics 2009

	Total 2009		Total 2008	
	Field Units	**mmboe**	Field Units	mmboe
Sales gas, ethane and LNG (PJ)				
Cooper	**79.9**	**13.7**	90.2	15.5
Surat/Bowen/ Denison	**31.9**	**5.5**	32.8	5.6
Amadeus	**10.6**	**1.8**	12.2	2.1
Otway/Gippsland	**20.5**	**3.5**	21.0	3.6
Carnarvon	**43.5**	**7.5**	27.3	4.7
Bonaparte	**16.3**	**2.8**	16.3	2.8
Indonesia	**30.2**	**5.2**	24.2	4.2
Bangladesh	**5.7**	**1.0**	6.3	1.1
Total production	**238.6**	**41.0**	230.3	39.6
Total sales volume	**268.2**	**46.1**	237.9	40.9
Total sales revenue ($million)		**1,098.2**		1,051.6

	Total 2009		Total 2008	
	Field Units	**mmboe**	Field Units	mmboe
Crude oil ('000 bbls)				
Cooper	**3,598.4**	**3.6**	3,945.7	4.0
Surat/Denison	**62.5**	**0.1**	71.1	0.1
Amadeus	**106.3**	**0.1**	127.9	0.1
Legendre	**288.7**	**0.3**	299.6	0.3
Thevenard	**305.7**	**0.3**	339.8	0.3
Barrow	**573.5**	**0.6**	617	0.6
Stag	**1,643.9**	**1.6**	1,627.9	1.6
Mutineer-Exeter	**995.0**	**1.0**	1,254.6	1.3
Jabiru-Challis	**105.9**	**0.1**	142.0	0.1
Indonesia	**560.3**	**0.6**	983.4	1.0
SE Gobe	**148.1**	**0.1**	188.2	0.2
Total production	**8,388.3**	**8.4**	9,597.2	9.6
Total sales volume	**8,604.5**	**8.6**	9,796.8	9.8
Total sales revenue ($million)		**678.3**		1,150.6

	Total 2009		Total 2008	
	Field Units	**mmboe**	Field Units	mmboe
Condensate ('000 bbls)				
Cooper	**1,095.2**	**1.0**	1,295.1	1.2
Surat/Denison	**7.6**	**0.0**	17.4	0.0
Amadeus	**46.6**	**0.1**	67.4	0.1
Otway	**23.4**	**0.0**	22.1	0.0
Carnarvon	**435.5**	**0.4**	291.4	0.3
Bonaparte	**1,552.6**	**1.5**	1,594.7	1.5
Bangladesh	**0.9**	**0.0**	1.2	0.0
Total production	**3,161.8**	**3.0**	3,289.3	3.1
Total sales volume	**3,505.8**	**3.3**	3,173.9	3.0
Total sales revenue ($million)		**233.2**		321.2

	Total 2009		Total 2008	
	Field Units	**mmboe**	Field Units	mmboe
LPG ('000 t)				
Cooper	**151.2**	**1.3**	162.0	1.4
Surat/Denison	**0.3**	**0.0**	1.3	0.0
Bonaparte	**88.6**	**0.7**	88.1	0.7
Total production	**240.1**	**2.0**	251.4	2.1
Total sales volume	**252.6**	**2.1**	250.5	2.1
Total sales revenue ($million)		**170.8**		238.4

	Total 2009		Total 2008	
	Field Units	**mmboe**	Field Units	mmboe
Total				
Production (mmboe)		**54.4**		54.4
Sales volume (mmboe)		**60.1**		55.8
Sales revenue ($million)		**2,180.5**		2,761.8

Reserves statistics 2009

Proven plus probable reserves (Santos share) by activity

	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Reserves year end 2008	5,039	83	42	2,989	1,013
Production	(239)	(8)	(3)	(240)	(54)
Additions	2,857	2	32	109	525
Acquisitions/divestments	(197)	(3)	(7)	(10)	(44)
Estimated reserves year end 2009	7,460	74	64	2,848	1,440

Proven plus probable reserves (Santos share) year end 2009 by area

Area	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Eastern Australia					
Cooper Basin	762	31	11	1,607	186
Southern Australia	465	0	5	398	88
Qld CSG	3,024	0	0	0	520
Qld conventional	56	0	0	0	10
NSW CSG	532	0	0	0	91
Total EA	**4,839**	**31**	**16**	**2,005**	**895**
Western Australia and Northern Territory					
Carnarvon	742	24	5	0	155
Bonaparte	278	0	17	843	71
Amadeus	95	5	1	0	23
Total WA and NT	**1,115**	**29**	**23**	**843**	**249**
Asia Pacific					
PNG	1,130	1	25	0	218
Indonesia	168	1	0	0	30
Vietnam	9	12	0	0	14
Bangladesh	7	0	0	0	1
Total AP	**1,314**	**14**	**25**	**0**	**263**
Total	**7,268**	**74**	**64**	**2,848**	**1,407**
Beneficial interests*	192	0	0	0	33
Grand total	**7,460**	**74**	**64**	**2,848**	**1,440**

*STO owns 19.42% of Eastern Star Gas, which has a 65% interest of PPL3, PAL2, PEL238, PEL433 and PEL434

Reserves (Santos share)

(mmboe)	Year end 2008	Production	Additions	Acq/Div	Year end 2009
1P reserves	518	54	230	(46)	647
2P reserves	1,013	54	525	(44)	1,440
2C contingent resources	2,849	0	(260)	(92)	2,497

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.

Approximately 70% of Santos' year-end 2009 2P Reserves and 37% of 2C contingent resources (including 100% of CSG 2P Reserves and 99% of CSG 2C contingent resources), were audited by independent experts Gaffney, Cline & Associates (conventional assets) and Netherland, Sewell & Associates, Inc. (CSG assets). Additionally, over the last two years, GCA, NSAI and DeGolyer and MacNaughton have audited approximately 94% of Santos' combined total year-end 2009 2P plus 2C estimates. 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' December 31, 2009 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' December 31, 2009 Reserves and Contingent Resources position.

Senior completions engineer Gabriel Amorer in Santos' coal seam gas fields in the Arcadia Valley, eastern Queensland.

LNG projects

Unprecedented economic growth in Asia is increasing demand in the region for LNG – demand that Santos' transformational LNG strategy is poised to support.

LNG demand in the Asia-Pacific is expected to double in the next 15 years. This forecast increase substantially outstrips contracted supplies.

Santos has abundant resources in close proximity to these markets and a track record of reliable delivery.

Santos has an LNG portfolio unique for a company of its size: its cornerstone GLNG project, the recently approved PNG LNG project, the existing Darwin LNG project, and the proposed Bonaparte LNG project.

GLNG: SIGNIFICANT ACHIEVEMENTS

The GLNG project will involve piping CSG from Santos' eastern Queensland fields to a plant at Gladstone, where the gas will be liquefied and loaded to ships for sale to world markets.

GLNG reached an important milestone in June 2009 when it announced a binding heads of agreement to sell two million tonnes per annum (mtpa) of LNG to Santos' GLNG project partner PETRONAS over 20 years, starting in 2014.

As part of the deal, PETRONAS has also undertaken to buy an additional one mtpa of LNG should GLNG elect to supply. The commercial terms and price of the agreement are in line with industry practice for long-term contracts. The gas will be used in the Malaysian domestic market.

PETRONAS, the world's third-largest LNG producer and the largest LNG producer in Asia, bought a 40% stake in GLNG in 2008.

Proven and probable CSG reserves have grown three-fold since 2007, and Santos now has more than enough gas to underpin the first GLNG train. Front-end engineering and design studies are nearing completion.

The GLNG Environmental Impact Statement (EIS) was submitted to the Queensland Government in March 2009. The EIS examined the potential environmental, social and economic impacts of the project. After a period of public review, a supplementary EIS was submitted to the Queensland Government in November 2009.

GLNG's cultural heritage management plans are well advanced, with five of seven Indigenous Land Use Agreements already established. These agreements provide benefits to Aboriginal groups in the form of compensation, and employment and training initiatives.

A final investment decision is expected around the middle of this year and first LNG shipments are scheduled for 2014.

PNG LNG PROJECT APPROVED

Co-venturers in the PNG LNG project gathered in Port Moresby in December 2009 to formally give the go-ahead for the project.

PNG LNG will involve piping gas from the Hides gas field in the PNG highlands to a proposed 6.6 mtpa LNG plant near Port Moresby. It is the largest ever investment in PNG and is expected to double the country's gross domestic product.

Santos has a 13.5% stake in the ExxonMobil-led project and a US$2 billion share of the estimated capital cost. First gas sales are targeted for 2014.

Offtake agreements have been signed for all expected production, and will supply to Sinopec, TEPCO, Osaka Gas and CPC Taiwan.

PROPOSED FLOATING LNG

Santos has partnered with France's GDF SUEZ, one of the world's leading LNG companies, to develop the Bonaparte LNG project in the Timor Sea. Bonaparte LNG proposes to use cutting-edge technology to develop a floating LNG processing plant.

As part of the partnership, GDF SUEZ has bought 60% of the Petrel, Tern and Frigate gas fields from Santos for up to US$370 million, and will carry all Santos' share of the costs until a final investment decision, expected in 2013.

GLNG operations adviser Glen Anyon at Santos' Chinchilla white gum plantation near Fairview, eastern Queensland.

BENEFICIAL USE OF CSG WATER

Santos has developed an innovative solution to a challenge faced by the global CSG industry – effectively using water produced during CSG extraction.

The water will be used to nurture a plantation of two million native Chinchilla white gum trees near Fairview in eastern Queensland.

Almost one million trees have been planted, and plans are being discussed to extend the plantation to six million trees.

Santos will also use the water to irrigate feedstock for cattle, boosting beef production in the area.

DARWIN LNG CONTINUES SOLID PRODUCTION

The Darwin LNG project, Santos' first producing LNG asset, continued to produce well in 2009.

Santos has an 11.4% stake in Darwin LNG, which commenced production in 2006. The successful project takes gas from the offshore Bayu-Undan fields 500 kilometres north-west of Darwin in the Timor Gap.

Darwin LNG capacity will be increased during statutory shutdown work planned for the first half of 2010.

Steel pipeline being spooled onto pipelay vessel at Crib Point on Victoria's Mornington Peninsula. The pipe was welded together on land and spooled onto the vessel, before being unreeled offshore to connect the Netherby and Henry wells to existing Casino infrastructure.

Australia

Santos is Australia's largest domestic gas producer.

The company's Australian base business comprises gas and oil production assets in all mainland states and the Northern Territory.

Continued solid production combined with sanctioned projects and the potential of untapped reserves firmly places Santos in a position to serve the growing demand for natural gas and help Australia move towards a cleaner energy future.

NATURAL GAS: THE KEY TO A CLEANER ENERGY PORTFOLIO

As Australia's largest domestic gas producer, Santos is in a unique position to help Australia and the Asia-Pacific significantly cut greenhouse gas emissions through natural gas.

By increasing the use of natural gas as a source of electricity generation, Australia can immediately and significantly reduce its carbon footprint, while supporting the development of intermittent renewable power technology.

By progressively replacing coal-fired power generation, natural gas can underwrite a 20% reduction in carbon emissions from electricity generation while still doubling the level of power available to Australian industry and homes.

Australia has a natural gas resource base equivalent to hundreds of years of current use. Natural gas is also affordable; prices in eastern Australia are among the cheapest in the OECD.

A BRIGHT FUTURE FOR THE COOPER

The Cooper Basin has been the heartland of Santos for more than four decades and still retains significant development potential.

Santos is working to unlock its significant gas resources through infill drilling and by tapping unconventional reservoirs.

Infill drilling involves drilling multiple wells across areas where previously only one would be drilled – a method that will produce previously uncommercial gas from within existing fields.

Longer term, Santos is building its ability to produce from unconventional resources. An audit of the Cooper Basin has shown vast amounts of unconventional shale gas and tight gas resources. Already, the company is producing shale gas from one of its wells.

Santos believes gas demand in Australia's eastern states will grow significantly as the region seeks cleaner energy through gas-fired power plants. Established infrastructure and access to extensive pipeline networks positions the Cooper Basin to play a large role in meeting that demand.

NEW EASTERN AUSTRALIA PROJECTS

In the Otway Basin offshore Victoria, pipelay work to join the new Netherby and Henry gas fields to the existing Casino production system began near the end of 2009. First gas was achieved in February 2010. Santos holds a 50% interest in this project.

In the nearby Gippsland Basin, also offshore Victoria, work on the Kipper project is progressing well. Drilling is scheduled to commence in the first half of 2010, with first gas scheduled for production in the first half of 2011. Santos has a 35% interest in Kipper.

The Shaw River Power Station project near Orford in western Victoria illustrates Santos' recognition of the potential for natural gas to help Australia achieve cleaner electricity generation.

The proposed 500MW base load power station would be supplied with natural gas from Santos' own gas portfolio. Feasibility work on the project is continuing.

SIGNIFICANT WA BUSINESS

Santos is a leading gas supplier in Western Australia and maintains a portfolio of quality growth opportunities.

Development of the Reindeer project offshore Western Australia is well underway, with first gas scheduled for the fourth quarter of 2011. Santos has a 45% interest in Reindeer, and has signed an agreement to supply CITIC Pacific's Sino Iron project. Other contracts are expected to follow.

Production in Santos' other Western Australian assets, such as John Brookes, remained strong in 2009.

The first major discovery of natural gas in the Cooper Basin occurred at the Gidgealpa-2 well on New Year's Eve, 1963.

40 YEARS OF NATURAL GAS

On 10 November 2009, Santos commemorated the 40th anniversary of natural gas delivery from its Moomba processing plant in the Cooper Basin. The company held a series of events in Adelaide and throughout the Cooper Basin to celebrate the event.

The first molecules of natural gas arrived in Adelaide via the 755-kilometre pipeline from Moomba. Santos and its joint venture partners have since delivered 5.8 trillion cubic feet of gas to customers throughout the eastern Australian states and territories.

South Australia uses this abundant and local natural gas supply for a high proportion of its electricity generation (56%), and subsequently has the cleanest power supply of all Australian mainland states.

GUNNEDAH EXPLORATION

Santos took the next major step in its strategic CSG strategy when it acquired significant additional acreage in the Gunnedah Basin of New South Wales and invested in leading local CSG Company Eastern Star Gas.

Santos and Eastern Star's total combined area of petroleum permits in the Gunnedah Basin is about 45,000 square kilometres. Since acquiring 35% interest in ESG operated acreage on 2 July 2009, 2P reserves have increased by 1,184 PJ to 1,520 PJ gross.

Wida Yarifa, an electrical and instrument engineer with Santos contractor GPS. On an offshore gas rig in the Maleo field, Indonesia.

Asia

The company's focused Asia strategy continues to progress, with producing assets delivering strong performance in 2009 and multiple options for growth.

The developing Wortel and Peluang prospects add to the producing Maleo and Oyong assets in Indonesia, the Chim Sáo oil project in Vietnam has been formally approved, and exploration in the Bay of Bengal and the Kyrgyz Republic is progressing.

INDONESIA: NEW PROJECT AND FURTHER GROWTH

Santos' Indonesian assets are now firmly established as part of the company's base business portfolio. The business has continued to display incremental growth in producing assets, and in 2009 brought the new Oyong Phase-2 gas project online.

The Phase-2 project included modifications to the existing offshore Oyong facilities and construction of a 60-kilometre pipeline to a new onshore gas processing facility.

The project in East Java started production on schedule in the third quarter of 2009. The project was delivered safely, and was ramped up to production capacity within 20 days.

Oil production from Oyong began in September 2007, and to date has produced more than four million barrels.

The nearby Wortel development is proposed to be tied back to Oyong. A final investment decision for Wortel is targeted for mid-2010, with first gas forecast for the second half of 2011.

Also in East Java, the Maleo gas field continued to produce strongly. The nearby Peluang-1 well was drilled in the first quarter of 2009, and has the potential to tie back to Maleo to maintain plateau production levels.

FIRST OIL PROJECT IN VIETNAM

Santos' first oil project in Vietnam, Chim Sáo, has been formally approved. Work on the wellhead platform is well underway and first oil is expected in the second half of 2011.

Santos has a 31.875% non-operating interest in the Chim Sáo field, which is located offshore southern Vietnam in the Nam Con Son Basin.

Also in Vietnam, 2D seismic surveys are complete in offshore Block 123 in the Phu Khanh Basin, north of Chim Sáo and Dua. Drilling is planned there for 2011.

BAY OF BENGAL AND BANGLADESH

In Santos' offshore acreage in the Bay of Bengal, an extensive 3D seismic program began in 2009 and is largely complete. Santos is targeting natural gas, which could be sold to the domestic Indian market. Interpretation of seismic results is ongoing.

Santos has two deep water exploration licences that cover about 16,500 square kilometres in the north of the Bay. They were awarded by the Indian Government in 2007 under the competitive New Exploration Licensing Policy. Santos has shot over 300 kilometres of 3D seismic which is being evaluated with a view to drilling in 2011-12.

In Bangladesh, a well optimisation program is extending the life of the offshore Sangu field. The Sangu field has associated onshore gas processing facilities, positioning Santos to feed the nearby Chittagong gas market.

A 3D seismic program for the Magnama and South Sangu fields is planned for early 2010.

KYRGYZ REPUBLIC: LEADING ACREAGE POSITION

Santos has established a leading acreage position in the Fergana Basin in the south of the Kyrgyz Republic. Santos holds interests in six prospecting licences covering approximately 2,700 square kilometres in the proven oil and gas province.

2D seismic work has been completed and shallow drilling occurred in 2009. Deeper drilling is planned for 2010 and 2011 to further evaluate the potential of these assets.

If successful, existing pipelines and refineries will enable production to be brought on quickly and will provide multiple export options.

Santos has secured an option for further acreage in the Fergana Basin, adding to production potential.

Students on the EcoBoat learn to balance environmental protection with economic development.

ON BOARD THE ECOBOAT

Santos has partnered with Fauna & Flora International in the EcoBoat – an interactive 'floating classroom' in Vietnam's picturesque Ha Long Bay.

The EcoBoat initiative gives local and international students hands-on experience in balancing environmental conservation with economic development.

While staying on board the EcoBoat, students explore caves, talk to local communities and businesses, learn marine safety, navigation, and scientific measurement of the natural environment. They use this experience to create their own sustainable vision for Ha Long Bay – a World Heritage Site and national treasure.

In Indonesia, Santos continued its commitment to working with local communities, helping local fishermen and food business owners to improve their operations and create avenues to broader markets.

Santos also installed 1.2 kilometres of pipeline to deliver clean water to village homes, and supported road development and coastal lighting.

Landholder adviser David Lobb with a native Queensland bottle tree, in the Coxon Creek area of Santos' eastern Queensland coal seam gas fields.

Sustainability

Applying the principles of sustainability makes good business sense

Santos recognises that an integrated sustainability framework delivers value beyond traditional economic measures. To achieve this Santos has established targets across 24 sustainability indicators, six for each of four categories: environment, community, our people, and economic.

Target scores were achieved for 75% of these indicators, with the rest on track for achievement in 2010. Key indicator improvements achieved in 2009 include:

- climate change management
- safety TRCFR
- incidents and spills
- waste management.

The efficiency and effectiveness with which Santos manages environmental resources is the pathway to keeping the company's licence to operate in communities and with government regulators.

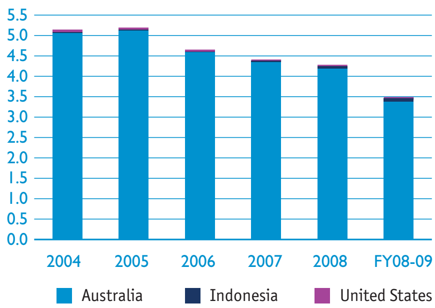
Reducing greenhouse gas emissions, the use of clean water, land disturbance and waste to landfill contributes to the key concept of 'doing more with less' and has a positive effect on operating and regulatory costs – ultimately benefiting both Santos and the environment.

SUSTAINABILITY REPORT 2009

Santos' Sustainability Report 2009 provides a detailed annual review of its sustainability scorecard performance (www.santos.com/sustainability2009).

GREENHOUSE GAS EMISSIONS FROM OPERATED ASSETS

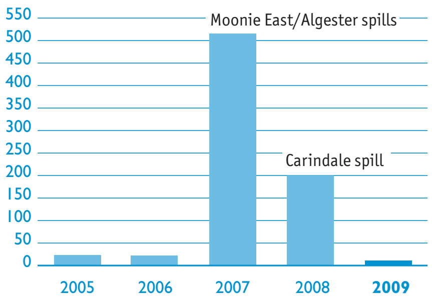
Million tonnes CO_2-e (Scope 1)



Santos' greenhouse gas emissions profile has reduced from over five million tonnes in 2005 to less than 3.5 million tonnes. Energy efficiency projects implemented in 2009 will save approximately 1,095 TJ of gas per year.

OIL SPILL VOLUMES

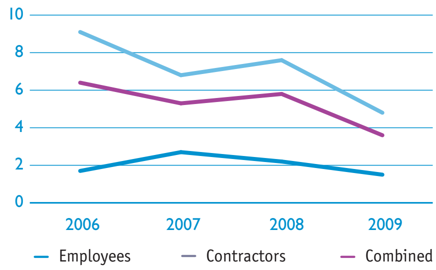
m^3



Santos' integrity management program and training programs helped deliver significant reductions of oil spill volumes in 2009.

TOTAL RECORDABLE CASE FREQUENCY RATE

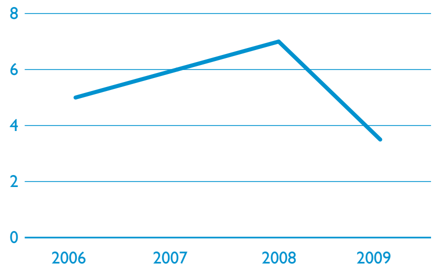
Recordable injuries per million hours worked



A sustained focus on safety contributed to the lowest injury rate level in Santos' history, this result was built on strong safety systems and a series of initiatives that were implemented to improve Santos' focus on safety.

EMPLOYEE TURNOVER

%

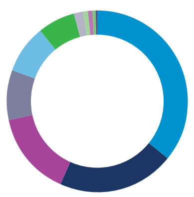


Low employee turnover is an indication of a committed, engaged and proactive workforce. During this period employee turnover reduced to just 3.5%.

SPONSORSHIP BY AREA 2009

% funding

South Australia	36.1%
Australian School of Petroleum	21.0%
Royal Institution of Australia	15.0%
Queensland	8.9%
Victoria	8.8%
Indonesia	6.6%
Vietnam	1.7%
Northern Territory	0.8%
Western Australia	0.5%
Papua New Guinea	0.1%
New South Wales	0.1%

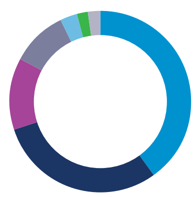


Santos' sponsorship program is geographically distributed in a manner consistent with the spread of the company's operations in each area.

SPONSORSHIP BY ACTIVITY 2009

% funding

Education	40%
General community	30%
Arts and culture	13%
Environment	10%
Indigenous	3%
Conference/ industry/govt	2%
Youth	2%



Santos' community support program provides assistance to education, environment, art and culture and a range of youth and indigenous initiatives.

Board of Directors

ROY ALEXANDER FRANKLIN OBE

BSc (Hons)

Age 56. Independent non-executive Director since 28 September 2006 and member of the Environment, Health, Safety and Sustainability Committee of the Board.

Non-executive director of Keller Group Plc since July 2007 and Chairman since August 2009. Non-executive director of StatoilHydro ASA since October 2007. Former non-executive Chairman of Bateman Litwin NV and Novera Energy Plc.

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.

KENNETH ALFRED DEAN

BCom (Hons), FCPA, MAICD

Age 57. 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.

Non-executive Director of Bluescope Steel and Chair of Bluescope's Audit & Risk Committee. Chief Financial Officer of Alumina Ltd October 2005-February 2009, alternate director of Alumina Ltd October 2005-February 2009 and non-executive director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies October 2005-February 2009.

Director of Shell Australia Ltd from 1997 to 2001 and Woodside Petroleum Ltd from 1998 to 2004. Over 35 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.

DAVID JOHN WISSLER KNOX

Chief Executive Officer and Managing Director

BSc (Hons) Mech Eng, MBA

Age 52. Joined Santos in September 2007 as Executive Vice President Growth Businesses. Appointed Acting Chief Executive Officer in March 2008 and Chief Executive Officer and Managing Director in July 2008. Member of the Environment, Health, Safety and Sustainability Committee of the Board. Director of Santos Finance Limited.

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. Also a director on the Board of the Botanic Gardens and State Herbarium, South Australia and a Fellow of the Australian Institute of Mechanical Engineering.

PETER ROLAND COATES AO

Chairman

BSc (Mining Engineering)

Age 64. Appointed Santos Chairman on 9 December 2009. Previously an independent non-executive Director since 18 March 2008. Chairman of the Remuneration Committee of the Board, the Nomination Committee of the Board and the Santos Finance Limited Board. Member of the Finance Committee of the Board.

Former non-executive Chairman of Xstrata Australia. Previously Chief Executive of Xstrata Coal, Xstrata Plc's global coal business. Appointed non-executive director of Minara Resources Limited in April 2008 and appointed Chairman in May 2008. Non-executive director of Amalgamated Holdings Limited since July 2009.

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.

RICHARD MICHAEL HARDING

MSc

Age 60. 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 July 2008.

Non-executive Deputy Chairman of Arc Energy Ltd until May 2007 (appointed as non-executive director in August 2003). Chairman of the Ministry of Defence Project Governance Board – Land Systems Division (Army) 2003–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).

KENNETH CHARLES BORDA

LLB, BA

Age 57. Independent non-executive Director since 14 February 2007. Chairman of the Finance Committee of the Board and member of the Nomination 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 February 2007 and Leighton Contractors Pty Ltd since July 2007. Appointed a director of Talent2 International Ltd in August 2008 and the Asian Advisory Board of Aviva Pte Ltd in Singapore in 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 in May 2007. Formerly Regional CEO Asia Pacific and CEO Australia and New Zealand, Deutsche Bank. Director of Deutsche Bank Malaysia from 2002 until retirement in May 2007.

JANE SHARMAN HEMSTRITCH

BSc, FCA

Age 56. Independent non-executive director since 16 February 2010. Member of the Remuneration Committee of the Board and the Audit Committee of the Board.

Non-executive director of the Commonwealth Bank of Australia since October 2006, The Global Foundation since November 2006 and Tabcorp Holdings Ltd since November 2008. Member of the Research and Policy Council and Advisory Committee of the Committee for Economic Development of Australia.

25 years' experience with Accenture and Andersen Consulting. Previously Asia Pacific Managing Director, Country Managing Director for Australia and member of Accenture's Executive Leadership Team 2004-2007. Past roles also include Managing Partner of Accenture's Communications and HighTech Operating Unit for Asia Pacific and of Accenture's Communications and HighTech Practice for Australia and New Zealand

GREGORY JOHN WALTON MARTIN

BEc, LLB, FAIM, MAICD

Age 50. Independent non-executive Director since 29 October 2009. Member of the Remuneration Committee of the Board and the Environment, Health, Safety and Sustainability Committee of the Board.

Non-executive director of Energy Developments Limited and the Australian Energy Market Operator Limited. Chairman of Everest Financial Group, Gas Valpo S.A. (Chile) and the Royal Botanic Gardens & Domain Trust of New South Wales.

Previous Deputy Chairman of the Australian Gas Association and inaugural Chairman of the Energy Supply Association of Australia between 2004 and 2006. Former Chairman of Jackgreen Limited. Past member of the Business Council of Australia and Committee for the Economic Development of Australia. Formerly Managing Director and Chief Executive Officer of AGL, and Chief Executive Infrastructure at Challenger Financial Services Group.

Santos Leadership Team

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.

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, Kyrgyz Republic and Vietnam.

Martyn joined Santos in December 2004 as Vice President Corporate and People. Before then, he spent more than 25 years with BP, working various upstream roles in Angola, Canada, Australia, Papua New Guinea, Norway, United Kingdom and United States.

PETRINA COVENTRY

Chief Human Resources Officer
BEd, PostDipHR, Master Business Ethics

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

Petrina has spent many years working in the US, Asia and Europe in global human resource management roles for The General Electric Company and The Coca Cola Company. Her most recent role was Chief Human Resource Officer for a private equity consortium in Singapore. She has deep industry knowledge across many industrial sectors including renewable energy, oil and gas services, real estate and financial services.

