Santos
We have the energy.

Focused on the new horizon

Annual Report 2010

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 for more than 40 years. The company today is the largest producer of natural gas to the Australian domestic market, supplying 16% 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.

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 2010, Santos' total production was 49.9 million barrels of oil equivalent. Santos has the largest Australian exploration portfolio by area of any company – 146,800 square kilometres.

Santos has about 2,400 employees across its operations in Australia and Asia. The company has Australian offices in Adelaide, Brisbane, Perth, Gladstone, Roma and Gunnedah, and overseas offices in Jakarta, Port Moresby, Hanoi, New Delhi, Dhaka and Bishkek.

VISION AND STRATEGY

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

The company 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 sanctioned in January 2011 with first production in 2015
- PNG LNG – sanctioned in 2009 with first production in 2014
- Darwin LNG – LNG production since 2006, mature brownfield growth
- Bonaparte LNG – innovative proposed floating LNG project in the Timor Sea.

Focused growth in Asia:

- Vietnam – develop Chim Sáo oil project and exploration-led growth
- India/Bangladesh – Bay of Bengal exploration-led growth.

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.

This page: Drilling operations near Fairview, central Queensland.

INSIDE

We're not just an energy company.
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, and to 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**.

ABOUT THIS REPORT

This 2010 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2010.

All references to dollars, cents or $ in this document are to Australian currency, unless otherwise stated.

An electronic version of this report is available on Santos' website, www.santos.com.

For further information on Santos' environmental and social performance, please refer to the Santos 2010 Sustainablity Report.

Shareholders who do not require a printed Annual Report, or who receive more than one copy due to multiple shareholdings, can reduce the number of copies printed by advising the Share Registry in writing (see back cover).

Shareholders who choose not to receive a printed report will continue to receive all other shareholder information, including notice of shareholder meetings.

Cover: The South Gate, Seoul, South Korea. Seoul is home of Santos' GLNG partner KOGAS.

Left: Santos Centre, in Adelaide, during the 2011 Santos Tour Down Under.

Operating and financial highlights

8% ↓

PRODUCTION

49.9 mmboe

2% ↑

SALES REVENUE

$2,228 million

5% ↑

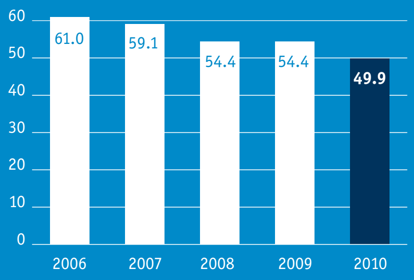
EBITDAX

$1,672 million

	2010	2009	% change
Sales ($million)	**2,228.0**	2,181.0	2
Operating profit before tax ($million)	**793.0**	717.0	11
Cash flow from operations ($million)	**1,267.0**	1,155.0	10
Earnings per share (cents)	**59.8**	52.0	15
Dividends declared per ordinary share (cents)	**37.0**	42.0	(12)
Cash flow per share (cents)	**151.6**	148.0	2
Total shareholders' funds ($million)	**7,603.0**	6,967.0	9
Return on average ordinary equity (%)	**6.9**	7.5	(8)
Return on average capital employed (%)	**7.3**	7.3	0

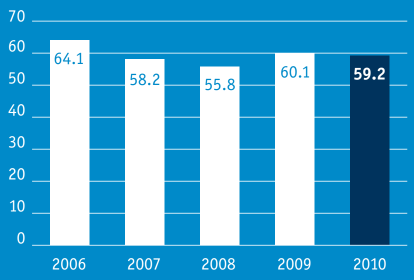
PRODUCTION VOLUME

49.9 mmboe



SALES VOLUME

59.2 million



15%

NET PROFIT AFTER TAX

$500 million

46%

UNDERLYING NET PROFIT AFTER TAX

$376 million

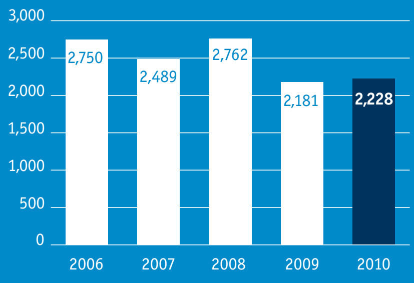
10%

OPERATING CASH FLOW

$1,267 million

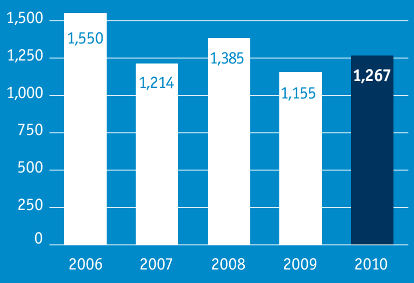
SALES REVENUE

$2,228 million



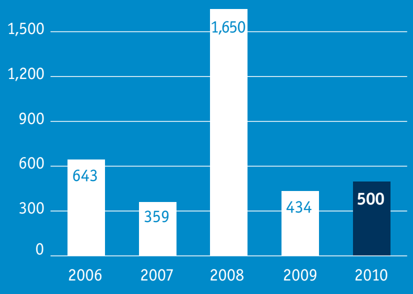
OPERATING CASH FLOW

$1,267 million



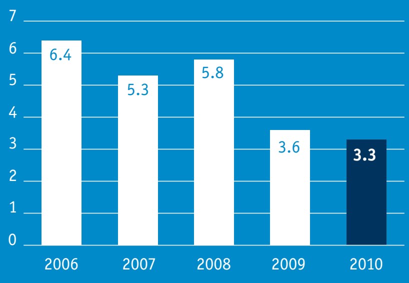
NET PROFIT AFTER TAX

$500 million



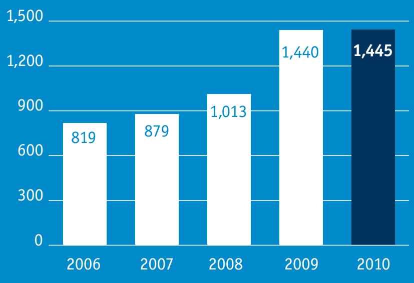
SAFETY PERFORMANCE

3.3 Total recordable case frequency rate (per million hours worked)



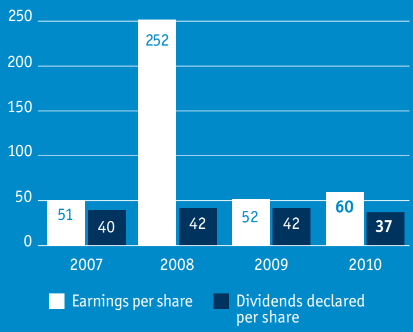
2P RESERVES

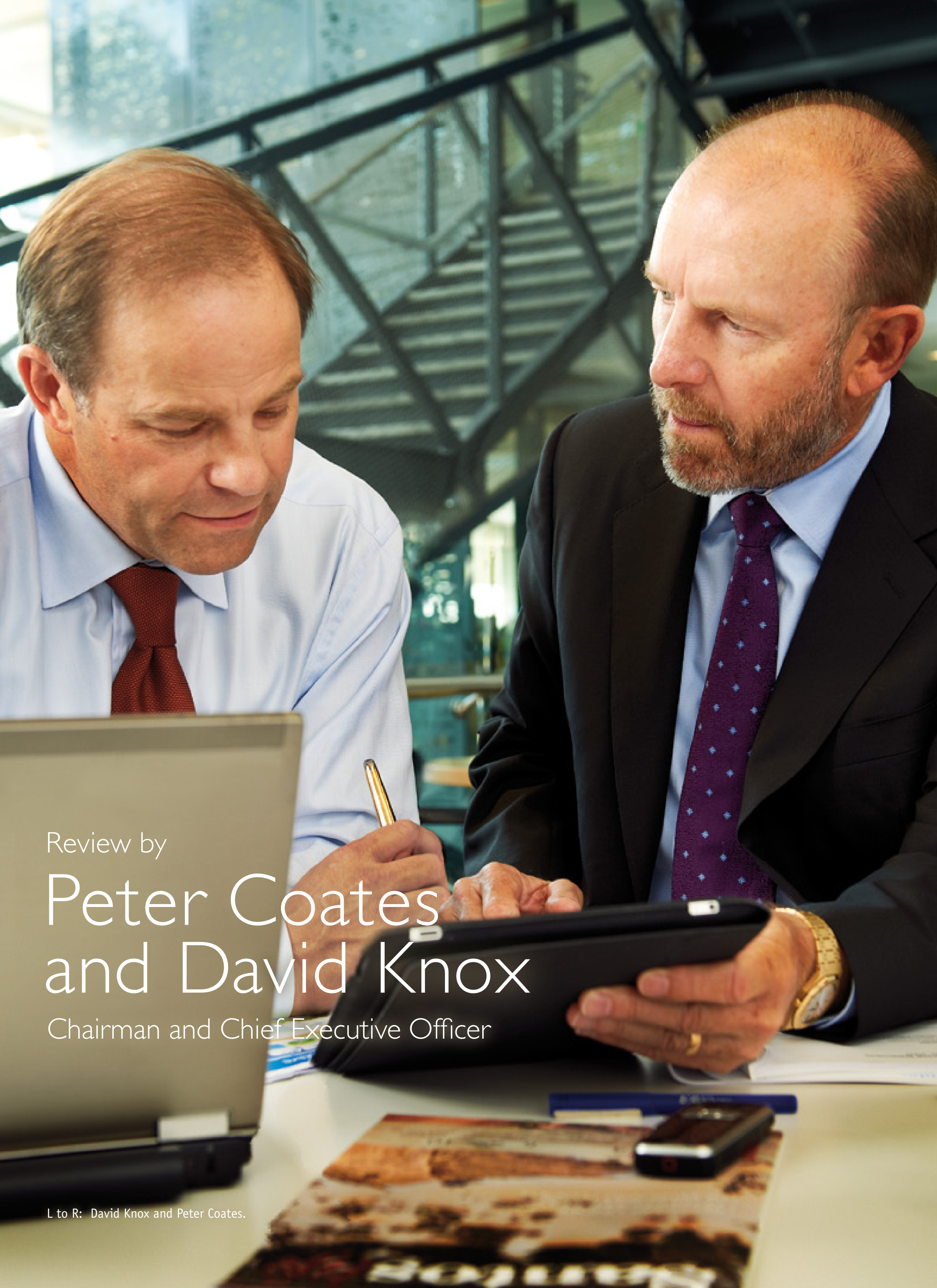
1,445 mmboe



EARNINGS & DIVIDENDS PER SHARE

59.8 cents





Review by

Peter Coates and David Knox

Chairman and Chief Executive Officer

L to R: David Knox and Peter Coates.

As we enter 2011, Santos will continue to follow a clear strategy, which is to drive performance in the base business, deliver our portfolio of liquefied natural gas projects and pursue focused opportunities in Asia.

Santos made great strides in delivering its growth strategy over the past year, culminating with the final investment decision approving development of the GLNG project in January 2011. This project will develop coal seam gas resources in south-east Queensland for export as liquefied natural gas (LNG) from Gladstone. Already Australia's largest domestic gas producer, Santos confirms its position as a major energy supplier to the growing economies of Asia with the GLNG project.

As you would be aware, there was significant rainfall in the Cooper Basin throughout 2010. Early in the year the region experienced its worst flooding in 30 years. We would like to acknowledge the efforts of all our employees and contractors who worked hard to overcome these challenges and maintain production in a safe and responsible way.

We would also like to thank our Queensland employees who rallied to support their local communities during flooding at the beginning of 2010 and again in 2011.

FINANCIAL AND OPERATING PERFORMANCE

Santos is in a strong financial position. The company delivered higher reported and underlying profit in 2010, operating cash flow for the year was $1.3 billion, and we are in a strong position to fund growth with $7.8 billion of cash and available credit facilities at 31 December 2010.

Santos reported a net profit after tax of $500 million in 2010, up 15% on the previous year. Reported net profit includes one-off items such as the sale of a 15% interest in the GLNG project to Total and asset impairments. Excluding the impact of these and similar items, underlying profit was $376 million for the year, a 46% increase on 2009 due primarily to higher prices and lower exploration expenses.

Our safety performance continued to improve in 2010 and we recorded the lowest injury rate in the company's history. The focus on process safety was intensified with an improvement in maintenance measures. However, our journey to a safer workplace is not complete. Tragically, in March 2010, a contractor employee was killed in a road accident in the Cooper Basin. It was a solemn reminder of the need to always be conscious of risks in everything we do.

Given the transformational nature of Santos' LNG portfolio, including the GLNG and PNG LNG projects, we reduced our dividend in order to strike an appropriate balance between funding growth and continuing to pay a meaningful dividend to shareholders. The final dividend for 2010 was 15 cents per share and we expect an annual dividend of 30 cents per share for the year ended 31 December 2011.

POSITIONED FOR FUTURE GROWTH

Santos has a pipeline of base business projects that will grow production in the short-term before our LNG ventures deliver a step-change in production and earnings from 2014.

> *'Our safety performance continued to improve in 2010 and we recorded the lowest injury rate in the company's history.'*

Four new projects are scheduled to commence production in 2011. These include the Reindeer and Spar gas projects, for which Santos has aligned its interests with partner Apache to facilitate the development of new gas supplies for the Western Australian market, the Chim Sáo oil project in Vietnam and the Wortel gas project in Indonesia. All are progressing to schedule and will drive our base business production higher from 2012. The scope and schedule for the Kipper gas field development in Victoria is under review following advice from the operator, ExxonMobil.

In November 2010, Santos acquired additional acreage in Bangladesh. Santos now has a local workforce of 70 employees who joined in December.

Our LNG growth pipeline is unique for a company of our size. We have significant involvement in four LNG projects: one in production (Darwin LNG), two more in construction (PNG LNG and GLNG) and a fourth just beginning its early engineering studies (Bonaparte LNG). This portfolio has the potential to deliver a 20 mmboe increase in production by the end of 2016. Once these projects come on line, Santos will have 70% of total sales linked to the oil price, up from about 30% today.

The GLNG partners announced the final investment decision on the US$16 billion, two-train GLNG project in January 2011. This followed a very busy year for the project. Milestones included Total of France and KOGAS of South Korea joining Santos and PETRONAS as fully integrated GLNG joint venture partners. Santos' interest in GLNG is now 30%, an appropriate weighting in the context of our overall LNG portfolio.

GLNG is underpinned by binding sales agreements with PETRONAS and KOGAS for seven million tonnes per annum (mtpa) of LNG. First LNG exports are expected in 2015.

Construction activity will ramp up over 2011. GLNG will create 5,000 jobs in construction in addition to 1,000 jobs in production. Proceeding with GLNG will provide a boost to the Queensland economy as it recovers from the impact of devastating floods in early 2011.

We reiterate Santos' commitment to maintaining the highest environmental and safety standards in developing the GLNG project, and to continue close engagement with local communities during the construction and operation of the new venture.

Sanctioned in December 2009, the PNG LNG project completed financing arrangements in March 2010 and is proceeding with full project execution of the foundation two-train, 6.6 mtpa capacity project. The entire project's production capacity has been committed to four major buyers in the Asia-Pacific region.

Review by Peter Coates and David Knox (continued)

Above: Santos CEO David Knox with KOGAS President and CEO Kang-Soo Choo in Seoul after KOGAS officially joined the GLNG project.

PNG LNG construction activity will continue to ramp up throughout 2011. First LNG exports are expected in 2014.

During the first half of 2010, Darwin LNG completed a planned shutdown during which the LNG production capacity was upgraded to 3.6 mtpa.

Santos' fourth LNG project, Bonaparte LNG, gained momentum in 2010, culminating in the award of the first pre-front end engineering and design contracts in January 2011. Santos has partnered with France's GDF SUEZ to study the development of a two mtpa floating LNG project, located in the Timor Sea. GDF SUEZ will carry Santos' share of costs until a final investment decision.

STRONG POSITION TO FUND GROWTH

Santos successfully executed a comprehensive funding strategy in 2010, culminating in a $500 million equity raising in December 2010. The equity raising was completed by way of a placement of shares to institutional shareholders executed at a 1.2% discount to the preceding five-day volume weighted average share price. This is a very small discount for an equity raising of this nature, and all shareholders have subsequently benefited from a higher share price.

At the end of 2010, Santos has $7.8 billion of funding capacity, including cash and undrawn committed corporate and project debt facilities.

SUSTAINABLE GROWTH

We encourage you to read our 2010 Sustainability Report to find out more about what sustainability means to Santos and what we are doing to achieve it.

To achieve our vision, to be a leading energy company for Australia and Asia, we consider a wide range of factors that go beyond traditional economic measures. By also measuring our performance in areas such as our people, the environment and the community, we can achieve a deeper understanding of our business and make better decisions.

Santos aims to build enduring relationships in the communities in which we operate, by working with them to achieve mutually beneficial outcomes. This includes clear and open engagement about our activities, and making meaningful contributions to areas such as health, education, the environment, support for young people, indigenous engagement, and art and culture.

'At Santos, we will play a role in delivering the benefits of natural gas to Australians and the energy-hungry markets of Asia.'

Our approach to open engagement was exemplified with the signing of 42 agreements with indigenous groups across the area of the GLNG project. This is the largest set of agreements with Aboriginal groups signed in Australian resources history, outlining the ways in which native title and cultural heritage matters will be managed.

We are also focused on energy efficiency. Santos has implemented a range of energy efficiency projects at our operating sites, which will deliver energy savings of 4.5 petajoules per year, equal to approximately 253,960 tonnes of CO_2-equivalent.

The 2010 Sustainability Report is designed to complement this Annual Report, and is also available online at www.santos.com/sustainability.

MEETING AN ENERGY CHALLENGE

Santos is Australia's largest producer of gas for domestic consumption. Indeed, 95% of our proved and probable reserves are gas and associated liquids. Australian natural gas is abundant, affordable and available. At Santos, we will play a role in delivering the benefits of natural gas to Australians and the energy-hungry markets of Asia.

With the right policy settings in place, Australian natural gas will deliver environmental, economic and energy benefits for decades, if not centuries, to come.

As part of the transition to a lower carbon economy, Santos supports the introduction of a well designed carbon price which maintains the nation's competitiveness in line with trading partners, including the provision of permits to trade-exposed industries such as LNG. Santos also supports a level playing field for all energy options and the streamlining of climate change policies.

BOARD OF DIRECTORS

Over the past 12 months, your Board has convened 13 times and taken time to visit Santos' heartland in the Cooper Basin and our GLNG partner PETRONAS in Kuala Lumpur.

Ms Jane Hemstritch joined the Board in February 2010 and through her broad experience in a number of sectors, including oil and gas, continues to be a significant contributor.

We would like to express our appreciation to our fellow Directors for the commitment and dedication they bring to the Santos Board.

On behalf of the Directors, we would like to thank all Santos employees for their hard work and dedication in continuing to deliver value for shareholders.

Peter Coates

Peter Coates AO
Chairman

David Knox.

David Knox
Chief Executive Officer
and Managing Director

Production statistics

	Total 2010 Field Units	Total 2010 mmboe	Total 2009 Field Units	Total 2009 mmboe
Sales gas, ethane and LNG (PJ)				
Cooper	**66.6**	**11.4**	79.9	13.7
Surat/Bowen/Denison	**34.1**	**5.9**	31.9	5.5
Amadeus	**1.6**	**0.3**	10.6	1.8
Otway/Gippsland	**19.2**	**3.3**	20.5	3.5
Carnarvon	**47.7**	**8.2**	43.5	7.5
Bonaparte	**15.0**	**2.6**	16.3	2.8
Indonesia	**38.2**	**6.5**	30.2	5.2
Bangladesh	**3.8**	**0.7**	5.7	1.0
Total production	**226.2**	**38.9**	238.6	41.0
Total sales volume	**277.7**	**47.7**	268.2	46.1
Total sales revenue ($million)		**1,196.9**		1,098.2
Crude oil ('000 bbls)				
Cooper	**2,557.8**	**2.6**	3,598.4	3.6
Surat/Denison	**84.1**	**0.1**	62.5	0.1
Amadeus	**86.3**	**0.1**	106.3	0.1
Legendre	**225.7**	**0.2**	288.7	0.3
Thevenard	**254.0**	**0.2**	305.7	0.3
Barrow	**561.1**	**0.5**	573.5	0.6
Stag	**1,430.6**	**1.4**	1,643.9	1.6
Mutineer-Exeter	**572.6**	**0.6**	995.0	1.0
Jabiru-Challis	**83.0**	**0.1**	105.9	0.1
Indonesia	**578.8**	**0.6**	560.3	0.6
SE Gobe	**93.2**	**0.1**	148.1	0.1
Total production	**6,527.2**	**6.5**	8,388.3	8.4
Total sales volume	**6,797.5**	**6.8**	8,604.5	8.6
Total sales revenue ($million)		**593.8**		678.3

	Total 2010 Field Units	Total 2010 mmboe	Total 2009 Field Units	Total 2009 mmboe
Condensate ('000 bbls)				
Cooper	**945.8**	**0.9**	1,095.2	1.0
Surat/Denison	**4.3**	**0.0**	7.6	0.0
Amadeus	**25.9**	**0.0**	46.6	0.1
Otway	**23.5**	**0.0**	23.4	0.0
Carnarvon	**474.4**	**0.5**	435.5	0.4
Indonesia	**3.8**	**0.0**	0.0	0.0
Bonaparte	**1,367.0**	**1.3**	1,552.6	1.5
Bangladesh	**0.4**	**0.0**	0.9	0.0
Total production	**2,845.1**	**2.7**	3,161.8	3.0
Total sales volume	**3,009.1**	**2.8**	3,505.8	3.3
Total sales revenue ($million)		**253.1**		233.2
LPG ('000 t)				
Cooper	**132.7**	**1.1**	151.2	1.3
Surat/Denison	**0.1**	**0.0**	0.3	0.0
Bonaparte	**77.7**	**0.7**	88.6	0.7
Total production	**210.5**	**1.8**	240.1	2.0
Total sales volume	**224.5**	**1.9**	252.6	2.1
Total sales revenue ($million)		**184.1**		170.8
Total				
Production (mmboe)		**49.9**		54.4
Sales volume (mmboe)		**59.2**		60.1
Sales revenue ($million)		**2,227.9**		2,180.5

Reserves statistics

Proven plus probable reserves (Santos share) by activity

	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Reserves year end 2009	7,460	74	64	2,848	1,440
Production	-226	-7	-3	-210	-50
Additions	897	-2	9	445	165
Acquisitions/Divestments	-642	1	0	0	-110
Estimated reserves year end 2010	7,489	66	70	3,083	1,445

Proven plus probable reserves (Santos share) year-end 2010 by area

Area					
Eastern Australia					
Cooper Basin	868	29	16	1,830	209
Southern Australia	369	0	5	398	71
Qld CSG	2,883	0	0	0	496
Qld Conventional	46	1	0	0	9
NSW CSG	532	0	0	0	91
Total EA	**4,698**	**30**	**21**	**2,228**	**876**
Western Australia and Northern Territory					
Carnarvon	805	18	8	0	164
Bonaparte	280	0	15	855	69
Amadeus	91	5	1	0	22
Total WA and NT	**1,176**	**23**	**24**	**855**	**255**
Asia-Pacific					
PNG	1,219	0	25	0	233
Indonesia	176	1	0	0	31
Vietnam	9	12	0	0	14
Bangladesh	4	0	0	0	1
Total AP	**1,408**	**13**	**25**	**0**	**279**
Total	**7,282**	**66**	**70**	**3,083**	**1,410**
Beneficial Interests*	207	0	0	0	35
Grand Total	**7,489**	**66**	**70**	**3,083**	**1,445**

*Santos owns an interest in Eastern Star Gas Limited, which has a 65% interest of PPL3, PAL2, PEL238, PEL433 and PEL434 in NSW.