DAVID KNOX

Chief Executive Officer and Managing Director
BSc (Hons) Mech Eng, MBA

David Knox was appointed Chief Executive Officer of Santos in July 2008. He has 25 years of experience in the global oil and gas industry, including as Managing Director for BP Developments in Australasia from 2003 to 2007.

David Knox joined Santos in September 2007 as Executive Vice President, Growth Businesses, responsible for growth in Santos' emerging new businesses including LNG, Geoscience and New Ventures, Indonesia and other strategic projects.

Originally from Edinburgh, Scotland, David holds a first class honours degree in Mechanical Engineering from Edinburgh University and a Masters of Business Administration from the University of Strathclyde.

David Knox has previously held senior positions with BP in Australia, the United Kingdom and Pakistan. He has worked for ARCO and Shell in the United States, Netherlands, the United Kingdom and Norway.

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 on Curtis Island.

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.

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.

RAY BETROS

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.

TREVOR BROWN

Vice President Exploration

BSc (Hons)

Trevor Brown is responsible for implementing Santos' exploration and new ventures strategy and for building a material portfolio of growth opportunities. Trevor also leads a team of highly qualified geoscientists and subsurface engineers ensuring the application of subsurface excellence across all Santos' conventional and unconventional exploration, appraisal and development activities.

Trevor joined Santos in 2001 from the US independent oil company Unocal where he was part of a very active exploration team gaining experience across SE Asia, the United States and South America. His previous roles at Santos include Manager New Ventures, Manager Growth Projects and Vice President Geoscience and New Ventures. Trevor has over 24 years' experience in the oil and gas industry including 11 years in Indonesia managing onshore and offshore exploration programs.

JAMES BAULDERSTONE

Vice President Corporate Development and Legal

LLB (Hons), BSc (Hons)

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

James joined Santos in January 2007 after 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.

RICK WILKINSON

President GLNG and Queensland

BSc (Hons)

Rick Wilkinson is responsible for Santos' Queensland assets, including the GLNG business and LNG marketing.

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.

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.

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 meet the highest standards of personnel safety and 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 27 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 22 to 25 of this Annual Report.

In 2009:

- Chairman Mr Stephen Gerlach retired from the Company's Board. Mr Peter Coates assumed the role of Chairman, having been appointed Deputy Chairman in 2008 as part of the Board's succession planning process.
- As part of the Company's Board renewal process, Professor Judith Sloan retired from the Board on 6 May 2009 and, in October 2009, Mr Gregory Martin was appointed a Director and, in February 2010 Ms Jane Hemstritch was also appointed a Director.

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 focusing 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. For example, Directors must declare any conflict of interest that they may have at the start of all Board meetings. 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.

Principles and Recommendations	Section
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 3 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: 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.	5.1, 5.2
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 : • 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.	3.1, 3.2, 3.3
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

Corporate governance
(continued)

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.

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 2009, the following changes in the directorship of the Company took place as part of the Board renewal process:

- Mr Stephen Gerlach retired as Chairman of the Company on 9 December 2009 and as a Director on 31 December 2009;
- Mr Peter Coates assumed the role of Chairman on 9 December 2009;
- Professor Judith Sloan retired from the Board on 6 May 2009; and
- Mr Gregory Martin was appointed a Director on 29 October 2009.

The Board renewal process is overseen by the Nomination Committee and involves regularly reviewing the composition of the Board to ensure that the Directors have the necessary experience, skills and expertise to manage a leading energy company. Throughout 2009, the Nomination Committee had been actively seeking appropriate candidates for appointment to the Board to replace Mr Gerlach. In February 2010, the Board appointed Ms Hemstritch as a Director. The details of Ms Hemstritch's experience and qualifications are set out on page 23 of the Annual Report.

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 to 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 encouraged by the Board 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

Ordinarily, an external review of the Board and individual Directors is carried out on a biennial basis and 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.

With the change of Chairman and other Board renewal changes taking place in 2009, the Board review in 2009 was via an internal review conducted by the incoming Chairman. In 2010, it is expected that an external review will be undertaken of the Board as a whole, together with peer review of all individual Directors.

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. 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 internal Board review, a number of initiatives have been introduced to ensure the continued effectiveness of the Board's performance and enable its sustained focus on key issues for the Company.

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

Details of the remuneration received by Directors and senior executives are set out in the Remuneration Report commencing on page 52 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 adopted 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 oversight of the Company's strategic direction management of the Company;
- the approval of delegations of authority to management;
- significant acquisitions and disposals of assets;
- significant expenditure decisions outside of the Board-approved corporate budget including hedging of product sales, sales contracts and financing arrangements;
- the approval of, and monitoring of, financial performance against strategic plans and corporate budgets;
- approving ethical standards and codes of conduct;
- the selection and evaluation of, and succession planning for, Directors, CEO, CFO and Company Secretary and general endorsement of the same for other executives reporting to the CEO;
- the remuneration of Directors and the CEO and general endorsement of the same for other executives reporting to the CEO;
- 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; 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 47 of this Annual Report.

Corporate governance
(continued)

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. Other composition requirements specific to the individual Committee 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 an oral, and, where practicable, a written report together with the minutes and recommendations of the Committee at the next Board meeting.

As a result of changes in directorship of the Company (as outlined in section 1.4), the Board reviewed the Board Committee memberships to ensure that the members of each Committee have the requisite expertise and skill. As a result of this review, the following changes to Committee membership occurred in February 2010:

- Mr Gregory Martin was appointed to the Remuneration Committee with effect from 1 February 2010 and the Environment, Health, Safety and Sustainability Committee with effect from 17 February 2010;

Board Committees

		Audit Committee	Environment, Health, Safety & Sustainability Committee	Finance Committee	Nomination Committee	Remuneration Committee
KC Borda[1]	Non-executive Director			Chairman	Member	
PR Coates[2]	Non-executive Director (Deputy Chairman/ Chairman)	Member	Member	Member	Chairman	Chairman
KA Dean	Non-executive Director	Chairman		Member		
RA Franklin	Non-executive Director		Member			
S Gerlach[3]	Non-executive Director (Chairman)		Member	Member	Chairman	Member
RM Harding	Non-executive Director	Member	Chairman		Member	Member
DJW Knox	Executive Director (Managing Director/CEO)		Member			
J Sloan[4]	Non-executive Director				Member	
GJW Martin[5]						
	Non-executive Director		Member			Member
JS Hemstritch[6]	Non-executive Director	Member				Member

1 Mr Kenneth Borda was appointed to the Nomination Committee with effect from 17 February 2010.

2 Mr Peter Coates assumed the role of Chairman on 9 December 2009 and increased his Board Committee responsibilities by becoming Chairman of the Nomination Committee and a member of the Environment, Health, Safety and Sustainability Committee and the Finance Committee on 31 December 2009. Mr Coates ceased to be a member of the Audit Committee on 31 December 2009 and the Environment, Health, Safety and Sustainability Committee on 17 February 2010.

3 Mr Stephen Gerlach retired from the Board on 31 December and at that time ceased to be a member of any Board Committee.

4 Professor Judith Sloan retired from the Board on 6 May 2009 and at that time ceased to be a member of the Nomination Committee.

5 Mr Gregory Martin was appointed a Director on 29 October 2009, and a member of the Remuneration Committee with effect from 1 February 2010, and the Environment, Health, Safety and Sustainability Committee with effect from 17 February 2010.

6 Ms Jane Hemstritch was appointed a Director on 16 February 2010, and a member of the Remuneration Committee and Audit Committee with effect from 17 February 2010.

- Mr Peter Coates ceased to be a member of the Environment, Health, Safety and Sustainability Committee on 17 February 2010;
- Ms Jane Hemstritch was appointed to the Remuneration Committee and the Audit Committee with effect from 17 February 2010; and
- Mr Kenneth Borda was appointed to the Nomination Committee with effect from 17 February 2010.

Following is a summary of the membership of the Board Committees. Details of the qualifications and experience of each Director is set out in pages 22 to 23.

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. Board members are expected to attend any additional meetings as required. In 2009, 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 44 of this Annual Report.

In addition to the Board meetings, several meetings of the non-executive Directors are scheduled to take place each year.

The Managing Director/CEO (as an executive Director) and members of management do not attend these meetings. Two meetings of the non-executive Directors were held in 2009.

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 KA Dean (Chairman) Mr RM Harding Ms JS Hemstritch The Committee is required to consist of: • members who are financially literate; • at least one member with past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background; and • at least one member with an understanding of the exploration and production industry. 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. Specifically, the role of the Audit Committee includes: • reviewing the effectiveness of the Company's risk management and internal compliance and control systems relating to financial reporting; • evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board; • 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; • examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices; • meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures; • 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; • reviewing the performance of the internal and external auditors and providing them with confidential access to the Board; • 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; • referring matters of concern to the Board, as appropriate, and considering issues which may impact on the financial reports of the Company; • recommending proposed dividends to the Board for final adoption; and • recommending to the Board the appointment and dismissal of the head of internal audit.

Corporate governance (continued)

Committee	Members and Composition	Role
Environment, Health, Safety and Sustainability	Mr RM Harding (Chairman) Mr RA Franklin Mr GJW Martin Mr DJW Knox During 2009, Mr Coates replaced Mr Gerlach as a member of the Environment, Health, Safety and Sustainability Committee on 31 December 2009. Mr Martin replaced Mr Coates as a member of the Environment, Health, Safety and Sustainability Committee on 17 February 2010.	The role of the Environment, Health, Safety and Sustainability Committee includes: • monitoring and review of the Environment, Health and Safety and Greenhouse Policies and related systems; • 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 • review of the regular internal and external environmental, health and safety audits.
Nomination	Mr PR Coates (Chairman) Mr KC Borda Mr RM Harding During 2009, Mr Coates was appointed to the Nomination Committee on 31 March 2009. Professor Sloan ceased to be a member of the Nomination Committee upon retiring from the Board on 6 May 2009 and Mr Gerlach upon his retirement on 31 December 2009. Mr Borda was appointed a member of the Nomination Committee with effect from 17 February 2010.	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). The primary criteria adopted in selection of suitable Board candidates, and 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.
Remuneration	Mr PR Coates (Chairman) Mr RM Harding Ms JS Hemstritch Mr GJW Martin During 2009, Mr Gerlach ceased to be a member of the Remuneration Committee on 31 December 2009. Mr Martin and Ms Hemstritch were appointed members of the Remuneration Committee with effect from 1 February and 17 February 2010, respectively.	The Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including: • the compensation arrangements for the non-executive and executive Directors (including the CEO), and senior executives; • the Company's superannuation arrangements; and • employee share and option plans. 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 52 of this Annual Report and note 32 to the financial statements commencing on page 70 of this Annual Report.
Finance	Mr KC Borda (Chairman) Mr PR Coates Mr KA Dean During 2009, Mr Gerlach ceased to be a member of the Finance Committee on 31 December 2009 and Mr Coates was appointed a member of the Finance Committee with effect from 31 December 2009.	The role of the Finance Committee includes: • 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; • formulating and monitoring compliance with treasury policies and practices; and • the management of credit, liquidity and commodity market risks.

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, which has been 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 from management, 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 consideration to 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 confirms that it has received a report from management as to the effectiveness of the Company's management of its material business risks for the 2009 Financial Year.

The Board also receives written certifications from the CEO and the CFO in relation to the Company's financial reporting processes. For the 2009 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 2009 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: • a comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001; • environment, health, safety and sustainability committees at Board and management levels; • the retention of specialist environmental, health and safety staff and advisors; • regular internal and external environmental, health and safety audits and reviews, including process safety reviews; • regular training of employees with respect to environment, health and safety; and • imposing environmental care and health and safety accountability as line management responsibilities.
Exploration and reserves risk	Exploration risk and uncertainty is managed through: • the implementation of risk management processes, including reporting mechanisms in respect of each exploration project; • internal control systems which include resource assessment of exploration prospects, resource development plans and project assurance processes; • corporate review in both prospect and hindsight; and • Board approval of exploration budgets. 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: • a portfolio management system; • annual budgets approved by the Board; • short and long term funding strategies in respect of each exploration project which are approved by the Finance Committee; • detailed appraisal and review procedures, including the appointment of independent advisers; • project management processes, including cost reporting, project forecasts and monitoring of impacts on projects; • levels of authority; and • 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 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, functional area and major project, including: Eastern Australia, Western Australia and the Northern Territory; Asia Pacific; GLNG and Queensland; PNG LNG; Corporate Development; Finance and Investor Relations; Human Resources; Government and Media; Environment, Health, Safety and Sustainability.
Organisation capability risk	In order to manage organisation capability risk, the Company: • conducts regular reviews of the organisational capacity; • has developed a workforce plan and succession plans in respect of key roles within the Company; • has developed and implemented specific training programs; and • conducts regular reviews of its Human Resources policy, framework and development programs.

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
- 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 that 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.

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. See also discussion on the Code of Conduct above.

A Reporting Misconduct Programme 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 and 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. Directors and senior executives are not permitted to hedge their shareholdings or long term incentives 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.

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. 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.

As part of the Company's continuing education program and to ensure that all Directors and employees are aware of their obligations in relation to continuous disclosure, in 2009, the Company engaged an external consultant to conduct a training session with senior executives of the Company with respect to their continuous disclosure obligations. This training has subsequently been rolled out across various business units of the Company.

When the Company makes an announcement to the market, that announcement is released to the ASX. 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:

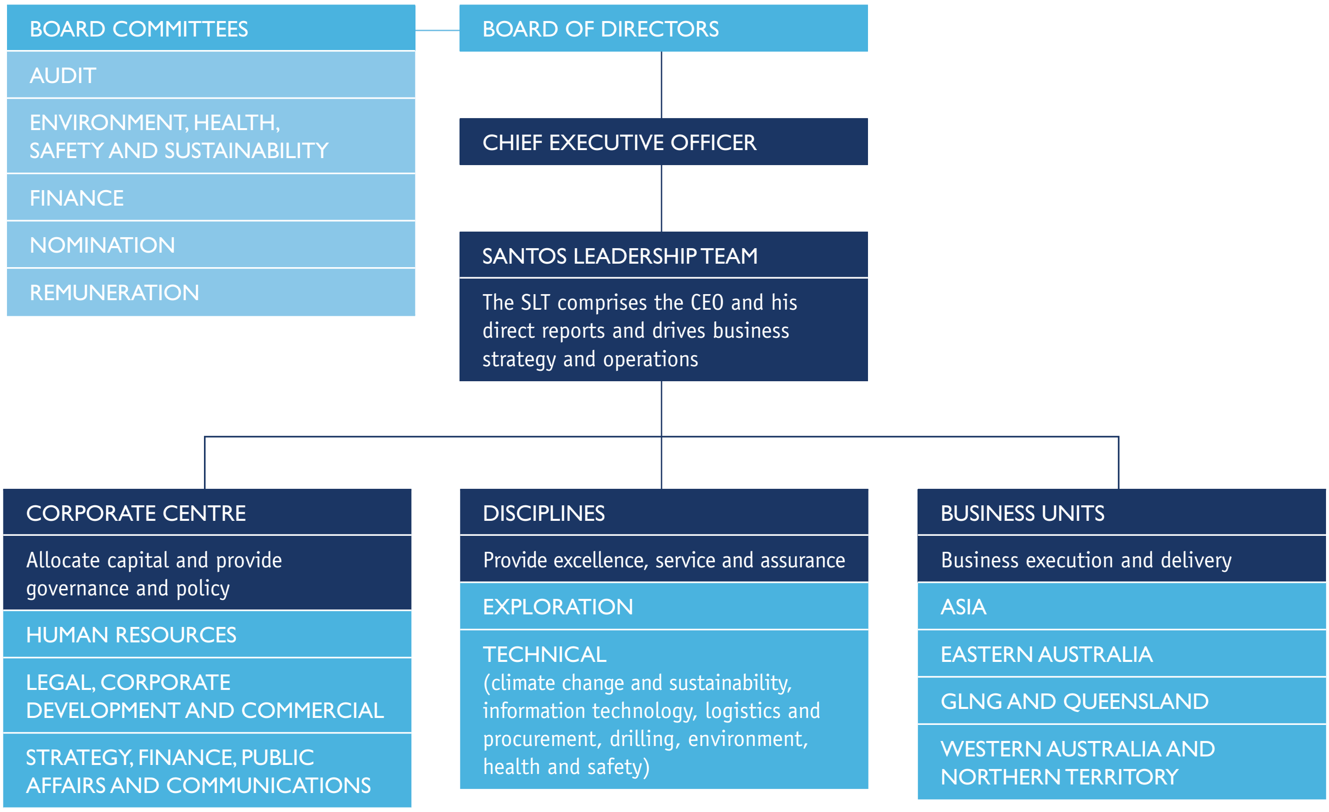
- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years 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 on page 47 of the Directors' Statutory Report, 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 2009 represented 4% 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 149 of the Annual Report.

Organisational chart



Santos Group interests

as at 28 February 2010

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 (Fixed Factor Area)[1] (PPLs 6-20, 22-25, 27, 29-33, 35-48, 51-61, 63-70, 72-75, 78-81, 83-84, 86-92, 94-95, 98-111, 113-117, 119, 120, 124, 126-130, 132-135, 137-140, 144-146, 148-151, 153-155, 159-166, 169, 171, 174-181, 184-186, 190, 192, 193, 195, 196, 199, 228 & 230-238)	66.6
Cooper Basin (Patchawarra East Block)[1] (PPLs 26, 76, 77, 118, 121-123, 125, 131, 136, 142, 147, 152, 156, 158, 167, 182, 187, 191, 197, 201 & 229)	72.3
Reg Sprigg West (PPL 194)[1]	54.2
Derrilyn Unit (PPL 206)[1]	65.0
PEL 114[1]	100.0
PL2[1]	66.6
PL17[1]	100.0
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)	52.5
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)	60.0
ATP 267P (Nockatunga) (PLs 33, 50,51, 244 & 245)	100.0

Licence area	% interest
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
ATP 636P (Under Application)	100.0
ATP 661P (Under Application)	100.0
ATP 752P B (Barta)[1,2]	45.0
ATP 752P W (Wompi)[1,2]	25.0
ATP 820P (Under Application)	100.0
ATP 765 Farmin (Under Appln)	100.0
ATP 766 Farmin (Under Appln)	100.0
ATP 820P (Under Application)	100.0
Surat Basin	
ATP 212P (Major) (PL 56)	15.0
ATP 336P (R) – Petronas (PLs 3-9, 13, 93,309)[1]	60.0
ATP 336P (Roma) (PLs 10, 11 & 12)[1]	100.0
ATP 336P (Waldegrave) (PLs 10W-12W, 28, 69 & 89)[1]	53.8
ATP 470P (Redcap)	10.0
ATP 470P (Formosa Downs)	5.5
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]	100.0
PL 12 (Trinidad)[1]	100.0
PL 12 (Oberina)[1]	100.0
PL 21, 22, 27, 64 (Balonne)	12.5
PL 17 Upper Stratum Farmin[1]	100.0
PL 30	15.0
PL 64 (Cogoon River)	12.5
PL 74	15.0
PL 71 (Parknook)	8.0
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, PPLs 76 & 92)[1]	45.6
ATP 606P	2.6
ATP 631P[1]	81.9
ATP 653P (Arcadia)[1]	45.6

Licence area	% interest
Bowen Basin	
ATP 665P[1]	100.0
ATP 708P (Fairview)[1]	100.0
ATP 745P (Fairview)[1]	76.2
ATP 803P[1]	100.0
ATP 804P[1]	70.7
ATP 868P[1]	100.0
ATP 972P	2.6
EPC 937[1]	100.0
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
PL 176 (Scotia)[1]	100.0
ATP 553P (Denison)[1]	50.0
ATP 655P (Taringa)[1]	100.0
ATP 685P (Cockatoo Creek)	50.0
Facilities[1]	
Wungoona Processing Facilities (PPL 4)	25.0
Moonie to Brisbane Pipeline	100.0
Comet Ridge to Wallumbilla Pipeline (PPL 118)	100.0
New South Wales	
Gunnedah Basin[1,2]	
PEL 1	25.0
PEL 12	25.0
PEL 238	35.0
PEL 433	35.0
PEL 434	35.0
PEL 450	100.0
PEL 452	100.0
PEL 456	25.0
PEL 462	100.0
Facilities	
Wilga Park Power Station	35.0
Victoria	
Otway Basin	
VIC/P44[1]	50.0
VIC/RL7 (La Bella)	10.0
VIC/L22 (Minerva)	10.0
VIC/L24 (Casino)	50.0
VIC/L30 (Henry)	50.0
Gippsland Basin	
VIC/RL3 (Sole)[1]	100.0
VIC/L21 (Patricia-Baleen)[1]	100.0
VICL/25 (Kipper)	50.0
VIC/L25 (Kipper Unit)	35.0

Licence area	% interest
Offshore Tasmania	
Sorell Basin[1]	
T/35P	37.5
T/36P[3]	50.0
T/48P	100.0
Northern Territory	
Amadeus Basin	
OL 3 (Palm Valley)	48.0
OLs 4 and 5 (Mereenie)[1]	65.0
RL2 (Dingo)[1]	65.7
PL 2 Mereenie Pipeline[1]	65.0
Offshore Northern Australia	
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/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-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-41-L (Reindeer)	45.0
WA-191-P (Mutineer-Exeter)[1]	33.4
WA-208-P[1]	31.3
WA-209-P	45.0
WA-214-P (John Brookes)	45.0
WA-246-P	15.0
WA-358-P	60.0
WA-264-P[1]	50.0
WA-290-P	15.0

Licence area	% interest
Browse Basin[1]	
WA-274-P	30.0
WA-281-P	47.8
WA-410-P	30.0
WA-411-P	63.6
Bonaparte Basin[1]	
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	19.4
Bayu-Undan Gas Field	11.4
Bangladesh	
Block 16	50.0
Sangu Development Area	37.5
Egypt[1,3]	
South East July	40.03
India[1]	
NEC-DWN-2004/1	100.0
NEC-DWN-2004/2	100.0
Indonesia	
East Java Basin[1]	
Madura Offshore (Maleo)	67.5
Sampang (Oyong)	45.0
Kutei Basin	
Donggala[1,3]	00.0
Papalang	20.0
Popodi	20.0
West Papua Basin	
Warim	20.0

Licence area	% interest

Kyrgyzstan[4]

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.

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.

Licence area	% interest
Papua New Guinea	
PDL 1 (Hides)	24.0
PDL 3[1]	15.9
PRL 5[1,3]	50.3
PRL 9[1]	42.6
SE Gobe Unit (Unitisation of PDLs 3 & 4)	9.4
Vietnam	
Block 101-100/04[1,5]	55.0
12W	31.9
Block 123[1]	50.0

1 Santos operated.

2 Subject to Farmin commitments.

3 Disposal of entire interest is near completion and is only subject to final Governmental approval, which is expected shortly.

4 Some of the Kyrgyzstan licenses are in the process of being renewed or extended and are awaiting Government approval.

5 Santos has executed a conditional farmout agreement which provides for a reduction in Santos' % interest to 27.5 and a transfer of operatorship.

10-year summary

As at 31 December 2009	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Santos average realised oil price (A$/bbl)	46.54	45.53	44.74	43.59	51.83	73.83	89.35	92.00	117.45	**78.83**
Financial performance ($million)										
Product sales revenue	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	**2,180.5**
Total revenue*	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	**2,250.5**
Foreign currency gains/(losses)***	2.7	0.2	(0.7)	(7.9)	2.6	(3.8)	0.8	0.4	24.4	**(28.3)**
Profit from ordinary activities before tax***	725.9	627.6	493.3	430.9	518.8	1,133.5	964.7	718.6	2,533.2	**716.5**
Income tax relating to ordinary activities***	239.1	181.7	171.2	103.9	164.1	371.4	321.3	195.7	768.4	**204.6**
Royalty related taxes**								163.6	114.7	**78.4**
Net profit after income tax attributable to the shareholders of Santos Ltd***	486.8	445.9	322.1	327.0	354.7	762.1	643.4	359.3	1,650.1	**433.5**
Financial position ($million)										
Total assets***	4,659.8	5,048.7	5,320.8	5,218.3	4,836.6	6,191.3	6,902.9	7,320.2	9,801.9	**11,361.0**
Net debt (cash)***	866.6	1,060.8	1,162.9	897.6	1,133.3	1,598.9	1,449.7	1,838.7	506.0	**(605.4)**
Total equity***	2,310.9	2,726.6	2,863.9	3,087.9	2,357.8	2,964.0	3,355.5	3,093.1	4,478.3	**6,967.1**
Reserves and production (mmboe)										
Proven plus Probable reserves (2P)	921	724	732	636	643	774	819	879	1,013	**1,440**
Production	56.0	55.7	57.3	54.2	47.1	56.0	61.0	59.1	54.4	**54.4**
Exploration******										
Wells drilled (number)	42	26	18	19	16	22	25	10	13	**6**
Expenditure ($million)	100.1	93.4	133.1	136.4	125.6	187.0	258.5	149.8	233.1	**181.0**
Other capital expenditure ($million)										
Delineation and development****	187.1	308.1	308.8	519.0	672.7	666.1	865.5	954.6	1,290.3	**1,203.8**
Buildings, plant and equipment	153.5	258.7	319.0	94.9	131.1	106.0	182.1	202.2	105.1	**172.2**

As at 31 December	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Share information										
Share issues	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	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/2 for 5 Rights Issue/ Redemption of FUELS/ Convertible Preference Shares
Number of issued ordinary shares at year end (million)	610.4	579.3	583.1	584.7	585.7	594.4	598.5	586.1	584.9	**831.9**
Weighted average number of ordinary shares (million)	658.9	662.9	629.2	631.9	633.5	636.8	645.8	639.6	639.8	**779.2**
Dividends per ordinary share										
- ordinary (¢)	30.0	30.0	30.0	30.0	30.0	36.0	40.0	40.0	42.0	**42.0**
- special (¢)	-	10	-	-	-	-	-	-	-	**-**
Dividends										
- ordinary ($million)	182.0	184.2	174.2	175.0	175.5	212.4	238.1	235.1	248.3	**299.4**
- special ($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 ($)	-	-	5.4	6.6	6.6	5.1	5.1	5.6	6.3	**4.6**
- special ($)	-	-	-	-	5.0	-	-	-	-	**-**
Dividends										
- ordinary ($million)	-	-	18.9	23.0	23.0	30.6	30.4	33.5	38.0	**27.7**
- special ($million)	-	-	-	-	14.3	-	-	-		**-**
Earnings per share (¢)***	73.9	67.3	48.2	48.1	50.1	114.9	94.9	50.9	251.9	**52.1**
Return on total revenue (%)*	31.7	29.7	21.2	22.0	23.2	30.6	23.1	14.3	58.8	**19.3**
Return on average ordinary equity (%)***	22.3	19.0	12.4	11.6	18.6	35.5	23.9	12.4	50.6	**7.5**
Return on average capital employed (%)***	16.5	13.9	8.9	8.8	11.7	19.8	15.1	9.0	34.1	**7.3**
Net debt/(net debt + equity) (%)***	27.3	28.0	28.9	22.5	32.5	35.0	30.2	37.3	10.2	**(9.5)**
Net interest cover (times)***	9.1	9.7	8.1	8.5	9.1	14.9	10.1	7.4	38.5	**(45.4)**
General										
Number of employees (excluding contractors)	1,631	1,713	1,737	1,700	1,526	1,521	1,679	1,786	1,940	**2,096**
Number of shareholders	76,457	86,472	85,888	84,327	78,976	78,157	83,566	77,498	78,933	**107,138**
Market capitalisation ($million)	3,670	3,589	3,509	4,017	4,965	7,280	5,907	8,274	8,696	**11,721**
Netback	-	-	18.9	18.4	19.8	29.5	32.9	32.9	35.9	**22.9**

*From 2005, 'Total operating revenue' has been reclassified to 'Total revenue' and prior year amounts have been restated.
**From 2007, 'Royalty related taxes' have been accounted for as a tax.
***From 2004 amounts reflect IFRS. Prior year amounts reflect AAGAP and have not been restated.
****From 2001, appraisal, near field exploration wells and CSG expenditure have been reclassified from exploration to delineation expenditure. Prior year amounts have not been restated.

Financial Report

Directors' Statutory Report

The Directors present their report together with the financial report of Santos Limited (Santos or the Company) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 December 2009, 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.

DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

Directors' Shareholdings

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
Borda	Kenneth Charles	67,308
Coates	Peter Roland	19,714
Dean	Kenneth Alfred	11,638
Franklin	Roy Alexander	–
Harding	Richard Michael	2,441
Hemstritch	Jane Sharman	14,000
Knox	David John Wissler	3,550
Martin	Gregory John Walton	3,250

The above named Directors held office during and since the end of the financial year, except for Mr GJW Martin, who was appointed a Director of the Company on 29 October 2009, and Ms JS Hemstritch, who was appointed on 16 February 2010.

Professor J Sloan held office as a Director of the Company until her retirement on 6 May 2009. Mr S Gerlach held office as Chairman of the Board until 9 December 2009 and as a Director of the Company until his retirement on 31 December 2009.

All shareholdings are of fully paid ordinary shares.

At the date of this report, Mr DJW Knox holds 544,974 options and 186,779 share acquisition rights (SARs) under the Santos Executive Share Option Plan and Santos Employee Share Purchase Plan, respectively, and subject to the further terms described in Note 31 to the financial statements. Details of the options and SARs granted to Mr Knox during the year are set out in the Remuneration Report on page 52.

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. 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[2]		Audit Committee		Environment, Health, Safety and Sustainability Committee		Remuneration Committee		Finance Committee		Nomination Committee	
		No. of Mtgs Held[1]	No. of Mtgs Attended	No. of Mtgs Held[1]	No. of Mtgs Attended	No. of Mtgs Held[1]	No. of Mtgs Attended	No. of Mtgs Held[1]	No. of Mtgs Attended	No. of Mtgs Held[1]	No. of Mtgs Attended	No. of Mtgs Held[1]	No. of Mtgs Attended
Borda	Kenneth Charles	12	12	-	-	-	-	-	-	5	5	-	-
Coates	Peter Roland	12	12	4	4	-	-	4	4	-	-	2	2
Dean	Kenneth Alfred	12	12	4	4	-	-	-	-	5	5	-	-
Franklin	Roy Alexander	12	12	-	-	4	4	-	-	-	-	-	-
Gerlach	Stephen	12	12	-	-	4	4	4	4	5	5	3	3
Harding	Richard Michael	12	10	4	4	4	4	4	4	-	-	3	3
Knox	David John Wissler	12	12	-	-	4	4	-	-	-	-	-	-
Martin	Gregory John Walton	2	2	-	-	-	-	-	-	-	-	-	-
Sloan	Judith	3	3	-	-	-	-	-	-	-	-	1	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.
2 In addition to formal meetings, the Board participated in a site visit to Jakarta and the Oyong field in Indonesia.

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 in the Annual Report.

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.

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 Annual Report.

In summary, the consolidated net profit of $434 million after tax for the year ended 31 December 2009 is $1.2 billion or 74% lower than the net profit for 2008, which included a $1.2 billion profit from the sale of a 40% interest in the GLNG project to PETRONAS.

The 2009 result includes profits of $180 million after tax from asset sales. The sale of 60% of the Petrel, Tern and Frigate fields to GDF SUEZ announced in August 2009 contributed $139 million of this amount.

Underlying net profit after tax in 2009 of $257 million was 53% lower than the prior year. Sales revenue of $2,181 million was down $581 million or 21% from 2008, mainly due to lower international crude oil, condensate and LPG prices, which had a significant impact on the underlying 2009 result.

Total revenue for the Eastern Australia segment was $1,082 million, an 18% decrease from the 2008 result of $1,319 million. The Western Australia and Northern Territory segment recorded a total revenue decline of 23% from 2008 to $864 million. The Asia-Pacific segment recorded a total revenue decline of 31% from 2008 to $167 million and the Gladstone LNG segment recorded a 25% growth in total revenue to $141 million from 2008.

Total production of 54.4 million barrels of oil equivalent (mmboe) remained the same as 2008 production. Natural field decline, asset sales and unscheduled downtime were offset by increased production contributions from the John Brookes, Maleo, Sampang and Fairview fields.

NET PROFIT

The 2009 net profit of $434 million is $1,216 million lower than in 2008 and includes the net profit/(loss) items before tax of $197 million (after tax $177 million), referred to below.

Underlying Profit Table[1]

The following amounts are included in the calculation of underlying profit for the year ending 31 December:

	2009 $million			2008 $million		
	Gross	**Tax effect**	**Net**	**Gross**	**Tax effect**	**Net**
Underlying profit			**257**			548
Net gains/(losses) on sales and impairment losses	**211**	**(48)**	**163**	1,481	(433)	1,048
Foreign currency gains/(losses)	**(28)**	**7**	**(21)**	24	(6)	18[2]
Fair value adjustments on embedded derivatives and hedges	**10**	**(4)**	**6**	(5)	2	(3)[2]
Remediation costs and contract losses, net of related insurance recoveries	**4**	**(2)**	**2**	4	7	11
Investment allowances, capital losses and other tax adjustments	**-**	**27**	**27**	-	28	28
	197	**(20)**	**177**	1,504	(402)	1,102
Net profit after tax (NPAT)			**434**			1,650

1 This table has been prepared in accordance with the AICD/Finsia principles for reporting underlying profit.

2 Adjustment to prior year to ensure comparability with current year.

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 approval of the Papua New Guinea liquefied natural gas (PNG LNG) project in December 2009, marking the next step in the delivery of Santos' transformational LNG growth strategy. Santos has a 13.5% interest in the 6.6 million tonne per annum (mtpa) PNG LNG project. First LNG is expected in 2014;
- the Gladstone LNG (GLNG®) project signed a binding Heads of Agreement in July 2009 to sell 2 mtpa of LNG to PETRONAS with an option for an additional 1 mtpa;
- the acquisition in July 2009 of significant additional acreage in the Gunnedah Basin in northern New South Wales and an investment in leading local coal seam gas company Eastern Star Gas Limited; and
- Santos announced a strategic partnership with GDF SUEZ, one of the world's leading LNG companies, to develop a floating LNG project in the Bonaparte Basin offshore northern Australia. Santos sold a 60% interest in the Petrel, Tern and Frigate gas fields to GDF SUEZ for US$200 million. GDF SUEZ will lead the development of a 2 mtpa floating LNG project. GDF SUEZ will carry Santos' share of pre-front end engineering design (FEED) and FEED costs and make an additional payment of US$170 million upon a final investment decision of the project.

Directors' Statutory Report
(continued)

DIVIDENDS

On 18 February 2010, the Directors resolved to pay a fully franked final dividend of 20 cents per fully paid ordinary share on 31 March 2010 to shareholders registered in the books of the Company at the close of business on 2 March 2010. This final dividend amounts to approximately $166 million.

A fully franked final dividend of $117 million (20 cents per fully paid ordinary share) was paid on 31 March 2009 on the 2008 results. Indication of this dividend payment was disclosed in the 2008 Annual Report. In addition, a fully franked interim dividend of $182 million (22 cents per fully paid ordinary share) was paid to members on 30 September 2009.

In accordance with the Terms of Issue, a fully franked final dividend of $2.9989 per Franked Unsecured Equity Listed Security amounting to approximately $18 million was paid on 31 March 2009. Indication of this dividend payment was disclosed in the 2008 Annual Report. A fully franked interim dividend of $1.6191 per Franked Unsecured Equity Listed Securities amounting to approximately $10 million was paid on 30 September 2009.

ENVIRONMENTAL REGULATION

The consolidated entity's Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation. 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, the consolidated entity did not receive any fines and was not subject to prosecution or other enforcement action in respect of applicable environmental regulations or environmental protection legislation, except as set out below:

- on 15 January 2009, the Queensland Environmental Protection Agency issued an Infringement Notice under the *Environmental Protection Act 1994* (Qld) and imposed a $2,000 penalty for unauthorised vegetation clearance on the proposed GLNG plant site on Curtis Island. The Company had earlier reported the vegetation clearance (which was carried out by its geotechnical contractors) to the Agency as a potential non-compliance matter. No criminal conviction was recorded against the Company and appropriate corrective measures have been taken to preclude a re-occurrence; and
- hydrocarbons were identified in the groundwater at Port Bonython during routine quality testing undertaken in April 2009. An extensive and thorough source identification program has been undertaken, and recovery and remediation plans have been finalised following endorsement by an independent third party auditor. Communications with the regulator, the South Australian Environment Protection Authority, have been ongoing and actions have been incorporated into site environmental licence conditions. In September 2009, the Authority notified the Company of its intention to conduct a formal investigation to determine what, if any, breaches of the *Environment Protection Act 1993* (SA) may have occurred and what enforcement action should be taken if a breach is determined.

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 2009 are set out above and in Note 22 to the financial statements.

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.

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.

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, options and SARs granted during the financial year) are set out in the Remuneration Report commencing on page 52 of this report.

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 2009 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 2010. 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.

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	$73,000
Assurance services	$533,000
Other services	$4,000

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* (Cth).

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* (Cth) is set out on page 149 of the Annual Report.

SHARES UNDER OPTION AND UNVESTED SARS

Options

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

Date options granted	Expiry date	Issue price of shares[1]	Number under option
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	77,100
24 October 2006	24 October 2016	$10.48	435,800
4 May 2006	3 May 2016	$11.36	2,500,000
1 July 2007	30 June 2017	$14.14	225,968
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	641,791
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
2 March 2009	2 March 2019	$14.81	207,988
2 March 2009	2 March 2019	$14.81	67,896
			4,964,411

1 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.

SARs

Unissued ordinary shares of Santos Limited under unvested SARs at the date of this report are as follows:

Date SARs granted	Number of shares under unvested SARs
6 August 2007	331,500
18 December 2007	50,000
6 August 2007	319,700
23 June 2008	131,119
4 August 2008	35,973
4 August 2008	50,403
4 August 2008	50,403
23 June 2008	71,625
2 March 2009	399,516
2 March 2009	170,621
2 March 2009	114,377
	1,725,237

No amount is payable on the vesting of SARs.

SARs do not confer an entitlement to participate in a bonus or rights issue, prior to the vesting of the SAR.

Further details regarding the SARs (including when they will lapse) are contained in the Remuneration Report commencing on page 52 of this report.

SHARES ISSUED ON THE EXERCISE OF OPTIONS AND ON THE VESTING OF SARS

Options

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2009 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
23 May 2005	$8.46	14,500
23 May 2005	$8.46	82,350
24 October 2006	$10.48	280,200
		427,050

SARS

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2009 on the vesting of SARs granted under the Santos Employee Share Purchase Plan. No further shares have been issued since then on the vesting of SARs granted under the Santos Employee Share Purchase Plan. No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares issued
8 December 2006	249,000
6 August 2007	20,414
6 August 2007	17,787
23 June 2008	9,917
23 June 2008	4,178
2 March 2009	579
2 March 2009	1,210
	303,085

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 18 February 2010 in accordance with a resolution of the Directors.

David Knox

Director
2010

Peter Coates

Director
2010

Remuneration in Brief

This Remuneration in Brief is an addition to Santos Limited's (Santos or the Company) reporting framework, which describes Santos' remuneration in a clear and transparent manner. The Remuneration in Brief outlines the key remuneration decisions made by the Company in 2009, and discloses the actual amount of remuneration paid to the Company's senior executives.

It should be read in conjunction with the Remuneration Report on pages 52 to 69, which provides disclosure of the remuneration framework of the Company in accordance with statutory obligations and accounting standards.

KEY REMUNERATION DRIVERS AND ACTIONS IN 2009

Exercising restraint

The Company's remuneration practices in 2009 were commensurate with the business conditions resulting from the economic downturn. Accordingly:

- there was no increase to the Managing Director and Chief Executive Officer's (CEO) remuneration, which was set on 28 July 2008;
- except for adjustments due to changes in roles and responsibilities and other exceptional reasons, pay was frozen in 2009 at April 2008 levels for Senior Executives and Australian non-award employees;
- there was no increase to non-executive Directors' fees, which were last adjusted on 1 July 2008;
- allowances paid to field-based employees, normally adjusted annually by the inflation rate, were frozen.

These measures resulted in cash savings in excess of $10 million, and were among the most decisive among employers in the Australian exploration and production industry.

Rewarding strong performance

While exercising restraint in respect of pay increases, the Board upheld the principle of rewarding performance and the delivery of shareholder value.

First, strong achievement against short-term objectives set for the Company in 2009 was recognised through the payment of a short-term incentive at 80% of maximum. Determination of the payout percentage was based on a focused set of performance measures and delivery of strategic milestones, including the Company's profitability in 2009.

Secondly, there was full vesting of the long-term incentive grant covering the 2007–2009 period, during which Santos' Total Shareholder Return of 69.6%, or 19.3% per annum compound, was in the top 12% of the comparator group of Australian and international exploration and production companies.

The external environment

In setting and reviewing its remuneration arrangements, Santos has regard to the external environment, including market practice and prevailing regulatory and governance standards.

During 2009, Santos participated in various general and industry-specific remuneration surveys, as well as a review of the performance of its outsourced superannuation arrangements.

In addition, the Company actively monitored the tax, regulatory and governance activities which impacted remuneration in 2009, in particular the Productivity Commission's inquiry into Executive Remuneration. In reviewing its approach to remuneration, Santos' aim was to maintain a responsible and measured approach to remuneration, while ensuring that the Company continued to be able to secure the skills it needs for project delivery in an exploration and production labour market that, after a brief hiatus in 2009, has rebounded to pre-downturn buoyancy.

Remuneration outcomes for the CEO and Senior Executives

The remuneration values for the CEO and Senior Executives, contained on pages 57 and 63 of the Remuneration Report, are calculated in accordance with statutory obligations and accounting standards, and are theoretical.

To make the information more meaningful to shareholders, the following table discloses the actual "dollar value" of remuneration received by the Company's CEO and Senior Executives during 2009 in a clear and concise way (including prior year awards where the executive "realised" value from these awards in 2009).

	Fixed remuneration[1]	STI[2]	LTI[3]	Other[4]	Total
DJW Knox Managing Director and Chief Executive Officer	$1,750,000	$1,400,000	$0	$500,000[5]	$3,650,000
JH Anderson Vice President Western Australia and Northern Territory	$540,000	$223,800	$0	$22,435	$786,235
JL Baulderstone Vice President Corporate Development and Legal, Company Secretary and General Counsel	$546,063	$254,000	$0	-	$800,063
MEJ Eames Vice President Asia Pacific	$621,860	$258,000	$266,660	-	$1,146,520
MS Macfarlane Vice President Eastern Australia	$532,460	$199,600	$0	-	$732,060
PC Wasow Chief Financial Officer and Executive Vice President	$1,000,000	$562,300	$308,200	-	$1,870,500
RJ Wilkinson President GLNG and Queensland	$559,801	$232,000	$217,080	$16,800	$1,025,681

1 Comprising base salary and superannuation.

2 This figure represents the amount of the short-term incentive or bonus paid to the executive for 2009 performance. For further details of the Company's short-term incentive program, please see pages 55 and 59 of the Remuneration Report.

3 This figure represents the value of vested Share Acquisition Rights (SARs), which vested in 2009 based on the closing share price of $13.40 on the date of vesting (23 January 2009) and options that were exercised (if any) in 2009 based on the difference between the exercise price and the closing share price on the date of exercise. No options were exercised by the Senior Executives in 2009. Although shares allocated under Share Acquisition Rights are subject to a further restriction on dealing of up to 10 years after the grant date and can be forfeited for misconduct, their full value is included here. For further details of the Company's LTI program, please see pages 56 to 57 and 59 to 62 of the Remuneration Report.

4 Comprised of ad hoc payments treated as remuneration such as relocation allowance.

5 Mr Knox received a once-only retention bonus for continued employment between 25 March 2008, the date of his appointment as Acting Chief Executive Officer, and 25 March 2009.

Remuneration Report

The Directors of Santos Limited (Santos or the Company) present this Remuneration Report for the Company and its controlled entities for the year ended 31 December 2009. The information provided in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth). The Remuneration Report forms part of the Directors' Statutory Report.

The Remuneration Report sets out remuneration information pertaining to the Company's Directors and Senior Executives, who are the key management personnel of the consolidated entity for the purposes of the *Corporations Act* and the Accounting Standards. They include the five highest remunerated executives of the Company and Group for the 2009 financial year, and are listed in Table 1 below.

Table 1: Directors and Senior Executives

Executive

Name	Position
DJW Knox	Managing Director and Chief Executive Officer
JH Anderson	Vice President Western Australia and Northern Territory
JL Baulderstone	Vice President Corporate Development and Legal, Company Secretary and General Counsel
MEJ Eames	Vice President Asia-Pacific
MS Macfarlane	Vice President Eastern Australia
PC Wasow	Chief Financial Officer and Executive Vice President
RJ Wilkinson	President GLNG and Queensland

Non-Executive

Name	Position
PR Coates	Deputy Chairman (Chairman from 9 December 2009)
KC Borda	Director
KA Dean	Director
RA Franklin	Director
RM Harding	Director
GJW Martin	Director[1]
Former	
S Gerlach	Chairman (until 8 December 2009)[2]
J Sloan	Director[3]

1 Appointed 29 October 2009.

2 Retired 31 December 2009.

3 Retired 6 May 2009.

Senior Executive Remuneration

REMUNERATION POLICY

The diagram below shows the key objectives of Santos' remuneration policy for Senior Executives and how these are implemented through the Company's remuneration framework.

ATTRACTING AND RETAINING TALENTED, QUALIFIED EXECUTIVES	ENCOURAGING EXECUTIVES TO STRIVE FOR SUPERIOR PERFORMANCE	ALIGNING EXECUTIVE AND SHAREHOLDER INTERESTS
↓	↓	↓
• Remuneration levels are market-aligned against similar roles in comparable companies. • Individual performance targets determine 30% of the short-term incentive award for Senior Executives. • The deferred component of the long-term incentive plan promotes retention and rewards loyalty.	• A significant component of remuneration is "at risk" under short-term and long-term incentive plans. Value to the executive is dependent on meeting challenging targets. • Consistently high-performing executives are also rewarded through higher base remuneration.	• The long-term incentive component of remuneration is delivered through equity instruments linked to Santos ordinary shares. • Vesting of performance-based long-term incentive awards is contingent on delivery of superior shareholder returns. • Executives cannot hedge equity instruments that are unvested or subject to restrictions.

Remuneration Report (continued)

LINKING REMUNERATION STRUCTURES TO CORPORATE OBJECTIVES

Santos' executive remuneration structures support the Company's vision to be a leading energy company for Australia and Asia. The diagram below highlights the links between the Company's remuneration systems and its corporate objectives.

Santos Corporate objective	DELIVERING THE BASE BUSINESS	TAPPING OUR RESOURCE RICHES	BEING A GREAT, SAFE PLACE TO WORK	DELIVERING SUPERIOR RETURNS TO SHAREHOLDERS
Link to remuneration structures	Senior Executives with oversight of the existing base businesses are rewarded for delivering sustained performance and growth in core operations.	Performance measures for Senior Executives in strategic roles and growth businesses are linked to delivery of growth targets.	Remuneration frameworks reward collaboration and reinforce safety as a priority for employees at all levels.	A significant proportion of remuneration for the CEO and Senior Executives is "at risk" based on delivery of superior shareholder returns.
Examples of measures used to reinforce link	• Individual performance measures for relevant executives are linked to delivery of strategic milestones and performance targets. • Financial key performance indicators for Senior Executives under the short-term incentive plan include safety and environmental performance production, profit, cash flow, capital invested, reserve growth and reserve replacement cost.	• Key Performance Indicators for the CEO's 2009 short-term incentive included: – Santos' strategic positioning in Australia and Asia; and – furtherance of Santos' LNG projects. • Senior Executives with responsibility for the growth LNG businesses (PNG LNG and GLNG) have strategic performance targets linked to delivery of key project milestones.	• Short-term incentive measures for Senior Executives are weighted towards overall company performance to encourage collaboration. • Safety and environmental performance is a key performance indicator that impacts on the short-term incentive award for the CEO and Senior Executives. • Remuneration targets are fair, challenging, clearly understood and within the control of employees.	• The long-term incentive plan links a significant component of pay for the CEO and other Senior Executives to delivery of superior returns. • Long-term incentive grants lapse (and participants receive no value) if Santos' total shareholder return does not meet at least the median for ASX 100 companies. • Full vesting of performance awards under the long-term incentive plan only occurs where Santos outperforms all other ASX 100 companies in its total shareholder return performance.

CEO REMUNERATION ARRANGEMENTS

Remuneration components and their relative weightings

Total remuneration for the Managing Director and Chief Executive Officer (CEO), Mr DJW 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 CEOs of comparable companies in the industry. In line with the Company's general pay freeze, Mr Knox's remuneration did not change in 2009 and, in fact, has not changed since his appointment in 2008.

The relative weightings of the three components comprising the CEO's total remuneration are set out in Table 2 below.

Table 2: Relative weightings of remuneration components[1]

	% of total remuneration (annualised)		
	Fixed remuneration	**Performance-based remuneration**	
		STI	**LTI**
CEO	37%	26%	37%

1 These figures do not reflect the relative value derived by the CEO 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), which includes the Company's 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.

Mr Knox's TFR for 2009 (as set out in Table 4 below) was $1,750,000.

Short-term Incentive

Mr Knox has a maximum annual STI opportunity of 100% of TFR, subject to delivery of strategic milestones and performance targets set by the Board.

Mr Knox's performance measures comprise a combination of strategic, financial and operational targets, all of which are directly related to strategic objectives agreed with the Board. The Board believes that this method of setting performance targets focuses the CEO's attention on achieving the key conditions and milestones necessary to deliver Santos' strategic plan.

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 CEO's overall performance.

As outlined above, for the 2009 performance period, 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 CEO, these performance measures for 2009 included the Company's strategic positioning in Australia and Asia, delivery of financial and operational performance targets, in particular, from the base business, achievement of specific milestones in the GLNG and PNG LNG projects in furtherance of the Company's vision to achieve transformational growth through its LNG portfolio and achievement of safety and environmental performance milestones.

Based on performance against these targets during the year, Mr Knox was awarded an STI payment of $1,400,000 or 80% of the maximum STI payable. The difference between actual STI paid and maximum STI will not be carried forward.

Long-term Incentive

No new LTI grant was made to the CEO in 2009 as the grants made to Mr Knox in 2008 constitute his LTI entitlement for the 2008, 2009 and 2010 years.

The 2008 grants comprised:

- a performance-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects (Performance Award);
- a service-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects (Deferred Award); and
- a further performance-based equity award made to Mr Knox upon his appointment as CEO to supplement the grants already made to him in his Senior Executive capacity (CEO Performance Award).

Mr Knox elected to receive his equity awards as a combination of options and share acquisition rights (SARs).

The key terms of Mr Knox's awards are as follows:

- The LTI grants made in 2008 were 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.
- Mr Knox was able to elect to receive his LTI grant as either SARs, market value options or a combination of the two. He chose to take a combination of the two.
- All of the performance-based LTIs are subject to hurdles based on the Company's Total Shareholder Return (TSR) relative to the ASX 100 over a three-year performance period. There is no retesting of performance conditions.
- The CEO Performance Award is divided into three tranches:
  - *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; and
  - *Tranche 3* Tested over the period from 1 January 2010 to 31 December 2012.
- Each tranche of the CEO Performance Award vests in accordance with the following vesting schedule:

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

- None of the grants have vested as none of their performance periods have been completed.
- 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 if 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).
- Full details of the equity grants made to Mr Knox in 2008 are contained in the 2008 Remuneration Report.

Table 3 contains details of the number and value of SARs and options granted to Mr Knox in 2008.

Table 3: 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 These grants constitute Mr Knox's 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.

2009 Remuneration details for Mr DJW Knox

Table 4: 2008 and 2009 remuneration details for Mr DJW Knox

Year	Short-term employee benefits			Post-employment	Share-based payments[1,2]	Termination	Other long-term benefits[3]	Total	% at risk
	Base salary $	STI $	Other $	Super-annuation $	$	$	$	$	
2009	1,735,897	1,400,000[4]	500,000[5]	14,103	1,486,873[6]	-	29,891	5,166,764[7]	56%
2008	1,200,115	1,100,000	-	54,745	800,206	-	19,826	3,174,892	60%

1 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the theoretical value of equity linked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated as remuneration is not related to or indicative of the actual benefit (if any) that Mr Knox may ultimately realise should the equity instruments vest. The theoretical value of equity linked compensation 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.

2 Of the total remuneration for Mr Knox for the year, 23% consisted of SARs and options.

3 "Other long-term benefits" represent the movement in the CEO's long service leave entitlements measured as the present value of the estimated future cash outflows to be made in respect of the CEO's service between the respective reporting dates.

4 This amount represents the STI award made for the 2009 year, which will be paid in March 2010.

5 Mr Knox received a once-only retention bonus for continued employment between 25 March 2008, the date of his appointment as Acting Chief Executive Officer, to 25 March 2009.

6 "Share-based payments" in 2009 consists of the following equity linked theoretical compensation and, as a consequence of the rights issue in May 2009, now includes a cash-settled component. This matter is discussed further on page 61.

SARs	Options	Cash-settled
$553,452	$634,898	$298,523

7 The difference between Mr Knox's total remuneration for 2009 and 2008 is principally a consequence of his appointment as CEO in July 2008, which resulted in (1) an increase in his base salary since that time and (2) the granting of additional SARs and options as part of his CEO remuneration package.

Service Agreement

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

The service agreement provides that the Company may terminate the CEO's employment on giving 12 months notice. Where the Company exercises this general right to terminate, it must make a payment to the 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 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 ARRANGEMENTS

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 "reward performance" policy.

The relative weightings of the three components comprising the Senior Executives' total remuneration are provided in Table 5 below.

Table 5: Relative weightings of remuneration components[1]

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

1 These figures do not reflect the actual value derived by Senior Executives 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

Salary and superannuation	Senior Executives are paid 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 Chief Financial Officer and Executive Vice President. 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 measures is used in order to drive balanced business performance. These measures 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 areas covered by the measures 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 own area of responsibility.
Assessment of performance	Individual performance is assessed by the 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 basis of 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 2009	Company performance against the measures in 2009 resulted in an average STI of 80% of maximum payable to all eligible employees. 2009 STI awards made to individual Senior Executives ranged from 75% to 92% of maximum. The difference between actual STI paid and maximum STI will not be carried forward.

Long-term Incentives

During the year, the Company made equity grants to its Senior Executives as the LTI component of their remuneration for 2009. The grants comprised:

- a performance-based component, equal to 75% of the total grant value (Performance Award); and
- a service-based component, equal to 25% of the total grant value (Deferred Award).

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

- 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.

Vesting details of the Performance and the Deferred Awards are summarised in Table 6 below. In addition, Table 6 contains details of the number and value of SARs and options granted to Senior Executives in 2009 under the Performance and the Deferred Awards.