Reserves (Santos share)

(mmboe)	Year End 2009	Production	Additions	Acq./Div.	Year End 2010
1P reserves	647	-50	87	-38	646
2P reserves	1,440	-50	165	-110	1,445
2C contingent resources	2,497	0	-106	-130	2,261

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. Santos prepares its reserves and contingent resources estimates in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

Unless otherwise stated, all references to reserves and resource quantities as shown above are Santos net share. References to contingent resources are mid (2C) contingent resource estimates. Sales gas reserves and contingent resources are estimated after deducting the fuel, flare and vent necessary to produce and deliver sales gas.

Year-end 2010 reserves are calculated after the sale of a 15% interest in GLNG to Total announced on 9 September 2010 but before the sale of a further 15% interest in GLNG to Total and KOGAS announced on 17 December 2010, as the latter sale transactions will not complete until early 2011. Completion is expected to result in the sale of approximately 108 mmboe of 2P reserves.

Approximately 60% of Santos' year-end 2010 2P reserves and 65% of 2C contingent resources (including 100% of CSG 2P reserves and 2C contingent resources) were audited by independent experts Gaffney, Cline & Associates (conventional assets), Netherland, Sewell & Associates, Inc. (CSG assets) and DeGolyer and MacNaughton (unconventional assets). Additionally, over the last two years, GCA, NSAI and DeGolyer and MacNaughton have audited approximately 77% of Santos' combined total year-end 2010 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 2010 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 represent a reasonable estimate of Santos' December 31 2010 reserves and contingent resources position.

Chief Financial Officer

Review by Andrew Seaton

Having recently taken on the role of Santos' Chief Financial Officer, I'm pleased to say that the company is in an excellent financial position as it prepares to execute its transformational growth strategy.

IMPROVED FINANCIAL PERFORMANCE

Santos' financial results improved strongly from the previous year.

Production of approximately 50 million barrels of oil equivalent (mmboe) in 2010 was 8% lower due to natural decline and the impact of flooding on the Cooper Basin operations, offset by improved gas production from the John Brookes field in Western Australia and the Maleo and Oyong fields in Indonesia.

Fortunately, our ability to withdraw gas from storage in eastern Australia ensured that sales contracts were met and mitigated the impact of the Cooper flooding on revenue.

Sales volumes of 59 mmboe and revenues of $2,228 million were in line with the previous year.

Net profit after tax of $500 million was a 15% improvement on 2009.

After adjusting for a number of items, including a $214 million profit from asset sales and asset impairments of $123 million, the underlying net profit after tax of $376 million was up 46% on the previous year.

This improved profit reflects the benefits of rising commodity prices and a focus on cost control, combined with lower exploration expenses.

Operating cashflow of $1,267 million was 10% higher than 2009, while the group's reinvestment in capital expenditure totalled $1,882 million.

'Net profit after tax of $500 million was a 15% improvement on 2009.'

STRONG FINANCIAL POSITION

Through proactive management of our balance sheet, we have built a solid capital position and are well placed to fund planned projects.

Funding was a key focus in 2010, as we moved towards the final investment decision for GLNG.

Key activities included:

- the establishment of bilateral standby bank facilities totalling $2 billion, with an average maturity of five years;
- a €1 billion hybrid bond raising via an innovative security structure; and
- a $500 million equity raising.

We are now fully funded for our GLNG, PNG LNG and other project commitments. At year-end, Santos had $4.3 billion in cash and cash equivalents and over $3.5 billion in committed debt facilities, resulting in funding capacity of over $7.8 billion.

Following the GLNG final investment decision, Standard & Poor's affirmed its senior long-term corporate credit rating of BBB+.

Our strong balance sheet and liquidity position place us in a position of strength from which to execute our strategy, and demonstrate our commitment to maintaining a prudent capital structure.

RESERVES AND RESOURCES

During 2010, Santos continued its strong track record of reserves replacement and resource conversion.

Our proved and probable (2P) reserves increased to 1,445 mmboe, representing an organic 2P reserves replacement ratio of over 330% and the company's seventh successive annual increase in its reserves.

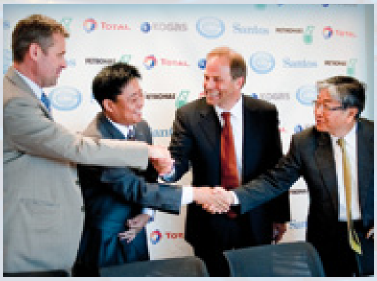
This was after producing 50 mmboe in 2010, and also divesting approximately 110 mmboe of reserves and 130 mmboe of resources for net proceeds of approximately $600 million.

Based on current production, Santos now has a 2P reserves life of over 28 years, or over 70 years if contingent resources are taken into account.

The world of Santos

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 2010.

REF	LOCATION	SITE/ASSET	ACTIVITY	DESCRIPTION
1	Fergana Basin, Kyrgyz Republic		▲	Four prospecting licences operated by Kyrgyzstan company, South Petroleum company CSSC (in which Santos holds a direct 70% interest) and one prospecting licence operated by Kyrgyzstan company KNG Hydrocarbons CSSC (in which Santos holds an indirect 54% interest).
2	North East Coast Basin, offshore India		●	Operated interests in two exploration permits.
3	Bengal Basin, offshore Bangladesh	Sangu	● ●	Operated interest in one exploration permit, and gas and condensate production from the Sangu development area.
4	Beibuan Trough, offshore Vietnam		▲	Non-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 Chim Sáo and Dua development areas. Chim Sáo field currently under development.
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 development. 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. Non-operated interests in the undeveloped Barikewa gas resources.
10	Timor Sea and Timor Gap	Bayu-Undan, Darwin LNG	▲ ▲	Non-operated interests in four production licences, which contain gas, condensate and LPG production from Bayu-Undan, LNG production from Darwin LNG.
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 interest in the Darwin LNG facility.
13	Browse Basin, offshore Western Australia	Burnside, Ichthys North	●	Operated interests in four exploration permits, including the Burnside and Ichthys North discoveries.
14	Carnarvon Basin, offshore Western Australia	Mutineer-Exeter, John Brookes, Barrow Island, Reindeer, Stag, Thevenard, Varanus Island, East Spar, Spar, Devil Creek	● ▲ ▲ ● ▲	Operated interests in three production licences, which include oil production from Mutineer-Exeter, five 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, with gas production from Spar and Reindeer expected to begin in 2011.
15	Amadeus Basin, Northern Territory	Mereenie, Palm Valley, Dingo	● ● ▲	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. Operated interest in Brewer Estate liquid 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 two 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, Netherby	● ● ▲	Operated interests in two 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.



GLNG GO-AHEAD

On 13 January 2011, Santos announced that the GLNG partners had made the final investment decision (FID) approving development of the US$16 billion, 7.8 mtpa GLNG project in Queensland.

Representatives from Santos, PETRONAS, Total and KOGAS met in Sydney for the official signing ceremony, which had been scheduled to take place in Brisbane but had to be moved at the last minute due to the city's widespread flooding.

The formal sanction triggers major works for upstream field development, the pipeline and the LNG plant facilities at Gladstone. Orders have been be placed for long-lead items such as line pipe, compressors and LNG plant components.

The project has a gross capital cost of US$16 billion from the FID until the end of 2015, when the second train is expected to start operating. This includes US$2 billion in contingencies.

Santos has a 30% interest in GLNG, PETRONAS 27.5%, Total 27.5% and KOGAS 15%. Santos' share of capital expenditure is US$4.8 billion.

Above: L to R: Mike Sangster (Total), Heung Bog Lee (KOGAS), David Knox and Datuk Anuar Ahmad (PETRONAS).

Main: Darwin LNG plant, Wickham Point.

LNG projects

LNG demand in the Asia-Pacific region is forecast to substantially outstrip contracted supplies over the next 25 years, providing a window of opportunity for leading LNG proponents like Santos.

GLNG

The GLNG project made excellent progress in 2010, culminating in the final investment decision (FID) approving the project in January 2011. In the run-up to FID, GLNG achieved important milestones such as introducing two of the world's largest LNG companies – Total of France and KOGAS of South Korea – as new partners, securing LNG offtake agreements to underpin two trains, and receiving environmental approval.

GLNG will involve piping coal seam gas (CSG) from GLNG's eastern Queensland fields to a liquefaction facility at Gladstone, where the gas will be liquefied and loaded onto ships for sale to world markets.

GLNG will create 5,000 jobs in construction in addition to 1,000 permanent jobs in production. It is expected that 1,500 jobs will be created in the first half of 2011.

Following an extensive process of study, research, consultation and community engagement, GLNG received environmental approval from the Queensland Government in May and the Federal Government in October. Approval was granted subject to a wide range of conditions to ensure the project is executed with the highest level of environmental, social and economic responsibility.

Water management is an important issue in the production of CSG. In Queensland, Santos has continued to develop projects that put CSG water to beneficial use: the reinjection of purified water into the aquifer that supplies the town of Roma, the supply of purified water to a local Xstrata resources project, a plantation of high-quality leucaena cattle forage and a 1.3 million-tree plantation of native Chinchilla white gums near Fairview.

In August, GLNG completed the largest set of agreements with Aboriginal groups in Australian resources history. The 42 agreements involve arrangements for land use and access, and the way the project will manage potential impacts on Aboriginal cultural heritage. The completion of the agreements will allow GLNG to proceed with certainty.

In October, Santos announced that it would supply the GLNG project with 750 petajoules of gas over 15 years from 2015. The gas will come from Santos' eastern Australian gas portfolio, with existing uncontracted Cooper Basin proved and probable reserves as the primary supply source.

GLNG will create 5,000 jobs in construction in addition to 1,000 permanent jobs in production.

PNG LNG

The PNG LNG project moved into full project execution in March, upon completion of sales and purchase agreements with LNG buyers and financing arrangements with lenders. The approval of the project was an important landmark in Santos' transformational LNG growth strategy.

PNG LNG will involve Santos and its partners building gas production, processing, transportation and liquefaction facilities capable of producing 6.6 mtpa of LNG. The project will cost an estimated US$15 billion to construct. Santos' share of the estimated capital cost is US$2 billion. First LNG shipments are scheduled for 2014.

PNG LNG has four major customers in the Asia-Pacific region: CPC Corporation (Taiwan); Osaka Gas Company; Tokyo Electric Power Company; and Unipec Asia Company, a subsidiary of Sinopec (China).

Santos has a 13.5% interest in PNG LNG, which is led by ExxonMobil.

DARWIN LNG

Darwin LNG began production in 2006 and is Santos' first producing LNG asset. Santos has an 11.5% stake in the project, which is led by ConocoPhillips.

The project processes gas from the offshore Bayu-Undan fields, located 500 kilometres north-west of Darwin in the Timor Gap.

A successful turbine upgrade during a planned statutory shutdown in June 2010 increased the capacity of the Darwin LNG plant to 3.6 mtpa.

BONAPARTE LNG

Santos formed a strategic partnership in 2009 with France's GDF SUEZ, one of the world's leading LNG companies, to develop a floating LNG project in the Bonaparte Basin, offshore northern Australia.

Santos has 40% interest in Bonaparte LNG, which is operated by GDF SUEZ.

In 2010, project teams were established in Paris and Perth to develop the concept design for the proposed floating LNG plant in the Timor Sea. The Bonaparte LNG project will employ cutting-edge technology to develop the facility, which will unlock 360 mmboe of contingent gas resources. The project aims to produce two million tonnes of LNG per annum, using natural gas from the Petrel, Tern and Frigate fields.

Early in 2011, the Bonaparte LNG project awarded contracts for pre-front end engineering and design to Granherne (upstream) and DORIS Engineering (midstream), two of the world's leading engineering and energy project management consultancies.

The final investment decision for the project is expected in 2014, with LNG production scheduled to start in 2018.

Australia

Santos is the largest producer of natural gas for the domestic Australian market.

The company's Australian base business has continued to provide a solid platform from which it is now pursuing transformational LNG focused and Asian growth strategies.

With a strong portfolio of producing and developing assets and the potential of untapped reserves, Santos is well placed to supply growing Australian demand for natural gas as a fuel to reduce carbon emissions and support the development of renewable energy technology.

COOPER BASIN'S NEXT WAVE

Santos owes much to the Cooper Basin and Moomba, which have been the foundation for the company's Australian operations for more than four decades.

In 2010, the region continued to play a pivotal role in supplying gas to the domestic market, although approximately three million barrels of production had to be deferred because of ongoing and unseasonal wet weather (see right).

During this period, Santos continued to meet customer deliveries from a combination of existing production and gas from storage. Consequently, 2010 Cooper Basin gas sales revenue was not materially affected.

The future for the Cooper Basin is bright. Santos has agreed to supply 750 petajoules of natural gas to the GLNG project in Queensland over 15 years from 2015. Existing uncontracted gas from the Cooper Basin will be the primary supply source.

This agreement aligns with Santos' strategy of developing its significant Australian gas reserve and resource position through both domestic and LNG export channels. It will accelerate the next stage of development of the basin, thus providing a catalyst for longer-term investment.

The Cooper Basin retains significant development potential through vast amounts of unconventional shale gas and tight gas reservoirs.

In addition, infill drilling development helped the Cooper record its highest reserves booking in over 10 years.

Since 1969, Santos has produced about six trillion cubic feet of natural gas from Moomba. Potentially, there could be at least three times that much remaining in the Cooper Basin underpinning the east coast market for many years to come.

WESTERN AUSTRALIA & NORTHERN TERRITORY

Santos has continued to develop its Western Australia and Northern Territory business in 2010, signing significant sales contracts, continuing the development of growth projects and monetising non-core assets.

Santos is building a material domestic gas business in Western Australia through increasing sales from existing assets and developing the next phase of growth projects.

The Reindeer/Devil Creek gas project continues to progress well, with the construction of the plant on schedule and with all modules on location and placed. Reindeer/Devil Creek will produce gas and liquids from an offshore platform 105 kilometres west of Devil Creek. Sales gas will be exported to the domestic Western Australian market. Reindeer/Devil Creek will have a capacity of 215 terajoules per day gross when it begins production, expected in the second half of 2011. Santos has a 45% interest in the project.

Santos will also develop new gas supplies to the Western Australian domestic market from the Halyard and Spar fields. The first well will be completed and tied back through existing Varanus Island facilities and is expected online mid-2011. The second well is expected to be online early 2013. Santos holds 45% equity in both Halyard and Spar.

In the second half of 2010, Santos began supplying a new sales contract to Wesfarmers Energy for up to 60 petajoules of gas over more than five years. The gas is being sourced solely from Santos' share of production from the offshore John Brookes field.

Offshore northern Australia, Santos agreed to sell its entire working interest in the Evans Shoal field to Magellan Petroleum Australia Limited for up to $200 million. This deal aligned with Santos' strategy to monetise non-core assets.

GUNNEDAH EXPLORATION CONTINUES

In 2010, Santos began the second phase of its coal seam gas exploration and appraisal program in the Gunnedah Basin of New South Wales. This involves drilling additional coreholes and the establishment of two pilot dewatering and production testing areas, which began in late 2010.

Santos has interests in nine Petroleum Exploration Licenses in the Gunnedah Basin, and operates six. Santos' acreage in the Gunnedah Basin totals approximately 22,000 square kilometres.

OFFSHORE VICTORIA

First gas from the Henry and Netherby fields offshore western Victoria was achieved in the first quarter of the year. Henry and Netherby have been tied back to the existing Casino offshore pipeline system. Raw gas is piped to an onshore treatment plant and then supplied to the Victorian network.

Santos has a 35% interest in the Kipper gas and liquids project in Bass Strait. At the end of 2010, drilling and completion of the Kipper wells located in Bass Strait was complete, as was the fabrication of subsea equipment and umbilicals. The Gippsland Basin Joint Venture is undertaking a comprehensive review on the non-Kipper related facilities (including the installation of mercury removal facilities) as part of the integrated Kipper-Tuna-Turrum project. The scope and schedule for the works required to deliver Kipper gas is under review by the operator, which has informed the joint venture that first gas will be deferred beyond the previous expectation of the first half of 2012.

COOPER EXPERIENCES ONE-IN-30-YEAR FLOODS

Extraordinary rainfall in the Cooper Basin in early 2010 caused the region's biggest floods in over 30 years. The rain continued to fall throughout the year, providing a number of challenges to production, including submerged wells and damaged roads.

Moomba recorded total rainfall for 2010 of over 600 millimetres, while Ballera recorded over 850 millimetres – more than Adelaide's or Melbourne's yearly average.

Unseasonal rains continued to fall into November and December. The Cooper Cup cricket match – an annual contest between Moomba employees and local landholders on the Moomba Cricket Ground (MCG) – had to be postponed for the first time in 31 years. With an associated auction, the Cooper Cup has raised more than $850,000 for the Royal Flying Doctor Service since the first match in 1979.

The rain did bring some benefit. The Botanic Gardens of Adelaide discovered a number of rare and previously unobserved species on a Santos-sponsored field trip through the region in August.

Above: Moomba plant, Cooper Basin.

Main: Wellhead platform, Reindeer project, Western Australia.

Asia

Santos has a strong portfolio of Asian business interests, with established and prospective businesses in six countries.

Santos continued to progress its focused Asian strategy in 2010, with the sanction of the Wortel project in Indonesia and the development of Chim Sáo in Vietnam. Strong production from existing projects continued.

INDONESIA: STRONG PRODUCTION AND NEW PROJECT

Santos' Indonesia business continued to produce strongly from the existing Oyong and Maleo projects, and expanded its portfolio with the approval of the Wortel gas project.

The Oyong and Maleo oil and gas fields are located in the Madura Strait of East Java. Oyong production continues to rise due to the start-up of Oyong Phase 2 in late 2009, while Maleo also delivered higher production.

A final investment decision was made on Wortel in November 2010.

Wortel is located offshore Madura Island in East Java, and is part of the Sampang Production Sharing Contract.

The scope of the Wortel development includes two gas wells, a minimum facility wellhead platform and a 10-kilometre gas pipeline to the existing Oyong wellhead platform. The tie-back to Oyong will maximise the value of both assets.

Wortel gas will be piped 60 kilometres to an onshore facility at Grati for processing and onward sale. A sales agreement has been signed with PT Indonesia Power, and negotiations with other potential buyers are ongoing.

INCREASED INTERESTS IN BANGLADESH

Since 2007, Santos has held interests in Bangladesh's Block 16, which includes the producing Sangu field and other exploration acreage.

In November 2010, Santos agreed to purchase Cairn's entire interests in Block 16, which is located offshore Bangladesh in the Bay of Bengal.

Santos now holds a 100% interest in the Block 16 exploration acreage and a 75% interest in the Sangu field. Halliburton holds the remaining 25%.

The acquisition of additional acreage in Bangladesh was consistent with Santos' Asian strategy.

Santos is now the operator of the Sangu field and facilities, which have substantial spare capacity to process and deliver additional gas into the rapidly growing Bangladesh domestic market.

During its three years in Bangladesh, Santos has developed a strong awareness of the country's operating and gas market dynamics.

The Sangu joint venture has obtained free market gas rights for new volumes from producing and exploration areas in Block 16.

The acquisition of additional acreage in Bangladesh was consistent with Santos' Asian strategy of building material and sustainable businesses to meet growing domestic energy needs.

CHIM SÁO DEVELOPMENT

The development of Santos' first oil project in Vietnam, Chim Sáo, continued to progress in 2010.

Santos has a 31.875% non-operating interest in the Chim Sáo field, sanctioned in 2009 and located offshore southern Vietnam in the Nam Con Son Basin.

Oil and associated gas and liquids will be produced via an unmanned, minimum facility located in approximately 100 metres of water.

Works to date include the installation of the wellhead platform, which includes the drill deck and connections to a floating production storage and off-loading ship (FPSO). Installation is progressing safely, on schedule and within budget.

Development drilling continues and the FPSO conversion is progressing.

First oil remains on target for the second half of 2011.

DRILLING CONTINUES IN KYRGYZ REPUBLIC

Santos has maintained its interests in four prospecting licences in the Fergana Basin in the south of the Kyrgyz Republic. The licences cover approximately 2,700 square kilometres in the proven oil and gas province.

A deep drilling program to further evaluate asset potential is being considered.

Options for development have been assessed and include production through existing pipelines and refineries to multiple export channels.

Main: Irwan Setiawan Grati processing plant, Indonesia.

Top: Local women on Mandangin Island in the Sampang Regency receiving training in traditional snack production for their home-based businesses.

EMPOWERING WOMEN IN INDONESIA

In 2008, Santos partnered with a local non-government organisation, PUPUK, which is involved in small business development for the poor, on an economic empowerment program in the Camplong and Sampang sub-districts of Sampang Regency, East Java, Indonesia. Santos has been operating offshore in the region since 2007.

Nearly half the people in Camplong and Sampang live in poverty, and are largely reliant on agriculture and fishing to make a living. The Santos-supported program focuses on fishermen's families in the region, who are highly dependent on favourable weather to maintain consistent household income. Erratic weather in recent years has reduced catches.

An early assessment by PUPUK led the program to focus on developing diverse streams of income, particularly for local women in fishing households. These women now earn additional incomes for their families, which is particularly helpful during periods of harsh weather when fishing boats cannot go out to sea.

Santos' assistance has helped them establish home-based small businesses producing traditional snacks, such as *ting-ting* (peanut candy) and *krupuk* (crackers), and market them to local buyers.

The program teaches all facets of small business management, including production training, production facilities, product packaging, hygiene and sanitation, labelling, health certification and storage.

To date, the program has helped eight micro- and small-business groups comprising 92 members, 77 of whom are women.

BIODIVERSITY RESEARCH

Heavy rains and flooding in the Cooper Basin in 2010 prompted a search for rare and threatened flora species in the region. In September, Santos hosted two botanists from the Botanic Gardens of Adelaide's Seed Conservation Centre on a successful four-day research and collection trip.

Their search yielded a number of rare finds, including a hairy pussytail, *Ptilotus pseudohelipteroides*, that had not been recorded in the region, and a desert daisy, *Streptoglossa bubakii*, which had never been recorded in South Australia.

Seeds were collected and plant specimens were pressed for eventual mounting at the State Herbarium.

Above: Thai Te, Botanic Gardens of Adelaide and Amy Slocombe, Santos Environmental Adviser, collect flora specimens for the Seed Conservation Centre.

Main: Botanist Daniel Duval, Botanic Gardens of Adelaide, collects flora specimens in the Cooper Basin.

Sustainability

Santos is not just an energy company, but a company with the energy to be sustainable.

For Santos, sustainability is a way of doing business that improves outcomes for employees, shareholders, business partners and the communities in which we operate. As well as producing positive outcomes for stakeholders, sustainability improves Santos' efficiency and profitability as it strives for a leadership position in the energy market place.

To achieve this, Santos has established targets across 24 sustainability indicators, six for each of four categories: environment, community, our people and economic.

In 2010, Santos delivered improved sustainability performance in many areas including:

- climate change management
- external stakeholder engagement
- security.

Performance across all other sustainability indicators was maintained.

Santos is working collaboratively with state and federal governments, local leaders, the community and landholders to identify and address issues that might impact these stakeholders and the environment.

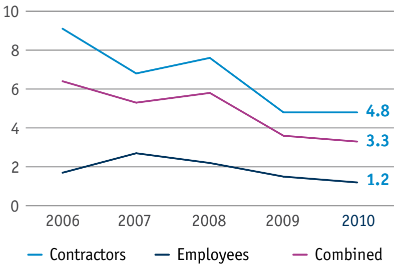
The efficiency and effectiveness with which Santos manages environmental resources is the pathway to keeping the company's licence to operate in communities and with government regulators.

SUSTAINABILITY REPORT 2010

Santos' Sustainability Report 2010 provides a detailed annual review of its Sustainability Scorecard performance (www.santos.com/sustainability).

TOTAL RECORDABLE CASE FREQUENCY RATE

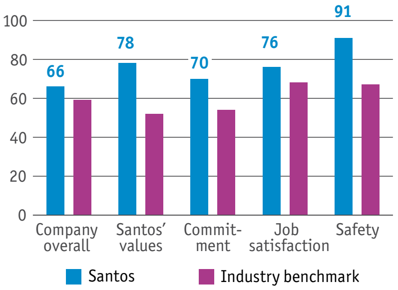
Recordable injuries per million hours worked



A sustained focus on safety contributed to retaining this injury rate. This result was built on strong safety systems and a series of initiatives that were implemented to improve Santos' focus on safety.

EMPLOYEE COMMITMENT

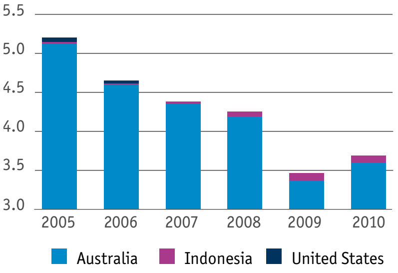
%



Santos' biennial employee survey indicated healthy employee commitment and performance exceed industry benchmarks.

GREENHOUSE GAS EMISSIONS FROM SANTOS OPERATED ASSETS

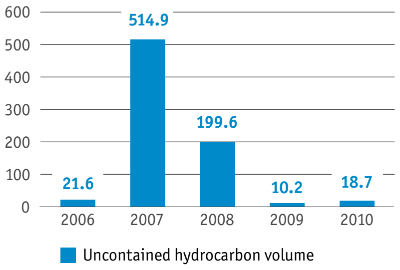
Million tonnes CO_2-e (scope 1)



Santos' greenhouse gas emissions profile. Energy efficiency projects implemented in 2010 will save approximately 270 TJ of gas per year.

OIL SPILL VOLUMES

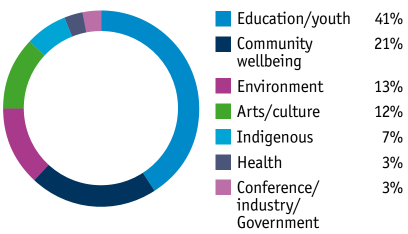
(m^3)



Santos' integrity management program and training programs helped to minimise minor spills.

INVESTMENT BY TYPE

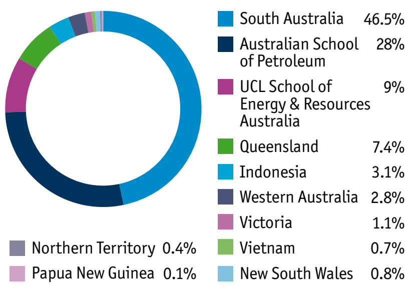
%



Santos invests in partnerships in education, the environment, the arts, health, community wellbeing and indigenous initiatives.

INVESTMENT BY REGION

%



Santos supports mutually-beneficial partnerships that enrich and are valued by the communities in which it operates.

Board of Directors

GREG MARTIN
BEc, LLB, FAIM, MAICD

Age 51. Independent non-executive Director since 29 October 2009. Chairman of the Remuneration Committee of the Board and a member of the Environment, Health, Safety and Sustainability Committee of the Board.

Non-executive director of Energy Developments Limited, the Australian Energy Market Operator Limited and Chairman of Everest Financial Group.

Previously 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 and Chief Executive Infrastructure at Challenger Financial Services Group. Managing Director and Chief Executive Officer of AGL over a five-year period until February 2006.

KEN DEAN
BCom (Hons), FCPA, MAICD

Age 58. 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 since April 2009. Director of Shell Australia Ltd from 1997 to 2001 and Woodside Petroleum Ltd from 1998 to 2004. Chief Financial Officer and alternate director of Alumina Ltd, October 2005–February 2009. Non-executive director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies, October 2005–February 2009.

Fellow of the Australian Society of Certified Practising Accountants and fellow of the Australian Institute of Company Directors.

MIKE HARDING
MSc

Age 61. 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.

Chairman of Downer EDI Limited since November 2010, having been a non-executive director since July 2008. Former Independent non-executive Chairman of Clough Ltd, May 2006–October 2010.

Non-executive Deputy Chairman of Arc Energy Ltd until May 2007, having been a non-executive director from August 2003. Formerly President and General Manager of BP Developments Australia Ltd and Vice-Chairman and Council member of the Australian Petroleum Production and Exploration Association (APPEA).

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

Age 53. Appointed Chief Executive Officer and Managing Director in 2008. Member of the Environment, Health, Safety and Sustainability Committee of the Board. Director of Santos Finance Limited.

Joined Santos in September 2007 as Executive Vice President Growth Businesses and was appointed Chief Executive Officer and Managing Director in July 2008.

David has previously held roles in management and engineering at BP, ARCO and Shell across Australia and internationally, including former Managing Director of Exploration & Production in Australasia for BP. Also currently a director of APPEA and on the Board of the Botanic Gardens and State Herbarium, South Australia.

JANE HEMSTRITCH
BSc (Hons), FCA

Age 57. 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, Tabcorp Holdings Ltd and The Victorian Opera Company. Deputy Chairman of The Global Foundation. Member of the Research and Policy Council of the Committee for Economic Development of Australia and member of the Council of the National Library of Australia.

Fellow of the Institutes of Chartered Accountants in Australia and in England and Wales, and a member of Chief Executive Women Inc. Former Managing Director of Accenture businesses.

PETER COATES AO
BSc (Mining Engineering)

Age 65. Appointed Santos Chairman on 9 December 2009. Previously an independent non-executive Director since 18 March 2008. Chairman of the Nomination Committee of the Board and the Santos Finance Limited Board. Member of the Remuneration and Finance Committees of the Board.

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. Formerly non-executive director of Downer EDI Ltd, October 2008–September 2009 and non-executive Chairman of Xstrata Australia.

Past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association.

Made an Officer of the Order of Australia in June 2009 and in 2010 was awarded the Australasian Institute of Mining and Metallurgy medal.

KEN BORDA
LLB, BA

Age 58. 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. Appointed a director of Talent2 International Ltd in August 2008 and the Asian Advisory Board of Aviva Pte Ltd in Singapore in February 2009.

CEO of Middle East and North Africa, Deutsche Bank, May 2005 until retirement in May 2007. Previously Deutsche Bank's Regional CEO Asia Pacific and CEO Australia and New Zealand and director of Deutsche Bank Malaysia from 2002 to May 2007.

ROY FRANKLIN OBE
BSc (Hons)

Age 57. 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. Non-executive director of Boart Longyear Limited since October 2010.

Former non-executive Chairman of Bateman Litwin NV and Novera Energy Limited. Previously Chief Executive Officer of Paladin Resources plc 1997–2005 and Group Managing Director of Clyde Petroleum plc. In 2004, awarded the OBE for services to the UK oil and gas industry.

Santos Leadership Team

DAVID LIM
BEc, LLB, Ch.Sec
Company Secretary

David Lim is responsible for corporate governance, continuous disclosure and compliance with ASX and ASIC requirements, and provides the Santos Board with independent advice and support in relation to these matters.

Prior to joining Santos in 2007, David had over 15 years' experience in commercial legal practice. He is an accredited Chartered Secretary. Before his current role David held the position of Deputy General Counsel and Assistant Company Secretary.

JAMES BAULDERSTONE
LLB (Hons), BSc (Hons)
Vice President Eastern Australia

James Baulderstone is responsible for Santos' activities in eastern Australia, including the exploration, production, development and commercialisation of resources in central Australia, New South Wales and Victoria.

James joined Santos in January 2007 as General Counsel and Company Secretary after holding similar roles at Mayne Group and BlueScope Steel. Before his current role, James was Santos' Vice President Corporate and Commercial. James has extensive legal, commercial and business development experience across many countries, including the US, Germany, the UK, Malaysia, China and India.

RICK WILKINSON
BSc (Hons)
Vice President Santos Queensland

Rick Wilkinson is responsible for Santos' extensive Queensland business and building and operating the upstream coal seam gas assets for GLNG. He was formerly the Vice President Commercial for Santos.

Before joining Santos in 1997, Rick was Group Manager Energy Retail for the Victorian Gas and Fuel Corporation, responsible for energy trading, customer relations, marketing and sales. He has held various engineering and management positions with Schlumberger in Iran, Iraq, Egypt, Sudan and the US. Rick has worked with McKinsey & Co and held corporate strategy and marketing roles with Pilkington Glass.

PETER CLEARY
BCom, LLB
Vice President Strategy and Corporate Development

Peter Cleary is responsible for Santos' commercial, strategy and planning, corporate development, and public affairs functions.

Peter has extensive global experience in the petroleum industry and joined Santos from BP in August 2010. He was most recently President of North West Shelf Australia LNG, the LNG marketing company for the North West Shelf Venture. During his 24-year career with BP, Peter held senior management positions in Australia, Indonesia, Korea, Hong Kong, Abu Dhabi and the UK.

MARK MACFARLANE
BEng (Hons) Mechanical
CEO GLNG OPL

Mark Macfarlane is the CEO of GLNG Operations Pty Ltd, the company responsible for building and operating the 420-kilometre gas transmission pipeline and LNG plant and undertaking marketing.

Before taking this role, Mark held a number of leadership roles at Santos, including Vice President Eastern Australia and Vice President Development. Mark joined Santos in 1997, following a nine-year career with Esso in Australia and Malaysia.

TREVOR BROWN
BSc (Hons)
Vice President Exploration and Subsurface

Trevor Brown is responsible for Santos' exploration and new ventures strategy, its drilling and completions team, building a material portfolio of growth opportunities, and ensuring excellence in subsurface activities across Santos' exploration, appraisal and development portfolio.

Trevor is a geoscientist with 25 years' industry experience in Australia, Asia, the US and South America. He has been with Santos for 10 years in roles such as Manager New Ventures, Manager Growth Projects, and Vice President Geoscience and New Ventures.

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

David Knox was appointed Chief Executive Officer and Managing Director of Santos in July 2008, having previously joined Santos in September 2007 as Executive Vice President Growth Businesses.

Since his appointment, David has overseen significant progression of Santos' growth strategy and guided the company to its current position as a leading energy producer in Australia and Asia.

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.

With 30 years' experience in the global oil and gas industry, David has held senior positions with BP in Australia, the UK and Pakistan, and management and engineering roles at ARCO and Shell in the US, the Netherlands, the UK and Norway.

PETRINA COVENTRY
BEd, Graduate Diploma HR, Master Business Ethics
Chief Human Resources Officer

Petrina Coventry joined Santos in 2009 as Chief Human Resources Officer, responsible for leading the company's human capital planning, remuneration and benefits, organisational effectiveness and culture, talent management, learning and development, recruitment and diversity.

Petrina has over 20 years' experience working in leadership roles for companies such as General Electric and Coca Cola in the US, Europe and Asia. She has deep industry knowledge across many industrial sectors, including energy, oil and gas, financial services and fast moving consumer goods.

ANDREW SEATON
BEng (Hons) Chemical, Graduate Diploma Bus Admin
Chief Financial Officer

Andrew Seaton is responsible for corporate finance, accounting, taxation, treasury, investor relations, risk, audit and insurance.

Andrew has over 20 years' oil and gas experience encompassing finance, banking and engineering roles. Before joining Santos in March 2005, Andrew held senior roles in investment banking with Merrill Lynch and corporate banking with National Australia Bank. Prior to his current role, Andrew held the position of General Manager, Commercial and Finance for Santos' Eastern Australia Business Unit.

JOHN ANDERSON
LLB, BEc, GDCL
Vice President Western Australia and Northern Territory

John Anderson is responsible for Santos' activities in Western Australia and the 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
BSc (Hons)
Vice President Asia-Pacific

Martyn Eames is responsible for Santos' activities in the Asia-Pacific region. These comprise Santos' business interests in Indonesia, Papua New Guinea, India, Bangladesh, the 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 in various upstream roles in Angola, Canada, Australia, Papua New Guinea, Norway, the UK and the US.

CHRISTIAN PAECH
LLB (Hons) BCom
General Counsel

Christian Paech is responsible for Santos' legal function, which supports the corporate team and the business units in joint venture agreements, dispute resolution, statutory compliance, mergers and acquisitions, gas sales and production-sharing contracts.

Christian has broad experience in the petroleum industry and joined Santos in 2004 after working in national and international firms in Melbourne and London for 10 years. Before becoming General Counsel, he held the positions of Deputy General Counsel and Senior Corporate Lawyer.

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.

The Board has established corporate governance policies and charters (Policies) designed to achieve the highest standards of corporate governance within Santos. 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 Corporate Governance Council's Principles and Recommendations (ASX Principles). In June 2010, the ASX Corporate Governance Council released amendments to the ASX Principles, with a particular focus on diversity. While the Company is not formally required to report against the revised ASX Principles in this Annual Report, the Board and executive management team (Management) have taken steps to implement key provisions of the amendments throughout 2010 to ensure full compliance for 2011. Consistent with the 'Guide to Reporting' recommendations under the ASX Principles, this statement provides details of the corporate governance practices adopted by the Company. The table below indicates the sections of this statement that address each of the substantive recommendations under the ASX Principles. The table also highlights the steps taken by the Company to 'early adopt' aspects of the ASX Principles that will apply from 2011.

ASX recommendation for FY2010	How Santos satisfies the recommendation	Changes to ASX guidance for FY2011	Steps by Santos to early adopt FY2011 changes
Principle 1 – Lay solid foundations for management and oversight			
Establish and disclose the functions reserved to the Board and those delegated to management.	Section 2 discusses the division of responsibilities between the Board and Management.		
Disclose the process for evaluating the performance of senior executives.	Section 1.6 details how the performance of the Board, Directors and Executives is reviewed.		
Principle 2 – Structure the Board to add value			
A majority of the Board should be independent directors.	Section 1.2 confirms that the Board comprises seven independent Directors and one executive Director.	New commentary encourages companies to provide greater transparency around the processes adopted in the Board selection process.	The Company has a comprehensive Board renewal process in order to ensure that the Directors have an appropriate mix of experience, skills and backgrounds. Section 1.4 provides further details.
The chairperson should be an independent director.	Section 1.1 confirms this and explains how the composition of the Board is determined.		
The roles of chairperson and chief executive officer should not be exercised by the same individual.	Section 1.1 confirms this and explains how the composition of the Board is determined.		
The Board should establish a Nomination Committee consisting of a minimum of three members, the majority being independent directors.	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the Nomination Committee.		

ASX recommendation for FY2010	How Santos satisfies the recommendation	Changes to ASX guidance for FY2011	Steps by Santos to early adopt FY2011 changes
Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Section 1.6 details how the performance of the Board, Board Committees, Directors and Executives is reviewed.		
Principle 3 – Promote ethical and responsible decision-making			
Establish a code of conduct to guide the directors, the CEO, the CFO and any other key executives.	Section 5.1 provides details regarding the Santos Code of Conduct, which sets out the Company's key rules, values and guidelines.	Amendments to the Principles include a requirement that listed companies adopt and disclose a diversity policy and set measurable objectives relating to gender diversity for disclosure in their Annual Report.	In light of the new amendments, the Company has adopted a Group-wide diversity policy. A snapshot of the Company's diversity initiatives is set out in Section 5.2.
Disclose the policy concerning trading in company securities by directors, senior executives and employees.	Section 5.3 summarises the Company's Securities Trading Policy.		
Principle 4 – Safeguard integrity in financial reporting			
The Board should establish an Audit Committee, and structure the 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 chair of the Board; and • has at least three members.	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the Audit Committee, and confirms compliance of the Audit Committee structure.		
The Audit Committee should have a formal charter.	The Audit Committee operates under a Charter approved by the Board. For further details, see Section 3.1.		
Principle 5 – Make timely and balanced disclosure			
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.	Section 5.4 outlines the written policies and processes Santos has adopted to ensure compliance with its continuous disclosure obligations.		

Corporate governance (continued)

ASX recommendation for FY2010	How Santos satisfies the recommendation	Changes to ASX guidance for FY2011	Steps by Santos to early adopt FY2011 changes
Principle 6 – Respect the rights of shareholders			
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Section 5.4 summarises the Company's shareholder communication policies.		
Principle 7 – Recognise and manage risk			
Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Section 4.1 to 4.3 summarises the Company's risk management systems, including reporting to the Board on risk, and provides examples of how business risks are managed.		
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.	Section 4.1 to 4.3 summarises the Company's risk management systems, including reporting to the Board on risk, and provides examples of how business risks are managed.		
Disclose whether the Board has received assurance from the CEO and the CFO 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.	Section 4.2 confirms that the Board has received such assurance for the 2010 financial year.		
Principle 8 – Remunerate fairly and responsibly			
The Board should establish a Remuneration Committee.	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the Remuneration Committee.	The amended Principles provide that a Remuneration Committee should be structured so that it: • consists of a majority of independent Directors; • is chaired by an independent Director; and • has at least three members.	The Company reviewed the Remuneration Committee Charter in 2010, and confirmed that it was already compliant with the amendments regarding Remuneration Committee composition. For further details, see Sections 3.1 and 3.3.
Distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Further information regarding the structure and details of the remuneration paid to Directors, the CEO and other Senior Executives is set out in the Remuneration Report, commencing on page 52 of this Annual Report.		

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

The names and details of the experience, qualifications, special responsibilities (including Committee memberships) and term of office of each Director of the Company and the Company Secretary can be found on pages 20 to 22 of the Annual Report.

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 that 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 that 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 provide a standing notice of interests to the Board and to make prompt disclosure to the Board of any changes in interests in contracts, family ties and cross-directorships that 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 at the time of 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.

1.4 Director selection and succession planning

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 an appropriate mix of experience, skills and backgrounds to manage a leading energy company. Ms Jane Hemstritch was appointed a Director on 16 February 2010 as part of the Board renewal process.

The Company's corporate governance framework is structured to facilitate Board renewal and to ensure appropriate consideration is given to Board composition.

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 makes recommendations to the Board, based on Board and individual Director reviews, as to suitable candidates for re-election.

In addition, 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 individual Directors is the subject of formal review and discussion in accordance with the process set out below.

In making recommendations relating to Board composition, the Nomination Committee considers the business experience, skills and expertise of the candidates and the requirements of the Board. The Committee's guiding objective is to ensure that the Board's overall composition positions the Company to achieve its strategy. Accordingly, the Committee takes into account both the current and future needs of the Company when assessing Board composition.

Corporate governance (continued)

Once the Nomination Committee has assessed the Board's composition and determined the general skill requirements for a new Director, the services of an independent consultant may be used to assist in the identification and assessment of a range of potential candidates. The primary criterion 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 and fulfilment of the Company strategy, 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.

Prospective candidates for election and re-election to the Board are then reviewed by the Nomination Committee. The Nomination Committee makes appropriate recommendations to the Board regarding possible appointments of Directors, including recommendations for appointments to Committees.

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.

An external review of the Board as a whole commenced in December 2010, together with peer review of all individual Directors. This review continued into 2011, culminating in a report in February 2011, and addressed:

- the Board's contribution to strategy and policy;
- interaction between the Board and Management;
- the Board's processes to monitor business performance and compliance;
- risk management;
- Board composition and structure; and
- the operation and conduct of the Board.

As a result of recommendations arising from the external 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.