Table 6: Performance Award and Deferred Award vesting details

<table>
<tr><th></th><th>Performance Award</th><th>Deferred Award</th></tr>
<tr><td>Vesting period</td><td>1 January 2009 to 31 December 2011.</td><td>2 March 2009 to 1 March 2012.</td></tr>
<tr><td>Vesting condition</td><td>Vesting of this grant is based on relative TSR against ASX 100 companies as at 1 January 2009.
The Board believes the chosen performance hurdle effectively aligns the interests of the individual executives 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.</td><td>Vesting of the Deferred Award is based on continuous service to 1 March 2012, or three years from the grant date.</td></tr>
<tr><td>Vesting schedule</td><td>Vesting commences when Santos’ TSR performance equals the median for ASX 100 companies, with one-third of the total grant vesting at this level of performance.
A further 1.33% of the grant vests for each percentile improvement in Santos’ TSR ranking, with full vesting only occurring if Santos is the top-performing ASX 100 company based on its TSR growth over the vesting period.
There is no re-testing of the performance condition if it is not satisfied.
<table>
<tr><th>Santos TSR percentile ranking</th><th>% of grant vesting</th></tr>
<tr><td>< 50th percentile</td><td>0%</td></tr>
<tr><td>= 50th percentile</td><td>33.33%</td></tr>
<tr><td>51st to 99th percentile</td><td>Further 1.33% for each percentile improvement</td></tr>
<tr><td>100th percentile</td><td>100%</td></tr>
</table></td><td>0% if the continuous service condition is not met.
100% if the continuous service condition is met.</td></tr>
<tr><td>Exercise price</td><td>$14.81 for options, being the volume weighted average price in the week up to and including the grant date of 2 March 2009.
SARs have no exercise price.</td><td>As for Performance Award.</td></tr>
<tr><td>Exercise period</td><td>Options may be exercised at any time between the vesting date and the expiry date.
Upon vesting of SARs, shares will automatically be allocated to the executive. 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 the removal of the restrictions.</td><td>As for Performance Award.</td></tr>
<tr><td>Expiry/lapse</td><td>SARs and options that do not vest upon testing of the performance condition will lapse.
Vested options will expire if not exercised before 2 March 2019.</td><td>SARs and options will lapse if the service condition is not satisfied.
Vested options will expire if not exercised before 2 March 2019.</td></tr>
<tr><td>Cessation/change of control</td><td>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.</td><td>As for Performance Award.</td></tr>
<tr><td>Hedging Policy</td><td>Consistent with the objective of creating a meaningful alignment of interests, Directors and Senior Executives are not permitted to hedge their shareholdings or 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.</td><td>As for Performance Award.</td></tr>
</table>

Table 7: SARs and Options granted to Senior Executives in 2009[1]

Executive	Grant name	Number of SARs granted	Number of options granted	Maximum value of grant[2]
JH Anderson	Performance Award	13,359	-	115,823
	Deferred Award	4,168	-	60,228
JL Baulderstone	Performance Award	13,450	-	116,612
	Deferred Award	5,057	-	73,074
MEJ Eames	Performance Award	15,744	-	136,500
	Deferred Award	4,471	-	64,606
MS Macfarlane	Performance Award	13,481	-	116,880
	Deferred Award	4,152	-	59,996
PC Wasow	Performance Award	25,320	-	219,524
	Deferred Award	8,305	-	120,007
RJ Wilkinson	Performance Award	14,175	-	122,897
	Deferred Award	5,160	-	74,562

1 The grants made to the Senior Executives during the year constitute their full LTI awards for the 2009 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 2 March 2009). The fair value per instrument at the grant date was:

Performance Award SARs – $8.67, Options – $4.54

Deferred Award SARs – $14.45, Options – $6.75

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.

Preserving alignment under the LTI Plan in response to equity issue

During the year the Company raised $2.914 billion through a two-for-five rights issue. Each new share was issued at a price of $12.50, representing a 26.9% discount to the closing price of the shares before the announcement of the rights issue.

Employees who held unvested SARs and options were unable to participate in the rights issue and there was no adjustment to the applicable exercise price or the number of underlying shares to which each SAR or option was entitled. The ASX Listing Rules do allow an adjustment to the exercise price of options to reflect the impact of discounted rights issues but the terms of the grant need to expressly refer to the formula in ASX Listing Rule 6.22.2 and the Listing Rules do not contemplate (nor provide a mechanism for adjusting) SARs.

Accordingly, in order to ensure the rights issue would neither unfairly disadvantage or advantage executives and so as to avoid a misalignment between the incentives of management (through the LTI component of their remuneration) and a capital raising which was considered by the Board to be in the best interests of the Company and shareholders, the Board determined, in respect of existing LTI grants:

- to use TSR data which takes into account the impact of rights issues and other capital management activities on both Santos and comparator group companies when testing the satisfaction of TSR performance hurdles that apply to Santos LTI awards; and
- subject to the SARs and options vesting following satisfaction of applicable hurdles (and, in the case of options, being exercised), to make a future cash remuneration payment to executives equal to the value of the right to participate in the rights issue (calculated at $1.31 for each underlying share in accordance with the formula in ASX Listing Rule 6.22.2). The intention is to “keep whole” the executives in respect of SARs and options that actually vest in due course. No cash payment will be made in respect of SARs that do not vest or options that do not vest or are not exercised.

These future cash remuneration payments apply to LTI participants with grants that were yet to vest at the time of the rights issue, including the CEO and Senior Executives. No changes have been made to the performance hurdles or testing dates.

Despite the intention to “keep whole” the LTI participants, the future cash remuneration payments did not fully compensate for the loss in the value of the unvested SARs and options. The overall value of the future cash remuneration payments for the CEO and Senior Executives is $89,556 less than the loss in value of the SARs and options, both determined in accordance with AASB 2 *Share-based payments*. The value of these future cash remuneration payments has been expensed in accordance with AASB 2, over the period from 8 May 2009 (the last trading day prior to the announcement of the rights issue; closing price of $17.09) to the end of their performance or vesting periods.

Remuneration Report
(continued)

LTI grants to Senior Executives

The following LTI grants were still in progress or were tested during 2009.

Table 8: LTI grants to Senior Executives

Grant year	Grant type	Vesting condition(s)	Performance/vesting period	Status
2007	Performance Award	• Relative TSR performance against Australian and international E&P companies (50% of grant) • Absolute TSR target of 11% per annum compound (50% of grant)	1 January 2007 to 31 December 2009	Grant tested after the end of the financial year resulting in full vesting of the grant.
	Deferred Award	Continuous service	DJW Knox[1]: 3 September 2007 to 2 September 2010 Senior Executives: 1 July 2007 to 30 June 2010	In progress.
2008	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2008 to 31 December 2010	In progress.
	Deferred Award	Continuous service	3 May 2008 to 2 May 2011	In progress.
2009	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2009 to 31 December 2011	In progress.
	Deferred Award	Continuous service	2 March 2009 to 1 March 2012	In progress.

1 Options and SARs granted to Mr Knox in his capacity as a Senior Executive prior to his appointment as CEO.

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.

2009 Senior Executive Remuneration Details

Table 9: 2009 Senior Executive remuneration details

Executive	Short-term employee benefits			Post-employment	Share-based payments[1,2] (LTI)	Termination	Other long-term benefits[4]	Total	% at risk
	Base salary[3] $	STI[5] $	Other $	Super-annuation $	$	$	$	$	
JH Anderson	489,116	223,800	22,435[6]	50,884	262,336	-	10,111	1,058,682	46%
JL Baulderstone[7]	512,621	254,000	-	33,441	365,017	-	9,597	1,174,676	53%
MEJ Eames	585,296	268,000	-	36,564	308,127	-	12,577	1,210,564	48%
MS Macfarlane	500,145	199,600	-	32,314	261,079	-	6,698	999,836	46%
PC Wasow[8]	985,897	562,300	-	14,103	358,269	-	37,801	1,958,370	47%
RJ Wilkinson	488,533	232,000	16,800[9]	71,267	257,492	-	6,488	1,072,580	46%

1 The percentage of each Senior Executive's total remuneration for the year that consisted of SARs and options is as follows:

JH Anderson	20%	MS Macfarlane	21%
JL Baulderstone	21%	PC Wasow	15%
MEJ Eames	20%	RJ Wilkinson	20%

2 "Share-based payments" consist of the following equity linked theoretical compensation and, as a consequence of the rights issue in May 2009, now includes a cash-settled component.

Executive	SARs	Options	Cash-settled
JH Anderson	$126,470	$80,240	$55,626
JL Baulderstone	$122,994	$126,768	$115,255
MEJ Eames	$147,935	$94,566	$65,626
MS Macfarlane	$126,705	$79,049	$55,325
PC Wasow	$296,065	-	$62,204
RJ Wilkinson	$210,646	-	$46,846

3 The base salaries for Mr JH Anderson, Mr MS Macfarlane, Mr MEJ Eames and Mr RJ Wilkinson were frozen in 2009 at April 2008 levels. They are higher than the base salary figures in Table 10 "2008 Senior Executive remuneration details" because the base salary figures in the 2008 table include the lower pre-April 2008 amounts.

4 "Other long-term benefits" represent the movement in the Senior Executive's long service leave entitlements measured as the present value of the estimated future cash outflows to be made in respect of the Senior Executive's service between the respective reporting dates.

5 This amount represents the STI award made for the 2009 year, which will be paid in March 2010.

6 Mr Anderson received an allowance of $22,435 for relocating from Adelaide to Perth to head up the Western Australian Business Unit subsequent to commencing the role of Vice President Western Australia and Northern Territory.

7 Effective 5 January 2009, Mr Baulderstone's role was expanded to include responsibility for the Corporate Development and Commercial Excellence functions. Mr Baulderstone's remuneration increased in 2009 commensurate with the increased responsibilities of his new role.

8 In recognition of his seniority and strategic leadership, Mr Wasow was promoted to the position of Executive Vice President (in addition to his role as Chief Financial Officer) effective 1 July 2008. Mr Wasow's remuneration increased in 2009 commensurate with the increased responsibilities of his new role.

9 Mr Wilkinson received an Incidentals Allowance of $16,800 for commuting between Adelaide and Brisbane in relation to the GLNG project.

2008 Senior Executive remuneration details

Table 10: 2008 Senior Executive remuneration details

Executive	Short-term employee benefits			Post-employment	Share-based payments[1,2] (LTI)	Termination	Other long-term benefits[3]	Total	% at risk
	Base salary $	STI[4] $	Other $	Super-annuation $	$	$	$	$	
JH Anderson	468,021	205,000	-	48,689	203,594	-	16,351	941,655	43%
JL Baulderstone	465,734	250,000	-	46,326	231,473	-	5,963	999,496	48%
MEJ Eames	551,505	220,000	-	57,455	241,862	-	20,213	1,091,035	42%
MS Macfarlane	471,282	205,000	-	49,029	202,553	-	17,536	945,400	43%
PC Wasow	830,548	585,000	-	13,289	265,239	-	68,629	1,762,705	48%
RJ Wilkinson	485,676	255,000	5,282[5]	90,260	201,462	-	18,192	1,055,872	43%

1 The percentage of total remuneration for the year that consisted of SARs and options is as follows:

DJW Knox	25%	MEJ Eames	22%	PC Wasow	15%
JH Anderson	22%	MS Macfarlane	21%	RJ Wilkinson	19%
JL Baulderstone	23%				

2 "Share-based payments" consisted of the following equity linked theoretical compensation:

Executive	SARs	Options	Executive	SARs	Options
JH Anderson	$122,742	$80,852	MS Macfarlane	$122,742	$79,811
JL Baulderstone	$111,832	$119,641	PC Wasow	$265,239	-
MEJ Eames	$173,306	$68,556	RJ Wilkinson	$201,462	-

3 "Other long-term benefits" represent the movement in the Senior Executive's long service leave entitlements measured as the present value of the estimated future cash outflows to be made in respect of the Senior Executive's service between the respective reporting dates.

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

5 This amount represents an Incidentals Allowance for Mr Wilkinson for commuting between Adelaide and Brisbane in relation to the GLNG project.

LINK BETWEEN COMPANY PERFORMANCE AND SENIOR EXECUTIVE REMUNERATION OUTCOMES

Table 11 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 11 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 11: Key indicators of Company performance 2005–2009

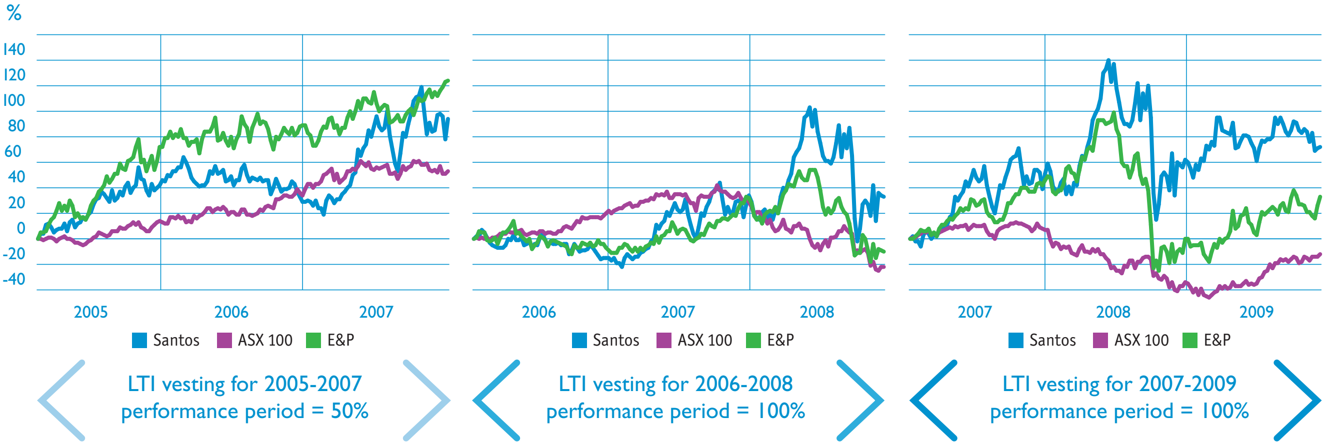
Key Indicator	2005	2006	2007	2008	2009
Safety (total recordable case frequency rate)	4.9	6.4	5.3	5.8	**3.6**
Production (mmboe)	56.0	61.0	59.1	54.4	**54.4**
Reserve replacement cost – 1P (A$/boe)	13	15	13	13	**9**
Reserve replacement rate – 1P (%)	218	143	175	160	**336**
Proven plus probable reserves – 2P	774	819	879	1,013	**1,441**
Netback (A$/boe)	30	33	33	36	**23**
Net profit after tax $m	762	643	359	1,650	**434**
Earnings per share (cents)	124	103	55	273	**52**
Dividends per ordinary share (cents)	36	40	40	42	**42**
Size of STI pool (% of maximum)	85	70	80	80	**80**

As set out earlier, Company performance in 2009 against the STI measures (detailed on page 59) resulted in an average STI award of 80% of the maximum payable to all eligible employees. Performance against key metrics was on target in 2009, including the achievement of key strategic milestones such as:

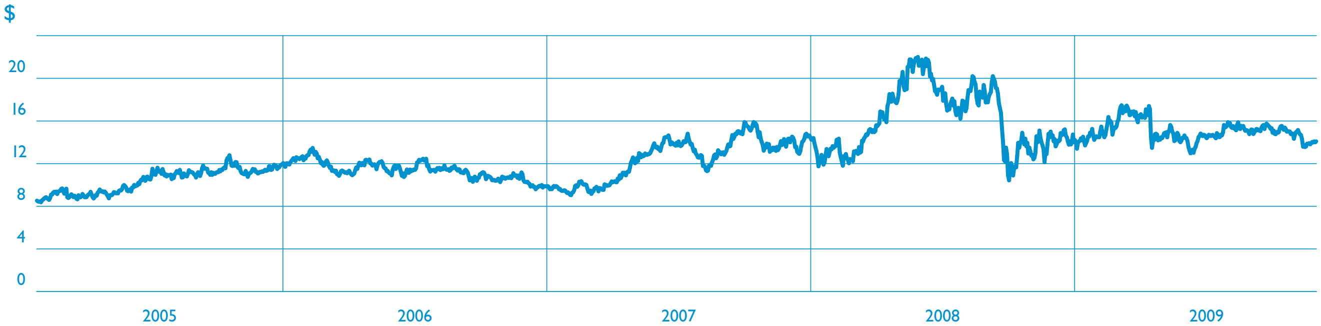
- sanction of PNG LNG on schedule in December 2009 in furtherance of the Company's vision to achieve transformational growth through an LNG portfolio;
- the GDF Suez–Bonaparte LNG partnership, resulting in the commercialisation of substantial contingent resources in the Petrel, Tern and Frigate fields;
- the signing of the binding LNG offtake Heads of Agreement with PETRONAS for 2 mtpa plus a further 1 mtpa at GLNG's option, underpinning the development of the first GLNG train;
- the successful $3 billion capital raising in May 2009.

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 2005-2009



SANTOS SHARE PRICE 2005-2009



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)

2005	$0.36	2006	$0.40	2007	$0.40	2008	$0.42	2009	$0.42

Remuneration Report
(continued)

The following capital returns were made in the 2005–2009 period:

- 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.
- On 30 September 2009, the Company redeemed the 6,000,000 Franked Unsecured Equity Listed Securities (FUELS) on issue at the price of $100 each.

As noted above, Santos' superior TSR performance compared to the Australian and international exploration and production companies over the period from 1 January 2007 to 31 December 2009 resulted in full vesting of the 2007 Performance Award.

The value derived by Senior Executives during 2009 in respect of LTIs granted in previous financial years (i.e. prior year awards which vested and/or were exercised during 2009) is set out in Table 12 below. Table 12 also contains details of prior year LTIs that lapsed or were forfeited during 2009.

Table 12: Senior Executives' LTI remuneration outcomes in 2009

	Vested		**Exercised**		**Forfeited/Lapsed**	
	Number	**Value**[1]	**Number**	**Value**[2]	**Number**	**Value**
DJW Knox						
SARs	-	-	-	-	-	-
Options	-	-	-	-	-	-
JH Anderson						
SARs	-	-	-	-	-	-
Options	63,700	224,224	-	-	-	-
JL Baulderstone						
SARs	-	-	-	-	-	-
Options	-	-	-	-	-	-
MEJ Eames						
SARs	19,900	288,351	-	-	-	-
Options	-	-	-	-	-	-
MS Macfarlane						
SARs	-	-	-	-	-	-
Options	63,700	224,224	-	-	-	-
PC Wasow						
SARs	23,000	333,270	-	-	-	-
Options	-	-	-	-	-	-
RJ Wilkinson						
SARs	16,200	234,738	-	-	-	-
Options	-	-	-	-	-	-
Total SARs	**59,100**	**856,359**	**-**	**-**	**-**	**-**
Total Options	**127,400**	**448,448**	**-**	**-**	**-**	**-**

1 The value of each SAR on the date of vesting is based on the closing market price of Santos Limited shares on the 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 the ASX on the preceding trading day and the relevant exercise price.

2 The value of each option exercised during the year is based on the difference between the closing market price of Santos Limited shares on the ASX on the preceding trading day and the relevant exercise price.

Non-executive Director Remuneration

REMUNERATION POLICY

The diagram below shows the key objectives of Santos' non-executive Director remuneration policy and how these are implemented through the Company's remuneration framework.

SECURING AND RETAINING TALENTED, QUALIFIED DIRECTORS	PROMOTING INDEPENDENCE AND IMPARTIALITY	ALIGNING DIRECTOR AND SHAREHOLDER INTERESTS
Fee levels are set with regard to: • time commitment and workload; • the risk and responsibility attached to the role; • experience and expertise; and • market benchmarking.	• Fee levels do not vary according to the performance of the Company or individual Director performance from year to year. • Santos' market capitalisation is considered in setting the aggregate fee pool and in benchmarking of Board and committee fees.	• Santos encourages its non-executive Directors to build a long-term stake in the Company. • Traditionally, this has been facilitated through the non-executive Director share plan.

REMUNERATION ARRANGEMENTS

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.

2009 Non-executive Directors' fees

In line with the Company's general pay freeze, there was no increase to non-executive Directors' fees, which were last adjusted on 1 July 2008. Directors' fee rates are provided in Table 13 below.

Table 13: 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

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

Retirement benefits

Professor J Sloan and Mr S Gerlach, who were appointed prior to 1 January 2004, were contractually entitled to receive benefits upon their retirement under the agreements entered into at their appointment, the terms of which were approved by shareholders at the 1989 Annual General Meeting. These retirement benefits 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.

Non-executive Directors appointed after 1 January 2004 are not entitled to receive a benefit upon retirement (other than statutory entitlements).

Both Professor Sloan and Mr Gerlach retired during 2009. Table 14 below shows the increase in Professor Sloan's and Mr Gerlach's frozen benefits as a result of indexation in 2009 and the final retirement benefits paid to them upon retirement.

Table 14: Non-executive Director retirement benefits

Director	Benefit as at 1 January 2009	Increase as a result of indexation	Final benefit as at retirement
S Gerlach	$1,208,547	$62,421	$1,270,968[1]
J Sloan	$370,617	$5,469	$376,086[2]

1 Mr Gerlach retired on 31 December 2009.

2 Professor Sloan retired on 6 May 2009.

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.

Following the changes to employee share schemes introduced by the Government in 2009, the Directors were able to elect to withdraw from the NED Share Plan in the second half of 2009.

Details of the shares allocated to Directors under the NED Share Plan during the year are set out in Table 15 below.

Table 15: 2009 NED Share Plan allocations

Director	Q1 2009 allocation[1]	Q2 2009 allocation[2]	Q3 2009 allocation[3]	Q4 2009 allocation[4]	Total
KC Borda	2,284	2,753	2,598	2,824	10,459
PR Coates	1,655	1,907	-	-	3,562
KA Dean	665	802	-	-	1,467
S Gerlach	949	1,144	-	-	2,093
RM Harding	284	343	-	-	627
J Sloan[5]	2,182	-	-	-	2,182

1 Shares were allocated to the participating Directors on 7 April 2009 at $17.1811 per share.

2 Shares were allocated to the participating Directors on 29 June 2009 at $14.2552 per share.

3 Shares were allocated to the participating Directors on 7 October 2009 at $15.1076 per share.

4 Shares were allocated to the participating Directors on 23 December 2009 at $13.8947 per share.

5 Retired 6 May 2009.

Details of remuneration paid to non-executive Directors

Details of the fees and other benefits paid to Directors during 2009 are set out in Table 16 below.

Table 16: 2009 Non-executive Director remuneration details

	Short-term benefits			Retirement benefits		Share-based payments	Total
	Directors' fees (incl. committee fees)[1] $	Fees for special duties or exertions $	Other[2] $	Superannuation contributions[3] $	Increase to retirement benefit[4] $	NED Share Plan $	$
S Gerlach[5]	402,375	-	4,629	14,103	62,421	32,625	516,153
KC Borda	0	-	-	13,937	-	157,000	170,937
PR Coates	178,528	-	-	14,103	-	55,626	248,257
KA Dean	160,125	-	-	14,103	-	22,875	197,103
RA Franklin	158,500	-	-	898	-	-	159,398
RM Harding	185,963	-	-	14,103	-	9,788	209,854
GJW Martin	25,425	-	-	2,288	-	-	27,713
J Sloan[6]	14,301	-	-	4,662	5,469	37,500	61,932

1 Refer to Table 13 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.

4 This shows the increase to retirement benefits during the year. See Table 14 for details of retirement benefits paid out.

5 Retired 31 December 2009.

6 Retired 6 May 2009.

Details of the fees and other benefits paid to Directors during 2008 are set out in Table 17 below.

Table 17: 2008 Non-executive Director remuneration details

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

1 Refer to Table 13 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.

Income Statements
for the year ended 31 December 2009

	Note	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Product sales	3	**2,181**	2,762	**681**	873
Cost of sales	4	**(1,423)**	(1,423)	**(463)**	(521)
Gross profit		**758**	1,339	**218**	352
Other revenue	3	**70**	43	**34**	64
Other income	3	**254**	1,735	**49**	1
Other expenses	4	**(351)**	(493)	**(164)**	(211)
Interest income	6	**85**	63	**197**	183
Finance expenses	6	**(98)**	(154)	**(133)**	(286)
Share of net losses of an associate	27	**(1)**	–	**–**	–
Profit before tax		**717**	2,533	**201**	103
Income tax expense	7	**(205)**	(768)	**(62)**	(51)
Royalty-related taxation (expense)/benefit	7	**(78)**	(115)	**3**	(32)
Total taxation expense		**(283)**	(883)	**(59)**	(83)
Net profit for the period		**434**	1,650	**142**	20
Net profit attributable to:					
Owners of Santos Ltd		**434**	1,650	**142**	20
Minority interests		**–**	–	**–**	–
		434	1,650	**142**	20
Earnings per share attributable to the ordinary equity holders of Santos Ltd (¢)					
Basic earnings per share	23	**52.1**	251.9		
Diluted earnings per share	23	**51.9**	242.8		
Dividends per share ($)					
Ordinary shares	22	**0.42**	0.42		
Redeemable preference shares	22	**4.6180**	6.3348		

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

Statements of Comprehensive Income
for the year ended 31 December 2009

	Note	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Net profit for the period		**434**	1,650	**142**	20
Other comprehensive income:					
Net exchange (loss)/gain on translation of foreign operations		**(294)**	271	**–**	–
Tax effect	7	**–**	–	**–**	–
		(294)	271	**–**	–
Net gain/(loss) on foreign currency loans designated as hedges of net investments in foreign operations		**286**	(259)	**–**	–
Tax effect	7	**(86)**	82	**–**	–
		200	(177)	**–**	–
Net change in fair value of available-for-sale financial assets		**–**	(13)	**–**	(13)
Tax effect	7	**–**	4	**–**	4
		–	(9)	**–**	(9)
Net actuarial gain/(loss) on the defined benefit plan		**16**	(37)	**16**	(37)
Tax effect	7	**(5)**	11	**(5)**	11
	30	**11**	(26)	**11**	(26)
Other comprehensive (losses)/income, net of tax		**(83)**	59	**11**	(35)
Total comprehensive income		**351**	1,709	**153**	(15)
Total comprehensive income attributable to:					
Owners of Santos Ltd		**351**	1,709	**153**	(15)
Minority interests		**–**	–	**–**	–
		351	1,709	**153**	(15)

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

Statements of Financial Position
as at 31 December 2009

	Note	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Current assets					
Cash and cash equivalents	8	**2,240**	1,553	**2,031**	1,403
Trade and other receivables	9	**917**	581	**357**	694
Inventories	10	**273**	290	**139**	136
Other financial assets	11	**65**	59	**60**	–
Tax receivable		**24**	–	**7**	–
Total current assets		**3,519**	2,483	**2,594**	2,233
Non-current assets					
Receivables	9	**10**	18	**9**	17
Available-for-sale financial assets	12	**2**	2	**2**	2
Investment in an associate	27	**177**	–	**–**	–
Other financial assets	11	**134**	345	**5,748**	4,724
Exploration and evaluation assets	13	**923**	493	**30**	43
Oil and gas assets	14	**6,317**	6,190	**1,722**	1,778
Other land, buildings, plant and equipment	15	**200**	160	**134**	110
Deferred tax assets	17	**79**	111	**–**	–
Total non-current assets		**7,842**	7,319	**7,645**	6,674
Total assets		**11,361**	9,802	**10,239**	8,907
Current liabilities					
Trade and other payables	18	**709**	605	**778**	723
Deferred income		**83**	55	**7**	2
Interest-bearing loans and borrowings	19	**164**	99	**1**	1
Tax liabilities		**20**	469	**–**	454
Provisions	20	**94**	117	**70**	66
Other liabilities	21	**10**	8	**–**	–
Total current liabilities		**1,080**	1,353	**856**	1,246
Non-current liabilities					
Deferred income		**17**	54	**–**	–
Interest-bearing loans and borrowings	19	**1,649**	2,356	**3,600**	4,085
Deferred tax liabilities	17	**871**	744	**103**	134
Provisions	20	**768**	808	**258**	311
Other liabilities	21	**9**	9	**–**	–
Total non-current liabilities		**3,314**	3,971	**3,961**	4,530
Total liabilities		**4,394**	5,324	**4,817**	5,776
Net assets		**6,967**	4,478	**5,422**	3,131
Equity					
Issued capital	22	**4,987**	2,531	**4,987**	2,531
Reserves		**(283)**	(189)	**(2)**	(2)
Retained earnings		**2,263**	2,136	**437**	602
Equity attributable to equity holders of Santos Ltd		**6,967**	4,478	**5,422**	3,131
Minority interests		**–**	–	**–**	–
Total equity		**6,967**	4,478	**5,422**	3,131