Board Committees conduct their own internal review of their performance, structure, objectives and purpose from time to time. The membership of several Committees was refreshed in February 2010 and the Charters of the Remuneration and Nomination Committees were updated in 2010 to reflect changes in the ASX Principles.

Performance evaluation of Senior Executives is undertaken twice a year by the CEO and the Chairman undertakes the CEO's review. The results of these reviews are used in determining future remuneration in consultation with the Remuneration Committee, and generally for review by the Board in relation to Management succession planning. Performance reviews were conducted in accordance with the process for each of the Senior Executives, including the CEO, during the year. These reviews impacted on the short-term incentives for the Senior Executives and included 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 expectations of shareholders and other stakeholders have been met.

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.

The Remuneration Committee has recently reviewed its processes and has made recommendations for change to ensure they are consistent with proposed legislation in respect of KMP remuneration.

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 that 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 and management of the company;
- the approval of the annual capital and operating budget;
- 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 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; and
- oversight of the integrity of material business risk management, including financial and non-financial risks.

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:

- the conduct and operation of the Company's business in the ordinary course;
- 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 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 adviser.

Pursuant to a deed executed by the Company and each Director, a Director also has the right to access all documents that 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' Report on page 71 of this Annual Report.

PART 3: BOARD COMMITTEES

Relevant policies and charters
See www.santos.com

- Audit Committee Charter
- Environment, Health, Safety and 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 in accordance with the Charter of that Committee. Other composition requirements specific to the individual Committees are set out in Section 3.3.

Non-Committee members may attend Committee meetings by invitation.

Each Committee operates under a specific charter approved by the Board.

Board Committees have access to internal and external resources, including access to advice from independent external consultants or specialists. In 2010, the Remuneration, Nomination and Audit Committees took advice from independent external consultants without Management present, in relation to the CEO's remuneration, non-executive Director remuneration, candidates for appointment to the Board and audit matters. 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.

Following changes in directorship of the Company in 2009 and early 2010, the Board reviewed the Board Committee memberships to ensure an appropriate mix of background, expertise and skill on each Committee. 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 took over the Chairmanship of the Committee from Mr Peter Coates. He was also appointed to the Environment, Health, Safety and Sustainability Committee with effect from 17 February 2010;
- in addition to stepping down as Chairman of the Remuneration Committee, Mr Peter Coates ceased to be a member of the Environment, Health, Safety and Sustainability Committee on 17 February 2010 as a result of a review of his workload following his appointment as Chairman of the Company;
- 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 as a result of a vacancy arising when Mr Stephen Gerlach, the previous Santos Chairman, retired at the end of 2009.

Corporate governance (continued)

These Committee appointments took into account the qualifications and experience of each Director, for example: Mr Martin's experience as a Chairman and member of similar Board Committees; and Ms Hemstritch's experience as a Chair of another entity's Remuneration Committee, and her financial expertise, which will contribute to the Audit Committee.

Following is a summary of the membership of the Board Committees. Details of the qualifications and experience of each Director can be found on pages 20 to 21 of this Annual Report.

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 (Chairman)			Member	Chairman	Member
KA Dean	Non-executive Director	Chairman		Member		
RA Franklin	Non-executive Director		Member			
RM Harding	Non-executive Director	Member	Chairman		Member	Member
DJW Knox	Executive Director (Managing Director/CEO)		Member			
GJW Martin[3]	Non-executive Director		Member			Chairman
JS Hemstrich[4]	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 ceased to be a member of the Environment, Health, Safety and Sustainability Committee on 17 February 2010. He stepped down as Chairman of the Remuneration Committee effective 1 February 2010 but continues as a member of the Committee.
3. Mr Gregory Martin was appointed Chairman of the Remuneration Committee with effect from 1 February 2010, and a member of the Environment, Health, Safety and Sustainability Committee with effect from 17 February 2010.
4. 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.

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 2010, a total of 13 meetings were held, including a strategy workshop and meeting. In addition to formal meetings, the Directors participated in a site visit to the Cooper Basin.

Details of the Board and Committee meetings held and Directors' attendances at those meetings appear in the Directors' Report on page 44 of this Annual Report

In addition to the Board meetings, the non-executive Directors meet without the Managing Director/CEO (as an executive Director) or members of Management present.

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. In 2010, the number of Board dinners exceeded this minimum, with several being attended also by key members of Management or 'high-potential' employees. Two dinners were attended by non-executive Directors only, for discussions without the Managing Director/CEO or Management being present.

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

3.3 Role and membership of committees

<table>
<tr><th>Committee</th><th>Members and composition</th><th>Role</th></tr>
<tr><td>Audit</td><td>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.</td><td>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.

The role of the Audit Committee includes:
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 process of the Reporting Misconduct Programme;
recommending proposed dividends to the Board for final adoption; and
recommending to the Board the appointment and dismissal of the head of internal audit.</td></tr>
<tr><td>Environment, Health, Safety and Sustainability</td><td>Mr RM Harding (Chairman)
Mr RA Franklin
Mr GJW Martin
Mr DJW Knox

The Charter requires that this Committee comprise at least three non-executive Directors and the Managing Director.</td><td>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.</td></tr>
<tr><td>Nomination</td><td>Mr PR Coates (Chairman)
Mr KC Borda
Mr RM Harding

As required by its Charter, the Nomination Committee consists of at least three independent Directors and is chaired by the Chairman of the Board.</td><td>It is the responsibility of the Nomination Committee to devise the criteria for, and review membership of, the Board – including the re-election of incumbent Directors and nominations for new appointments.

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, experience or background, the Nomination Committee has responsibility for proposing candidates for consideration by the Board.</td></tr>
</table>

Corporate governance (continued)

Committee	Members and composition	Role
Remuneration	Mr GJW Martin (Chairman) Mr PR Coates Mr RM Harding Ms JS Hemstritch The Remuneration Committee Charter requires that the Committee comprise at least three independent non-executive Directors. This was reviewed in 2010 in response to the changes to the ASX Principles and confirmed as already compliant with the new recommendations.	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. In addition, the Committee's role was expanded in 2010 to cover: • reviewing and reporting to the Board on measurable objectives for achieving gender diversity; • an annual assessment of those objectives and progress in achieving them; and • reviewing and reporting on remuneration analysed by gender. The Committee has access to, and regularly uses, 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 31 to the Financial Statements commencing on page 132 of this Annual Report.
Finance	Mr KC Borda (Chairman) Mr PR Coates Mr KA Dean The Finance Committee Charter requires that the Committee comprise at least three independent non-executive Directors, all of whom will be financially literate and including at least one with past employment experience in finance, requisite professional certification or other comparable experience or background that results in the individual's financial sophistication.	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, based on the relevant International Standard (ISO31000:2009), forms the cornerstone of risk management activities of the Company. 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.

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.

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 to the formal reporting arrangements, the Board and Management give ongoing consideration to the effectiveness of the Company's risk management and internal compliance and control systems, and whether there is scope for further improvement of these systems.

The Board 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 2010 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 2010 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 2010 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 the Company 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 advisers; • 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, both forward looking and retrospective; 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 regularly undertaken.

Corporate governance (continued)

Type of risk	Method of management
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.
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, 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; • 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 financial transactions are prohibited. • Further details relating to financial instruments and commodity price risk management are included in note 38 to the Consolidated Financial Statements. • Regular treasury and market risk reports are made to the Finance Committee of the Board.
Organisational capability risk	In order to manage organisational capability risk, the Company: • conducts regular reviews of the organisational capacity; • has developed its workforce development and succession plans for all employees with focus on key roles within the Company; • maintains a personal and professional development curriculum with general and industry programs; • conducts a biennial survey of employees to ensure both qualitative and quantitative measures are in place to communicate with all employees and take appropriate actions; and • conducts regular reviews of Human Resources policy and practice.

Santos has two major projects, Gladstone LNG and PNG LNG, which have been identified due to their size, complexity and location as being material to the delivery of the Company's strategy. Risks associated with these projects have been identified and actions are being taken to address the risks where appropriate.

PART 5: ETHICS, CONDUCT AND DIVERSITY

Relevant policies and charters
See www.santos.com

- Code of Conduct
- Reporting Misconduct Policy
- Diversity Policy
- Securities Trading Policy
- Continuous Disclosure and Shareholder Communications Policy
- Market Disclosure Policy

5.1 Ethical standards and Code of Conduct

Santos is committed to practising high standards of business conduct and corporate governance and complying with legal requirements wherever the Company operates. 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 those 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 securities trading (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 Reporting Misconduct and Issue Resolution policies as additional mechanisms to ensure that suspected breaches are reported and acted upon fairly and effectively. A Reporting Misconduct Programme is in place at Santos, to enable employees to report misconduct confidentially, without fear of reprisal or discrimination. 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).

Misconduct is defined as non-compliance with laws and regulations and Company policy and procedures. Where a serious breach is found to have occurred, penalties may be imposed ranging from counselling to dismissal.

5.2 Diversity

In light of the new ASX Principles regarding diversity, the Board has adopted a Group-wide Diversity Policy. The Company is committed to providing an inclusive workplace and organisation culture that embraces diversity, including a focus on indigenous education and employment, equal opportunity programs and women in management roles. To deliver on these focus areas, the Company's initiatives include:

- increasing the number of women being developed for and performing senior technical and non-technical roles;
- regularly reviewing pay equity to address any gender gaps;
- ensuring that policies and Company culture do not hold women back in their professional development;
- participation and leadership in government initiatives and schemes that continue to develop gender awareness, indigenous representation, education and social development;
- regular EEO audits and training for all employees;
- provision of appropriate issue resolution in accordance with our Code of Conduct; and
- establishing measurable objectives for achieving diversity.

The Company is continuing its ongoing sponsorship of the Women in Resources industry group and in multicultural programs, indigenous education and employment and increased awareness and education for all employees.

As an example of initiatives to provide workplace flexibility for women, the Parental Leave Policy, which provided 16 weeks of paid maternity leave, was updated in December 2010 to incorporate an option of 32 weeks at half pay. This took effect from 1 January 2011 in line with the Australian national paid parental leave scheme, for which some employees will be eligible in addition to the Company's scheme.

Corporate governance (continued)

5.3 Securities trading policy

During 2010, the Company updated its Securities Trading Policy in light of new Listing Rule requirements that came into effect on 1 January 2011.

The revised Policy is available on the Santos website and was lodged with the ASX in December 2010.

The Policy prohibits Directors, executives and employees (as well as connected persons over whom they may be expected to have control or influence) from acquiring, selling or otherwise trading in the Company's securities where they are in possession of material price-sensitive information that is not in the public domain. Directors, executives and employees (and their connected persons) are also prohibited from trading in the Company's securities during defined 'blackout periods', except:

- where there are exceptional circumstances in which selling the securities is the only reasonable course of action available (such as severe financial hardship); or
- where the trade falls within one of the excluded categories under the Policy (such as pro-rata issues of securities to all shareholders).

The following periods are defined as 'blackout periods' under the Policy:

- the period from the close of trading on 31 December each year until the trading day following the announcement to ASX of the Company's preliminary final statement or full-year results (usually in the third week of February);
- the period from the close of trading on 30 June each year until the trading day following the announcement of the Company's half-year results (usually in the third week of August); and
- any other period that the Company specifies from time to time.

Directors, executives and employees are also prohibited from trading the Company's securities on a short-term basis, and are not permitted to hedge their securities (including options and share acquisition rights) unless those securities have fully vested and are no longer subject to restrictions.

Outside of these circumstances, employees are generally free to trade in the Company's securities. However, Directors, the CEO, executives and Company Secretary can only trade in the Company's securities if they first provide notice of their intention and receive written clearance from an appropriate senior officer.

Breaches of the Securities Trading 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 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.

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, 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 Annual General Meeting is also webcast live and made available for later viewing.

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:

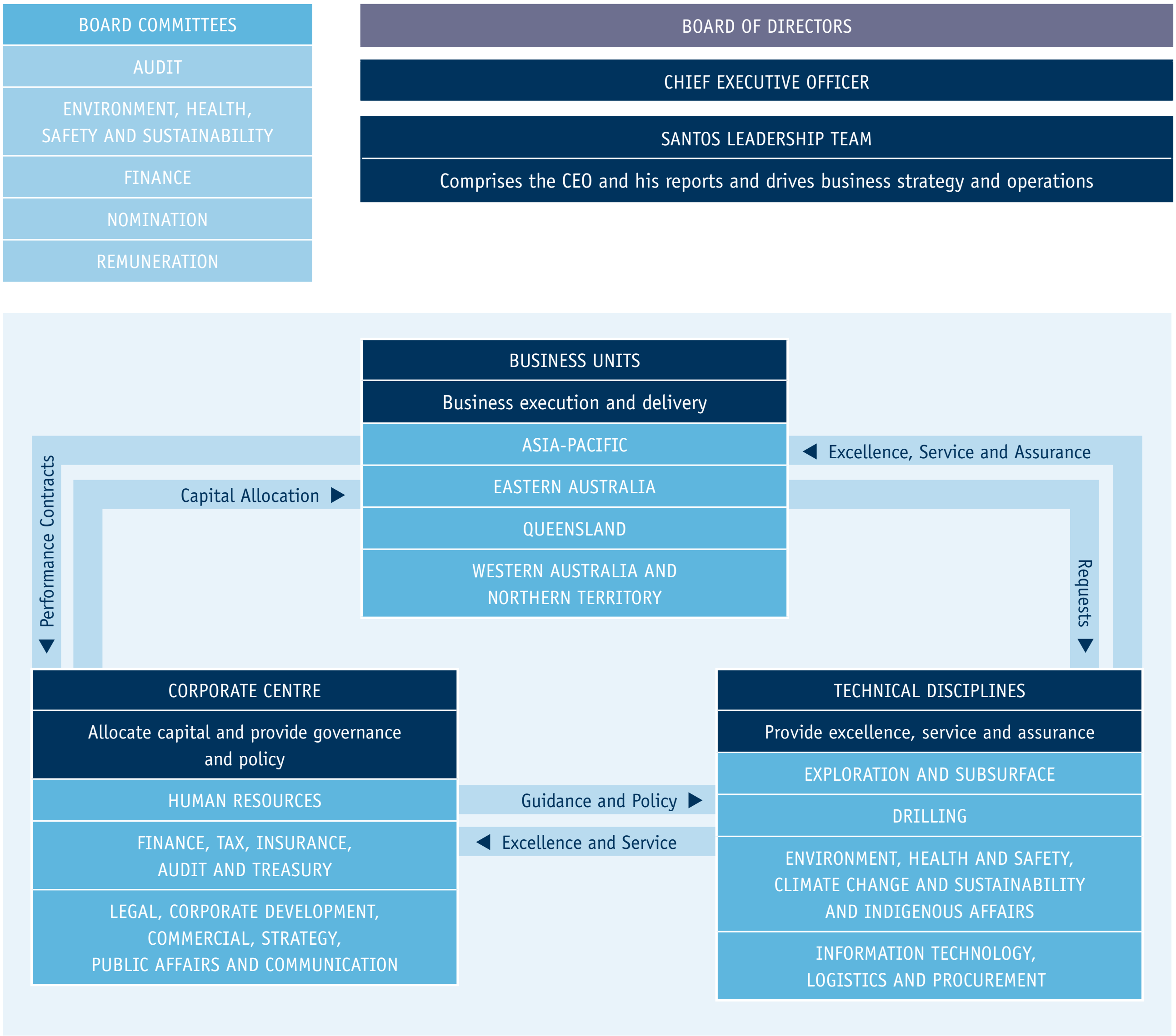
- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years 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 71 of the Directors' 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 that 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 2010 represented 2% 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 154 of this Annual Report.

Organisation chart



Santos Group interests

As at 28 February 2011

Licence area	% interest
Note: In South Australia PPL = Petroleum Production Licence and PL = Pipeline Licence. In Queensland PPL = Pipeline Licence and PL = Petroleum Lease. Interest shown are beneficial interests.	
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, 143–146, 148–151, 153–155, 159–166, 172, 174–180, 189, 190, 193, 195, 196, 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, 194, 201 & 229)	72.3
Reg Sprigg West (PPL 211 RSW)[1]	54.2
Derrilyn Unit (PPLs 206, 208 & 215)[1]	65.0
PEL 114, PPLs 225–227[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, 105[2],107, 109, 133, 149, 175, 181, 182, 189, 287[2] & 302)	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, 255, 301 & PPLs 8 & 14)	70.0
Wareena (PLs 113, 114, 141, 145, 148, 153, 157, 158, 187, 188 & 411[2])	61.2
Innamincka (PLs 58, 80, 136, 137, 156, 159, 249 & 409[2])	70.0
Alkina	72.0
Aquitaine A (PLs 86, 131, 146, 177, 208 & 254)	52.5
Aquitaine B (PLs 59–61, 81, 83, 85, 97, 106[2], 108, 111, 112, 132, 135, 139, 147, 151, 152, 155, 205, 207, 288[2] & 410[2])	55.0
Aquitaine C (PLs 138 & 154)	47.8
50/40/10 (PL 55)	60.0

Licence area	% interest
SWQ Unit (PPLs 13, 16–18, 31, 34–40, 46 48, 62, 64–72, 78–82, 84, 86, 94–96, 98, 101, 105 & 113 and in South Australia PLs 5 & 9)	60.0
ATP 267P (Nockatunga) (PLs 33, 50, 51, 244 & 245)	100.0
ATP 299P (Tintaburra)(PLs 29, 38, 39, 52, 57, 95, 169 & 170, PPLs 109, 110, 111, 112, 293–295 & 298)	89.0
PPL 127 (Tickalara to SA Border)	100.0
PPL 128 (Jackson to Tickalara)	100.0
ATP 543P & PL 117	100.0
ATP 543P (South)	50.0
ATP 633P	50.0
ATP 636P[2]	100.0
ATP 661P[2]	100.0
ATP 752P (Barta) & PL 303 (Cuisinier)[1,3]	45.0
ATP 752P (Wompi)[1,3]	30.0
ATP 765P[2]	100.0
ATP 766P[2]	100.0
ATP 820P[2]	100.0
ATP 1063P[2]	100.0
Surat Basin	
ATP 212P (Major) (PL 56)	15.0
ATP 336P (Roma) (PLs 3–9, 13, 93, 309 & 310)[1,6]	37.5
ATP 336P (Roma) (PLs 10 & 11)[1,6]	37.5
ATP 336P (Roma) (PL12)[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]	75.0
PL 12 (Trinidad)[1]	100.0
PL 12 (Oberina)[1]	100.0
PL 21, 22, 27, 64 (Balonne)	12.5
PL 17 Upper Stratum[1]	100.0
PL 30	15.0

Licence area	% interest
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)[1,7]	28.5
ATP 606P	2.6
ATP 631P[1,5]	81.9
ATP 653P (Arcadia)[1,7]	28.6
Bowen Basin	
ATP 665P[1,4]	100.0
ATP 708P (Fairview)[1,4]	100.0
ATP 745P (Fairview)[1,7]	28.5
ATP 803P[1,4]	100.0
ATP 804P[1,5]	70.7
ATP 868P[1,6]	37.5
ATP 972P[2]	2.6
ATP 592P	4.0
ATP 337P (Mahalo)[1]	30.0
ATP 337P (Denison Trough) (PLs 41–45, 54, 67, 173, 183, 218, 448–457[2], PPLs 10 & 11)	50.0
PL 176 (Scotia)[1,6]	37.5
ATP 553P (Denison)[1]	50.0
ATP 655P (Taringa)[1,6]	37.5
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)[4]	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	15.0

Licence area	% interest
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
VIC/L25 (Kipper)	50.0
VIC/L25 (Unit)	35.0
Northern Territory	
Amadeus Basin	
OL 3 (Palm Valley)	48.0
OL 4 and OL 5 (Mereenie)[1]	65.0
RL 2 (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

Licence area	% interest
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-264-P[1]	50.0
WA-290-P	15.0
WA-323-P[3]	75.0
WA-330-P[3]	75.0
WA-358-P	60.0
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)	35.0
WA-6-R (Petrel West)	35.0
WA-18-P (Frigate)	40.0
WA-27-R (Tern)	40.0
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[1]	
Block 16	100.0
Sangu Development Area	75.0
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)[1]	45.0
Kutei Basin	

Licence area	% interest
Donggala[1,8]	0.0
Papalang	20.0
Popodi	20.0
West Papua Basin	
Warim	20.0

Kyrgyzstan[9]

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 and Nanai.

Closed Joint Stock Company KNG Hydrocarbons (KNG HC)

The Santos Group holds a 75% equity interest in Zhibek Resources Limited, which in turn owns 72% of KNG HC, which is the legal and beneficial holder of the Tashkumyr licence.

Licence area	% interest
Papua New Guinea	
PDL 1 (Hides)	24.0
PDL 3[1]	15.9
PRL 9[1,10]	42.6
SE Gobe Unit (Unitisation of PDLs 3 & 4)	9.4
Vietnam	
Block 101-100/04	27.5
Block 12W	31.9
Block 123[1]	50.0

1 Santos operated.
2 Under application.
3 Subject to Farmin commitments.
4 Completion of conditional sale agreements will result in a reduction of interest to 30.0%.
5 Completion of conditional sale agreements will result in a reduction of interest in ATP 631P to 24.6% and in ATP 804P to 21.2%.
6 Completion of a sale agreement, expected prior to 31 March 2011, will result in a reduction of these interests to 30.0%.
7 Completion of a sale agreement, expected prior to 31 March 2011, will result in a reduction of these interests to 22.8%.
8 Disposal of entire interest is near completion and is only subject to final government approval.
9 Some of the Kyrgyzstan licenses are in the process of being renewed or extended and are awaiting government approval.
10 Disposal of a 2.553% interest is near completion and subject to execution of transfer documentation and government approval, expected by 30 April 2011.

10-year summary

As at 31 December	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
Santos average realised oil price (A$/bbl)	45.53	44.74	43.59	51.83	73.83	89.35	92.00	117.45	78.83	**87.35**
Financial Performance ($million)										
Product sales revenue	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	**2,227.9**
Total revenue[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	**2,305.9**
Foreign currency gains/ (losses)[3]	0.2	(0.7)	(7.9)	2.6	(3.8)	0.8	0.4	24.4	(28.3)	**(10.0)**
Profit from ordinary activities before tax[3]	627.6	493.3	430.9	518.8	1,133.5	964.7	718.6	2,533.2	716.5	**793.1**
Income tax relating to ordinary activities[3]	181.7	171.2	103.9	164.1	371.4	321.3	195.7	768.4	204.6	**244.1**
Royalty related taxes[2]							163.6	114.7	78.4	**51.2**
Net profit after tax attributable to the shareholders of Santos Ltd[3]	445.9	322.1	327.0	354.7	762.1	643.4	359.3	1,650.1	433.5	**499.6**
Financial Position ($million)										
Total assets[3]	5,048.7	5,320.8	5,218.3	4,836.6	6,191.3	6,902.9	7,320.2	9,801.9	11,361.0	**13,769.3**
Net debt/(cash)[3]	1,060.8	1,162.9	897.6	1,133.3	1,598.9	1,449.7	1,838.7	506.0	(605.4)	**(1,200.5)**
Total equity[3]	2,726.6	2,863.9	3,087.9	2,357.8	2,964.0	3,355.5	3,093.1	4,478.3	6,967.1	**7,603.7**
Reserves and production (mmboe)										
Proven plus probable reserves (2P)	724	732	636	643	774	819	879	1,013	1,440	**1,445**
Production	55.7	57.3	54.2	47.1	56.0	61.0	59.1	54.4	54.4	**49.9**
Exploration[4]										
Wells drilled (number)	26	18	19	16	22	25	10	13	6	**4**
Expenditure ($million)	93.4	133.1	136.4	125.6	187.0	258.5	149.8	233.1	181.0	**90.4**
Other capital expenditure ($million)										
Delineation and development[4]	308.1	308.8	519.0	672.7	666.1	865.5	954.6	1,290.3	1,203.8	**1,684.3**
Buildings, plant and equipment	258.7	319.0	94.9	131.1	106.0	182.1	202.2	105.1	172.2	**107.3**
General										
Number of employees (excluding contractors)	1,713	1,737	1,700	1,526	1,521	1,679	1,786	1,940	2,096	**2,367**
Number of shareholders	86,472	85,888	84,327	78,976	78,157	83,566	77,498	78,933	107,138	**112,145**
Market capitalisation ($million)	3,589	3,509	4,017	4,965	7,280	5,907	8,274	8,696	11,721	**11,506**
Netback ($/boe)	-	18.9	18.4	19.8	29.5	32.9	32.9	35.9	22.9	**23.0**

As at 31 December	2001	2002	2003	2004	2005	2006	2007	2008	2009	**2010**
Share information										
Share issues	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	Executive Share Plan/ Dividend Reinvestment Plan/ Non-executive Director Share Plan/ Exercise of Options/ Employee Share Plan/ Placement (institutional)
Number of issued ordinary shares at year end (million)	579.3	583.1	584.7	585.7	594.4	598.5	586.1	584.9	831.9	**875.1**
Weighted average number of issued ordinary shares (million)	663.9	630.1	632.8	634.5	637.8	646.7	640.6	640.8	780.4	**835.5**
Dividends – ordinary shares										
Paid during the period (cents per share)										
- ordinary	30.0	30.0	30.0	30.0	36.0	40.0	40.0	42.0	42.0	**42.0**
- special	10.0	-	-	-	-	-	-	-	-	**-**
Declared during the period (cents per share)										
- ordinary	30.0	30.0	30.0	33.0	38.0	40.0	40.0	42.0	42.0	**37.0**
Paid during the period ($million)										
- ordinary	184.2	174.2	175.0	175.5	212.4	238.1	235.1	248.3	299.4	**350.0**
- special	61.2	-	-	-	-	-	-	-	-	**-**
Number of issued preference shares at year end (million)	3.5	3.5	3.5	6.0	6.0	6.0	6.0	6.0	-	**-**
Dividends – preference shares										
Paid during the period ($ per share)										
- ordinary	-	5.4	6.6	6.6	5.1	5.1	5.6	6.3	4.6	**-**
- special	-	-	-	5.0	-	-	-	-	-	**-**
Declared during the period ($ per share)										
- ordinary	-	8.7	6.6	5.7	5.2	5.3	5.9	6.3	-	**-**
- special	-	-	-	5.0	-	-	-	-	-	**-**
Paid during the period ($million)										
- ordinary	-	18.9	23.0	23.0	30.6	30.4	33.5	38.0	27.7	**-**
- special	-	-	-	14.3	-	-	-	-	-	**-**
Earnings per share (cents)[3]	67.2	48.1	48.0	50.0	114.7	94.8	50.9	251.6	52.0	**59.8**
Return on total revenue (%)[1]	29.7	21.2	22.0	23.2	30.6	23.1	14.3	58.8	19.3	**21.7**
Return on average ordinary equity (%)[3]	19.0	12.4	11.6	18.6	35.5	23.9	12.4	50.6	7.5	**6.9**
Return on average capital employed (%)[3]	13.9	8.9	8.8	11.7	19.8	15.1	9.0	34.1	7.3	**7.3**
Net debt/(net debt + equity) (%)[3]	28.0	28.9	22.5	32.5	35.0	30.2	37.3	10.2	(9.5)	**(18.7)**
Net interest cover (times)[3]	9.7	8.1	8.5	9.1	14.9	10.1	7.4	38.5	(45.3)	**(19.1)**

1 *From 2005, 'Total operating revenue' has been reclassified to 'Total revenue' and prior year amounts have been restated.*

2 *From 2007, 'Royalty related taxes' have been accounted for as a tax.*

3 *From 2004, amounts reflect Australian equivalents to International Financial Reporting Standards. Prior year amounts reflect Australian Generally Accepted Accounting Principles and have not been restated.*

4 *Exploration expenditure includes wildcat wells. Delineation and development expenditure includes appraisal, near field exploration wells and CSG expenditure.*

Financial Report

Directors' Report

The Directors present their report together with the consolidated financial report of the consolidated entity, being Santos Limited (Santos or the Company) and its controlled entities, for the financial year ended 31 December 2010, and the auditor's report thereon. Information in the Annual Report referred to in this report, including the Remuneration Report, or contained in a note to the Financial Statements referred to in this report, forms part of, and 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 Limited
Borda	Kenneth Charles	68,835
Coates	Peter Roland (Chairman)	27,121
Dean	Kenneth Alfred	15,583
Franklin	Roy Alexander	-
Harding	Richard Michael	2,519
Hemstritch	Jane Sharman	14,000
Knox	David John Wissler (Managing Director)	53,664
Martin	Gregory John Walton	10,750

The above named Directors held office during and since the end of the financial year, except Ms JS Hemstritch, who was appointed on 16 February 2010.

All shareholdings are of fully paid ordinary shares.

At the date of this report, Mr DJW Knox holds 544,974 options and 136,779 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 56.

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

Directors' 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:

Table of Directors' Meetings

Director		Directors' Meeting[2]		Audit Committee		Environment, Health, Safety & Sustainability Committee		Remuneration Committee		Finance Committee		Nomination Committee	
		Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Borda	Kenneth Charles	13	13	-	-	-	-	-	-	4	4	1	1
Coates	Peter Roland	13	13	1	1	-	-	5	5	4	4	2	2
Dean	Kenneth Alfred	13	13	4	4	-	-	-	-	4	4	-	-
Franklin	Roy Alexander	13	12	-	-	4	4	-	-	-	-	-	-
Harding	Richard Michael	13	11	4	4	4	3	5	5	-	-	2	2
Hemstritch	Jane Sharman	12	10	3	2	-	-	4	3	-	-	-	-
Knox	David John Wissler	13	13	-	-	4	4	-	-	-	-	-	-
Martin	Gregory John Walton	13	13	-	-	3	3	5	5	-	-	-	-

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 Directors participated in a site visit to the Cooper Basin.

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 review of the operations and of the results of those operations of the consolidated entity during the year is as follows:

Summary of results table	2010	2009	Variance
	mmboe	mmboe	%
Production volume	49.9	54.4	(8)
Sales volume	59.2	60.1	(1)
	$million	$million	
Product sales	2,228	2,181	2
EBITDAX	1,672	1,588	5
Exploration and evaluation expensed	(129)	(202)	(36)
Depreciation and depletion	(600)	(619)	(3)
Net impairment loss	(157)	(37)	
EBIT	786	730	8
Net finance income/(costs)	7	(13)	
Taxation expense	(295)	(283)	4
Net profit for the period	498	434	15
Net loss attributable to non-controlling interest	(2)	-	
Net profit attributable to equity holders of Santos Limited	500	434	15
Underlying profit for the period[1]	376	257	46

1 Please refer to page 46 for the reconciliation from net profit to underlying profit for the period.

Base Business

2010 production of 49.9 million barrels of oil equivalent (mmboe) was within the Company's guidance range and 8% lower compared to 2009. Rain and flooding across the Cooper Basin during 2010 reduced Santos' production by about 3 mmboe for the full year. This was partially offset by stronger gas production from Indonesia and Western Australia.

Sales volumes for 2010, of 59.2 mmboe, were in line with 2009. Withdrawal of gas from storage, supplemented by gas purchases, was utilised to meet customer gas demand ex the Cooper Basin.

Higher commodity prices were evident across the Santos portfolio in 2010. The average realised oil price was A$87.35 per barrel, 11% higher than 2009, while the average gas price of A$4.31 per gigajoule was 5% higher. Product sales revenue was $2,228 million, 2% higher than 2009.

LNG Projects

Santos is building a material LNG business with interests in four LNG projects.

GLNG (Santos 30%)

The GLNG partners announced the final investment decision on the 7.8 million tonnes per annum (mtpa) GLNG project on 13 January 2011. GLNG is a joint venture between Santos (30%) and three of the world's largest LNG companies, PETRONAS (27.5%), Total E&P Australia (Total) (27.5%) and Korea Gas Corporation (KOGAS) (15%). GLNG includes the development of coal seam gas resources in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre gas transmission pipeline to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 mtpa. GLNG has binding LNG sales agreements with PETRONAS and KOGAS for 7 mtpa in aggregate. First LNG exports are expected in 2015. Construction activity will ramp up over 2011.

PNG LNG (Santos 13.5%)

Sanctioned in December 2009, the PNG LNG project will develop the gas and condensate resources in the Hides, Angore and Juhu fields and the associated gas resources in the currently operating oil fields of Kutubu, Agogo, Gobe and Moran in the Southern Highlands and Western Provinces of Papua New Guinea. The gas will be transported by pipeline to an LNG facility with a capacity of 6.6 mtpa located north-west of Port Moresby on the coast of the Gulf of Papua. All of the project's production capacity has been committed with four major LNG buyers in the Asia-Pacific region. First LNG exports are expected in 2014.

Construction continues for supporting infrastructure (roads, wharfs, air field and communications) at the LNG Plant and at the upstream locations, including the Hides Gas Conditioning Plant. Survey work is underway for the onshore and offshore pipelines and the first batch of line pipe has been received in country. Construction work will continue to ramp up throughout 2011.

Darwin LNG (Santos 11.5%)

The Darwin LNG project, Santos' first producing LNG asset, commenced production in 2006. During the first half of 2010, the asset completed a planned shutdown during which LNG production capacity was upgraded to 3.6 mtpa. Santos' interest in the project has increased in 2010 from 11.4% to 11.5%, subject to regulatory approval.

Bonaparte LNG (Santos 40%)

Santos has partnered with France's GDF SUEZ to study the development of Bonaparte LNG, a proposed 2 mtpa floating LNG project located in the Timor Sea off the northern coast of Australia. GDF SUEZ will carry Santos' share of costs until a final investment decision. The first pre-front end engineering and design contracts for the project were awarded in January 2011.

Asia

The Company's focused Asia strategy continues to progress, with producing assets delivering strong performance and multiple options for growth. Indonesia continues to be a source of growth with record production from the two operated assets in East Java and the sanctioning of a third, Wortel (Santos 45% and operator), in late 2010. Construction is progressing to plan on Santos' first oil project in Vietnam, Chim Sáo (Santos 31.875%), with first oil expected in the second half of 2011.

Directors' Report (continued)

NET PROFIT

The 2010 net profit attributable to equity holders of Santos Limited of $500 million is $66 million higher than in 2009, mainly due to higher revenues driven by higher product prices, lower exploration and evaluation expenses, partially offset by current year impairment losses.

As a result of the Company's regular impairment review of assets, the recoverable amount of some assets was assessed to be impaired and impairment losses of $157 million pre-tax ($123 million after tax) have been recognised in the 2010 financial report. The impairments primarily relate to Cooper Basin assets and the Jabiru/Challis and Legendre assets in Western Australia, which ceased production in 2010.

Net profit includes items before tax of $144 million (after tax $124 million), referred to in the underlying profit table below.

Underlying Profit Table[1]

	2010 $million			2009 $million		
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Underlying profit			**376**			**257**
Net gains on sales and impairment losses	155	(64)	**91**	211	(48)	**163**
Foreign currency losses	(10)	3	**(7)**	(28)	7	**(21)**
Fair value adjustments on embedded derivatives and hedges	(7)	2	**(5)**	10	(4)	**6**
Remediation costs and contract losses, net of related insurance recoveries	6	(2)	**4**	4	(2)	**2**
Investment allowance, capital losses and other tax adjustments	-	41	**41**	-	27	**27**
	144	(20)	**124**	197	(20)	**177**
Net profit after tax attributable to equity holders of Santos Limited			**500**			**434**

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

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 Australian Federal Government recently proposed that the current Petroleum Resource Rent Tax regime will be extended to all Australian onshore and offshore oil and gas projects to apply from 1 July 2012. The proposal is subject to extensive negotiation, drafting of legislation and approval by Parliament.

DIVIDENDS

On 17 February 2011, the Directors resolved to pay a fully franked final dividend of 15 cents per fully paid ordinary share on 31 March 2011 to shareholders registered in the books of the Company at the close of business on 1 March 2011. This final dividend amounts to approximately $131 million.

A fully franked final dividend of $166 million (20 cents per fully paid ordinary share) was paid on 31 March 2010 on the 2009 results. Indication of this dividend payment was disclosed in the 2009 Annual Report. In addition, a fully franked interim dividend of $184 million (22 cents per fully paid ordinary share) was paid to members on 6 October 2010.

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 received $6,000 in fines relating to Infringement Notices issued pursuant to the *Environmental Protection Act 1994* (Qld) and undertook corrective measures in respect of the infringements to preclude recurrences. The consolidated entity 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 1 December 2010, the South Australian Environment Protection Authority issued a Site Remediation Order and a Site Contamination Assessment Order under the *Environment Protection Act 1993* (SA) (SAEPA Act). The orders relate to existing hydrocarbon contamination at the Port Bonython facility, which had been identified during routine groundwater quality testing undertaken in 2008 and subsequently reported to the Authority. Santos has lodged an appeal against the orders and believes it complied with its obligations under the SAEPA Act, having reported on, and undertaken measures to remediate, the site contamination since 2008.

POST BALANCE DATE EVENTS

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.

- On 17 December 2010, Santos announced the sale of an aggregate 15% interest in the GLNG joint venture to Total and KOGAS (7.5% each) for US$651 million subject to approval by the Australian Foreign Investment Review Board. On 24 January 2011, all conditions precedent were satisfied, reducing the consolidated entity interest in the Gladstone LNG project to 30%. At 31 December 2010, the carrying value of exploration and evaluation assets to be sold is $70 million and the carrying amount of oil and gas assets to be sold is $290 million.
- On 13 January 2011, the GLNG joint venture partners approved the final investment decision for the development of the US$16 billion, 7.8 mtpa GLNG project in Queensland. The Group's 30% share of future capital expenditure is US$4.8 billion. The GLNG joint venture includes the development of coal seam gas resources in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre gas transmission pipeline from the gas fields to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 mtpa on Curtis Island. The GLNG joint venture has binding LNG sales agreements with PETRONAS and KOGAS for 7 mtpa in aggregate. First LNG sales exports are expected to commence in 2015.
- On 17 February 2011, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2010 financial year. Refer to note 21 of the Financial Statements for dividends declared after 31 December 2010.

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' Report (continued)

SHARES UNDER OPTION AND UNVESTED SHARE ACQUISITION RIGHTS

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 of options
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	61,100
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	216,300
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	620,445
3 May 2008	2 May 2018	$15.39	271,694
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
02 March 2009	2 March 2019	$14.81	197,959
02 March 2009	2 March 2019	$14.81	65,717
			4,895,310

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.

Unvested 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
3 May 2008	124,305
3 May 2008	67,883
28 July 2008	35,973
28 July 2008	50,403
28 July 2008	50,403
2 March 2009	378,491
2 March 2009	159,155
2 March 2009	114,377
2 March 2010	590,942
2 March 2010	290,964
15 November 2010	50,000
22 November 2010	30,000
6 December 2010	10,000
	1,952,896

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 2010 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
1 July 2007	$14.14	9,668
23 May 2005	$8.46	16,000
		25,668

Vested SARs

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2010 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
1 July 2007	381,500
1 July 2007	314,374
3 May 2008	3,433
3 May 2008	6,061
2 March 2009	3,727
2 March 2009	5,025
2 March 2010	5,159
2 March 2010	6,373
	725,652

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

2010 Remuneration in brief

This Remuneration in brief section is an addition to Santos' reporting framework. It outlines the Company's key remuneration activities in 2010 and discloses the actual amount of remuneration paid to its CEO and Senior Executives.

It should be read in conjunction with the Remuneration Report on pages 52 to 70, which provides disclosure of the remuneration framework of the Company in accordance with statutory obligations and accounting standards.

KEY 2010 REMUNERATION ACTIVITIES

During 2010, the Company focused on ensuring its remuneration framework continued to be competitive. This was particularly important for managing the challenges associated with sourcing and retaining specialists from skill-short disciplines important for future operational success.

Figure 1 below illustrates Santos' Total Shareholder Return performance from 2001 to 2010, compared to that of the ASX 100. Santos' strong performance over this period is consistent with, and reflected in, the levels of at risk remuneration that have been received by its Senior Executives. To further strengthen the link between remuneration and benefits offered and shareholder interests, several key initiatives were undertaken in 2010.

Most significantly, to encourage ownership of Santos shares among its employees, the Company introduced a new general employee share plan. The plan is aligned with recent regulatory changes affecting employee equity plans, and offers eligible employees the ability to participate in a share purchase plan whereby for each share purchased by the employee, the Company provides a matching Share Rights at a ratio determined by the Board. Such Share Rights only vest if the employee continues employment with the Company for a minimum service period. The plan aligns the interests of employees with those of shareholders and further encourages staff retention.

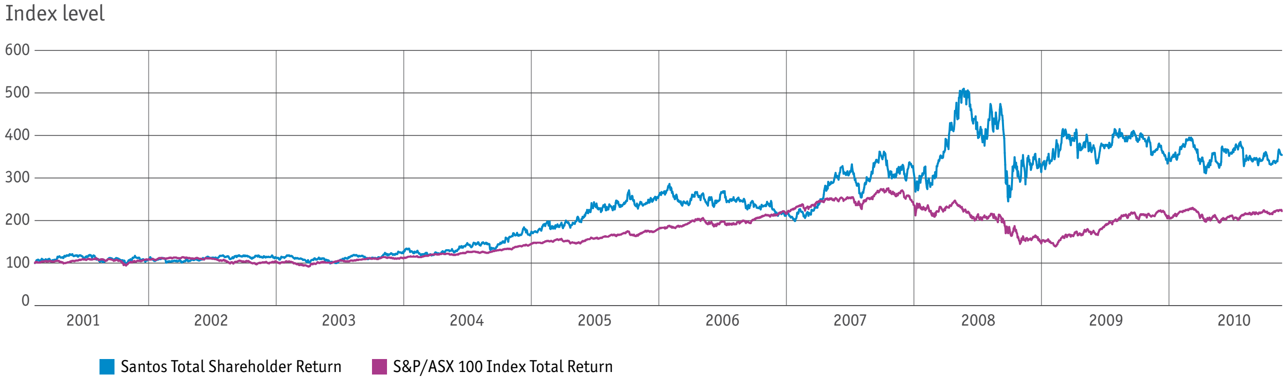
To continue the focus on meeting Santos' Diversity objectives, a process for reviewing gender pay equity was introduced in 2010. This process will form the basis of future periodic reviews.

The Company's commitment to reviewing its remuneration and benefits to ensure market competitiveness continued in 2010 through participation in industry-specific surveys and forums such as the National Rewards Group as well as a full review of its superannuation provider.

The upcoming year is expected to bring further challenges for sourcing and retaining people as the resource sector continues its growth. Accordingly, Santos will maintain a focus on ensuring its remuneration framework is competitive so that the Company has staff with the necessary skills to deliver the business plan.

Figure 1: Total Shareholder Return Comparison

TSR OF SANTOS AND ASX 100 2001–2010



ACTUAL CEO AND SENIOR EXECUTIVE REMUNERATION IN 2010

The table below provides the actual 'dollar value' of remuneration received by the Company's CEO and Senior Executives in 2010, including prior-year awards where the executive 'realised' value from these awards in 2010. Additionally, remuneration details calculated in accordance with statutory obligations and accounting standards are provided on pages 58 and 63 to 64 of the Remuneration Report.

Figure 2: Remuneration table

Name and role	Fixed remuneration[1]	STI[2]	LTI[3,4]	Other[5]	Total
DJW Knox Managing Director and Chief Executive Officer	$2,125,000	$1,700,000	$729,000	-	$4,554,000
JH Anderson Vice President Western Australia and Northern Territory	$550,498	$250,000	$381,375	-	$1,181,873
JL Baulderstone Vice President Eastern Australia	$599,500	$270,000	$347,475	-	$1,216,975
PJ Cleary[6] Vice President Strategy and Corporate Development	$204,545	$82,000	-	$5,600	$292,145
MEJ Eames Vice President Asia-Pacific	$638,150	$245,000	$452,000	-	$1,335,150
MS Macfarlane[7] Chief Executive Officer GLNG Operations Pty Ltd	$363,949	$155,164	$381,375	-	$900,488
PC Wasow Chief Financial Officer and Executive Vice President	$1,026,250	-	$522,625	$840,870[8]	$2,389,745
RJ Wilkinson Vice President Queensland	$589,200	$230,000	$398,583	$1,400	$1,219,183

1 Comprising base salary and superannuation.

2 This figure represents the amount of the STI or bonus that will be paid to the executive for 2010 performance. For further details of the Company's STI program, see pages 55 and 59 of the Remuneration Report.