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

Statements of Cash Flows
for the year ended 31 December 2009

		Consolidated		Santos Ltd	
		2009	2008	**2009**	2008
	Note	**$million**	$million	**$million**	$million
Cash flows from operating activities					
Receipts from customers		**2,308**	3,101	**710**	985
Interest received		**85**	49	**81**	39
Overriding royalties received		**8**	15	**12**	24
Insurance proceeds received		**30**	13	**–**	–
Pipeline tariffs and other receipts		**93**	64	**12**	41
Payments to suppliers and employees		**(899)**	(1,089)	**(286)**	(402)
Exploration and evaluation expenditure – seismic and studies		**(199)**	(88)	**(19)**	(11)
Royalties and excise paid		**(65)**	(102)	**(26)**	(47)
Borrowing costs paid		**(80)**	(134)	**(2)**	–
Income taxes paid		**(55)**	(292)	**(24)**	(229)
Royalty-related taxes paid		**(71)**	(152)	**(25)**	(35)
Net cash provided by operating activities	29	**1,155**	1,385	**433**	365
Cash flows from investing activities					
Payments for:					
Exploration and evaluation expenditure		**(98)**	(266)	**(27)**	(73)
Oil and gas assets expenditure		**(1,182)**	(1,179)	**(355)**	(359)
Other land, buildings, plant and equipment		**(74)**	(40)	**(49)**	(14)
Acquisitions of oil and gas assets		**(363)**	–	**–**	(1)
Acquisitions of controlled entities		**(17)**	(7)	**–**	(6)
Restoration expenditure		**(29)**	(55)	**–**	(3)
Acquisition of investment in an associate		**(178)**	–	**(178)**	–
Advances to related entities		**(6)**	(6)	**–**	–
Proceeds from disposal of non-current assets		**12**	2,080	**–**	1
Proceeds from disposal of controlled entities		**24**	–	**–**	–
Proceeds from disposal of other investments		**–**	1	**–**	1
Income taxes paid on disposal of non-current assets		**(497)**	–	**(497)**	–
Other investing activities		**(3)**	4	**(4)**	3
Net cash (used in)/provided by investing activities		**(2,411)**	532	**(1,110)**	(451)
Cash flows from financing activities					
Dividends paid		**(297)**	(251)	**(297)**	(251)
Proceeds from issues of ordinary shares		**3,003**	220	**3,003**	220
Proceeds from share issues placed on term deposits		**(1,176)**	–	**(1,176)**	–
Proceeds from maturity of term deposits		**1,116**	–	**1,116**	–
Redeemable cumulative preference shares redeemed		**(600)**	–	**(600)**	–
Off-market buy-back of ordinary shares		**–**	(302)	**–**	(302)
Repayments of borrowings		**(92)**	(751)	**(1)**	(1)
Drawdown of borrowings		**–**	500	**–**	–
Receipts from controlled entities		**–**	–	**759**	2,817
Payments to controlled entities		**–**	–	**(1,492)**	(1,052)
Net cash provided by/(used in) financing activities		**1,954**	(584)	**1,312**	1,431
Net increase in cash and cash equivalents		**698**	1,333	**635**	1,345
Cash and cash equivalents at the beginning of the year		**1,553**	200	**1,403**	57
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(11)**	20	**(7)**	1
Cash and cash equivalents at the end of the year	8	**2,240**	1,553	**2,031**	1,403

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

Statements of Changes in Equity
for the year ended 31 December 2009

	Note	Issued capital $million	Translation reserve $million	Fair value reserve $million	Retained earnings $million	Total equity $million
Consolidated						
Balance at 1 January 2009		**2,531**	**(187)**	**(2)**	**2,136**	**4,478**
Total comprehensive income for the period		**–**	**(94)**	**–**	**445**	**351**
Transactions with owners in their capacity as owners:						
Share options exercised by employees	22	**4**	**–**	**–**	**–**	**4**
Entitlement offer exercised	22	**2,914**	**–**	**–**	**–**	**2,914**
Shares issued	22	**138**	**–**	**–**	**–**	**138**
Redeemable cumulative preference shares redeemed	22	**(600)**	**–**	**–**	**–**	**(600)**
Dividends to shareholders	22	**–**	**–**	**–**	**(327)**	**(327)**
Share-based payment transactions	31	**–**	**–**	**–**	**9**	**9**
Equity attributable to equity holders of Santos Ltd		**4,987**	**(281)**	**(2)**	**2,263**	**6,967**
Equity attributable to minority interests		**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2009		**4,987**	**(281)**	**(2)**	**2,263**	**6,967**
Balance at 1 January 2008		2,331	(281)	7	1,035	3,092
Total comprehensive income for the period		–	94	(9)	1,624	1,709
Transactions with owners in their capacity as owners:						
Share options exercised by employees	22	3	–	–	–	3
Shares issued	22	253	–	–	–	253
Off-market buy-back	22	(56)	–	–	(245)	(301)
Dividends to shareholders	22	–	–	–	(286)	(286)
Share-based payment transactions	31	–	–	–	8	8
Equity attributable to equity holders of Santos Ltd		2,531	(187)	(2)	2,136	4,478
Equity attributable to minority interests		–	–	–	–	–
Balance at 31 December 2008		2,531	(187)	(2)	2,136	4,478
Santos Ltd						
Balance at 1 January 2009		**2,531**	**–**	**(2)**	**602**	**3,131**
Total comprehensive income for the period		**–**	**–**	**–**	**153**	**153**
Transactions with owners in their capacity as owners:						
Share options exercised by employees	22	**4**	**–**	**–**	**–**	**4**
Entitlement offer exercised	22	**2,914**	**–**	**–**	**–**	**2,914**
Shares issued	22	**138**	**–**	**–**	**–**	**138**
Redeemable cumulative preference shares redeemed	22	**(600)**	**–**	**–**	**–**	**(600)**
Dividends to shareholders	22	**–**	**–**	**–**	**(327)**	**(327)**
Share-based payment transactions	31	**–**	**–**	**–**	**9**	**9**
Balance at 31 December 2009		**4,987**	**–**	**(2)**	**437**	**5,422**
Balance at 1 January 2008		2,331	–	7	1,131	3,469
Total comprehensive income for the period		–	–	(9)	(6)	(15)
Transactions with owners in their capacity as owners:						
Share options exercised by employees	22	3	–	–	–	3
Shares issued	22	253	–	–	–	253
Off-market buy-back	22	(56)	–	–	(245)	(301)
Dividends to shareholders	22	–	–	–	(286)	(286)
Share-based payment transactions	31	–	–	–	8	8
Balance at 31 December 2008		2,531	–	(2)	602	3,131

The statements of changes in equity 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 2009 was authorised for issue in accordance with a resolution of the Directors on 18 February 2010.

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 2009 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' Statutory 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' Statutory Report have been rounded to the nearest million dollars, unless otherwise stated.

Adoption of new accounting standards and interpretations

From 1 January 2009, the Company has adopted the following standards and interpretations, and all consequential amendments, which became applicable on 1 January 2009. Adoption of these standards and interpretations has only affected the presentation and disclosure in these financial statements. There has been no impact on the financial position or performance of the Company.

- AASB 8 *Operating Segments*
- AASB 101 *Presentation of Financial Statements*
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations*
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*
- AASB 2009-6 *Amendments to Australian Accounting Standards*

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 ended 31 December 2009. 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	Will impact recognition of future acquisitions	1 January 2010
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2013	Unlikely to have material impact	1 January 2013
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 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 2008-6	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Extends scope of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* to require where entity is committed to sale plan involving loss of control of a subsidiary but retains a partial investment in the disposed subsidiary, in which case all of the subsidiary's assets and liabilities are classified as held for sale; also includes minor terminology or editorial amendments to other standards.	1 July 2009	No impact	1 January 2010
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

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 2008-13	*Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners*	Amends AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners and AASB 110 *Events after the Reporting Period* for the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue.	1 July 2009	No impact	1 January 2010
AASB 2009-4	*Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Amends scope of AASB 2 *Share-based Payment* to exclude business combinations from scope; there are additional consequential amendments to AASB 138 *Intangible Assets* arising from revised AASB 3 *Business Combinations*.	1 July 2009	No impact	1 January 2010
AASB 2009-5	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Includes a number of other amendments to existing standards which are not expected to have a material impact. Will amend classification of exploration expenditure in statement of cash flows.	1 July 2009	No impact	1 January 2010
AASB 2009-7	*Amendments to Australian Accounting Standards*	Various minor editorial amendments to a number of standards and an interpretation to correct errors that occurred in AASB 2008-12, AASB 2008-13 and AASB Interpretation 17 *Distributions of Non-cash Assets to Owners* and other amendments reflect changes made by the IASB to its pronouncements.	1 July 2009	No impact	1 January 2010
AASB 2009-8	*Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*	The amendments clarify the scope of AASB 2 *Share-based Payment* by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	No impact	1 January 2010
AASB 2009-9	*Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters*	Provides additional exemptions and modifications on transition to Australian Accounting Standards in relation to certain oil and gas and lease assessments under Interpretation 4 *Determining whether an Arrangement contains a Lease*.	1 January 2010	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 2009-10	*Amendments to Australian Accounting Standards – Classification of Rights Issues*	Amends AASB 132 *Financial Instruments: Presentation* to require a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as an equity instrument if, and only if, the entity offers the financial instrument pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. Before this amendment, rights issues (rights, options, or warrants), denominated in a currency other than the functional currency of the issuer, were accounted for as derivative instruments.	1 February 2010	No impact	1 January 2011
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9*	This standard gives effect to consequential changes arising from the issuance of AASB 9.	1 January 2013	Unlikely to have material impact	1 January 2013
AASB 2009-12	*Amendments to Australian Accounting Standards*	The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.	1 January 2011	No impact	1 January 2011
AASB 2009-13	*Amendments to Australian Accounting Standards arising from Interpretation 19*	The objective of this Standard is to make amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* as a consequence of the issuance of Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*.	1 July 2010	No impact	1 January 2011
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
Interpretation 18	*Transfers of Assets from Customers*	Provides guidance on transfers of property, plant and equipment for entities that receive such contributions from their customers.	1 July 2009	No impact	1 January 2010
Interpretation 19	*Extinguishing Financial Liabilities with Equity Instruments*	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.	1 July 2010	No impact	1 January 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has changed the classification of exploration and evaluation expenditure in the statement of cash flows such that only exploration and evaluation expenditure that results in the initial recognition of an exploration and evaluation asset is included in investing activities. Exploration and evaluation expenditure that is expensed as incurred (generally seismic and study activities) is classified in operating activities. As a result, $88 million of exploration and evaluation expenditure was transferred from cash flows from investing activities to cash flows from operating activities for the Group and $11 million for Santos Ltd in the prior year ended 31 December 2008.

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.

Investment in an associate

The Group's investment in an associate is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. The Group generally has significant influence if it has between 20% and 50% of the voting rights of an entity.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes to the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's share of the associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in the statement of changes in equity and, when applicable, in the statement of comprehensive income. The cumulative post-acquisition movements are recorded against the carrying amount of the investment. Dividends receivable from the associate are recognised in the parent entity's income statement, while in the consolidated financial statements the Group reduces the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(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 the 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 reporting 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 reporting 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.

(E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group frequently uses derivative financial instruments to hedge its exposures 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 remeasurement 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 reporting 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 reporting 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 reporting 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

Hedge effectiveness

Hedge accounting (see below) is only applied where the derivative financial instrument provides an effective hedge of the hedged item. Where a derivative financial instrument provides a partially effective hedge, any gain or loss on the ineffective part is recognised immediately in the income statement.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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.

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.

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 gain or loss on an instrument used to hedge a net investment in a foreign operation is recognised directly in equity. 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).

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Where an ownership interest in an exploration and evaluation asset is exchanged for another, the transaction is recognised by reference to the carrying value of the original interest. Any cash consideration paid, including transaction costs, is accounted for as an acquisition of exploration and evaluation assets. Any cash consideration received, net of transaction costs, is treated as a recoupment of costs previously capitalised with any excess accounted for as a gain on disposal of non-current assets.

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

(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; or

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

(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.

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).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 generally 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 reporting date.

Financial instruments classified as available for sale are recognised or derecognised by the Group and the Company on the date it commits to purchase or 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.

(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 reporting 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 reporting 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).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in profit or loss on equity instruments classified as available-for-sale financial assets are not reversed through profit or loss.

(Q) PROVISIONS

A provision is recognised in the statement of financial position 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 reporting date, with a corresponding change in the cost of the associated asset.

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.

Remediation

Provisions for remediation costs are recognised where there is a present obligation as a result of an unexpected event that occurs outside of the planned operations of an asset.

The provision for future remediation costs is the best estimate of the present value of the future expenditure required to settle the remediation obligation at the reporting date, based on current legal requirements. Future remediation costs are reviewed annually and any changes in the estimate are reflected in the present value of the remediation provision at the reporting date, with a corresponding charge to the income statement.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reporting 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 reporting 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 reporting 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 Group recognises the fair value of cash-settled share-based payment transactions as an employee expense with a corresponding increase in the liability for employee benefits. The fair value of the liability is measured initially, and at the end of each reporting period until settled, at the fair value of the cash-settled share-based payment transaction, by using the Monte Carlo simulation method, taking into account the terms and conditions on which the cash-settled share-based payment transactions were granted, and the extent to which the employees have rendered service to date.

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.

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 19). 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 or similar taxes, 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) INTEREST INCOME

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.

(Z) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AA) 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 statement of financial position 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.

(AB) 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 statement of financial position.

Cash flows are included in the statement of cash flows 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.

Similar taxes in other tax jurisdictions are accounted for in a like manner.

(AC) 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the statement of financial position 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 reporting 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/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated amongst 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(AD) 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 statement of financial position.

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.

(AE) 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 Group 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 Group'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 and reviews these assessments periodically. 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 20.

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 has adopted AASB 8 *Operating Segments* with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group has identified its operating segments to be the four business units of Eastern Australia, Western Australia and Northern Territory ("WA & NT"), Asia Pacific, and Gladstone LNG ("GLNG®"), based on the different geographical regions and the similarity of assets within those regions. The other and unallocated segment comprises the activities undertaken by the Group's technical, exploration and corporate functional groups. This is the basis on which internal reports are provided to the Chief Executive Officer for assessing performance and determining the allocation of resources within the Group.

The Asia Pacific operating segment includes operations in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh, Kyrgyz Republic and Egypt.

The Group operates primarily 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.

		Eastern Australia		WA & NT		Asia Pacific		GLNG		Other and unallocated		Total	
	Note	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million
Revenue													
Sales to external customers		**1,044**	1,285	**845**	1,099	**166**	242	**100**	105	**26**	31	**2,181**	2,762
Inter-segment sales		**–**	–	**15**	25	**–**	–	**28**	7	**(43)**	(32)	**–**	–
Other revenue from external customers		**38**	34	**4**	1	**1**	–	**13**	1	**14**	7	**70**	43
Total segment revenue	3	**1,082**	1,319	**864**	1,125	**167**	242	**141**	113	**(3)**	6	**2,251**	2,805
Results													
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX")	5	**625**	900	**857**	862	**119**	208	**38**	1,755	**(51)**	(42)	**1,588**	3,683
Depreciation and depletion		**(359)**	(410)	**(183)**	(168)	**(29)**	(51)	**(30)**	(22)	**(18)**	(13)	**(619)**	(664)
Exploration and evaluation expensed		**–**	–	**–**	–	**–**	–	**–**	–	**(202)**	(179)	**(202)**	(179)
Net impairment (loss)/reversal of oil and gas assets		**(9)**	(67)	**(43)**	–	**15**	(148)	**–**	–	**–**	(1)	**(37)**	(216)
Earnings before interest and tax ("EBIT")		**257**	423	**631**	694	**105**	9	**8**	1,733	**(271)**	(235)	**730**	2,624
Interest income										**85**	63	**85**	63
Finance expenses										**(98)**	(154)	**(98)**	(154)
Profit before tax												**717**	2,533
Income tax expense										**(205)**	(768)	**(205)**	(768)
Royalty-related taxation expense		**(7)**	(4)	**(71)**	(111)	**–**	–	**–**	–	**–**	–	**(78)**	(115)
Total taxation expense	7											**(283)**	(883)
Net profit for the period												**434**	1,650

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia 2009 $million	Eastern Australia 2008 $million	WA & NT 2009 $million	WA & NT 2008 $million	Asia Pacific 2009 $million	Asia Pacific 2008 $million	GLNG 2009 $million	GLNG 2008 $million	Other and unallocated 2009 $million	Other and unallocated 2008 $million	Total 2009 $million	Total 2008 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:													
Gain on sale of oil and gas assets		**–**	–	**227**	–	**34**	–	**1**	1,697	**–**	–	**262**	1,697
Loss on sale of controlled entity		**–**	–	**–**	–	**(14)**	–	**–**	–	**–**	–	**(14)**	–
Insurance recoveries from incidents		**8**	9	**–**	–	**–**	27	**–**	–	**–**	–	**8**	36
Change in provisions of remediation and related incidents		**4**	(32)	**–**	–	**9**	–	**–**	–	**–**	–	**13**	(32)
Provision for contracting losses		**–**	–	**–**	–	**(16)**	–	**(2)**	–	**–**	–	**(18)**	–
Total segment assets*		**3,442**	3,329	**2,005**	1,928	**807**	660	**1,238**	995	**3,869**	2,890	**11,361**	9,802
Total segment liabilities		**488**	583	**747**	711	**149**	94	**123**	143	**2,887**	3,793	**4,394**	5,324
Investments accounted for using the equity method	27	**–**	–	**–**	–	**–**	–	**–**	–	**177**	–	**177**	–
Additions and acquisitions of non-current assets													
Exploration and evaluation assets	13	**–**	–	**–**	–	**–**	–	**89**	42	**500**	303	**589**	345
Oil and gas assets	14	**407**	666	**229**	314	**268**	141	**196**	277	**6**	11	**1,106**	1,409
Other land, buildings, plant and equipment	15	**–**	–	**2**	–	**2**	4	**26**	–	**39**	44	**69**	48
Investment in an associate	27	**–**	–	**–**	–	**–**	–	**–**	–	**178**	–	**178**	–
		407	666	**231**	314	**270**	145	**311**	319	**723**	358	**1,942**	1,802

* *Total other and unallocated segment assets include:*
- *$2,300 million (2008: $1,553 million) of cash and cash equivalents and term deposits as a result of cash received from the 2009 Entitlement offer and the proceeds from disposal of non-current assets in 2008; and*
- *$792 million (2008: $428 million) of exploration and evaluation assets.*

2. SEGMENT INFORMATION (CONTINUED)	Note	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Revenue from external customers by geographical location of production					
Australia		**2,084**	2,563		
Other countries		**167**	242		
Total revenue	3	**2,251**	2,805		

During the year revenue from two separate customers amounted to $512 million (2008: $770 million) and $253 million (2008: $539 million) respectively, arising from sales from all segments of the Group.

	Note	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Non-current assets by geographical location					
Australia		**6,620**	5,738		
Other countries		**997**	1,105		
		7,617	6,843		
Non-current assets by geographical location comprises:					
Exploration and evaluation assets	13	**923**	493		
Oil and gas assets	14	**6,317**	6,190		
Other land, buildings, plant and equipment	15	**200**	160		
Investment in an associate	27	**177**	–		
		7,617	6,843		

3. REVENUE AND OTHER INCOME

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Product sales:				
Gas, ethane and liquefied gas	**1,098**	1,052	**310**	301
Crude oil	**679**	1,151	**250**	407
Condensate and naphtha	**233**	321	**58**	81
Liquefied petroleum gas	**171**	238	**63**	84
	2,181	2,762	**681**	873
Other revenue:				
Overriding royalties	**8**	16	**12**	24
Pipeline tariffs and tolls	**30**	9	**2**	4
Trading revenue	**18**	13	**19**	8
Dividends from controlled entities	**–**	–	**–**	27
Other	**14**	5	**1**	1
	70	43	**34**	64
Total revenue	**2,251**	2,805	**715**	937
Other income:				
Insurance recoveries	**8**	36	**–**	–
Net gain on sale of non-current assets	**260**	1,699	**49**	1
Net loss on sale of controlled entities	**(14)**	–	**–**	–
	254	1,735	**49**	1

4. EXPENSES	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Cost of sales:				
Cash cost of production				
Production costs:				
Production expenses	**460**	465	**95**	155
Production facilities operating leases	**72**	78	**29**	30
	532	543	**124**	185
Other operating costs:				
Pipeline tariffs, tolls and other	**91**	84	**29**	21
Royalties and excise	**61**	101	**25**	43
	152	185	**54**	64
Total cash cost of production	**684**	728	**178**	249
Depreciation and depletion	**612**	662	**250**	273
Third party gas purchases	**117**	62	**35**	7
Decrease/(increase) in product stock	**10**	(29)	**–**	(8)
Total cost of sales	**1,423**	1,423	**463**	521
Other expenses:				
Selling	**10**	18	**4**	11
Corporate	**77**	97	**86**	87
Depreciation	**7**	2	**3**	–
	94	117	**93**	98
Foreign exchange losses/(gains)	**28**	(24)	**7**	(6)
Change in fair value of financial assets designated as at fair value through profit or loss	**(6)**	12	**–**	–
Fair value hedges, losses/(gains):				
On the hedging instrument	**134**	(236)	**–**	–
On the hedged item attributable to the hedged risk	**(138)**	229	**–**	–
Exploration and evaluation expensed	**202**	179	**32**	22
Net impairment loss of oil and gas assets	**37**	216	**35**	71
Impairment reversal of receivables due from controlled entities	**–**	–	**(8)**	(24)
Net impairment loss of investments in controlled entities	**–**	–	**5**	50
	351	493	**164**	211
Profit before tax includes the following:				
Depreciation and depletion:				
Depletion of subsurface assets	**348**	402	**147**	181
Depreciation of plant and equipment	**268**	257	**105**	90
Depreciation of buildings	**3**	5	**1**	2
Total depreciation and depletion	**619**	664	**253**	273
Employee benefits expense	**243**	217	**223**	210
Net write-down of inventories	**–**	1	**–**	–
Operating lease rentals:				
Minimum lease payments	**85**	88	**41**	39

5. EARNINGS	Consolidated 2009 $million	 2008 $million	Santos Ltd 2009 $million	 2008 $million
EBITDAX is calculated as follows:				
Profit before tax	**717**	2,533	**201**	103
Add back:				
Net financing costs/(income)	**13**	91	**(64)**	103
EBIT	**730**	2,624	**137**	206
Add back:				
Depreciation and depletion	**619**	664	**253**	273
Exploration and evaluation expensed	**202**	179	**32**	22
Net impairment loss on oil and gas assets	**37**	216	**35**	71
Impairment reversal on receivables due from controlled entities	**–**	–	**(8)**	(24)
Net impairment loss on investments in controlled entities	**–**	–	**5**	50
EBITDAX	**1,588**	3,683	**454**	598

6. NET FINANCING COSTS

Interest income:				
Controlled entities	**–**	–	**(117)**	(129)
Other entities	**(85)**	(63)	**(80)**	(54)
Interest income	**(85)**	(63)	**(197)**	(183)
Interest expense:				
Controlled entities	**–**	–	**121**	276
Other entities	**69**	132	**1**	1
Less borrowing costs capitalised	**(9)**	(10)	**–**	–
	60	122	**122**	277
Unwind of the effect of discounting on provisions	**38**	32	**11**	9
Finance expenses	**98**	154	**133**	286
Net financing costs/(income)	**13**	91	**(64)**	103

7. TAXATION EXPENSE	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Recognised in the income statement:				
Income tax expense				
Current tax expense				
Current year	**79**	727	**74**	(8)
Adjustments for prior years	**(15)**	(9)	**9**	14
	64	718	**83**	6
Deferred tax expense				
Origination and reversal of temporary differences	**116**	90	**(21)**	42
Benefit of tax losses recognised	**–**	(28)	**–**	(28)
Adjustments for prior years	**25**	(12)	**–**	31
	141	50	**(21)**	45
Total income tax expense	**205**	768	**62**	51
Royalty-related taxation expense				
Current tax expense				
Current year	**72**	79	**4**	28
Adjustments for prior years	**(1)**	7	**–**	2
	71	86	**4**	30
Deferred tax expense				
Origination and reversal of temporary differences	**6**	29	**(7)**	2
Adjustments for prior years	**1**	–	**–**	–
	7	29	**(7)**	2
Total royalty-related taxation expense	**78**	115	**(3)**	32
Numerical reconciliation between tax expense and pre-tax net profit:				
Profit before tax	**717**	2,533	**201**	103
Prima facie income tax at 30% (2008: 30%)	**215**	760	**60**	31
Increase in income tax expense due to:				
Investment allowance	**(21)**	–	**(10)**	–
Net impairment loss of investments in controlled entities	**–**	–	**2**	15
Net impairment reversal of receivables from controlled entities	**–**	–	**–**	(7)
Benefit arising from previously unrecognised tax losses or temporary differences that are used to reduce current tax expense	**(7)**	(2)	**–**	–
Foreign losses not recognised	**25**	26	**–**	–
Dividends from controlled entities	**–**	–	**–**	(10)
Tax losses recognised/(derecognised)	**15**	(28)	**–**	(28)
Benefits arising from previously unrecognised tax bases in assets upon change in use	**(32)**	–	**–**	–
Under-provided in prior years	**10**	19	**9**	45
Other	**–**	(7)	**1**	5
Income tax expense	**205**	768	**62**	51
Royalty-related taxation expense	**78**	115	**(3)**	32
Total taxation expense	**283**	883	**59**	83
Deferred tax charged/(credited) directly to equity:				
Gain/(loss) on foreign currency loans designated as hedges of net investments in foreign operations	**86**	(82)	**–**	–
Change in fair value of available-for-sale financial assets	**–**	(4)	**–**	(4)
Off-market buy-back transaction costs	**–**	(1)	**–**	(1)
Entitlement offer transaction costs	**(23)**	–	**(23)**	–
Actuarial gain/(loss) on defined benefit plan	**5**	(11)	**5**	(11)
	68	(98)	**(18)**	(16)

8. CASH AND CASH EQUIVALENTS	Consolidated 2009 $million	2008 $million	Santos Ltd 2009 $million	2008 $million
Cash at bank and in hand	**234**	273	**58**	155
Short-term deposits	**2,006**	1,280	**1,973**	1,248
Cash and cash equivalents in the statements of cash flows	**2,240**	1,553	**2,031**	1,403

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.

The Group's usual cash management process includes investing cash in short-term deposits with an original maturity of three months or less. However, much of the proceeds from the 2009 Entitlement offer have been invested in short-term deposits with longer maturities to take advantage of higher available yields. As at 31 December 2009, $1,583 million was placed in term deposits with original maturities of 4 to 18 months. All deposits are held with a range of high creditworthy financial institutions and are readily convertible to cash with commensurate interest adjustments if required.

Restricted cash balances
Barracuda Limited, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2009 of US$16 million (2008: US$10 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.

Wholly-owned Australian subsidiaries, Santos (BBF) Pty Ltd and Santos (SPV) Pty Ltd, have total cash and cash equivalents at 31 December 2009 of US$18 million (2008: US$20 million) that are held to cover obligations under a reserve-based facility.

9. TRADE AND OTHER RECEIVABLES	Consolidated 2009 $million	2008 $million	Santos Ltd 2009 $million	2008 $million
Current receivables				
Trade receivables	**324**	327	**119**	121
Allowance for impairment loss	**–**	–	**–**	–
	324	327	**119**	121
Tax-related balances owing by controlled entities	**–**	–	**–**	533
Other receivables and prepayments	**593**	254	**238**	40
	917	581	**357**	694
Non-current receivables				
Other receivables	**10**	18	**9**	17
The ageing of trade receivables at the reporting date is as follows:				
Trade receivables not yet due	**286**	307	**113**	121
Past due not impaired:				
Less than one month	**11**	3	**1**	–
One to three months	**17**	11	**2**	–
Three to six months	**3**	2	**–**	–
Six to twelve months	**4**	3	**3**	–
Greater than twelve months	**3**	1	**–**	–
Considered impaired:				
Greater than twelve months	**–**	–	**–**	–
	324	327	**119**	121

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. No impairment loss was recognised by the Group or the Company during the year.

	Consolidated		Santos Ltd	
	2009	2008	**2009**	2008
10. INVENTORIES	**$million**	$million	**$million**	$million
Petroleum products	**147**	164	**85**	82
Drilling and maintenance stocks	**126**	126	**54**	54
Total inventories at lower of cost and net realisable value	**273**	290	**139**	136
Inventories included above that are stated at net realisable value	**39**	29	**24**	18

11. OTHER FINANCIAL ASSETS

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Current other financial assets				
Term deposits	**60**	–	**60**	–
Interest rate swap contracts	**3**	–	**–**	–
Cross-currency swap contracts	**–**	59	**–**	–
Other	**2**	–	**–**	–
	65	59	**60**	–
Non-current other financial assets				
Interest rate swap contracts	**123**	304	**–**	–
Cross-currency swap contracts	**–**	33	**–**	–
Receivables due from controlled entities:				
Non-interest-bearing	**–**	–	**147**	108
Interest-bearing	**–**	–	**1,848**	1,193
Receivables due from other related entities	**10**	6	**–**	–
Investments in controlled entities	**–**	–	**3,575**	3,422
Investment in an associated entity	**–**	–	**178**	–
Other	**1**	2	**–**	1
	134	345	**5,748**	4,724

Receivables due from controlled entities are shown net of impairment losses of nil (2008: $8 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.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Equity securities available for sale	**2**	2	**2**	2

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.