3 This figure represents the value of performance-based SARs that vested on 24 February 2010 based on the closing share price of $13.27, plus service-based SARs that vested on 1 July 2010 at a closing share price of $12.36, and options that were exercised (if any) in 2010 based on the difference between the exercise price and the closing share price on the date of exercise. Note that no options were exercised by the Senior Executives in 2010. Although shares allocated under SARs 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, see pages 56 to 57 and 60 to 62 of the Remuneration Report.

4 This figure also includes the value of an ex gratia payment of $1.31 per vested SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue. This is detailed further at note 30 to the Financial Statements and on page 61 of the 2009 Annual Report.

5 Comprising ad hoc payments treated as remuneration, such as relocation allowance.

6 Mr Cleary joined the Company on 30 August 2010.

7 Mr Macfarlane's figures are for the period 1 January 2010 to 29 August 2010, after which he was seconded to GLNG Operations Pty Ltd and ceased to be in a key management personnel role.

8 Mr Wasow's employment with the Company ceased on 31 December 2010. This amount was paid as a consequence of his retirement and includes annual and long service leave entitlements that had not been taken.

2010 Remuneration Report

The Directors of Santos Limited present this Remuneration Report for the consolidated entity for the year ended 31 December 2010. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) (Corporations Act). The Remuneration Report forms part of the Directors' 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 Company and Group executives for the 2010 financial year, and are listed in Table 1 below.

Table 1: Directors and Senior Executives

Executives

Name	*Position*
DJW Knox	Managing Director and Chief Executive Officer
JH Anderson	Vice President Western Australia and Northern Territory
JL Baulderstone	Vice President Corporate and Commercial, General Counsel and Company Secretary[1] Vice President Eastern Australia[2]
PJ Cleary	Vice President Strategy and Corporate Development[3]
MEJ Eames	Vice President Asia-Pacific
MS Macfarlane	Vice President Eastern Australia[4]
PC Wasow	Chief Financial Officer and Executive Vice President[5]
RJ Wilkinson	President GLNG and Queensland[6] Vice President Queensland[7]

Non-executives

Name	*Position*
PR Coates	Chairman
KC Borda	Director
KA Dean	Director
RA Franklin	Director
RM Harding	Director
GJW Martin	Director
JS Hemstritch[8]	Director

1 Vice President Corporate and Commercial, General Counsel and Company Secretary to 29 August 2010.

2 Vice President Eastern Australia from 30 August 2010.

3 Appointed 30 August 2010.

4 Ceased as the Vice President Eastern Australia on 29 August 2010.

5 Retired on 31 December 2010.

6 President GLNG and Queensland to 29 August 2010.

7 Vice President Queensland from 30 August 2010.

8 Appointed 16 February 2010.

SENIOR EXECUTIVE REMUNERATION

Remuneration Policy

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

ATTRACTING AND RETAINING TALENTED AND QUALIFIED EXECUTIVES

- 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.

ENCOURAGING EXECUTIVES TO STRIVE FOR SUPERIOR PERFORMANCE

- 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.

ALIGNING EXECUTIVE AND SHAREHOLDER INTERESTS

- The long-term incentive component of remuneration is delivered through equity instruments linked to ordinary shares in Santos.
- 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 structures and its corporate objectives.

Santos' corporate objectives	DELIVERING THE BASE BUSINESS	TAPPING OUR RESOURCE RICHES	BEING A GREAT, SAFE PLACE TO WORK	DELIVERING SUPERIOR RETURNS TO SHAREHOLDERS
Link to remuneration structures	The CEO and Senior Executives with oversight of the existing base businesses are rewarded for delivering sustained performance and growth in core operations.	Performance measures for the CEO and 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 the CEO and 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 2010 short-term incentive included: – Santos' strategic positioning in Australia and Asia; – positioning the Company for sanctioning of the Gladstone LNG project; and – delivering growth projects across the business that drive reserves and production. • 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 the CEO and 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 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

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 non-executive Directors engaged and received independent external advice on Mr Knox's remuneration package, which is benchmarked against the remuneration paid to CEOs of comparable companies. This advice was received and considered without management present.

The relative weightings of the three components comprising the CEO's total remuneration are set out below. These weightings reflect the Company's policy in respect of the CEO's remuneration, and are calculated on the basis that the at risk components (STI and LTI) are at their maximum.

Table 2: Relative weightings of remuneration components[1]

	% of total remuneration (annualised)		
	Fixed remuneration	**Performance-based remuneration**	
		STI	**LTI**
CEO	33.33%	33.33%	33.33%

1 These figures reflect the LTI grants made to the CEO in 2008 in three tranches, constituting his LTI entitlements for 2008, 2009 and 2010. These grants were based on his fixed remuneration at the time of $1,750,000. If an LTI grant had been made to the CEO in 2010 based on his 2010 fixed remuneration of $2,125,000, the relative weightings of his remuneration components would have been 35.5% (fixed remuneration), 35.5% (STI) and 29% (LTI). Furthermore, the figures do not reflect the actual 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 increased from $1,750,000 to $2,125,000 on 1 January 2010. This increase followed a review by the Board, which considered Mr Knox's performance, the performance of Santos and the remuneration provided to CEOs of comparable companies. This was the first increase to Mr Knox's TFR since he was appointed CEO in 2008.

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 agreed with the Board and directly related to Santos' strategic plan. 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 and independent assessment of the CEO's overall performance.

As outlined above, for the 2010 performance period, Mr Knox's STI targets were based on agreed objectives linked to Company performance targets and delivery of its strategic growth initiatives. These performance targets for 2010 included Santos' strategic positioning in Australia and Asia, positioning the Company for sanctioning of the Gladstone LNG project; and delivering growth projects across the business that drive safety, reserves and production.

Based on performance against these targets during the year, Mr Knox was awarded an STI payment of $1,700,000 or 80% of the maximum STI payable. The difference between actual STI paid and maximum STI will not be carried forward.

Remuneration Report (continued)

Long-term Incentive

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

The 2008 grants comprised:

- a performance-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects (EVP Performance Award);
- a service-based equity award made to Mr Knox in his capacity as Executive Vice President, Growth Projects (EVP 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).

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 grants 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 TSR relative to the ASX 100 over a three-year performance period. Details of why relative TSR was chosen and how it is assessed are set out in the Senior Executive remuneration LTI section of this report. There is no re-testing of performance conditions. The SARs and options that do not vest upon testing of the applicable performance conditions will lapse.
- 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%

- In 2010, SARs and options granted to Mr Knox in 2007 (prior to his appointment as CEO) vested or became exercisable in full. These grants comprised 50,000 SARs tested against TSR hurdles, and 100,000 options which became exercisable upon completion of three years of continuous service to 2 September 2010.
- The testing of Mr Knox's 2008 EVP Performance Award and Tranche 1 of his CEO Performance Award has been completed, with the Company's TSR ranking in the 87th percentile relative to the ASX 100, resulting in 83% of the EVP Performance Award and 87% of the CEO Performance Award vesting in early 2011. The percentages of the respective awards not vested lapse at that time. The performance periods of the EVP Deferred Award and Tranches 2 and 3 of the CEO Performance Award are yet to be completed.
- Upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to disposal restrictions until the earlier of 10 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, subject to payment of the exercise price (being the volume weighted average price in the week up to and including the grant date).
- Mr Knox's 2008 EVP Performance Award options are exercisable prior to 2 May 2018 at an exercise price of $15.39 per option and Tranche 1 of his CEO Performance Award options are exercisable prior to 27 July 2018 at an exercise price of $17.36 per option.
- 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 was forfeited during the year. As noted on page 56, Tranche 1 of the CEO Performance Award has been completed, with the Company's TSR ranking in the 87th percentile relative to the ASX 100, resulting in 87% of the CEO Performance Award vesting in early 2011. The percentages of the respective awards not vested lapse at that time.

2 Maximum value represents the fair value of the LTI awards as at their grant date determined in accordance with AASB2 Share-based Payment (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 30 to the Financial Statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

2011 LTI Grant Approved at 2010 Annual General Meeting

At the Company's 2010 Annual General Meeting, shareholder approval was obtained for the CEO's 2011 LTI grant. Key terms of the grant are as follows:

- Mr Knox will be granted SARs with a face value of $2.25 million.
- The number of SARs will be determined by dividing $2.25 million by the volume weighted average price of Santos shares over the five trading days prior to the date of grant.
- Vesting of the grant is subject to the company's TSR relative to ASX 100 companies (as at 1 January 2011) over the period 1 January 2011 to 31 December 2013.
- Vesting will be in accordance with the following schedule:

TSR percentile ranking	% of grant vesting
< 50th percentile	0%
= 50th percentile	50%
51st to 75th percentile	Further 2% for each percentile improvement above the 50th percentile
76th to 100th percentile	100%

- There is no re-testing of the performance condition. The SARs will lapse if the performance condition is not met.

Remuneration Report (continued)

2009 and 2010 Remuneration Details for Mr Knox

Table 4: 2009 and 2010 remuneration details for Mr Knox

Year	Short-term employee benefits			Post-employment	Share-based payments[1,6]	Termination	Other long-term benefits[3]	Total	% at risk
	Base salary $	STI $	Other $	Super-annuation $	$	$	$	$	
2010	2,110,170	1,700,000[4]	-	14,830	1,209,357[2]	-	64,219	5,098,576	57%
2009	1,735,897	1,400,000	500,000[5]	14,103	1,486,873	-	29,891	5,166,764	56%

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 30 to the Financial Statements.

2 Of the total remuneration for Mr Knox for the year, 24% consisted of Share-based payments.

3 'Other long-term benefits' represents 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 for 2010, which will be paid in March 2011.

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 and 2010 consist of the following equity-linked theoretical compensation, and as a consequence of the rights issue in May 2009, include a cash-settled component payable only upon conversion of applicable SARs and options to shares. This matter is discussed further at note 30 to the Financial Statements and on page 61 of the 2009 Annual Report.

	SARs	Options	Cash-settled
2010	$401,460	$669,227	$138,670
2009	$553,452	$634,898	$298,523

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 without notice at any time for cause. No payment in lieu of notice, nor any payment in respect of STI or LTI, will be made in this circumstance.

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

SENIOR EXECUTIVE REMUNERATION

Remuneration components and their relative weightings

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

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

Santos' executive remuneration structure is consistent with the Company's 'reward performance' policy. The relative weightings of the three components comprising the Senior Executives' total remuneration are provided in Table 5 below. These weightings are calculated on the basis that the 'at risk' components (STI and LTI) are at their maximum.

Table 5: Relative weightings of remuneration components[1]

	% of total remuneration (annualised)		
	Fixed remuneration	**Performance-based remuneration**	
		STI	**LTI**
Chief Financial Officer and Executive Vice President	44%	33%	23%
Other Senior Executives	49%	25%	26%

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 pool of 30% is distributed to executives based on their 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 and the delivery of key project milestones for those Senior Executives with responsibility for growth LNG businesses. Further details regarding the performance measures and the link to Santos' performance is set out in Table 11 on page 65.
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 2010	Company performance against the measures in 2010 resulted in an average STI of 78% of maximum payable to all eligible employees. 2010 STI awards made to individual Senior Executives ranged from 76% to 88% 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 2010. The actual grants comprised:

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

All LTI grants were delivered in the form of SARs, i.e. a conditional entitlement to a fully paid ordinary share at zero price, subject to satisfaction of vesting conditions. Grant sizes were market-aligned.

LTI grants all have a three-year performance or service period. This period has been chosen as an appropriate balance between providing a genuine and foreseeable incentive to Senior Executives and fostering a long-term view of shareholder interests.

The Performance Awards have a TSR performance condition that is tested by an independent third party and reviewed by the Board prior to vesting. The Board believes this method of assessment is rigorous and provides an appropriate assessment of the Company's performance against the performance condition.

Vesting details of the Performance and the Deferred Awards are summarised in Table 6 below. In addition, Table 7 contains details of the number and value of SARs granted to Senior Executives in 2010 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 2010 to 31 December 2012.</td><td>2 March 2010 to 1 March 2013.</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 2010.

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 2013, 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 over the 50th percentile. Consistent with its remuneration policy, the Board believes it is appropriate to provide executives with an additional incentive to strive for exceptional performance, with full vesting occurring only 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>A 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>SARs have no exercise price.</td><td>As for Performance Award.</td></tr>
<tr><td>Exercise period</td><td>Upon vesting of SARs, shares will automatically be allocated to the executive. 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 the removal of the restrictions.</td><td>As for Performance Award.</td></tr>
<tr><td>Expiry/lapse</td><td>SARs that do not vest upon testing of the performance condition will lapse.</td><td>SARs will lapse if the service condition is not satisfied.</td></tr>
</table>

	Performance Award	Deferred Award
Cessation/ change of control	Upon cessation of employment, SARs that have not already vested will, in general, lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in other circumstances approved by the Board, then a proportion of the SARs may vest. Where there is a change in control, the Board may determine whether, and the extent to which, SARs may vest.	As for Performance Award.
Hedging Policy	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.	As for Performance Award.

Table 7: SARs granted to Senior Executives in 2010[1]

Executive	Grant name	Number of SARs granted	Maximum value of grant[2]
JH Anderson	Performance Award	17,688	$114,264
	Deferred Award	5,872	$69,994
JL Baulderstone	Performance Award	18,857	$121,816
	Deferred Award	24,939	$297,273
PJ Cleary	Performance Award[3]	20,000	$119,400
	Deferred Award	-	-
MEJ Eames	Performance Award	19,702	$127,275
	Deferred Award	6,541	$77,969
MS Macfarlane[4]	Performance Award	17,274	$111,590
	Deferred Award	5,182	$61,769
PC Wasow	Performance Award	31,683	$204,672
	Deferred Award	9,505	$113,300
RJ Wilkinson	Performance Award	18,336	$118,451
	Deferred Award	6,088	$72,569

1 The grants made to the Senior Executives during the year constitute their full LTI awards for the 2010 financial year. As the SARs only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs detailed above were forfeited during the year.

2 Maximum value (for all of the Senior Executives other than Mr Cleary) represents the fair value of the Performance Award and Deferred Award as at their grant date (being 2 March 2010), determined in accordance with AASB 2 Share-based Payment. The fair value per instrument at the grant date was:

Performance Award	SARs – $6.46
Deferred Award	SARs – $11.92

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 30 to the Financial Statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

3 As Mr Cleary joined the Company on 30 August 2010, he received a grant at a later date than the other Senior Executives; accordingly, the maximum value for the Performance Award to Mr Cleary represents the fair value as at the grant date (being 15 November 2010), determined in accordance with AASB 2 Share-based Payment. The fair value per instrument at the grant date was $5.97.

4 Includes grants to Mr Macfarlane while in his role as Vice President Eastern Australia until 29 August 2010.

Remuneration Report (continued)

LTI Grants to Senior Executives

The following LTI grants were still in progress or were tested during 2010:

Table 8: LTI grants to Senior Executives

Grant year	Grant type	Vesting condition(s)	Performance/ vesting period	Status
2007	Deferred Award	Continuous service	DJW Knox[1]: 3 September 2007 to 2 September 2010	Vested in full.
			Senior Executives: 1 July 2007 to 30 June 2010	Vested in full to Senior Executives who met the continuous service condition.
2008	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2008 to 31 December 2010	Testing completed. Will result in 83% of the grant vesting in early 2011.
	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.
2010	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2010 to 31 December 2012	In progress.
	Deferred Award	Continuous service	2 March 2010 to 1 March 2013	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.

2010 Senior Executive Remuneration Details

Table 9: 2010 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	534,418	250,000	-	16,080	240,417	-	48,749	1,089,664	45%
JL Baulderstone	584,670	270,000	-	14,830	299,502	-	16,736	1,185,738	48%
PJ Cleary[5]	185,109	82,000	5,600	19,436	5,385	-	-	297,530	29%
MEJ Eames	623,320	245,000	-	14,830	277,943	-	37,567	1,198,660	44%
MS Macfarlane[6]	354,301	155,164	-	9,648	160,723	-	48,020	727,856	43%
PC Wasow	1,011,420	-	-	14,830	142,398[7]	517,500[8]	54,725	1,740,873	8%
RJ Wilkinson	536,597	230,000	1,400	52,603	231,849	-	44,165	1,096,614	42%

1 The percentage of each Senior Executive's total remuneration for the year that consisted of Share-based payments is as follows:

JH Anderson	20%	MS Macfarlane	20%
JL Baulderstone	24%	PC Wasow	7%
PJ Cleary	2%	RJ Wilkinson	20%
MEJ Eames	21%		

2 'Share-based payments' consist of the following equity-linked theoretical compensation and, as a consequence of the rights issue in May 2009, include a cash-settled component payable only upon conversion of applicable SARs and options to shares. This matter is discussed further at note 30 to the Financial Statements and on page 61 of the 2009 Annual Report.

Executive	SARs	Options	Cash-settled
JH Anderson	$131,597	$87,038	$21,782
JL Baulderstone	$199,251	$79,662	$20,589
PJ Cleary	$5,385	$ -	$ -
MEJ Eames	$149,841	$102,577	$25,525
MS Macfarlane	$88,860	$56,599	$15,264
PC Wasow	$128,856	$ -	$13,542
RJ Wilkinson	$217,886	$ -	$13,963

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 2010, which will be paid in March 2011.

5 Mr Cleary joined the company on 30 August 2010.

6 Mr Macfarlane's figures are for the period 1 January 2010 to 29 August 2010, after which he was seconded to GLNG Operations Pty Ltd and ceased to be in a key management personnel role.

7 In accordance with the exercise of the Board's discretion under the rules of the Santos Employee Share Purchase Plan, Mr Wasow's unvested LTI awards were tested as at the date of cessation of employment, resulting in the vesting of 27,272 SARs and the forfeiture of 70,761 SARs.

8 This amount is as a consequence of Mr Wasow's retirement on 31 December 2010.

Remuneration Report (continued)

2009 Senior Executive Remuneration Details

Table 10: 2009 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	489,116	223,800	22,435[5]	50,884	262,336	-	10,111	1,058,682	46%
JL Baulderstone	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	985,897	562,300	-	14,103	358,269	-	37,801	1,958,370	47%
RJ Wilkinson	488,533	232,000	16,800[6]	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 Share-based payments 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, include 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 '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 2009 year, which was paid in March 2010.

5 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.

6 Mr Wilkinson received an incidentals allowance of $16,800 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 consolidated entity'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 various key indicators, including the following:

Table 11: Key indicators of company performance 2006–2010

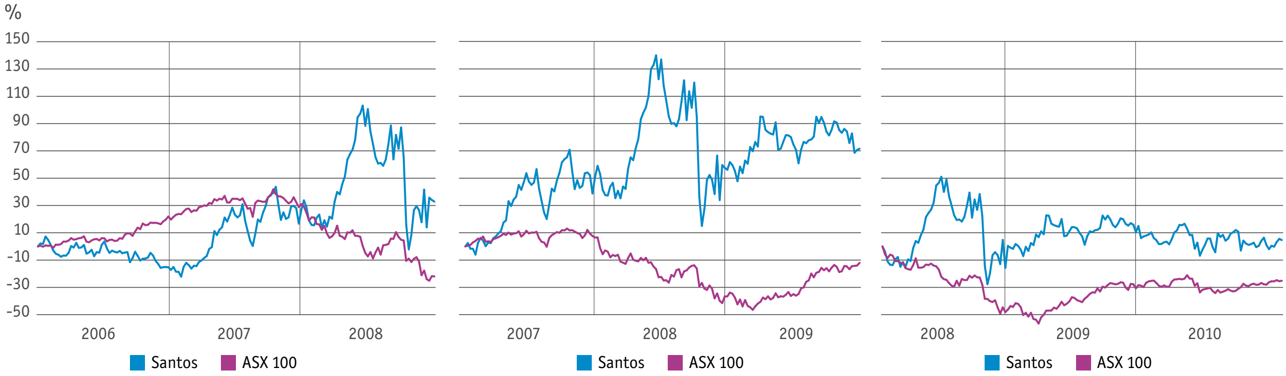
Key indicator	2006	2007	2008	2009	2010
Safety (total recordable case frequency rate)	6.4	5.3	5.8	3.6	**3.3**
Production (mmboe)	61.0	59.1	54.4	54.4	**49.9**
Reserve replacement cost – 1P (A$/boe)	15	13	13	9	**22**
Reserve replacement rate – 1P (%)	143	175	160	336	**100**
Proven plus probable reserves – 2P	819	879	1,013	1,441	**1,445**
Netback (A$/boe)	33	33	36	23	**23**
Net profit after tax $m	643	359	1,650	434	**500**
Earnings per share (cents)	103	55	273	52	**59.8**
Dividends per ordinary share (cents)	40	40	42	42	**42**
Size of STI pool (% of maximum)	70	80	80	80	**78**

As set out earlier, Company performance in 2010 resulted in an average STI award of 78% of the maximum payable to all eligible employees. Performance against key metrics was on target in 2010 and included the achievement of key strategic milestones such as:

- positioning the Company for sanctioning a two-train Gladstone LNG project early in 2011, enabling the value in the resources and reserves base of the Company to be unlocked, and the signing of the 750 PJ Cooper Heads of Agreement to reinvigorate the Cooper Basin and Santos' base business;
- completing several substantial financing actions, including refinancing bilateral facilities and increasing from A$700 million to A$2 billion at very attractive terms, completing two tranches of a €1.4 billion world-first hybrid that received 100% equity credit from Standard and Poor's, and raising A$500 million in new equity at a tight discount to the prevailing market price; and
- delivering milestones for several growth projects across Santos' area of operations that will grow production over the next two years, such as Reindeer, Spar, Chim Sáo and Wortel.

The graphs on page 66 show the relationship over the past five years between the Company's TSR and the ASX 100 performance and the Company's 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 AND ASX 100

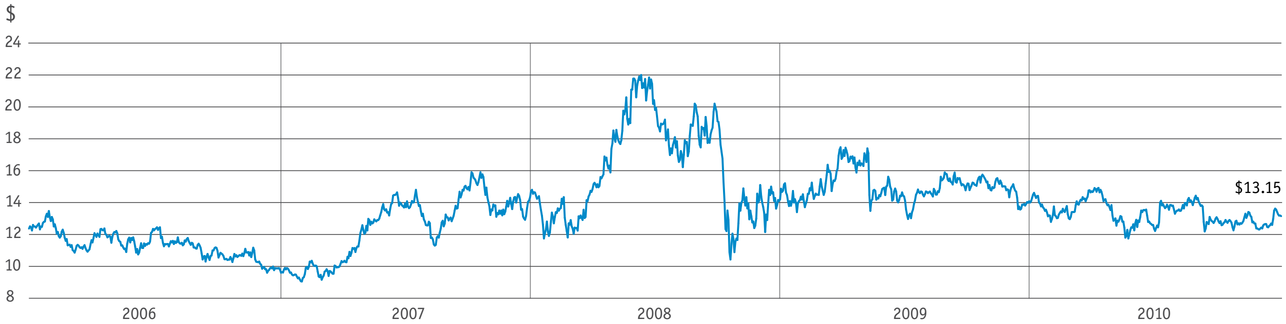


LTI vesting for 2006–2008 performance period = 100%	LTI vesting for 2007–2009 performance period = 100%	LTI vesting for 2008–2010 performance period = 83%[1]
TSR ranking: 88th percentile[2]	TSR ranking: 88th percentile	TSR ranking: 87th percentile

1 The 2008 performance award differed from the 2006 and 2007 awards in that the 2008 award consisted of a larger grant and was structured so that 33.33% of the grant vested where Santos' TSR ranked at the 50th percentile and a further 1.33% of the grant vested for each percentile improvement in Santos' TSR ranking above the 50th percentile, as detailed in the vesting schedule in Table 6. For the 2006 and 2007 performance awards, 50% of the grant vested where Santos' TSR ranked at the 50th percentile and a further 2% of the grant vested for each percentile improvement in Santos' TSR ranking above the 50th percentile.

2 The 2006 award included an ASX 100 and E&P comparator group. Santos' TSR performance against the ASX 100 comparator group was in the 88th percentile and in the 94th percentile for the E&P group.

SANTOS' UNADJUSTED SHARE PRICE 2006–2010



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)

2006	$0.40
2007	$0.40
2008	$0.42
2009	$0.42
2010	$0.42

The following capital returns were made in the 2006–2010 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.

The value derived by Senior Executives during 2010 in respect of LTIs granted in previous financial years (i.e. prior-year awards that vested and/or were exercised during 2010) is set out in Table 12 below. Table 12 shows only vested SARs and options as no SARs or options were forfeited or lapsed and no options were exercised during 2010 by the Senior Executives.

Table 12: Senior Executives' LTI remuneration outcomes in 2010

	Vested	
	Number	**Value[1]**
DJW Knox		
SARs	50,000	$729,000
Options	100,000	$111,000[2]
JH Anderson		
SARs	27,000	$381,375
Options	-	-
JL Baulderstone		
SARs	24,600	$347,475
Options	50,000[3]	($43,500)[3]
PJ Cleary		
SARs	-	-
Options	-	-
MEJ Eames		
SARs	32,000	$452,000
Options	-	-
MS Macfarlane[4]		
SARs	27,000	$381,375
Options	-	-
PC Wasow		
SARs	37,000	$522,625[5]
Options	-	-
RJ Wilkinson		
SARs	28,200	$398,325
Options	-	-
Total SARs	225,800	$3,212,175
Total options	150,000	$67,500

1 In respect of SARs, these figures show the value of performance-based SARs that vested on 24 February 2010 based on the closing share price of $13.27, plus service-based SARs that vested on 1 July 2010 at a closing share price of $12.36. This figure also includes the value of an ex gratia payment of $1.31 per vested SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements and on page 61 of the 2009 Annual Report.

2 This figure shows the value of options based on the difference between the closing share price of $13.92 on the date of vesting (3 September 2010) and the exercise price of $12.81.

3 This figure shows the value of options based on the difference between the closing share price of $13.27 on the date of vesting (24 February 2010) and the exercise price of $14.14.

4 Remuneration disclosed for Mr Macfarlane is until 29 August 2010, after which time he ceased to be in a key management personnel role.

5 Following his retirement on 31 December 2010, Mr Wasow's unvested LTI awards were tested and vested in accordance with the relevant vesting conditions, which resulted in the vesting of 27,272 SARs and the forfeiture of 70,761 SARs.

Remuneration Report (continued)

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 Board Committee fees.	• Santos encourages its non-executive Directors to build a long-term stake in the Company. • Non-executive Directors can either acquire shares through the non-executive Director Share Plan or acquisitions on market during trading windows.

Remuneration Arrangements

Maximum Aggregate Amount

Total non-executive Directors' fees paid in a year, including Board Committee fees, must not exceed the amount that was approved by shareholders at the Annual General Meeting held on 2 May 2008, being $2,100,000. 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.

2010 Non-executive Directors' Fees

In September 2010, the Company engaged Pricewaterhousecoopers to conduct an external review of non-executive Directors' fees, which were last adjusted on 1 July 2008.

The review included benchmarking comparisons of non-executive Directors' fees against ASX 50 peers and consideration of the responsibilities and time commitments required from each Director to discharge their duties. The review concluded that the non-executive Directors' fees were below the median fees paid by the ASX 50 and, in the case of Board Committee fees, were below the 25th percentile. Recommendations arising from this review resulted in approval by the Board of a revised scale of payment, effective from 1 October 2010. Directors' previous and revised fee rates are provided in Table 13 on page 69.

Table 13: Non-executive Directors' fees per annum

Annual Fees	Board		Committees	
	Chair[1]	Member	Chair	Member
1 January 2010 to 30 September 2010	$435,000	$145,000	$12,000–$30,000	$5,000–$15,000
1 October 2010 to 31 December 2010	$456,750	$152,250	$22,000–$40,000	$10,000–$20,000

1 The Chairman of the Board does 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

Non-executive Directors appointed after 1 January 2004 are not entitled to receive a benefit upon retirement (other than statutory entitlements). Accordingly, since the retirements of Professor J Sloan and Mr S Gerlach from the Board of Directors in 2009, there are no outstanding entitlements to retirement benefits.

Non-executive Director Share Plan

Participation in the NED Share Plan is voluntary. Under the NED Share Plan, non-executive 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 10 years have elapsed since the allocation of the shares, whichever is earlier.

In addition to the NED Share Plan, Directors may acquire shares on market during trading windows and subject to the Company's Trading in Securities Policy. Messrs PR Coates and GJW Martin both acquired shares in this manner in 2010. Details of all non-executive Directors' shareholdings are contained on page 43 of the Directors' Report.

Mr KA Dean participated in the NED Share Plan in 2010. Details of the shares allocated to Mr Dean under the NED Share Plan during the year are set out in Table 14 below.

Table 14: 2010 NED Share Plan allocations

Director	Q1 2010 allocation[1]	Q2 2010 allocation[2]	Q3 2010 allocation[3]	Q4 2010 allocation[4]	Total
KA Dean	774	897	906	967	3,544

1 Shares were allocated on 6 April 2010 at $14.7600 per share.

2 Shares were allocated on 30 June 2010 at $12.7383 per share.

3 Shares were allocated on 16 September 2010 at $12.6196 per share.

4 Shares were allocated on 21 December 2010 at $13.3836 per share.

Remuneration Report (continued)

Details of Remuneration Paid to non-executive Directors

Details of the fees and other benefits paid to non-executive Directors during 2010 are set out in Table 15 below.

Table 15: 2009 and 2010 non-executive Director remuneration details

Director	Year	Short-term benefits			Retirement benefits		Share-based payments	
		Directors' fees (incl. Committee fees)[1] $	Fees for special duties or exertions $	Other $	Superannuation contributions[2] $	Increase to retirement benefit[3] $	NED Share Plan $	Total $
KC Borda	2010	166,902	-	-	14,646	-	-	181,548
	2009	-	-	-	13,937	-	157,000	170,937
PR Coates[4]	2010	440,438	-	-	14,830	-	-	455,268
	2009	178,528	-	-	14,103	-	55,626	248,257
KA Dean	2010	141,797	-	-	14,830	-	47,266	203,893
	2009	160,125	-	-	14,103	-	22,875	197,103
RA Franklin	2010	160,688	-	-	952	-	-	161,640
	2009	158,500	-	-	898	-	-	159,398
S Gerlach[6]	2010	-	-	-	-	-	-	-
	2009	402,375		4,629[5]	14,103	62,421	32,635	516,153
RM Harding	2010	201,625	-	-	14,830	-	-	216,455
	2009	185,963	-	-	14,103	-	9,788	209,854
JS Hemstritch[7]	2010	152,701	-	-	13,061	-	-	165,762
	2009	-	-	-	-	-	-	-
GJW Martin[8]	2010	173,286	-	-	14,788	-	-	188,074
	2009	25,425	-	-	2,288	-	-	27,713
J Sloan[9]	2010	-	-	-	-	-	-	-
	2009	14,301	-	-	4,662	5,469	37,500	61,932

1 Refer to Table 13 above for details of annual Directors' Board and Board Committee fees. Figure shown is after fee sacrifice to NED Share Plan.

2 Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin only in relation to days worked in Australia.

3 This shows the increase to retirement benefits during the year. See page 69 for further detail in respect of retirement benefits.

4 Mr Coates became Chairman effective 9 December 2009 and was therefore paid a higher fee commensurate with his increased responsibilities (refer to Table 13 in respect of non-executive Directors' fees).

5 This figure represents the value of car parking provided to the former Chairman in the Company's head office in Adelaide.

6 Retired 31 December 2009.

7 Appointed 16 February 2010.

8 Appointed 29 October 2009.

9 Retired 6 May 2009.

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 ending 31 December 2010 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 2010 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 2011. 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	$47,000
Assurance services	$973,000

Non-audit assurance services increased in 2010 by $440,000, mainly related to capital-raising activities. It is standard practice for the external auditors to undertake this work.

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.

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 is set out on page 154.

ROUNDING

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

This report is made out on 17 February 2011 in accordance with a resolution of the Directors.

Peter Coates
Director

David Knox
Director

Consolidated Income Statement
for the year ended 31 December 2010

	Note	2010 $million	2009 $million
Product sales	3	**2,228**	2,181
Cost of sales	4	**(1,462)**	(1,423)
Gross profit		**766**	758
Other revenue	3	**78**	70
Other income	3	**344**	254
Other expenses	4	**(400)**	(351)
Finance income	5	**140**	85
Finance expenses	5	**(133)**	(98)
Share of net losses of an associate	26	**(2)**	(1)
Profit before tax		**793**	717
Income tax expense	7	**(244)**	(205)
Royalty-related taxation expense	7	**(51)**	(78)
Total taxation expense		**(295)**	(283)
Net profit for the period		**498**	434
Net profit/(loss) attributable to:			
Owners of Santos Limited		**500**	434
Non-controlling interests		**(2)**	–
		498	434
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic earnings per share	22	**59.8**	52.0
Diluted earnings per share	22	**59.6**	51.8
Dividends per share ($)			
Ordinary shares	21	**0.42**	0.42
Redeemable preference shares	21	**–**	4.618

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

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	Note	**2010 $million**	2009 $million
Net profit for the period		**498**	434
Other comprehensive income, net of tax:			
Net exchange loss on translation of foreign operations		**(141)**	(294)
Net gain on foreign currency loans designated as hedges of net investments in foreign operations		**133**	286
Tax effect	7	**(40)**	(86)
		93	200
Net change in fair value of available-for-sale financial assets		**(1)**	–
Tax effect	7	**–**	–
		(1)	–
Net gain on derivatives designated as cash flow hedges		**3**	–
Tax effect	7	**(1)**	–
		2	–
Net actuarial (loss)/gain on the defined benefit plan	29	**(1)**	16
Tax effect	7	**–**	(5)
		(1)	11
Other comprehensive income, net of tax		**(48)**	(83)
Total comprehensive income		**450**	351
Total comprehensive income attributable to:			
Owners of Santos Limited		**452**	351
Non-controlling interests		**(2)**	–
		450	351

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

Consolidated Statement of Financial Position
as at 31 December 2010

	Note	**2010 $million**	2009 $million
Current assets			
Cash and cash equivalents	8	**4,319**	2,240
Trade and other receivables	9	**665**	917
Inventories	10	**261**	273
Other financial assets	11	**4**	65
Tax receivable		**22**	24
Total current assets		**5,271**	3,519
Non-current assets			
Receivables	9	**21**	10
Investment in an associate	26	**208**	177
Other financial assets	11	**138**	136
Exploration and evaluation assets	12	**962**	923
Oil and gas assets	13	**6,914**	6,317
Other land, buildings, plant and equipment	14	**201**	200
Deferred tax assets	16	**54**	79
Total non-current assets		**8,498**	7,842
Total assets		**13,769**	11,361
Current liabilities			
Trade and other payables	17	**760**	709
Deferred income		**90**	83
Interest-bearing loans and borrowings	18	**370**	164
Current tax liabilities		**201**	20
Provisions	19	**99**	94
Other financial liabilities	20	**95**	10
Total current liabilities		**1,615**	1,080
Non-current liabilities			
Deferred income		**13**	17
Interest-bearing loans and borrowings	18	**2,787**	1,649
Deferred tax liabilities	16	**843**	871
Provisions	19	**891**	768
Other financial liabilities	20	**17**	9
Total non-current liabilities		**4,551**	3,314
Total liabilities		**6,166**	4,394
Net assets		**7,603**	6,967
Equity			
Issued capital	21	**5,514**	4,987
Reserves		**(330)**	(283)
Retained earnings		**2,421**	2,263
Equity attributable to owners of Santos Limited		**7,605**	6,967
Non-controlling interests		**(2)**	–
Total equity		**7,603**	6,967

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2010

	Note	2010 $million	2009 $million
Cash flows from operating activities			
Receipts from customers		**2,399**	2,311
Interest received		**106**	85
Overriding royalties received		**10**	8
Insurance proceeds received		**7**	30
Pipeline tariffs and other receipts		**102**	105
Income taxes refunded		**89**	25
Royalty-related taxes refunded		**5**	18
Payments to suppliers and employees		**(1,076)**	(914)
Exploration and evaluation – seismic and studies		**(90)**	(199)
Royalty and excise paid		**(50)**	(65)
Borrowing costs paid		**(73)**	(80)
Income taxes paid		**(18)**	(80)
Royalty-related taxes paid		**(144)**	(89)
Net cash provided by operating activities	28	**1,267**	1,155
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		**(156)**	(98)
Oil and gas assets		**(1,518)**	(1,182)
Other land, buildings, plant and equipment		**(26)**	(74)
Acquisitions of oil and gas assets		**–**	(363)
Acquisitions of controlled entities		**(4)**	(17)
Investment in an associate		**(33)**	(178)
Restoration		**(13)**	(29)
Advances to related entities		**–**	(6)
Receipts from loans to related entities		**3**	–
Proceeds from disposal of non-current assets	3	**819**	12
Proceeds from disposal of controlled entities		**–**	24
Income taxes paid on disposal of non-current assets		**(67)**	(497)
Other investing activities		**(16)**	(3)
Net cash used in investing activities		**(1,011)**	(2,411)
Cash flows from financing activities			
Dividends paid		**(316)**	(297)
Drawdown of borrowings		**1,868**	–
Repayments of borrowings		**(272)**	(92)
Proceeds from issues of ordinary shares		**490**	3,003
Proceeds from issues of ordinary shares placed on term deposit		**–**	(1,176)
Proceeds from maturity of term deposits		**60**	1,116
Redeemable cumulative preference shares redeemed		**–**	(600)
Net cash provided by financing activities		**1,830**	1,954
Net increase in cash and cash equivalents		**2,086**	698
Cash and cash equivalents at the beginning of the period		**2,240**	1,553
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(7)**	(11)
Cash and cash equivalents at the end of the period	8	**4,319**	2,240

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

Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

	Note	Equity attributable to owners of Santos Limited							
		Issued capital $million	Translation reserve $million	Fair value reserve $million	Hedging reserve $million	Retained earnings $million	Total equity $million	Non-controlling interests $million	Total equity $million
Balance at 1 January 2009		2,531	(187)	(2)	–	2,136	4,478	–	4,478
Net profit for the period		–	–	–	–	434	434	–	434
Other comprehensive income for the period		–	(94)	–	–	11	(83)	–	(83)
Total comprehensive income for the period		–	(94)	–	–	445	351	–	351
Transactions with owners in their capacity as owners:									
Entitlement offer exercised	21	2,914	–	–	–	–	2,914	–	2,914
Shares issued	21	138	–	–	–	–	138	–	138
Share options exercised by employees	21	4	–	–	–	–	4	–	4
Redeemable cumulative preference shares redeemed	21	(600)	–	–	–	–	(600)	–	(600)
Dividends to shareholders	21	–	–	–	–	(327)	(327)	–	(327)
Share-based payment transactions	30	–	–	–	–	9	9	–	9
Balance at 31 December 2009		4,987	(281)	(2)	–	2,263	6,967	–	6,967
Balance at 1 January 2010		**4,987**	**(281)**	**(2)**	**–**	**2,263**	**6,967**	**–**	**6,967**
Profit for the period		**–**	**–**	**–**	**–**	**500**	**500**	**(2)**	**498**
Other comprehensive income		**–**	**(48)**	**(1)**	**2**	**(1)**	**(48)**	**–**	**(48)**
Total comprehensive income for the period		**–**	**(48)**	**(1)**	**2**	**499**	**452**	**(2)**	**450**
Transactions with owners in their capacity as owners:									
Institutional placement	21	**493**	**–**	**–**	**–**	**–**	**493**	**–**	**493**
Shares issued	21	**34**	**–**	**–**	**–**	**–**	**34**	**–**	**34**
Dividends to shareholders	21	**–**	**–**	**–**	**–**	**(350)**	**(350)**	**–**	**(350)**
Share-based payment transactions	30	**–**	**–**	**–**	**–**	**9**	**9**	**–**	**9**
Balance at 31 December 2010		**5,514**	**(329)**	**(3)**	**2**	**2,421**	**7,605**	**(2)**	**7,603**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES

The financial report of Santos Limited ("the Company") for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 17 February 2011.

Santos Limited (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 2010 comprises the Company and its controlled entities ("the Group").

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

(A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

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

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

Adoption of new accounting standards and interpretations

From 1 January 2010, the Group has adopted the following standards and interpretations, and all consequential amendments, which became applicable on 1 January 2010.

- AASB 3 *Business Combinations*
- AASB 127 *Consolidated and Separate Financial Statements*
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items*
- AASB 2008-13 *Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-7 *Amendments to Australian Accounting Standards*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-9 *Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters*
- AASB Interpretation 17 *Distributions of Non-cash Assets to Owners*
- AASB Interpretation 18 *Transfers of Assets from Customers*

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

AASB 3 *Business Combinations* (revised 2008) and AASB 127 *Consolidated and Separate Financial Statements* (revised 2008)

The Group adopted the revised AASB 3 and AASB 127 prospectively from 1 January 2010.

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. These changes affect the valuation of non-controlling interests (previously "minority interests"), accounting for transaction costs, initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the net assets and reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary, without a change in control, is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer be accounted for as a business combination. Furthermore, the revised standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy had no material impact on earnings per share.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2010 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 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets and financial liabilities resulting from the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. These requirements improve and simplify the approach for classification and measurement of financial assets and financial liabilities compared with the requirements of AASB 139.	1 January 2013	Unlikely to have material impact	1 January 2013
AASB 124	*Related Party Disclosures*	The revised standard updates the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	1 January 2011	No impact	1 January 2011
AASB 1053	*Application of Tiers of Australian Accounting Standards*	AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements.	1 July 2013	No impact	1 January 2014
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. Previously, rights issues, 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

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 2009-12	*Amendments to Australian Accounting Standards*	The amendment to AASB 8 *Operating Segments* 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
AASB 2009-14	*Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*	The objective of this standard is to make amendments to Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* as a consequence of the issuance of Prepayments of a Minimum Funding Requirement by the International Accounting Standards Board in November 2009.	1 January 2011	No impact	1 January 2011
AASB 2010-1	*Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters*	First-time adopters of Australian Accounting Standards are permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with Australian Accounting Standards that are included in AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*.	1 July 2010	No impact	1 January 2011
AASB 2010-2	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*	AASB 2010-2 makes amendments to each standard and interpretation indicating the disclosures not required to be made by "Tier 2" entities as a consequence of the issuance of AASB 1053 *Application of Tiers of Australian Accounting Standards*.	1 July 2013	No impact	1 January 2014

Notes to the Consolidated Financial Statements
for the year ended 31 December 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 2010-3	*Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Amends a number of pronouncements as a result of the recent cycle of annual improvements to provide clarification of certain matters.	1 July 2010	No impact	1 January 2011
AASB 2010-4	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Amends a number of pronouncements as a result of the cycle of annual improvements, including the clarification of content of statement of changes in equity, financial instrument disclosures and significant events and transactions in interim reports.	1 January 2011	Unlikely to have material impact	1 January 2011
AASB 2010-5	*Amendments to Australian Accounting Standards*	This standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	No impact	1 January 2011
AASB 2010-6	*Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*	This standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.	1 July 2011	Unlikely to have material impact	1 January 2012
AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9*	This standard gives effect to consequential changes arising from the updated issuance of AASB 9.	1 January 2013	No impact	1 January 2013
AASB 2010-8	*Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*	Amends AASB 112 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in AASB 140 *Investment Property* will, normally, be through sale. This change eliminates the need to determine "management expectations" as to use or sale for eligible investment properties.	1 January 2012	No impact	1 January 2012

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 2010-9	*Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	Amends AASB 1 to replace references to a fixed date of "1 January 2004" with "the date of transition to Australian Accounting Standards", thereby providing relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards and provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.	1 July 2011	No impact	1 January 2012
AASB 2010-10	*Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters*	The amendments ultimately affect AASB 1 and provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.	1 January 2013	No impact	1 January 2013
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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(C) BASIS OF CONSOLIDATION

Subsidiaries – subsequent to 1 January 2010

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 acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The assets acquired and liabilities assumed are measured at their acquisition date fair values (refer note 1(G)).

The difference between the above items and the fair value of the consideration, including the fair value of the pre-existing investment of the acquiree, is goodwill or a discount on acquisition.

If the Group loses control over a subsidiary it will:

- derecognise the assets and liabilities of the subsidiary;
- derecognise the carrying value of any non-controlling interest;
- derecognise the cumulative translation differences, recorded in equity;
- recognise the fair value of the consideration received;
- recognise the fair value of any investment retained; and
- recognise any surplus or deficit in the income statement.