13. EXPLORATION AND EVALUATION ASSETS	Consolidated			Santos Ltd		
	Subsurface assets $million	Plant and equipment $million	Total $million	Subsurface assets $million	Plant and equipment $million	Total $million
2009						
Balance at 31 December 2009	**783**	**140**	**923**	**30**	**–**	**30**
Reconciliation of movements						
Balance at 1 January 2009	**451**	**42**	**493**	**43**	**–**	**43**
Acquisition of controlled entities	**–**	**8**	**8**	**–**	**–**	**–**
Acquisition of exploration and evaluation assets	**351**	**–**	**351**	**–**	**–**	**–**
Additions	**140**	**90**	**230**	**16**	**–**	**16**
Exploration and evaluation expensed	**(63)**	**–**	**(63)**	**(13)**	**–**	**(13)**
Disposals and recoupment of exploration and evaluation expenditure	**(24)**	**–**	**(24)**	**(23)**	**–**	**(23)**
Transfer to oil and gas assets	**(38)**	**–**	**(38)**	**7**	**–**	**7**
Exchange differences	**(34)**	**–**	**(34)**	**–**	**–**	**–**
Balance at 31 December 2009	**783**	**140**	**923**	**30**	**–**	**30**
Comprising:						
Acquisition-related costs	**527**	**8**	**535**	**7**	**–**	**7**
Successful exploration wells	**199**	**–**	**199**	**23**	**–**	**23**
Exploration and evaluation assets pending determination of success*	**57**	**132**	**189**	**–**	**–**	**–**
	783	**140**	**923**	**30**	**–**	**30**
2008						
Balance at 31 December 2008	451	42	493	43	–	43
Reconciliation of movements						
Balance at 1 January 2008	332	–	332	16	–	16
Acquisition of controlled entities	15	–	15	–	–	–
Acquisition of exploration and evaluation assets	28	–	28	–	–	–
Additions	260	42	302	81	–	81
Exploration and evaluation expensed	(82)	–	(82)	(22)	–	(22)
Net impairment losses	(1)	–	(1)	–	–	–
Transfer to oil and gas assets	(160)	–	(160)	(32)	–	(32)
Exchange differences	59	–	59	–	–	–
Balance at 31 December 2008	451	42	493	43	–	43
Comprising:						
Acquisition-related costs	218	–	218	12	–	12
Successful exploration wells	106	–	106	23	–	23
Exploration and evaluation assets pending determination of success*	127	42	169	8	–	8
	451	42	493	43	–	43

* *Amounts related to plant and equipment includes costs capitalised for the evaluation of the GLNG facilities.*

14. OIL AND GAS ASSETS	Consolidated			Santos Ltd		
	Subsurface assets $million	Plant and equipment $million	Total $million	Subsurface assets $million	Plant and equipment $million	Total $million
2009						
Cost at 31 December 2009	8,090	6,423	14,513	3,007	2,474	5,481
Less accumulated depreciation, depletion and impairment	(4,886)	(3,310)	(8,196)	(2,199)	(1,560)	(3,759)
Balance at 31 December 2009	3,204	3,113	6,317	808	914	1,722
Reconciliation of movements						
Assets in development						
Balance at 1 January 2009	464	123	587	–	–	–
Additions	217	118	335	–	–	–
Recoupment of exploration and evaluation expenditure	(48)	–	(48)	–	–	–
Transfer from exploration and evaluation assets	1	–	1	–	–	–
Exchange differences	(96)	(11)	(107)	–	–	–
Balance at 31 December 2009	538	230	768	–	–	–
Producing assets						
Balance at 1 January 2009	2,727	2,876	5,603	862	916	1,778
Acquisition of oil and gas assets	7	2	9	–	–	–
Additions	360	402	762	130	86	216
Transfer from exploration and evaluation assets	37	–	37	(7)	–	(7)
Disposals	(43)	(5)	(48)	–	(2)	(2)
Depreciation and depletion expense	(348)	(242)	(590)	(147)	(81)	(228)
Net impairment losses	(24)	(13)	(37)	(30)	(5)	(35)
Exchange differences	(50)	(137)	(187)	–	–	–
Balance at 31 December 2009	2,666	2,883	5,549	808	914	1,722
Total oil and gas assets	3,204	3,113	6,317	808	914	1,722
Comprising:						
Exploration and evaluation expenditure pending commercialisation	31	–	31	–	–	–
Other capitalised expenditure	3,173	3,113	6,286	808	914	1,722
	3,204	3,113	6,317	808	914	1,722

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
2008						
Cost at 31 December 2008	7,838	6,121	13,959	2,885	2,392	5,277
Less accumulated depreciation, depletion and impairment	(4,647)	(3,122)	(7,769)	(2,023)	(1,476)	(3,499)
Balance at 31 December 2008	3,191	2,999	6,190	862	916	1,778
Reconciliation of movements						
Assets in development						
Balance at 1 January 2008	220	1	221	–	–	–
Additions	93	122	215	–	–	–
Transfer from exploration and evaluation assets	113	–	113	–	–	–
Exchange differences	38	–	38	–	–	–
Balance at 31 December 2008	464	123	587	–	–	–
Producing assets						
Balance at 1 January 2008	2,907	2,457	5,364	750	900	1,650
Acquisition of oil and gas assets	–	–	–	1	–	1
Additions	593	601	1,194	301	117	418
Transfer from exploration and evaluation assets	47	–	47	32	–	32
Disposals	(351)	(1)	(352)	–	–	–
Depreciation and depletion expense	(402)	(239)	(641)	(181)	(71)	(252)
Net impairment losses	(138)	(77)	(215)	(41)	(30)	(71)
Exchange differences	71	135	206	–	–	–
Balance at 31 December 2008	2,727	2,876	5,603	862	916	1,778
Total oil and gas assets	3,191	2,999	6,190	862	916	1,778
Comprising:						
Exploration and evaluation expenditure pending commercialisation	223	1	224	–	–	–
Other capitalised expenditure	2,968	2,998	5,966	862	916	1,778
	3,191	2,999	6,190	862	916	1,778

15. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	**Consolidated** Land and buildings $million	Plant and equipment $million	Total $million	**Santos Ltd** Land and buildings $million	Plant and equipment $million	Total $million
2009						
Cost at 31 December 2009	**37**	**344**	**381**	**7**	**296**	**303**
Less accumulated depreciation	**(4)**	**(177)**	**(181)**	**(1)**	**(168)**	**(169)**
Balance at 31 December 2009	**33**	**167**	**200**	**6**	**128**	**134**
Reconciliation of movements						
Balance at 1 January 2009	**32**	**128**	**160**	**5**	**105**	**110**
Additions	**2**	**67**	**69**	**1**	**48**	**49**
Depreciation	**(1)**	**(28)**	**(29)**	**–**	**(25)**	**(25)**
Balance at 31 December 2009	**33**	**167**	**200**	**6**	**128**	**134**
2008						
Cost at 31 December 2008	35	276	311	5	248	253
Less accumulated depreciation	(3)	(148)	(151)	–	(143)	(143)
Balance at 31 December 2008	32	128	160	5	105	110
Reconciliation of movements						
Balance at 1 January 2008	25	110	135	5	103	108
Additions	8	40	48	–	23	23
Depreciation	(1)	(22)	(23)	–	(21)	(21)
Balance at 31 December 2008	32	128	160	5	105	110

16. IMPAIRMENT OF CASH-GENERATING UNITS

At 31 December 2009 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, the recoverable amounts of some cash-generating units were formally reassessed, resulting in an impairment loss of $37 million (2008: $216 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 9.1% and 15.8% (2008: 8.8% and 15.8%), 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 ("CGU") to which the asset belongs.

			Consolidated			Santos Ltd		
CGU	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million	Subsurface assets $million	Plant and equipment $million	Total $million
Consolidated								
2009								
Mutineer-Exeter	WA & NT	Oil field	**27**	**4**	**31**	**31**	**5**	**36**
Thevenard	WA & NT	Oil field	**2**	**6**	**8**	**–**	**–**	**–**
Palm Valley	WA & NT	Gas field	**4**	**–**	**4**	**(1)**	**–**	**(1)**
Moonie to Brisbane pipeline	Eastern Australia	Pipeline	**–**	**9**	**9**	**–**	**–**	**–**
Sampang	Asia Pacific	Oil and gas field	**(6)**	**(6)**	**(12)**	**–**	**–**	**–**
Sangu	Asia Pacific	Gas field	**(3)**	**–**	**(3)**	**–**	**–**	**–**
Total impairment loss			**24**	**13**	**37**	**30**	**5**	**35**
2008								
Sampang	Asia Pacific	Oil and gas field	97	31	128	–	–	–
Sangu	Asia Pacific	Gas field	20	–	20	–	–	–
Other	Asia Pacific	Gas field	1	–	1	–	–	–
Cooper Basin	Eastern Australia	Oil and gas field	–	45	45	–	24	24
Patricia Baleen	Eastern Australia	Gas field	21	1	22	10	1	11
Mutineer-Exeter	WA & NT	Oil field	–	–	–	31	5	36
Total impairment loss			139	77	216	41	30	71

17. DEFERRED TAX ASSETS AND LIABILITIES	Assets 2009 $million	2008 $million	Liabilities 2009 $million	2008 $million	Net 2009 $million	2008 $million
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Consolidated						
Exploration and evaluation assets	**–**	–	**(192)**	(73)	**(192)**	(73)
Oil and gas assets	**–**	–	**(241)**	(289)	**(241)**	(289)
Other land, buildings, plant and equipment	**36**	46	**–**	–	**36**	46
Available-for-sale financial assets	**1**	1	**–**	–	**1**	1
Trade receivables	**–**	–	**(6)**	(4)	**(6)**	(4)
Other receivables	**–**	–	**(4)**	(4)	**(4)**	(4)
Inventories	**–**	–	**(30)**	(27)	**(30)**	(27)
Prepayments	**–**	–	**–**	(2)	**–**	(2)
Derivative financial instruments	**–**	–	**(35)**	(117)	**(35)**	(117)
Other assets	**–**	–	**(16)**	(10)	**(16)**	(10)
Equity-raising costs	**19**	1	**–**	–	**19**	1
Interest-bearing loans and borrowings	**–**	86	**(71)**	–	**(71)**	86
Other liabilities	**–**	–	**(1)**	(3)	**(1)**	(3)
Provisions	**57**	66	**–**	–	**57**	66
Royalty-related taxes	**–**	–	**(269)**	(258)	**(269)**	(258)
Other items	**–**	–	**(49)**	(52)	**(49)**	(52)
Tax value of carry-forward losses recognised	**9**	6	**–**	–	**9**	6
Tax assets/(liabilities)	**122**	206	**(914)**	(839)	**(792)**	(633)
Set-off of tax	**(43)**	(95)	**43**	95	**–**	–
Net tax assets/(liabilities)	**79**	111	**(871)**	(744)	**(792)**	(633)
Santos Ltd						
Exploration and evaluation assets	**–**	–	**(2)**	(10)	**(2)**	(10)
Oil and gas assets	**–**	–	**(48)**	(77)	**(48)**	(77)
Other land, buildings, plant and equipment	**–**	–	**(21)**	(9)	**(21)**	(9)
Available-for-sale financial assets	**1**	1	**–**	–	**1**	1
Trade receivables	**–**	–	**(6)**	(3)	**(6)**	(3)
Other receivables	**–**	–	**(4)**	(5)	**(4)**	(5)
Inventories	**–**	–	**(17)**	(15)	**(17)**	(15)
Other assets	**1**	1	**–**	–	**1**	1
Equity-raising costs	**19**	1	**–**	–	**19**	1
Provisions	**41**	46	**–**	–	**41**	46
Royalty-related taxes	**–**	–	**(61)**	(61)	**(61)**	(61)
Other items	**–**	–	**(6)**	(3)	**(6)**	(3)
Tax assets/(liabilities)	**62**	49	**(165)**	(183)	**(103)**	(134)
Set-off of tax	**(62)**	(49)	**62**	49	**–**	–
Net tax liabilities	**–**	–	**(103)**	(134)	**(103)**	(134)

Unrecognised deferred tax assets	Consolidated 2009 $million	2008 $million	Santos Ltd 2009 $million	2008 $million
Deferred tax assets have not been recognised in respect of the following items:				
Temporary differences in relation to investments in subsidiaries	**578**	915	**–**	–
Deductible temporary differences	**110**	74	**–**	–
Tax losses	**35**	46	**–**	–
	723	1,035	**–**	–

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 $35 million (2008: $46 million) will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

18. TRADE AND OTHER PAYABLES	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Trade payables	**430**	391	**129**	132
Non-trade payables and accrued expenses	**279**	214	**70**	65
Tax-related balances owing to controlled entities	**–**	–	**62**	–
Amounts owing to controlled entities	**–**	–	**517**	526
	709	605	**778**	723

19. 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.

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Current liabilities				
Obligations under finance leases	**1**	1	**1**	1
Bank loans – secured	**11**	24	**–**	–
Bank loans – unsecured	**22**	28	**–**	–
Long-term notes	**130**	46	**–**	–
	164	99	**1**	1
Non-current liabilities				
Amounts owing to controlled entities	**–**	–	**3,598**	4,082
Obligations under finance leases	**2**	3	**2**	3
Bank loans – secured	**8**	20	**–**	–
Bank loans – unsecured	**128**	194	**–**	–
Medium-term notes	**448**	457	**–**	–
Long-term notes	**1,063**	1,682	**–**	–
	1,649	2,356	**3,600**	4,085

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 3.58% as at 31 December 2009 (2008: 5.74%). 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.

19. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Details of major credit facilities

(A) BANK LOANS – SECURED

A reserve-based lending facility for US$65 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 assets in Indonesia with a carrying amount at 31 December 2009 of A$86 million. The average rate for the year was 6.33%, and A$19 million was outstanding at the reporting date (2008: A$44 million). The facility is available until 2012, and the current amount drawn down is expected to be fully repaid by 2011.

Committed loan facilities for the PNG LNG project were entered into by the joint venture participants on 15 December 2009 and are currently subject to the satisfaction of conditions precedent scheduled for the first quarter of 2010. The facilities include security over shares in Santos' project participants and the assets and entitlements of those participants in the project including their shares in the jointly owned borrowing entity Papua New Guinea Liquefied Natural Gas Global Company LDC. Under the financing arrangements, Santos' entities are entitled to on-loans from the jointly-owned borrowing entity to fund 70% of project costs representing up to 13.5% of the total loan commitments of US$14 billion which equates to A$2.1 billion. The facilities were provided by 17 commercial banks and six export credit agencies, bear fixed and floating rates of interest and have estimated final maturity dates (subject to the date of completion of the project) of December 2024 and December 2026 respectively.

(B) BANK LOANS – UNSECURED

The Group has access to the following committed revolving credit bank facilities with a number of financial institutions:

Year of maturity	Currency	2009 A$million	2008 A$million
2011	Multi-currency	**225**	225
2012	Multi-currency	**375**	375
2013	Multi-currency	**100**	100
		700	700

Revolving credit facilities bear interest at the relevant interbank reference rate plus a margin. The amount drawn at 31 December 2009 is nil (2008: nil).

Term bank loans

Year of maturity	Currency	2009 A$million	2008 A$million
2009	USD	**–**	28
2010	USD	**22**	28
2011	USD	**22**	29
2012	USD	**19**	25
2013	USD	**16**	21
2014	USD	**17**	22
2015	USD	**17**	22
2016	USD	**18**	23
2017	USD	**19**	24
		150	222

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 2009 is US$134 million (A$150 million) (2008: US$153 million (A$222 million)) at a weighted average annual effective interest rate of 2.30% (2008: 5.03%).

19. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Details of major credit facilities (continued)

(C) COMMERCIAL PAPER

The Group has an $800 million (2008: $800 million) Australian commercial paper programme supported by the revolving credit facilities referred to in (B) above. At 31 December 2009, no commercial paper is on issue (2008: nil).

(D) MEDIUM-TERM NOTES

The Group has a $1,000 million (2008: $1,000 million) Australian medium-term note programme under which the following were issued in 2005:

Year of issue	Year of maturity	Effective interest rate %	2009 $million	2008 $million
2005	2011	4.65*	**349**	349
2005	2015	4.21	**99**	108
			448	457

* *Floating rate of interest.*

(E) LONG-TERM NOTES

The Group has issued long-term notes in the US Private Placement market with varying maturities. The Group has the following long-term notes on issue:

Year of issue	Year of maturity	Effective interest rate %	2009 US$million	2008 US$million	2009 A$million	2008 A$million
2000	2010 to 2015	3.75	**203**	211	**227**	306
2002	2010 to 2022	2.83	**286**	337	**320**	487
2007	2017 to 2027	0.85	**578**	646	**646**	935
			1,067	1,194	**1,193**	1,728

20. PROVISIONS	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Current				
Liability for employee benefits	**72**	62	**66**	61
Restoration	**12**	32	**1**	3
Remediation	**7**	21	**–**	–
Non-executive Directors' retirement benefits	**1**	2	**1**	2
Other	**2**	–	**2**	–
	94	117	**70**	66
Non-current				
Liability for employee benefits	**5**	4	**5**	4
Liability for defined benefit obligations (refer note 30)	**34**	62	**34**	62
Restoration	**728**	742	**218**	245
Remediation	**1**	–	**1**	–
	768	808	**258**	311

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 remediation $million	Total Non-executive Directors' retirement benefits $million	Other $million	Total $million
Consolidated					
Balance at 1 January 2009	774	21	2	–	797
Provisions made during the year	22	(5)	–	2	19
Provisions used during the year	(15)	(8)	(1)	–	(24)
Unwind of discount	38	–	–	–	38
Change in discount rate	(53)	–	–	–	(53)
Exchange differences	(26)	–	–	–	(26)
Balance at 31 December 2009	740	8	1	2	751
Santos Ltd					
Balance at 1 January 2009	248	–	2	–	250
Provisions made during the year	(12)	1	–	2	(9)
Provisions used during the year	(2)	–	(1)	–	(3)
Unwind of discount	11	–	–	–	11
Change in discount rate	(23)	–	–	–	(23)
Exchange differences	(3)	–	–	–	(3)
Balance at 31 December 2009	219	1	1	2	223

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.

Remediation

Provisions for remediation costs are recognised where there is a present obligation as a result of an unexpected event that occurs outside of the planned operations of an asset.

Non-executive Directors' retirement benefits

Agreements exist with 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.

21. OTHER LIABILITIES

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Current				
Interest rate swap contracts	**1**	–	**–**	–
Cross-currency swap contracts	**7**	–	**–**	–
Embedded derivatives	**–**	6	**–**	–
Other	**2**	2	**–**	–
	10	8	**–**	–
Non-current				
Other	**9**	9	**–**	–

22. CAPITAL AND RESERVES

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Issued capital				
831,834,626 (2008: 584,812,875) ordinary shares, fully paid	**4,987**	1,947	**4,987**	1,947
88,000 (2008: 88,000) ordinary shares, paid to one cent	**–**	–	**–**	–
Nil (2008: 6,000,000) redeemable convertible preference shares	**–**	584	**–**	584
	4,987	2,531	**4,987**	2,531

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.

Movement in fully paid ordinary shares

	Note	2009 Number of shares	2008 Number of shares	2009 $million	2008 $million
Balance at the beginning of the year		**584,812,875**	585,964,352	**1,947**	1,747
Santos Employee Share Acquisition Plan	31(a)	**101,376**	111,153	**2**	1
Santos Employee Share Purchase Plan	31(a)	**18,400**	300,100	**–**	3
Shares issued on exercise of options	31(b)	**427,050**	303,583	**4**	3
Shares issued on vesting of Share Acquisition Rights	31(b)	**303,085**	141,330	**–**	–
Santos Executive Share Plan	31(c)	**–**	–	**–**	–
Non-executive Director Share Plan	31(d)	**20,390**	33,356	**–**	1
Entitlement offer	22(a)	**237,287,762**	–	**2,914**	–
Dividend Reinvestment Plan ("DRP")	22(b)	**2,005,880**	2,323,249	**30**	35
DRP underwriting agreement	22(b)	**6,857,808**	14,123,057	**106**	213
Off-market buy-back	22(c)	**–**	(18,487,305)	**–**	(56)
Transfer from redeemable convertible preference shares	22(d)	**–**	–	**(16)**	–
Balance at the end of the year		**831,834,626**	584,812,875	**4,987**	1,947
Redeemable convertible preference shares					
Balance at the beginning of the year	22(d)	**6,000,000**	6,000,000	**584**	584
Redeemable convertible preference shares bought back at face value and cancelled	22(d)	**(6,000,000)**	–	**(600)**	–
Transfer to fully paid ordinary shares	22(d)	**–**	–	**16**	–
Balance at the end of the year		**–**	6,000,000	**–**	584

Fully paid ordinary shares carry one vote per share, which entitles 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. The market price of the Company's ordinary shares on 31 December 2009 was $14.09 (2008: $14.87).

22. CAPITAL AND RESERVES (CONTINUED)

(A) ENTITLEMENT OFFER

On 11 May 2009 the Company launched a two for five accelerated pro-rata non-renounceable entitlement offer ("Entitlement offer") at an offer price of $12.50 per share. As a result, 140,040,844 ordinary shares (fully paid) were allotted to institutional investors of the Company on 22 May 2009 and 97,246,918 ordinary shares (fully paid) were allotted to retail investors of the Company on 16 June 2009. The entitlement offer to the retail investors was fully underwritten. $2,966 million was credited and transaction costs, net of tax of $52 million was debited to the Company's capital account.

(B) 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 is currently not underwritten.

(C) 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 million was debited against the Company's capital account (including $1 million transaction costs, net of tax) and $245 million was debited against retained earnings.

(D) REDEEMABLE CONVERTIBLE PREFERENCE SHARES

On 30 September 2009, the Company redeemed 6,000,000 redeemable convertible preference shares at their face value of $100, which resulted in an amount of $600 million being debited to the Company's capital account. The accumulated transaction costs, net of tax, of $16 million were transferred to ordinary share capital.

Nature and purpose of reserves

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 financial assets until the financial asset is derecognised.

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to meet its objectives with various stakeholders, and to maintain an efficient capital structure.

In order to maintain a prudent long-term capital structure the Group may adjust its distribution policy, return capital to shareholders, issue new shares or undertake corporate initiatives.

The Group manages its capital with a primary objective to maintain investment grade credit rating. One of the measures which is used to monitor capital is 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 statement of financial position plus net debt. Equity in 2008 included redeemable convertible preference shares which were redeemed in September 2009 (refer note 22(D) above).

During 2009 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 2009 and 31 December 2008 were as follows:

22. CAPITAL AND RESERVES (CONTINUED)

	Consolidated 2009 $million	2008 $million
Total interest-bearing loans and borrowings (note 19)	**1,813**	2,455
Less:		
Cash and cash equivalents (note 8)	**(2,240)**	(1,553)
Term deposits (note 11)	**(60)**	–
Net fair value of financial derivatives used to hedge debt (notes 11 and 21):		
Cross-currency swap contracts	**7**	(92)
Interest rate swap contracts	**(125)**	(304)
Net (assets)/debt	**(605)**	506
Total equity	**6,967**	4,478
Total capital	**6,362**	4,984
Gearing ratio	**(9.5%)**	10.2%

The decrease in the Group gearing ratio resulted primarily from the proceeds received from the Entitlement offer issued during the year.

Dividends

Dividends recognised during the year by the Company are:

	Dividend per share $	Total $million	Franked/ unfranked	Payment date
2009				
Interim 2009 redeemable preference	**1.6191**	**10**	**Franked**	**30 Sep 2009**
Final 2008 redeemable preference	**2.9989**	**18**	**Franked**	**31 Mar 2009**
Interim 2009 ordinary	**0.22**	**182**	**Franked**	**30 Sep 2009**
Final 2008 ordinary	**0.20**	**117**	**Franked**	**31 Mar 2009**
		327		
2008				
Interim 2008 redeemable preference	3.3365	20	Franked	30 Sep 2008
Final 2007 redeemable preference	2.9983	18	Franked	31 Mar 2008
Interim 2008 ordinary	0.22	131	Franked	30 Sep 2008
Final 2007 ordinary	0.20	117	Franked	31 Mar 2008
		286		

Franked dividends paid during the year were franked at the tax rate of 30%.

After the reporting date the following dividends were proposed by the Directors.
The dividends have not been provided for and there are no income tax consequences.

Final 2009 ordinary	**0.20**	**166**	**Franked**	**31 Mar 2010**
		166		

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2009 and will be recognised in subsequent financial reports.

	Santos Ltd 2009 $million	2008 $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 2009	**965**	1,062

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 reporting date but not recognised as a liability is to reduce it by $71 million (2008: $58 million).

23. 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	
	2009	2008
	$million	$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	**434**	1,650
Dividends paid on redeemable convertible preference shares	**(28)**	(38)
Earnings used in the calculation of basic earnings per share	**406**	1,612
Dividends paid on redeemable convertible preference shares	**–**	38
Earnings used in the calculation of diluted earnings per share	**406**	1,650

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:

	2009	2008
	Number of shares	
Basic earnings per share	**779,217,946**	639,831,571
Partly paid shares	**69,842**	71,222
Executive share options	**890,143**	1,446,209
Share acquisition rights	**2,445,269**	1,694,044
Redeemable convertible preference shares	**–**	36,650,691
Diluted earnings per share	**782,623,200**	679,693,737

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan and 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 2009. 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. The weighted average number of shares used for the purposes of calculating diluted earnings per share in 2008 was retrospectively adjusted for the effect of the Entitlement offer (refer note 22(A)).

During the year, 427,050 (2008: 303,583) options and 303,085 (2008: 141,330) SARs 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 197,097 (2008: 181,447).

24,690 (2008: 460,385) options and 61,961 (2008: 236,426) SARs lapsed during the year. The diluted earnings 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 45,570 (2008: 177,527).

The redeemable convertible preference shares on issue during 2009 were not included in the 2009 diluted earnings per share calculation as they were anti-dilutive for that period.

24. 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	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.	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	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	
Santos (Madura Offshore) Pty Ltd	AUST
SB Jethro Pty Ltd *(previously Santos Brantas Pty Ltd)*	AUST
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]	UK
Controlled entity of Zhibek Resources Limited	
CJSC KNG Hydrocarbons[1]	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	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	
Gastar Power Pty Ltd[3]	AUST
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)*	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%); and,*
- *Zhibek Resources Limited (75%).*

2 Company is party to a Deed of Cross Guarantee. Refer note 37.
3 Company acquired during the year. Refer note 25.

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.

25. 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
Gastar Power Pty Ltd	2 July 2009	100	**8**	–

Gastar Power Pty Ltd owns a 35% share of the Wilga Park Power Station. The operator and owner of the remaining 65% is Narrabri Power Pty Ltd, which is a wholly-owned subsidiary of Eastern Star Gas Limited. If the acquisition had occurred on 1 January 2009, revenue and net profit would not have been affected.

The acquisitions had the following effect on the Group's assets and liabilities:

	Carrying amounts $million	Fair value adjustments $million	Recognised values $million
Plant and equipment	**7**	**1**	**8**
Net identifiable assets and liabilities	**7**	**1**	**8**

The cash outflow on acquisition of controlled entities is as follows:	
Cash paid	**8**
Net cash acquired with subsidiaries	**–**
Total cash paid for current year acquisition	**8**
Deferred consideration paid*	**9**
Net consolidated cash outflow	**17**

* *Deferred consideration paid in 2009 comprises:*
- *$8 million to fund phase 2 of the exploration programme relating to the 2006 acquisition of CJSC South Petroleum Company; and*
- *$1 million to fund phase 1 of the exploration programme relating to the 2008 acquisition of Zhibek Resources Limited.*

In 2008, the Group acquired beneficial interest in the following controlled entities:

Name of entity	Date of acquisition	Beneficial interest acquired %	Purchase consideration $million
Zhibek Resources Limited	17 November 2008	75	–
CJSC KNG Hydrocarbons	17 November 2008	54	–

26. DISPOSAL OF SUBSIDIARIES

On 10 May 2009, the Group disposed of the wholly-owned subsidiaries Santos UK (Kakap) Limited and Novus Nominees Pty Ltd for US$18 million (A$24 million), resulting in a loss on sale of $14 million. The amount of foreign currency translation reserve recycled into profit and loss is nil.

The major classes of assets and liabilities of Santos UK (Kakap) Limited and Novus Nominees Pty Ltd at the date of disposal were as follows:

	10 May 2009 $million
Trade and other receivables	**2**
Inventories	**1**
Exploration and evaluation assets	**38**
Interest-bearing loan receivable	**14**
Trade and other payables	**(3)**
Tax liabilities	**(2)**
Provisions	**(1)**
Deferred tax liabilities	**(11)**
Net assets attributable to the disposed entities	**38**
The cash inflow on disposal of controlled entities is as follows:	
Cash received	**24**
Net cash and cash equivalents disposed with subsidiaries	**–**
Net consolidated cash inflow	**24**

27. INVESTMENT IN AN ASSOCIATE

			Ownership interest		Consolidated	
Company	**Country**	**Principal activity**	**2009 %**	2008 %	**2009 $million**	2008 $million
Eastern Star Gas Limited	Australia	Oil and gas	**19.42**	–	**177**	–

	2009 $million	2008 $million
Movement in the carrying amount of the Group's investment in an associate		
Balance at beginning of the year	**–**	–
Purchase of investment in associate	**178**	–
Share of losses, after tax	**(1)**	–
Balance at end of the year	**177**	–
Fair value of the Group's investment in listed associate		
Market value of the Group's investment in Eastern Star Gas Limited based on the closing share price on 31 December 2009	**145**	–

The Company believes that the Group's investment in Eastern Star Gas Limited will be recovered through ongoing exploration and evaluation of the associated company's underlying assets in which the Group also holds a direct interest.

Summarised financial information*

The following table illustrates the summarised financial information relating to the Group's associate:

	2009 $million	2008 $million
The Group's share of the associate's statement of financial position		
Total assets	**181**	–
Total liabilities	**(4)**	–
Net assets	**177**	–
The Group's share of the associate's income statement		
Revenue	**–**	–
Net loss after tax	**(1)**	–

* *The Group's share of the associate's summarised financial information is estimated based on the Eastern Star Gas Limited's 30 June 2009 annual financial report and the latest ASX releases.*

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 (CSG) 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)	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			
PNG LNG	PNG LNG	Gas development	13.5
Kipper	Kipper	Gas development	35.0
Reindeer	Reindeer	Gas development	45.0
Chim Sao	Vietnam (Block 12)	Gas development	31.9
Exploration and evaluation assets			
Evans Shoal	–	Contingent gas resource	40.0
Gunnedah	–	Contingent gas (CSG) resource	35.0
PEL1 and 12	–	Contingent gas (CSG) resource	25.0

(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
Papua New Guinea Liquefied Natural Gas Global Company LDC	13.5
Easternwell Drilling Services Holdings Pty Ltd	50.0
GLNG Operations Pty Ltd	60.0

	Consolidated		Santos Ltd	
	2009 $million	2008 $million	**2009 $million**	2008 $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	**64**	50	**–**	–
Non-current assets	**164**	194	**–**	–
	228	244	**–**	–
Current liabilities	**(21)**	(98)	**–**	–
Non-current liabilities	**(24)**	(15)	**–**	–
Net assets	**183**	131	**–**	–
Revenue	**216**	238	**–**	–
Expenses	**(189)**	(214)	**–**	–
Profit before income tax	**27**	24	**–**	–

28. INTERESTS IN JOINT VENTURES (CONTINUED)	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
(C) The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:				
Capital expenditure commitments	**2,113**	366	**104**	93
Minimum exploration commitments	**157**	187	**9**	7

29. NOTES TO THE STATEMENTS OF CASH FLOWS

(A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Profit after income tax	**434**	1,650	**142**	20
Add/(deduct) non-cash items:				
Depreciation and depletion	**619**	664	**253**	273
Net impairment loss on investment in controlled entities	**–**	–	**5**	50
Net impairment reversal on receivables due from controlled entities	**–**	–	**(8)**	(24)
Dividends distributed by controlled entities	**–**	–	**–**	(27)
Net borrowing costs charged by controlled entities	**–**	–	**4**	147
Exploration and evaluation expensed	**64**	83	**13**	12
Net impairment loss on oil and gas assets	**37**	216	**35**	71
Net gains on fair value hedges	**(5)**	(7)	**–**	–
Share-based payments expense	**11**	8	**11**	8
Borrowing costs capitalised	**(9)**	(10)	**–**	–
Unwind of the effect of discounting on provisions	**38**	32	**11**	9
Change in fair value of financial assets designated as at fair value through profit or loss	**(5)**	12	**–**	–
Defined benefit plan expense	**3**	3	**2**	2
Foreign exchange losses/(gains)	**28**	(24)	**7**	(6)
Net gain on sale of non-current assets	**(260)**	(1,699)	**(49)**	(1)
Share of net loss in an associate	**1**	–	**–**	–
Net loss on sale of controlled entities	**14**	–	**–**	–
Net cash provided by operating activities before changes in assets or liabilities	**970**	928	**426**	534
Add/(deduct) change in operating assets or liabilities net of acquisitions or disposals of businesses:				
Decrease/(increase) in trade and other receivables	**17**	11	**(16)**	49
Decrease/(increase) in inventories	**17**	(58)	**(1)**	(20)
(Increase)/decrease in other assets	**(8)**	(1)	**1**	(7)
Net increase/(decrease) in deferred tax assets and deferred tax liabilities	**63**	74	**(34)**	40
Increase/(decrease) in current tax liabilities	**95**	398	**28**	(174)
Increase/(decrease) in trade and other payables	**14**	(18)	**26**	(63)
(Decrease)/increase in provisions	**(13)**	51	**3**	6
Net cash provided by operating activities	**1,155**	1,385	**433**	365

(B) NON-CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Dividend Reinvestment Plan	**31**	35	**31**	35
Dividends distributed by controlled entities	**–**	–	**–**	27
Share subscriptions in controlled entities	**–**	–	**(158)**	(14)
Income tax transferred from controlled entities	**–**	–	**40**	613
Net borrowing costs charged by controlled entities	**–**	–	**(4)**	(147)

(C) TOTAL TAXATION PAID

	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Income tax paid				
Cash outflow from operating activities	**(55)**	(292)	**(24)**	(229)
Cash outflow from investing activities	**(497)**	–	**(497)**	–
Royalty-related tax paid				
Cash outflow from operating activities	**(71)**	(152)	**(25)**	(35)
	(623)	(444)	**(546)**	(264)

30. EMPLOYEE BENEFITS	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
(A) DEFINED BENEFIT PLAN				
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.				
Amount recognised in the statements of financial position:				
Deficit in plan recognised in non-current provisions (refer note 20)	**34**	62	**34**	62
Non-current receivables (refer note 9)	**(9)**	(17)	**(9)**	(17)
	25	45	**25**	45
Movements in the liability for net defined benefit obligations recognised in the statements of financial position				
Liability at the beginning of the year	**45**	11	**45**	11
Expense recognised in income statement	**3**	3	**2**	2
Amount capitalised in oil and gas assets	**1**	2	**1**	1
Amount recognised in retained earnings	**(16)**	37	**(16)**	37
Defined benefit receivable from controlled entities	**–**	–	**1**	2
Employer contributions	**(8)**	(8)	**(8)**	(8)
Liability at the end of the year	**25**	45	**25**	45
Expense recognised in the income statements				
Service cost	**4**	3	**2**	2
Interest cost	**3**	4	**2**	2
Expected return on plan assets	**(4)**	(4)	**(2)**	(2)
	3	3	**2**	2
The expense is recognised in the following line items in the income statements:				
Cost of sales	**3**	–	**2**	–
Other expenses	**–**	3	**–**	2
	3	3	**2**	2
Amounts recognised in the statements of comprehensive income				
Actuarial gain/(loss) in the year	**16**	(37)	**16**	(37)
Tax effect	**(5)**	11	**(5)**	11
Net actuarial gain/(loss) in the year	**11**	(26)	**11**	(26)
Cumulative actuarial gain/(loss) recognised in the statements of comprehensive income, net of tax	**8**	(23)	**8**	(23)

30. EMPLOYEE BENEFITS (CONTINUED)

(A) DEFINED BENEFIT PLAN (CONTINUED)

Historical information for the current and previous periods

	2009 $million	2008 $million	2007 $million	2006 $million	2005 $million
Consolidated					
Present value of defined benefit obligations	**170**	175	162	158	129
Fair value of plan assets	**(136)**	(113)	(146)	(132)	(113)
Deficit in plan	**34**	62	16	26	16
Experience adjustments (gain)/loss on plan assets	**(9)**	43	(4)	(6)	(8)
Experience adjustments (gain)/loss on plan liabilities	**(7)**	(14)	(1)	18	–
Santos Ltd					
Present value of defined benefit obligations	**170**	175	162	158	129
Fair value of plan assets	**(136)**	(113)	(146)	(132)	(113)
Deficit in plan	**34**	62	16	26	16
Experience adjustments (gain)/loss on plan assets	**(9)**	43	(4)	(6)	8
Experience adjustments (gain)/loss on plan liabilities	**(7)**	(14)	(1)	18	–

	Consolidated		**Santos Ltd**	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Reconciliation of the present value of the defined benefit obligations				
Opening defined benefit obligations	**175**	162	**175**	162
Service cost	**8**	8	**8**	8
Interest cost	**7**	9	**7**	9
Contributions by plan participants	**8**	8	**8**	8
Actuarial (gains)/losses	**(14)**	7	**(14)**	7
Benefits paid	**(3)**	(16)	**(3)**	(16)
Taxes and premiums paid	**(3)**	(3)	**(3)**	(3)
Curtailments	**(1)**	–	**(1)**	–
Settlements	**(7)**	–	**(7)**	–
Closing defined benefit obligations	**170**	175	**170**	175
Reconciliation of the fair value of plan assets				
Opening fair value of plan assets	**113**	145	**113**	145
Expected return on plan assets	**8**	10	**8**	10
Actuarial gains/(losses)	**9**	(43)	**9**	(43)
Employer contributions	**11**	12	**11**	12
Contributions by plan participants	**8**	8	**8**	8
Benefits paid	**(3)**	(16)	**(3)**	(16)
Taxes and premiums paid	**(3)**	(3)	**(3)**	(3)
Settlements	**(7)**	–	**(7)**	–
Closing fair value of plan assets	**136**	113	**136**	113

30. EMPLOYEE BENEFITS (CONTINUED)	Consolidated 2009 %	Consolidated 2008 %	Santos Ltd 2009 %	Santos Ltd 2008 %
(A) DEFINED BENEFIT PLAN (CONTINUED)				
Plan assets				
The percentage invested in each asset class at the reporting date:				
Australian equity	**32**	28	**32**	28
International equity	**29**	27	**29**	27
Fixed income	**10**	10	**10**	10
Property	**9**	13	**9**	13
Other	**7**	10	**7**	10
Cash	**13**	12	**13**	12

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 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
Actual return on plan assets – gain/(loss)	**12**	(24)	**12**	(24)

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 reporting date (expressed as weighted average)

	2009 % p.a.	2008 % p.a.
Discount rate	**4.8**	4.0
Expected rate of return on plan assets	**7.0**	7.0
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 million to the defined benefit superannuation plan in 2010.

(B) DEFINED CONTRIBUTION PLANS

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $8 million (2008: $6 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) to be entitled to acquire shares under this Plan. Executives participating in the Executive Long-term Incentive Programme in 2009, 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 being $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. At the end of the reporting period shares are granted to eligible employees at no cost to the employee.

Summary of share movements in the SESAP during 2009 (and comparative 2008 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 $
2009							
17 November 2006	**97,980**	**–**	**–**	**97,980**	**1,495,791**	**–**	**–**
20 November 2007	**92,625**	**–**	**–**	**6,150**	**95,780**	**86,475**	**1,218,433**
21 November 2008	**110,679**	**–**	**–**	**7,189**	**111,436**	**103,490**	**1,458,174**
20 November 2009	**–**	**101,376**	**15.11**	**594**	**8,602**	**100,782**	**1,420,018**
	301,284	**101,376**		**111,913**	**1,711,609**	**290,747**	**4,096,625**
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

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	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Employee expenses	**1,532**	1,403	**1,532**	1,403
Issued ordinary share capital	**1,532**	1,403	**1,532**	1,403

At 31 December 2009, the total number of shares acquired under the Plan since its commencement was 2,408,566.

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, for a period determined by the Board (one year). 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%). 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 during the restriction period.

On 20 November 2009, the Company issued 18,400 ordinary shares to 36 eligible employees at a subscription price of $14.86 per share under the Plan, being a 5% discount on the Market Value of $15.641 (calculated by reference to the weighted average sales price of those shares listed on the ASX during the one-week period up to and including the offer date, 23 October 2009). The total market price of those shares on the issue date was $276,368, based on the market price of $15.02 at the close of trade on the date of issue. The total amount received from employees for those shares was $273,424.

A summary of share movements in the SESPP are set out below:

Grant date	Opening balance	Granted during the year		Distributions during the year		Closing balance
	Number	Number	Fair value per share $	Number	Date	Number
2009						
21 November 2008	**300,100**	**–**	**–**	**300,100**	**20 November 2009**	**–**
20 November 2009	**–**	**18,400**	**15.64**	**–**	**–**	**18,400**
	300,100	**18,400**		**300,100**		**18,400**
2008						
20 November 2007	400	–	–	400	20 November 2008	–
21 November 2008	–	300,100	11.48	–	–	300,100
	400	300,100		400		300,100

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	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Issued ordinary share capital	**273**	3,274	**273**	3,274

At 31 December 2009, the total number of shares acquired under the general employee offer of the Plan since its commencement was 1,140,800.

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME

The Company's Executive Long-term Incentive ("LTI") 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.

Share Acquisition Rights and options
Each Share Acquisition Right ("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 and Managing Director
No new LTI grant was made to the Chief Executive Officer ("CEO") in 2009 as the grants made to Mr D J W Knox in 2008 constitute his LTI entitlement for the 2008, 2009 and 2010 years.

The 2008 grants comprised:

- a performance-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects ("Performance Award");
- a service-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects ("Deferred Award"); and
- a further performance-based equity award made to Mr Knox upon his appointment as CEO to supplement the grants already made to him in his Senior Executive capacity ("CEO Performance Award").

Mr Knox elected to receive his equity awards as a combination of options and share acquisition rights (SARs).

The key terms of Mr Knox's awards are as follows:

- The LTI grants made in 2008 were structured to provide Mr Knox with an annual LTI opportunity of 100% of Total Fixed Remuneration ("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.
- Mr Knox was able to elect to receive his LTI grant as either SARs, market value options or a combination of the two. He chose to take a combination of the two.
- All of the performance-based LTIs are subject to hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a three-year performance period. There is no retesting of performance conditions.

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

- The CEO Performance Award is divided into three tranches:

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

- Each tranche of the CEO Performance Award vests in accordance with the following vesting 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%

- None of the grants has vested as the period over which the performance hurdles are tested has not expired.
- 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).
- Full details of the equity grants made to Mr Knox in 2008 are contained in the 2008 Remuneration Report.

During the financial year, the Company granted nil (2008: 444,974) options over unissued shares to the CEO as set out below:

	2009		2008	
	Weighted average exercise price $	**Number**	Weighted average exercise price $	Number
Outstanding at the beginning of the year	**16.98**	**444,974**	–	–
Granted during the year	**–**	**–**	16.98	444,974
Outstanding at the end of the year	**16.98**	**444,974**	16.98	444,974
Exercisable at the end of the year	**–**	**–**	–	–

The options outstanding at 31 December 2009 have an exercise price in the range of $15.39 to $17.36, and a weighted average contractual life of 8.55 years.

During the year no options were exercised (2008: 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.

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

	2008				
	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, %p.a.)	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 (%p.a.)	2.3	2.3	2.3	2.3	2.3
Risk-free interest rate (based on Australian Government bond yields, %p.a.)	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 nil (2008: 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	
	2009	2008
Outstanding at the beginning of the year	**136,779**	–
Granted during the year	**–**	136,779
Outstanding at the end of the year	**136,779**	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		
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, %p.a.)	30.9	30.9	30.9
Right life (weighted average)	10 years	10 years	10 years
Expected dividends (%p.a.)	2.3	2.3	2.3
Risk-free interest rate (based on Australian Government bond yields, %p.a.)	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 31 December 2009, 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 2009, the Company made equity grants to its Senior Executives as the LTI component of their remuneration for 2009. The grants comprised:

- a performance-based component, equal to 75% of the total grant value ("Performance Award"); and
- a service-based component, equal to 25% of the total grant value ("Deferred Award").

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.

Vesting details of the Performance Award and the Deferred Award are summarised below:

Performance Award		
Vesting period	1 January 2009 to 31 December 2011.	
Vesting condition	Vesting of the Performance Award is based on relative TSR against ASX 100 companies as at 1 January 2009.	
Vesting schedule	**Relative TSR condition**	
	Santos TSR percentile ranking	***% of grant vesting***
	< 50th percentile	0%
	= 50th percentile	33.33%
	51st to 99th percentile	Further 1.33% for each percentile
	100th percentile	100%
Exercise price	$14.81 for options, being the volume weighted average price in the week up to and including the grant date of 2 March 2009.	
	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.	
	There is no retesting of the performance conditions if they are not satisfied.	

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Deferred Award

Vesting period	2 March 2009 to 1 March 2012.
Vesting condition	Vesting of the Deferred Award is based on continuous service to 1 March 2012, or three years from the grant date.
Vesting schedule	0% if the continuous service condition is not met. 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 275,884 (2008: 880,533) options over unissued shares as set out below:

	2009		2008	
	Weighted average exercise price $	**Number**	Weighted average exercise price $	Number
Outstanding at the beginning of the year	**12.70**	**2,195,293**	10.27	2,078,728
Granted during the year	**14.81**	**275,884**	15.39	880,533
Forfeited during the year	**11.34**	**(24,690)**	9.71	(460,385)
Exercised during the year	**9.61**	**(427,050)**	8.41	(303,583)
Outstanding at the end of the year	**13.65**	**2,019,437**	12.70	2,195,293
Exercisable at the end of the year	**10.15**	**521,250**	8.14	232,300

The options outstanding at 31 December 2009 have an exercise price in the range of $8.46 to $15.39, and a weighted average remaining contractual life of 7.9 years.

During the year 427,050 (2008: 303,583) options were exercised. The weighted average share price at the dates of exercise was $14.40 (2008: $17.81).

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**	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Issued ordinary share capital	**4,103**	2,553	**4,103**	2,553

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

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.

	2009		2008	
Option grant	**Performance Award G1**	**Deferred Award G2**	Performance Award F1	Deferred Award F2
Fair value at grant date ($)	**4.54**	**6.75**	5.25	7.30
Share price on grant date ($)	**15.00**	**15.00**	17.71	17.71
Exercise price ($)	**14.81**	**14.81**	15.39	15.39
Expected volatility (weighted average, %p.a.)	**46.5**	**46.5**	30.7	30.7
Option life (weighted average)	**10 years**	**10 years**	10 years	10 years
Expected dividends (%p.a.)	**2.6**	**2.6**	2.3	2.3
Risk-free interest rate (based on Australian Government bond yields, %p.a.)	**2.94**	**2.94**	6.29	6.29

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 723,792 (2008: 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	
	2009	2008
Outstanding at the beginning of the year	**1,229,712**	1,365,800
Granted during the year	**723,792**	241,668
Forfeited during the year	**(61,961)**	(236,426)
Vested during the year	**(303,085)**	(141,330)
Outstanding at the end of the year	**1,588,458**	1,229,712
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.

	2009			2008	
	Performance Award	**Deferred Award**		Performance Award	Deferred Award
SARs grant	**G1**	**G2**	**G3**	F1	F2
Fair value at grant date ($)	**8.67**	**14.45**	**14.45**	11.23	16.73
Share price on grant date ($)	**15.00**	**15.00**	**15.00**	17.71	17.71
Exercise price ($)	**–**	**–**	**–**	–	–
Expected volatility (weighted average, %p.a.)	**46.5**	**46.5**	**46.5**	30.7	30.7
Right life (weighted average)	**10 years**	**10 years**	**10 years**	10 years	10 years
Expected dividends (%p.a.)	**2.6**	**2.6**	**2.6**	2.3	2.3
Risk-free interest rate (based on Australia Government bond yields, %p.a.)	**2.94**	**2.94**	**2.94**	6.29	6.29

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Cash-settled share-based payments

During the year the Company raised $2,914 million through a two for five rights issue (refer note 22(A)). Each new share was issued at a price of $12.50 representing a 26.9% discount to the closing price of the shares before the announcement of the rights issue.

Executives, being the CEO and eligible senior executives, who held unvested SARs and options, were unable to participate in the rights issue and there was no adjustment to the applicable exercise price or the number of underlying shares to which each SAR or option was entitled. The ASX Listing Rules do allow an adjustment to the exercise price of options to reflect the impact of discounted rights issues but the terms of the grant need to expressly refer to the formula in ASX Listing Rule 6.22.2 and the Listing Rules do not contemplate (nor provide a mechanism for adjusting) SARs.

Accordingly, in order to ensure the rights issue would neither unfairly disadvantage or advantage executives and so as to avoid a misalignment between the incentives of management (through the LTI component of their remuneration) and a capital raising which was considered by the Board to be in the best interests of the Company and shareholders, the Board determined, in respect of existing LTI grants:

- to use TSR data which takes into account the impact of rights issues and other capital management activities on both Santos and comparator group companies when testing the satisfaction of TSR performance hurdles that apply to Santos LTI awards; and
- subject to the SARs and options vesting following satisfaction of applicable hurdles (and, in the case of options, being exercised), to make a future cash remuneration payment to executives equal to the value of the right to participate in the rights issue (calculated at $1.31 for each underlying share in accordance with the formula in ASX Listing Rule 6.22.2). The intention is to “keep whole” the executives in respect of SARs and options that actually vest in due course. No cash payment will be made in respect of SARs that do not vest or options that do not vest or are not exercised.

These future cash remuneration payments apply to LTI participants with grants that were yet to vest at the time of the rights issue, including the CEO. No changes have been made to the performance hurdles or testing dates.

Despite the intention to “keep whole” the executives, the future cash remuneration payments did not fully compensate for the loss in the value of the unvested SARs and options. The overall value of the future cash remuneration payments is $166,523 less than the loss in value of the SARs and options, both determined in accordance with AASB 2 *Share-based Payment*. The value of these future cash remuneration payments has been expensed in accordance with AASB 2, over the period from 8 May 2009 (the last trading day prior to the announcement of the rights issue; closing price of $17.09) to the end of their performance or vesting periods.

Financial statement impact of Executive Long-term Incentive Programme

The amounts recognised in the financial 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	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
Employee expenses:				
CEO and Managing Director options	**635**	418	**635**	418
CEO and Managing Director SARs	**553**	382	**553**	382
Former CEO options	**–**	1,667	**–**	1,667
Eligible senior executive options	**2,260**	1,723	**2,260**	1,723
Eligible senior executive SARs	**5,099**	4,125	**5,099**	4,125
Cash-settled share-based payments	**2,084**	–	**2,084**	–
	10,631	8,315	**10,631**	8,315
Retained earnings	**8,547**	8,315	**8,547**	8,315
Liability for employee benefits	**2,084**	–	**2,084**	–
	10,631	8,315	**10,631**	8,315

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Eligible senior executives – Shares

No shares have been issued under the executive long-term incentive component of the SESPP since 2004. At 31 December 2009, 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 above) 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.

(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 2009 there were 88,000 Plan shares outstanding.

(D) NON-EXECUTIVE DIRECTOR 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 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.

31. SHARE-BASED PAYMENT PLANS (CONTINUED)

(D) NON-EXECUTIVE DIRECTOR SHARE PLAN (CONTINUED)

In 2009, 20,390 (2008: 33,356) shares were allocated to participating Directors as follows:

Date	Shares issued Number	Price per share $
7 April 2009	8,019	17.1811
29 June 2009	6,949	14.2552
7 October 2009	2,598	15.1076
23 December 2009	2,824	13.8947

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	
	2009 $000	2008 $000	**2009 $000**	2008 $000
Employee expenses	**315**	553	**315**	553
Issued ordinary share capital	**315**	553	**315**	553

32. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION

Short-term employee benefits	**10,106**	10,442	**10,106**	10,442
Post-employment benefits	**399**	1,739	**399**	1,739
Other long-term benefits	**113**	259	**113**	259
Termination benefits	**–**	2,705	**–**	2,705
Share-based payments	**3,615**	4,619	**3,615**	4,619
	14,233	19,764	**14,233**	19,764

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:

Name	Balance at beginning of the year	Granted [1]	Options exercised/rights vested [2]	Other changes [3]	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
2009								
Options								
Directors								
Knox, David John Wissler	544,974	–	–	–	544,974	–	–	–
Executives								
Anderson, John Hugh	123,637	–	–	–	123,637	78,100	78,100	–
Baulderstone, James Leslie	91,678	–	–	–	91,678	–	–	–
Brown, Trevor John	137,917	–	–	(137,917)	–	–	–	–
Eames, Martyn Edward James	78,667	–	–	–	78,667	25,000	25,000	–
Kennett, Roger Maxwell	–	–	–	–	–	–	–	–
Macfarlane, Mark Stuart	108,682	–	–	–	108,682	63,700	63,700	–
Wasow, Peter Christopher	–	–	–	–	–	–	–	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–
Total	1,085,555	–	–	(137,917)	947,638	166,800	166,800	–
Rights								
Directors								
Knox, David John Wissler	186,779	–	–	–	186,779	–	–	–
Executives								
Anderson, John Hugh	27,000	17,527	–	–	44,527	–	–	–
Baulderstone, James Leslie	24,600	18,507	–	–	43,107	–	–	–
Brown, Trevor John	27,200	–	–	(27,200)	–	–	–	–
Eames, Martyn Edward James	51,900	20,215	(19,900)	–	52,215	–	–	–
Kennett, Roger Maxwell	46,668	–	–	(46,668)	–	–	–	–
Macfarlane, Mark Stuart	27,000	17,633	–	–	44,633	–	–	–
Wasow, Peter Christopher	83,220	33,625	(23,000)	–	93,845	–	–	–
Wilkinson, Richard John	62,515	19,335	(16,200)	–	65,650	–	–	–
Total	536,882	126,842	(59,100)	(73,868)	530,756	–	–	–

1 SARs granted to executives in the current year were granted on 2 March 2009, have an expiration date of 2 March 2019, and vest with the recipient for no consideration. At the date of grant, 95,529 of the SARs granted have a fair value of $8.67 per SAR, and 31,313 of the SARs granted have a fair value of $14.45 per SAR.

2 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.

3 Due to a company restructure, Mr T J Brown and Mr R M Kennett ceased to be key management personnel in 2009.

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)

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
2008								
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	–	(14,500)	137,917	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)	(2,553,900)	1,085,555	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)

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:

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Received on vesting of rights	Purchased on market	Redeemed	Entitlement offer	Other changes 1	Balance at end of the year	Balance held nominally at end of the year
2009										
Ordinary shares – fully paid										
Directors										
Borda, Kenneth Charles	45,172	–	–	–	–	(9,000)	19,217	11,919	67,308	–
Coates, Peter Roland	10,816	–	–	–	–	–	5,028	3,870	19,714	–
Dean, Kenneth Alfred	6,868	–	–	–	–	–	3,049	1,721	11,638	–
Franklin, Roy Alexander	–	–	–	–	–	–	–	–	–	–
Gerlach, Stephen	54,364	–	–	–	–	–	13,673	3,813	71,850	–
Harding, Richard Michael	1,757	–	–	–	–	–	–	684	2,441	–
Knox, David John Wissler	–	–	–	–	3,500	–	–	50	3,550	–
Martin, Gregory John Walton	–	–	–	–	3,250	–	–	–	3,250	
Sloan, Judith	20,135	–	–	–	–	–	–	(20,135)	–	–
Executives										
Anderson, John Hugh	19,018	–	–	–	–	–	7,608	–	26,626	–
Baulderstone, James Leslie	–	–	–	–	–	–	–	–	–	–
Brown, Trevor John	246,369	–	–	–	–	–	–	(246,369)	–	–
Eames, Martyn Edward James	9,800	–	–	19,900	–	(11,800)	11,880	–	29,780	–
Kennett, Roger Maxwell	64,295	–	–	–	–	–	–	(64,295)	–	–
Macfarlane, Mark Stuart	8,004	–	–	–	–	–	3,203	–	11,207	–
Wasow, Peter Christopher	39,734	–	–	23,000	–	(20,000)	25,094	–	67,828	–
Wilkinson, Richard John	30,291	–	–	16,200	–	–	18,597	–	65,088	–
Total	556,623	–	–	59,100	6,750	(40,800)	107,349	(308,742)	380,280	–
Redeemable convertible preference shares										
Directors										
Sloan, Judith	195	–	–	–	–	(195)	–	–	–	–
Executives										
Kennett, Roger Maxwell	165	–	–	–	–	(165)	–	–	–	–
Total	360	–	–	–	–	(360)	–	–	–	–

1 Other changes include:
(i) NED Share Plan and Dividend Reinvestment Plan share allocations.
(ii) Removal of Professor J Sloan's equity holding from the key management personnel disclosure as a result of her ceasing to be a Director of the Company on 6 May 2009.
(iii) In respect of executives, Mr T J Brown and Mr R M Kennett ceasing to be key management personnel in 2009 due to a company restructure.

32. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Received on vesting of rights	Purchased on market	Other changes [1]	Balance at end of the year	Balance held nominally at end of the year
2008								
Ordinary shares – fully paid								
Directors								
Borda, Kenneth Charles	35,207	–	–	–	–	9,965	45,172	–
Coates, Peter Roland	–	–	–	–	3,376	7,440	10,816	–
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	3,376	(4,077,386)	556,623	–
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) NED Share Plan and Dividend Reinvestment Plan 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.

(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 11 as to amounts owing by controlled entities and other related entities;
- notes 18 and 19 as to amounts owing to controlled entities;
- notes 19 and 36 as to Santos Ltd's parent company guarantees (including financing facilities) provided for its controlled entities;
- note 20 as to Non-executive Directors' retirement benefits;
- notes 11 and 24 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		Santos Ltd	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
The auditor of Santos Ltd is Ernst & Young.				
Amounts received or due and receivable by Ernst & Young (Australia) for:				
An audit or review of the financial report of the entity and any other entity in the consolidated group	**1,035**	1,061	**725**	813
Other assurance services	**513**	368	**433**	292
Other services:				
Taxation	**–**	5	**–**	4
Other	**–**	38	**–**	38
	1,548	1,472	**1,158**	1,147
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:				
External audit	**143**	122	**–**	–
Assurance	**20**	20	**–**	–
Taxation	**73**	33	**–**	–
Other services	**4**	4	**–**	–
	240	179	**–**	–
Amounts received or due and receivable by overseas non-Ernst & Young audit firms for:				
Audit of financial reports for subsidiaries incorporated in Papua New Guinea	**40**	62	**–**	–
Amounts received or due and receivable by related Australian practices of non-Ernst & Young audit firms for:				
Assurance	**195**	60	**137**	42
Taxation	**657**	297	**151**	69
Other services	**35**	190	**25**	133
	887	547	**313**	244

35. COMMITMENTS FOR EXPENDITURE

	Consolidated		Santos Ltd	
	2009	2008	**2009**	2008
	$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	**935**	330	**124**	109
Later than one year but not later than five years	**1,285**	150	**–**	23
Later than five years	**10**	4	**–**	–
	2,230	484	**124**	132
Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 37 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	**76**	270	**6**	4
Later than one year but not later than five years	**270**	162	**6**	9
Later than five years	**8**	–	**8**	–
	354	432	**20**	13

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.

	Consolidated		Santos Ltd	
	2009	2008	**2009**	2008
(C) OPERATING LEASE COMMITMENTS				
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	**82**	94	**37**	38
Later than one year but not later than five years	**245**	167	**70**	68
Later than five years	**130**	49	**36**	46
	457	310	**143**	152

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 annually by CPI.

During the year ended 31 December 2009 the Group recognised $85 million (2008: $88 million) as an expense in the income statement in respect of operating leases.

35. COMMITMENTS FOR EXPENDITURE (CONTINUED)	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $million
(D) FINANCE LEASE COMMITMENTS				
Finance lease commitments are payable as follows:				
Not later than one year	**1**	1	**1**	1
Later than one year but not later than five years	**2**	1	**2**	1
Later than five years	**1**	1	**1**	1
Total minimum lease payments	**4**	3	**4**	3
Less amounts representing finance charges	**(1)**	(1)	**(1)**	(1)
Present value of minimum lease payments	**3**	2	**3**	2

The Group has finance leases for various items of plant and equipment with a carrying amount of $3 million (2008: $3 million) 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 SHAREHOLDER 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 million over a ten-year period from the date the legislation was enacted. As at 31 December 2009, approximately $48 million remains to be paid over the next eight 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 2009, if this condition had not been met, the Company would have been liable to pay approximately $90 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 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $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**	7	**6**	7

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' Statutory Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

36. CONTINGENT LIABILITIES	Consolidated 2009 $million	Consolidated 2008 $million	Santos Ltd 2009 $million	Santos Ltd 2008 $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*	**18**	29	**8**	10
Actual and possible legal claims and proceedings	**30**	17	**15**	3
The Group's share of contingent liabilities of joint venture operations:				
Performance guarantees	**21**	13	**6**	3
Litigation and proceedings	**2**	5	**–**	2
	71	64	**29**	18

* *Performance guarantees in the nature of bank guarantees provided to secure statutory and contractual commitments such as leases or work commitments in respect of exploration permits and pipelines.*

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 $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 of controlled entities are disclosed in note 19.

Santos Ltd has provided parent company guarantees in respect of obligations estimated at $2,379 million which include:

(a) the funding and performance obligations of a number of subsidiary companies relating to:

- a floating storage and offloading facilities agreement for the Sampang Production Sharing Contract;
- a mobile offshore production unit agreement for the Madura Production Sharing Agreement;
- the development of a jetty, marine offloading facilities and in relation to the acquisition of land development and LNG facilities for the GLNG project; and
- performance obligations under Production Sharing Contracts in India;

(b) a subsidiary company's obligations to meet distribution charges for gas retail customers;

(c) the financial obligations of subsidiary companies relating to:

- floating production storage and offloading vessel charter agreement for the Chim Sao development in Block 12 W, offshore Vietnam; and
- subsidiary companies' share (13.5%) of the US$14 billion financing for the PNG LNG Project.

Subsidiary companies have provided parent or related company guarantees in respect of obligations estimated at $225 million which include:

(a) the performance obligations of their subsidiary or related companies in relation to:

- the sale of certain interest in the Bonaparte Basin;
- the sale of certain interests in the KAKAP PSC; and
- the acquisition of interest from Gastar Exploration USA Inc. and Gastar Exploration New South Wales, Inc.; and

(b) the payment obligations of a controlled entity in respect of mudlogging services in the Kyrgyz Republic.

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; and
- Vamgas Pty Ltd.

37. DEED OF CROSS GUARANTEE (CONTINUED)

The consolidated income statement, statement of comprehensive income, statement of financial position and statement of changes in equity of the entities that are members of the Closed Group are as follows:

	Closed Group	
	2009	2008
	$million	$million
Consolidated income statement		
Product sales	**1,865**	2,233
Cost of sales	**(1,411)**	(1,412)
Gross profit	**454**	821
Other revenue	**53**	106
Other income	**132**	(6)
Other expenses	**(178)**	(414)
Interest income	**82**	56
Finance expenses	**(127)**	(221)
Share of net profits of an associate	**–**	–
Profit before tax	**416**	342
Income tax expense	**(89)**	(154)
Royalty-related taxation expense	**(39)**	(48)
Total taxation expense	**(128)**	(202)
Net profit for the period	**288**	140
Consolidated statement of comprehensive income		
Net profit for the period	**288**	140
Other comprehensive income:		
Exchange losses on translation of foreign operations, net of tax	**(22)**	26
Change in fair value of available-for-sale financial assets, net of tax	**–**	(9)
Actuarial gain/(loss) on defined benefit plan, net of tax	**11**	(26)
Total comprehensive income	**277**	131

37. DEED OF CROSS GUARANTEE (CONTINUED)	Closed Group 2009 $million	2008 $million
Consolidated statement of financial position		
Current assets		
Cash and cash equivalents	**2,048**	1,342
Trade and other receivables	**938**	1,046
Inventories	**254**	256
Other financial assets	**63**	–
Tax receivable	**9**	–
Total current assets	**3,312**	2,644
Non-current assets		
Receivables	**9**	17
Available-for-sale financial assets	**2**	2
Other financial assets	**2,471**	2,124
Exploration and evaluation assets	**601**	209
Oil and gas assets	**4,410**	4,439
Other land, buildings, plant and equipment	**134**	110
Deferred tax assets	**6**	9
Total non-current assets	**7,633**	6,910
Total assets	**10,945**	9,554
Current liabilities		
Trade and other payables	**471**	769
Deferred income	**31**	50
Interest-bearing loans and borrowings	**1**	1
Tax liabilities	**9**	444
Provisions	**94**	38
Total current liabilities	**606**	1,302
Non-current liabilities		
Deferred income	**4**	6
Interest-bearing loans and borrowings	**3,125**	3,434
Deffered tax liabilities	**452**	380
Provisions	**618**	707
Total non-current liabilities	**4,199**	4,527
Total liabilities	**4,805**	5,829
Net assets	**6,140**	3,725
Equity		
Issued capital	**4,987**	2,531
Reserves	**–**	22
Retained earnings	**1,153**	1,172
Total equity	**6,140**	3,725

37. DEED OF CROSS GUARANTEE (CONTINUED)	Closed Group Issued capital $million	Translation reserve $million	Fair value reserve $million	Retained earnings $million	Total equity $million
Consolidated statement of changes in equity					
Balance at 1 January 2009	**2,531**	**24**	**(2)**	**1,172**	**3,725**
Total comprehensive income for the period	**–**	**(22)**	**–**	**299**	**277**
Transactions with owners in their capacity as owners:					
Share options exercised by employees	**4**	**–**	**–**	**–**	**4**
Entitlement offer exercised	**2,914**	**–**	**–**	**–**	**2,914**
Shares issued	**138**	**–**	**–**	**–**	**138**
Redeemable cumulative preference shares redeemed	**(600)**	**–**	**–**	**–**	**(600)**
Dividends to shareholders	**–**	**–**	**–**	**(327)**	**(327)**
Share-based payment transactions	**–**	**–**	**–**	**9**	**9**
Balance at 31 December 2009	**4,987**	**2**	**(2)**	**1,153**	**6,140**
Balance at 1 January 2008	2,331	(2)	7	1,205	3,541
Total comprehensive income for the period	–	26	(9)	114	131
Adjustment to retained earnings for company added to Deed during the year	–	–	–	131	131
Transactions with owners in their capacity as owners:					
Share options exercised by employees	3	–	–	–	3
Shares issued	253	–	–	–	253
Transaction costs, net of tax	(56)	–	–	–	(56)
Dividends to shareholders	–	–	–	(286)	(286)
Share-based payment transactions	–	–	–	8	8
Balance at 31 December 2008	2,531	24	(2)	1,172	3,725

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 financial 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") which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and covers specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(A) FOREIGN CURRENCY RISK

Foreign exchange risk arises from commercial transactions and valuations in 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 products denominated in US dollars, foreign currency borrowings and expenditure. In order to economically hedge 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 ("USD") denominated borrowings of Australian dollar ("AUD") functional currency companies (2009: US$1,090 million; 2008: US$1,141 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 dollar denominated borrowings recognised in the income statements in 2009.

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 2009, the following table demonstrates the estimated sensitivity to a +/–13 cent movement in the US dollar exchange rate (2008: +/–10 cents) with all other variables held constant, on post-tax profit and equity:

	Consolidated		**Santos Ltd**	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Impact on post-tax profit:				
AUD/USD +13 cents (2008: +10 cents)	**–**	(1)	**–**	–
AUD/USD –13 cents (2008: -10 cents)	**–**	1	**–**	–
Impact on equity:				
AUD/USD +13 cents (2008: +10 cents)	**–**	(1)	**–**	–
AUD/USD –13 cents (2008: -10 cents)	**–**	1	**–**	–

The above sensitivity will vary depending on the Group's financial asset and liability profile over time.

The +/–13 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 interest rate risk arises from its 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 1 to 20 years, and align with the maturity of the related notes. At 31 December 2009, the Group had interest rate swaps with a notional contract amount of $1,028 million (2008: $1,302 million).

The net fair value of swaps at 31 December 2009 was $125 million (2008: $304 million), comprising assets of $126 million and liabilities of $1 million. These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2009, taking into account interest rate swaps, it is estimated that if interest rates changed by US London Inter-Bank Offer Rate ("LIBOR") +0.13%/–0.13% and Australian Bank Bill Swap reference rate ("BBSW") +1.14%/–1.14% (2008: +0.25%/–2.0%), with all other variables held constant, the estimated impact on post-tax profit and equity would have been:

	Consolidated		Santos Ltd	
	2009	2008	**2009**	2008
	$million	$million	**$million**	$million
Impact on post-tax profit:				
Interest rates +US 0.13%/+AU 1.14% (2008: +0.25%)	**14**	(1)	**–**	–
Interest rates –US 0.13%/–AU 1.14% (2008: –2.0%)	**(14)**	4	**–**	–
Impact on equity:				
Interest rates +US 0.13%/+AU 1.14% (2008: +0.25%)	**14**	(1)	**–**	–
Interest rates –US 0.13%/–AU 1.14% (2008: –2.0%)	**(14)**	4	**–**	–

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 will be subject to change.

The sensitivity analysis is based on the Group's reasonable estimate of changes in interest rates over the following financial year and reflects annual interest rate volatility. Changes in interest rates over the following year may be greater or less than the US LIBOR +0.13%/–0.13% and the Australian BBSW +1.14%/–1.14% sensitivity employed in the estimates above.

Commodity price risk exposure

The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil-price-linked contracts. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2009 the Group has no open oil price swap contracts (2008: 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 investments in 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 Board-approved credit policies 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–	6	3,400	2,356	0 – 653
A+	7	1,300	203	0 – 152

* *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 reporting 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 statement of financial position.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) LIQUIDITY RISK

The Group adopts a prudent liquidity risk management strategy and seeks to maintain sufficient liquid assets and available committed credit facilities to meet short-term to medium-term liquidity requirements. The Group's objective is to maintain flexibility in funding to meet ongoing operational requirements, exploration and development expenditure, and other corporate initiatives.

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 2009.

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
Consolidated				
2009				
Non-derivative financial liabilities				
Trade and other payables	**709**	**–**	**–**	**–**
Obligations under finance leases	**1**	**1**	**1**	**1**
Bank loans	**32**	**38**	**54**	**51**
Medium-term notes	**24**	**372**	**13**	**113**
Long-term notes	**199**	**59**	**278**	**1,056**
Derivative financial liabilities/(assets)				
Cross-currency swap contracts	**5**	**–**	**–**	**–**
Interest rate swap contracts	**(50)**	**(34)**	**(32)**	**(35)**
	920	**436**	**314**	**1,186**
2008				
Non-derivative financial liabilities				
Trade and other payables	605	–	–	–
Obligations under finance leases	1	1	1	1
Bank loans	54	34	82	119
Medium-term notes	18	17	376	119
Long-term notes	141	260	375	1,432
Derivative financial assets				
Cross-currency swap contracts	(56)	(31)	–	–
Interest rate swap contracts	(42)	(58)	(74)	(184)
	721	223	760	1,487
Santos Ltd				
2009				
Trade and other payables	**778**	**–**	**–**	**–**
Obligations under finance leases	**1**	**1**	**1**	**1**
Amounts owing to controlled entities	**–**	**–**	**–**	**3,598**
	779	**1**	**1**	**3,599**
2008				
Trade and other payables	723	–	–	–
Obligations under finance leases	1	1	1	1
Amounts owing to controlled entities	–	–	–	4,082
	724	1	1	4,083

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 in the statement of financial position 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$125 million and their fair value is estimated at US$131 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 2009. 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:

	2009	2008
Derivatives	**0.4% – 6.3%**	1.3% – 4.3%
Loans and borrowings	**0.4% – 6.9%**	1.7% – 4.9%

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES (CONTINUED)

Fair value hierarchy

As at 31 December 2009, the Group held the following financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Total $million	Level 1 $million	Level 2 $million	Level 3 $million
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	126	–	126	–
Available-for-sale financial assets:				
Equity shares	2	2	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(1,193)	–	(1,193)	–
Medium-term notes	(99)	–	(99)	–
Cross-currency swap contracts	(7)	–	(7)	–
Interest rate swap contracts	(1)	–	(1)	–

During the reporting period ended 31 December 2009, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 February 2010, the Directors of Santos Ltd declared a final dividend on ordinary shares in respect of the 2009 financial year. Refer to note 22 for dividends declared after 31 December 2009.

Directors' Declaration
For the year ended 31 December 2009

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 2009 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 year ended 31 December 2009.
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 18th day of February 2010

On behalf of the Board:

Director
Adelaide

Director

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 2009, 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
18 February 2010

Liability limited by a scheme approved under Professional Standards Legislation

Independent Audit 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 statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity 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 judgment, 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 included on page 149 of the Annual Report and is referred to in the directors' statutory 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 2009 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 52 to 69, within the directors' statutory report for the year ended 31 December 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Adelaide
18 February 2010

Liability limited by a scheme approved under Professional Standards Legislation

Securities exchange and shareholder information

Listed on Australian Securities Exchange at 26 February 2010 were 831,413,347 fully paid ordinary shares. Unlisted were 46,500 partly paid Plan 0 shares, 41,500 partly paid Plan 2 shares, 18,400 fully paid ordinary shares issued pursuant to the Santos Employee Share Purchase Plan (SESPP) for General Employee Participation, 57,512 fully paid ordinary shares issued pursuant to SESPP for Senior Executive Long Term Incentive (LTI), 693,800 restricted fully paid ordinary shares issued pursuant to the vesting of LTI Share Acquisition Rights and 42,735 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan. There were: 111,111 holders of all classes of issued ordinary shares (including 6 holders of Plan 0 shares; 5 holders of Plan 2 shares; 36 holders of SESPP shares; and 56 holders of restricted shares) compared with 73,746 a year earlier; and 52 holders of the 4,954,743 options granted pursuant to the Santos Executive Share Option Plan and 87 holders of 1,343,737 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 57.38% of the total voting power in Santos (last year 57.80%). The 20 largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 26 February 2010 were:

Name	Number of fully paid ordinary shares	%
HSBC Custody Nominees (Australia) Limited	161,469,916	19.42
National Nominees Limited	108,651,936	13.07
JP Morgan Nominees Australia Limited	97,485,218	11.73
Citicorp Nominees Pty Limited	29,004,735	3.49
ANZ Nominees Limited (Cash Income A/c)	19,026,225	2.29
Cogent Nominees Pty Limited	11,874,389	1.43
Queensland Investment Corporation	6,842,105	0.82
Australian Foundation Investment Company Limited	6,611,628	0.80
AMP Life Limited	5,765,314	0.69
Citicorp Nominees Pty Limited (CFS WSLE Geared Shr Fnd A/c)	4,343,686	0.52
Argo Investments Limited	3,350,000	0.40
Citicorp Nominees Pty Limited (BHP Billiton ADR Holders A/c)	3,247,356	0.39
UBS Wealth Management Australia Nominees Pty Ltd	3,161,739	0.38
RTS Nominees Pty Limited	3,118,324	0.38
Cogent Nominees Pty Limited (SMP Accounts)	2,820,736	0.34
Mr John Charles Ellice-Flint	2,578,746	0.31
UBS Nominees Pty Ltd	2,389,746	0.29
Neweconomy Com Au Nominees Pty Limited (SBL Account)	1,898,596	0.23
HSBC Custody Nominees (Australia) Limited – A/c 3	1,736,299	0.21
Merrill Lynch (Australia) Nominees Pty Limited	1,712,523	0.21
Total	477,089,217	57.38

Securities exchange and shareholder information
(continued)

Analysis of Shares – Range of Shares Held

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1-1,000	45,821	41.24	2.86
1,001-5,0000	51,628	46.47	14.54
5,001-10,000	8,859	7.97	7.50
10,001-100,000	4,632	4.17	11.41
100,001 and over	171	0.15	63.69
Total	**111,111**	**100.00**	**100.00**
Less than a marketable parcel of $500	1,866		

Substantial Shareholders, as at 26 February 2010, as disclosed by notices received by the Company:

Name	No. of voting shares held
Blackrock Investment Management (Australia) Limited	42,060,067

For Directors' Shareholdings see the Directors' Statutory Report as set out on page 43 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.

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.

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.

LPG
Liquefied petroleum gas, the name given to propane and butane in their liquid state.

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.

OECD
Organisation for Economic Cooperation and Development

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 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.

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.

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.

tcf
Trillion cubic feet.

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

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.

Conversion

Crude oil	1 barrel = 1 boe
Sales gas	1 petajoule = 171,937 boe
Condensate/ naphtha	1 barrel = 0.935
LPG	1 tonne = 8.458

For a comprehensive online conversion calculator tool, visit the Santos website, www.santos.com

Index

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 Thursday 6 May 2010 at 10:00 am.

FINAL DIVIDEND

The 2009 final ordinary dividend will be paid on 31 March 2010 to shareholders registered in the books of the Company at the close of business on 2 March 2010 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).

DIRECTORS

P R Coates (Chairman), D J W Knox (Managing Director), K C Borda, K A Dean, R A Franklin, R M Harding, G J W Martin, J Hemstritch.

SECRETARY

J L Baulderstone

CHANGE OF SHAREHOLDER DETAILS

Shareholders can access their current shareholding details and change many of these details online via Santos Ltd website www.santos.com. The website requires you to quote your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) in order to access this information. Forms are also 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 by contacting Computershare Investor Services Pty Limited.

INVESTOR INFORMATION AND SERVICES

Santos website

A wide range of information for investors is available from Santos' website, www.santos.com, including Annual Reports, Sustainability 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 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:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, Victoria 3001
Phone: 1300 017 716 (within Australia) or
+61 3 9938 4343 (outside Australia)
Email: web.queries@computershare.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

2009 Full Year Results announcement
18 Feb 2010

Ex-dividend date for 2009 full year dividend
24 Feb 2010

Record date for 2009 full year dividend
02 Mar 2010

Payment date for 2009 full year dividend
31 Mar 2010

Annual General Meeting
06 May 2010

2010 Interim Results announcement
26 Aug 2010

Ex-dividend date for 2010 interim dividend
TBA

Record date for 2010 interim dividend
TBA

Payment date for 2010 interim dividend
TBA

QUARTERLY REPORTING CALENDAR

2010 First Quarter Activities Report
22 Apr 2010

2010 Second Quarter Activities Report
22 Jul 2010

2010 Third Quarter Activities Report
21 Oct 2010

2010 Fourth Quarter Activities Report
20 Jan 2011

Dates are subject to change and are published on the Santos website, www.santos.com.

Santos 2009 Major Announcements

07 Jan 2009	Santos signs US$585 million Sino Iron gas supply contract
23 Jan 2009	2008 Fourth Quarter Activities Report
28 Jan 2009	Santos 2008 Reserves Report
19 Feb 2009	Underlying profit up 42% to $572 million for 2008
05 Mar 2009	Reindeer Project Update
31 Mar 2009	Retirement of Chairman, Stephen Gerlach: Appointment of Peter Coates
31 Mar 2009	GLNG Completes Environmental Milestone
23 Apr 2009	First Quarter Activities Report
06 May 2009	2009 AGM address
11 May 2009	Santos Announces Equity Raising
13 May 2009	Successful Completion of Institutional Component of Equity Raising
15 May 2009	Ground-breaking solution to CSG water management
28 May 2009	Santos announces $6 million community benefits package for SA
03 Jun 2009	Sale of interest in PRL 5 in Papua New Guinea
16 Jun 2009	Successful Completion of Retail Component of Equity Raising
18 Jun 2009	GLNG signs binding Heads of Agreement for sale of 2 mtpa of LNG
20 Jun 2009	GLNG Environmental Impact Statement to be released for public comment
22 Jun 2009	PNG LNG reaches significant marketing milestone
30 Jun 2009	Santos to delist its ADRs from NASDAQ
02 Jul 2009	Santos increases strategic coal seam gas position in Gunnedah Basin
23 Jul 2009	Second Quarter Activities Report
27 Jul 2009	Santos secures $100 million Newmont gas supply extension in Western Australia
13 Aug 2009	Santos discovers gas in Browse Basin offshore Western Australia
18 Aug 2009	Santos and GDF SUEZ announce strategic partnership
20 Aug 2009	Santos reports $102 million net profit for the first half of 2009
27 Aug 2009	Redemption of FUELS
27 Aug 2009	Santos Tour Down Under sponsorship
25 Sep 2009	Natural gas key to driving lower carbon emissions from power generation
02 Oct 2009	First gas from Oyong Phase-2 in Indonesia
19 Oct 2009	PNG LNG Update
22 Oct 2009	Third Quarter Activities Report
29 Oct 2009	Santos appoints Greg Martin to Board
04 Nov 2009	PNG LNG signs Heads of Agreement with Sinopec
10 Nov 2009	Santos marks 40 years of natural gas delivery
04 Dec 2009	PNG LNG Project signs LNG Sale and Purchase Agreement with Sinopec
07 Dec 2009	PNG LNG Project signs LNG Sale and Purchase Agreement with TEPCO
08 Dec 2009	PNG LNG Project approved by Co-Venturers
22 Dec 2009	PNG LNG Project signs LNG Sale and Purchase Agreement with Osaka Gas

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

Santos Ltd
ABN 80 007 550 923

REGISTERED AND HEAD OFFICE

Ground Floor Santos Centre
60 Flinders Street
Adelaide South Australia 5000
GPO Box 2455
Adelaide South Australia 5001

SHARE REGISTER

Computer Share
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
GPO Box 2975
Melbourne Victoria 3001

Telephone:-
Within Australia: 1300 017 716
From overseas: 61 3 9938 4343

Facsimile: 61 3 9473 2500

Email:
web.queries@computershare.com.au

OFFICES

Brisbane

Level 22 Santos Place
32 Turbot Street
Brisbane Queensland 4000
GPO Box 1010
Telephone: 61 7 3838 3000
Facsimile: 61 7 3838 3350

Perth

Level 1, 40 The Esplanade
Perth Western Australia 6000
Telephone: 61 8 9333 9500
Facsimile: 61 9333 9571

Gladstone

114 Goondoon Street
Gladstone Queensland 4680
Telephone: 61 7 4970 8419
Facsimile: 61 7 4970 8444

Roma

39 Currey Street
Roma Queensland 4455
Telephone: 61 7 4622 2400
Facsimile: 61 7 4622 3476

Gunnedah

88 Marquis Street
Gunnedah New South Wales 2380
Telephone: 61 2 6741 5100
Facsimile: 61 2 6741 5101

Port Bonython

PO Box 344
Whyalla South Australia 5600
Telephone: 61 8 8649 0100
Facsimile: 61 8 8649 0200

Jakarta

Santos Asia Pacific Pty Ltd
Level 4 Ratu Plaza Office Tower
Jalan Jendral Sudirman Kav 9
Jakarta 10270 Indonesia
PO Box 6221 JKS GN
Jakarta 12060 Indonesia
Telephone: 62 21 2750 2750
Facsimile: 62 21 720 4503

Port Moresby

Barracuda Ltd
Level 8 Pacific Place
Cnr Musgrave Street and
Champion Parade
Port Moresby
Papua New Guinea
Telephone: 675 321 2633
Facsimile: 675 321 2847

Hanoi

Santos Vietnam Pty Ltd
Suite 701 Level 7
39 A Ngo Quyen
Hanoi Vietnam
Telephone: 84 4 2220 6000
Facsimile: 84 4 2220 6002

New Delhi

Santos International
Operations Pty Ltd
1401 & 1402 Level 14
Narain Manzil
23 Barakhamba Road
Connaught Place
New Delhi 110 001 India
Telephone: 91 11 4351 2000
Facsimile: 91 11 4351 2070

Bishkek

CJSC South Petroleum Company
5th Floor
93/2, Shopokov str., Bishkek
Kyrgyz Republic
Telephone: 996 312 90 1004
Facsimile: 996 312 90 1005

PAPER AND PRINTING OF THE ANNUAL REPORT

This report is printed on 9Lives 80 paper and ecoStar paper, which contains chlorine-free recycled fibre and fibre from responsibly managed plantation forests.

The paper is certified by the Forest Stewardship Council (FSC), which promotes environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

The report was printed by Southern Colour, certified by the FSC chain of custody and certified for ISO 14001: 2004 (Environmental Management Systems).

The printing process uses digital printing plates which eliminate film and associated chemicals. The vegetable based inks use renewable sources such as flax, rather than traditional mineral oils which emit higher volumes of greenhouse gases. All paper waste during the printing process is recycled.

HELP SAVE PAPER BY READING THIS REPORT ONLINE

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.

FSC ©
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
www.fsc.org Cert no. SGS-COC-006603

Designed and produced
by WellmarkPerspexa.com.