A change in ownership interest of a subsidiary that does not result in the loss of control is accounted for as an equity transaction.

Investments in subsidiaries are carried at their cost of acquisition, less any impairment charges, in the parent entity'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.

Subsidiaries – prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis from 1 January 2010, the following differences applied:

- upon loss of control, the Group accounted for its investment retained at its proportionate share of net asset value at the date control was lost; and
- the acquisition of subsidiaries was accounted for using the purchase method of accounting (refer note 1(G)).

Non-controlling interests – subsequent to 1 January 2010

Non-controlling 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. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interests – prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis from 1 January 2010, the following difference applied:

- where the non-controlling interest had losses greater than its equity interest in the consolidated subsidiary, the excess and any further losses applicable to the minority interest were allocated against the Group's interest. If the minority interest subsequently reported profits, the profits were allocated to the Group until the minority's share of losses previously absorbed by the Group were 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 27.

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 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. 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.

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 reduce the carrying amount of the investment in the consolidated financial statements of the Group. The Group's share in the associate's profits and losses resulting from transactions between the Group and the associate is eliminated.

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 are consistent with 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 Limited 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 regularly 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, cross-currency interest rate swaps, interest rate swaps and commodity crude oil price swaps 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 these derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the contracts at the reporting date, taking into account current market prices and the current creditworthiness of the contract counterparties.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 – subsequent to 1 January 2010

A business combination is a transaction in which an acquirer obtains control of one or more businesses. The acquisition method of accounting is used to account for all business combinations completed subsequent to 1 January 2010, regardless of whether equity instruments or other assets are acquired.

The acquisition method is only applied to a business combination when control over the business is obtained. Subsequent changes in interests in a business where control already exists are accounted for as transactions between owners.

The cost of the business combination is measured as the fair value of the assets given, shares issued and liabilities incurred or assumed at the date of exchange. The cost includes the fair value of any contingent consideration. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in either profit or loss or in other comprehensive income. Where the contingent consideration is classified as equity, it shall not be remeasured.

Costs directly attributable to the business combination are expensed on consolidation.

Where settlement of any part of cash 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

Business combinations – prior to 1 January 2010

The purchase method of accounting was used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost was 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 were issued in a business combination, the fair value of the instruments was their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments were recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which were measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were 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 was recognised as goodwill. If the cost of acquisition was less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference was 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 was deferred, the amounts payable in the future were discounted to their present value as at the date of exchange. The discount rate used was the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(H) EXPLORATION AND EVALUATION EXPENDITURE

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

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

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

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

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

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 field 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. Other subsurface expenditures include the costs of de-watering coal seam gas fields to provide access to the coal seams to enable production from coal seam gas reserves. De-watering costs are the costs of extracting, transporting, treating and disposing of water during the development phases of the coal seam gas fields.

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 13.

(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 specific plant and equipment items. Similarly, the cost of major cyclical maintenance is recognised in the carrying amount of the related plant and equipment as a replacement only if it is eligible for capitalisation. Any remaining carrying amount from the cost of the previous major cyclical maintenance is derecognised. All other repairs and maintenance are recognised in profit or loss as incurred.

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

(K) DEPRECIATION AND DEPLETION

Depreciation charges are calculated to write off the depreciable value of buildings, plant and equipment over their estimated economic useful lives to the Group. Each component of an item of buildings, plant and equipment with a cost that is significant in relation to the total cost of the asset is depreciated separately. The residual value, useful life and depreciation method applied to an asset are 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, unless a units of production method represents a more systematic allocation of the assets depreciable amount over its economic useful life.

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 the units 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") hydrocarbon reserves for an asset or group of assets, together with future subsurface costs necessary to develop the hydrocarbon reserves in the respective asset or group of assets.

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 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 on the date of commitment 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 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.

Individual assets or subcomponent groups of assets within a cash-generating unit may become impaired if circumstances related to their ongoing use change or there is an indication that the benefits to be obtained from ongoing use are likely to be less than the carrying value of the individual asset or sub-component group of assets.

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

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

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

Calculation of recoverable amount

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For oil and gas assets, the estimated future cash flows for the value-in-use calculation are based on estimates of 2P 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. For oil and gas assets, the estimated fair value less cost to sell calculation is based on estimates of hydrocarbon reserves and resources and other relevant factors.

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.

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 Group contributes 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 18). 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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

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 Limited 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.

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.

Royalty-related taxation

Petroleum Resource Rent Tax, Resource Rent Royalty and Timor-Leste’s Additional Profits Tax are accounted for as income tax as described above.

(AD) DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

A discontinued operation is a significant 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is 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 and the assumptions used in the estimation of recoverable amount are disclosed in notes 12 and 15 respectively.

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 19.

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 13 and 15 respectively.

Impairment of other land, buildings, plant and equipment assets

The Group assesses whether land, buildings, plant and equipment 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 land, buildings, plant and equipment assets and the assumptions used in the estimation of recoverable amount are discussed in notes 14 and 15 respectively.

2. SEGMENT INFORMATION

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. 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 and the Kyrgyz Republic.

The Chief Executive Officer monitors the operating results of its business units separately for the purposes of making decisions about allocating resources and assessing performance. Segment performance is measured based on Santos earnings before interest, tax, impairment, exploration and evaluation, and gains/losses on sale of non-current assets and controlled entities ("SEBITX"). Santos reclassifies royalty-related tax expense, before income tax, into SEBITX to improve comparability between those segments operating under a royalty regime and a royalty-related tax regime.

Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

The Group operates primarily in one business; namely, the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived primarily from the sale of gas and liquid hydrocarbons and the transportation of crude oil.

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia 2010 $million	Eastern Australia 2009 $million	WA & NT 2010 $million	WA & NT 2009 $million	Asia Pacific 2010 $million	Asia Pacific 2009 $million	GLNG 2010 $million	GLNG 2009 $million	Corporate, exploration and eliminations 2010 $million	Corporate, exploration and eliminations 2009 $million	Total 2010 $million	Total 2009 $million
Revenue													
Sales to external customers		**1,197**	1,069	**851**	830	**169**	166	**4**	100	**7**	16	**2,228**	2,181
Inter-segment sales		**–**	–	**6**	16	**–**	–	**112**	28	**(118)**	(44)	**–**	–
Other revenue from external customers		**53**	42	**10**	4	**(2)**	1	**8**	13	**9**	10	**78**	70
Total segment revenue	3	**1,250**	1,111	**867**	850	**167**	167	**124**	141	**(102)**	(18)	**2,306**	2,251
Results													
SEBITX before depreciation and depletion		**568**	606	**577**	527	**111**	95	**48**	29	**(18)**	(27)	**1,286**	1,230
Depreciation and depletion	4	**(327)**	(355)	**(169)**	(182)	**(43)**	(26)	**(35)**	(27)	**(26)**	(29)	**(600)**	(619)
SEBITX		**241**	251	**408**	345	**68**	69	**13**	2	**(44)**	(56)	**686**	611
Royalty-related taxation expense included in SEBITX		**(3)**	10	**76**	102	**–**	–	**–**	–	**–**	–	**73**	112
		238	261	**484**	447	**68**	69	**13**	2	**(44)**	(56)	**759**	723
(Losses)/gains on sale of non-current assets and controlled entities		**–**	(1)	**33**	226	**(1)**	21	**282**	–	**(1)**	–	**313**	246
Exploration and evaluation expensed	4	**–**	–	**–**	–	**–**	–	**–**	–	**(129)**	(202)	**(129)**	(202)
Net impairment loss		**(96)**	(9)	**(44)**	(43)	**5**	15	**–**	–	**(22)**	–	**(157)**	(37)
Earnings before interest and tax ("EBIT")	6	**142**	251	**473**	630	**72**	105	**295**	2	**(196)**	(258)	**786**	730
Finance income	5									**140**	85	**140**	85
Finance expenses	5									**(133)**	(98)	**(133)**	(98)
Profit before tax												**793**	717
Income tax expense	7									**(244)**	(205)	**(244)**	(205)
Royalty-related taxation expense	7	**2**	(7)	**(53)**	(71)	**–**	–	**–**	–	**–**	–	**(51)**	(78)
Total taxation expense	7											**(295)**	(283)
Net profit for the period												**498**	434

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia 2010 $million	Eastern Australia 2009 $million	WA & NT 2010 $million	WA & NT 2009 $million	Asia Pacific 2010 $million	Asia Pacific 2009 $million	GLNG 2010 $million	GLNG 2009 $million	Corporate, exploration and eliminations 2010 $million	Corporate, exploration and eliminations 2009 $million	Total 2010 $million	Total 2009 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:													
Gain on sale of exploration and evaluation assets		**–**	–	**–**	198	**–**	34	**59**	1	**–**	–	**59**	233
Gain on sale of oil and gas assets		**–**	–	**33**	29	**–**	–	**222**	–	**–**	–	**255**	29
Loss on sale of controlled entity		**–**	–	**–**	–	**–**	(14)	**–**	–	**–**	–	**–**	(14)
Insurance recoveries from incidents		**6**	8	**–**	–	**–**	–	**–**	–	**–**	–	**6**	8
Change in provisions of remediation and related incidents		**–**	4	**–**	–	**–**	9	**–**	–	**–**	–	**–**	13
Provision for contracting losses		**–**	–	**–**	–	**–**	(16)	**–**	(2)	**–**	–	**–**	(18)
Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets):													
Exploration and evaluation assets	12	**–**	–	**–**	–	**–**	–	**85**	89	**99**	500	**184**	589
Oil and gas assets	13	**390**	407	**418**	229	**636**	220	**268**	196	**–**	6	**1,712**	1,058
Other land, buildings, plant and equipment	14	**8**	–	**–**	2	**–**	2	**14**	26	**23**	39	**45**	69
Investments in an associate	26	**33**	178	**–**	–	**–**	–	**–**	–	**–**	–	**33**	178
		431	585	**418**	231	**636**	222	**367**	311	**122**	545	**1,974**	1,894
Investments in an associate	26	**208**	177	**–**	–	**–**	–	**–**	–	**–**	–	**208**	177

	Note	2010 $million	2009 $million
Revenue from external customers by geographical location of production			
Australia		**2,139**	2,084
Other countries		**167**	167
Total revenue	3	**2,306**	2,251

During the year revenue from two separate customers amounted to $462 million (2009: $512 million) and $233 million (2009: $253 million) respectively, arising from sales from all segments of the Group.

		2010 $million	2009 $million
Non-current assets (other than financial assets and deferred tax assets) by geographical location			
Australia		**6,831**	6,620
Other countries		**1,454**	997
		8,285	7,617

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3. REVENUE AND OTHER INCOME	Note	2010 $million	2009 $million
Product sales:			
Gas, ethane and liquefied gas		**1,197**	1,098
Crude oil		**594**	679
Condensate and naphtha		**253**	233
Liquefied petroleum gas		**184**	171
Total product sales		**2,228**	2,181
Other revenue:			
Overriding royalties		**10**	8
Pipeline tariffs and processing tolls		**36**	30
Trading revenue		**19**	18
Other		**13**	14
Total other revenue		**78**	70
Total revenue		**2,306**	2,251
Other income:			
Insurance recoveries		**6**	8
Net gain on sale of exploration and evaluation assets		**59**	233
Net gain on sale of oil and gas assets		**255**	29
Net loss on sale of other land, buildings, plant and equipment assets		**(1)**	(2)
Net loss on sale of controlled entities	25	**–**	(14)
Settlement of production overlift by partner		**25**	–
Total other income		**344**	254
Net gain on sale of non-current assets			
Proceeds on disposals		**668**	320
Amounts received in prior years		**38**	28
Recoupment of current year exploration and evaluation expenditure		**(71)**	(50)
Proceeds after recoupment of current year exploration and evaluation expenditure		**635**	298
Book value of net assets disposed		**(290)**	(12)
Recoupment of prior year exploration and evaluation expenditure		**(20)**	(22)
Transaction costs		**(12)**	(4)
Total net gain on sale of non-current assets		**313**	260
Comprising:			
Net gain on sale of exploration and evaluation assets		**59**	233
Net gain on sale of oil and gas assets		**255**	29
Net loss on sale of other land, buildings, plant and equipment assets		**(1)**	(2)
		313	260
Reconciliation to cash inflow from proceeds on disposal of non-current assets			
Proceeds after recoupment of current year exploration and evaluation expenditure		**635**	298
Amounts received in prior years		**(38)**	(28)
Foreign currency changes on settlement		**15**	–
Amounts to be received in the future		**(15)**	(258)
Amounts received from current year disposals		**597**	12
Amounts received from prior year disposals		**222**	–
Total proceeds on disposal of non-current assets		**819**	12

4. EXPENSES	2010 $million	2009 $million
Cost of sales:		
Cash cost of production:		
Production costs:		
Production expenses	**476**	460
Production facilities operating leases	**61**	72
Total production costs	**537**	532
Other operating costs:		
Pipeline tariffs, processing tolls and other	**95**	91
Royalty and excise	**51**	61
Total other operating costs	**146**	152
Total cash cost of production	**683**	684
Depreciation and depletion	**595**	612
Third party gas purchases	**162**	117
Decrease in product stock	**22**	10
Total cost of sales	**1,462**	1,423
Other expenses:		
Selling	**14**	10
Corporate	**78**	77
Depreciation	**5**	7
Foreign exchange losses	**10**	28
Gains from change in fair value of derivative financial assets designated as at fair value through profit or loss	**–**	(6)
Fair value hedges, (gains)/losses:		
On the hedging instrument	**(29)**	134
On the hedged item attributable to the hedged risk	**36**	(138)
Exploration and evaluation expensed	**129**	202
Net impairment loss on exploration and evaluation assets	**24**	–
Net impairment loss on oil and gas assets	**98**	37
Net impairment loss on other land, buildings, plant and equipment assets	**13**	–
Net impairment loss on receivables	**22**	–
Total other expenses	**400**	351
Profit before tax includes the following:		
Depreciation and depletion:		
Depletion of subsurface assets	**305**	348
Depreciation of plant and equipment	**292**	268
Depreciation of buildings	**3**	3
Total depreciation and depletion	**600**	619
Net write-down of inventories	**–**	–
Minimum lease payments	**79**	85

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5. NET FINANCE (INCOME)/COSTS	2010 $million	2009 $million
Interest income	**(140)**	(85)
Finance income	**(140)**	(85)
Interest expense:		
Interest paid to third parties	**99**	69
Deduct borrowing costs capitalised	**4**	9
	95	60
Unwind of the effect of discounting on provisions	**38**	38
Finance expense	**133**	98
Net finance (income)/costs	**(7)**	13

6. EARNINGS		
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") is calculated as follows:		
Profit before tax	**793**	717
Deduct:		
Net financing income/(costs)	**7**	(13)
EBIT	**786**	730
Add back:		
Depreciation and depletion	**600**	619
Exploration and evaluation expensed	**129**	202
Net impairment loss on exploration and evaluation assets	**24**	–
Net impairment loss on oil and gas assets	**98**	37
Net impairment loss on other land, buildings, plant and equipment assets	**13**	–
Net impairment loss on receivables	**22**	–
EBITDAX	**1,672**	1,588

7. TAXATION EXPENSE	**2010 $million**	2009 $million
Recognised in the income statement:		
Income tax expense		
Current tax expense		
Current year	**198**	79
Adjustments for prior years	**(34)**	(15)
	164	64
Deferred tax expense		
Origination and reversal of temporary differences	**88**	116
Adjustments for prior years	**(8)**	25
	80	141
Total income tax expense	**244**	205
Royalty-related taxation expense		
Current tax expense		
Current year	**101**	72
Adjustments for prior years	**(1)**	(1)
	100	71
Deferred tax expense		
Origination and reversal of temporary differences	**(35)**	6
Adjustments for prior years	**(14)**	1
	(49)	7
Total royalty-related taxation expense	**51**	78
Numerical reconciliation between tax expense and pre-tax net profit:		
Profit before tax	**793**	717
Prima facie income tax at 30% (2009: 30%)	**238**	215
Increase in income tax expense due to:		
Investment allowance	**(4)**	(21)
Benefit arising from previously unrecognised tax losses or temporary differences that are used to reduce current tax expense	**–**	(7)
Foreign losses not recognised	**35**	25
Tax losses recognised	**–**	15
Change in tax bases of assets as a result of change in use	**17**	(32)
Adjustment for prior years	**(42)**	10
Income tax expense	**244**	205
Royalty-related taxation expense	**51**	78
Total taxation expense	**295**	283
Deferred tax charged/(credited) directly to equity:		
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	**40**	86
Net gain on derivatives designated as cash flow hedges	**1**	–
Actuarial gain on defined benefit plan	**–**	5
Equity raising transaction costs	**(3)**	(23)
	38	68

8. CASH AND CASH EQUIVALENTS	2010 $million	2009 $million
Cash at bank and in hand	**210**	234
Short-term deposits	**4,109**	2,006
	4,319	2,240

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. As at 31 December 2010, $3,669 million (2009: $1,583 million) was placed in term deposits with original maturities of 4 to 18 months. All deposits are held with financial institutions approved by the Board and are readily convertible to cash with commensurate interest adjustments if required.

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2010 of US$13 million (2009: US$16 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.

As at 31 December 2009, wholly-owned Australian subsidiaries, Santos (BBF) Pty Ltd and Santos (SPV) Pty Ltd, had total cash and cash equivalents of US$18 million that was held to cover obligations under a reserve-based facility. During 2010, Santos repaid borrowings under this facility.

9. TRADE AND OTHER RECEIVABLES	2010 $million	2009 $million
Current		
Trade receivables	**305**	324
Allowance for impairment loss on trade receivables	**–**	–
	305	324
Other receivables and prepayments	**382**	593
Allowance for impairment loss on other receivables	**(22)**	–
	665	917
Non-current		
Other receivables	**21**	10
The ageing of trade receivables at the reporting date is as follows:		
Trade receivables not yet due	**295**	286
Past due not impaired:		
Less than one month	**4**	11
One to three months	**1**	17
Three to six months	**1**	3
Six to twelve months	**2**	4
Greater than twelve months	**2**	3
Considered impaired:		
Greater than twelve months	**–**	–
	305	324

9. TRADE AND OTHER RECEIVABLES (CONTINUED)	2010 $million	2009 $million
Movement in provision for impairment loss was as follows:		
Balance at 1 January	**–**	–
Charge for the year	**22**	–
Balance at 31 December	**22**	–

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 or other receivable is impaired. An impairment loss of $22 million (2009: nil) was recognised by the Group during the year.

10. INVENTORIES

Petroleum products	**138**	147
Drilling and maintenance stocks	**123**	126
Total inventories at lower of cost and net realisable value	**261**	273
Inventories included above that are stated at net realisable value	**36**	39

11. OTHER FINANCIAL ASSETS

Current		
Receivables due from other related entities	**3**	2
Embedded derivatives	**1**	–
Term deposits	**–**	60
Interest rate swap contracts	**–**	3
	4	65
Non-current		
Interest rate swap contracts	**131**	123
Receivables due from other related entities	**6**	10
Available-for-sale investment	**1**	2
Other	**–**	1
	138	136

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12. EXPLORATION AND EVALUATION ASSETS	2010 Subsurface assets $million	2010 Plant and equipment $million	2010 Total $million	2009 Subsurface assets $million	2009 Plant and equipment $million	2009 Total $million
Cost	**774**	**212**	**986**	783	140	923
Less impairment	**(24)**	**–**	**(24)**	–	–	–
Balance at 31 December	**750**	**212**	**962**	783	140	923
Reconciliation of movements						
Balance at 1 January	**783**	**140**	**923**	451	42	493
Acquisitions of controlled entities	**10**	**–**	**10**	–	8	8
Acquisitions of exploration and evaluation assets	**3**	**–**	**3**	351	–	351
Additions	**98**	**73**	**171**	140	90	230
Exploration and evaluation expensed	**(46)**	**–**	**(46)**	(63)	–	(63)
Impairment losses	**(24)**	**–**	**(24)**	–	–	–
Disposals and recoupment	**–**	**–**	**–**	(24)	–	(24)
Transfer to oil and gas assets in development	**(33)**	**–**	**(33)**	(1)	–	(1)
Transfer to oil and gas assets in production	**(27)**	**(1)**	**(28)**	(37)	–	(37)
Exchange differences	**(14)**	**–**	**(14)**	(34)	–	(34)
Balance at 31 December	**750**	**212**	**962**	783	140	923
Comprising:						
Acquisition related costs	**473**	**8**	**481**	527	8	535
Successful exploration wells	**253**	**–**	**253**	199	–	199
Exploration and evaluation assets pending determination of success	**24**	**204**	**228**	57	132	189
	750	**212**	**962**	783	140	923

13. OIL AND GAS ASSETS	2010 Subsurface assets $million	2010 Plant and equipment $million	2010 Total $million	2009 Subsurface assets $million	2009 Plant and equipment $million	2009 Total $million
Cost	**8,392**	**7,393**	**15,785**	8,151	6,362	14,513
Less accumulated depreciation, depletion and impairment	**(5,208)**	**(3,663)**	**(8,871)**	(4,886)	(3,310)	(8,196)
Balance at 31 December	**3,184**	**3,730**	**6,914**	3,265	3,052	6,317
Reconciliation of movements						
Assets in development						
Balance at 1 January	**538**	**230**	**768**	464	123	587
Additions	**52**	**865**	**917**	169	118	287
Disposals	**(16)**	**–**	**(16)**	–	–	–
Transfer from exploration and evaluation assets	**33**	**–**	**33**	1	–	1
Exchange differences	**(51)**	**(56)**	**(107)**	(96)	(11)	(107)
Balance at 31 December	**556**	**1,039**	**1,595**	538	230	768
Producing assets						
Balance at 1 January	**2,727**	**2,822**	**5,549**	2,788	2,815	5,603
Acquisition of oil and gas assets	**1**	**1**	**2**	7	2	9
Additions	**400**	**393**	**793**	360	402	762
Transfer from exploration and evaluation assets	**27**	**1**	**28**	37	–	37
Recoupment of exploration and evaluation expenditure	**(20)**	**–**	**(20)**	–	–	–
Disposals	**(107)**	**(179)**	**(286)**	(43)	(5)	(48)
Depreciation and depletion expense	**(306)**	**(263)**	**(569)**	(348)	(242)	(590)
Net impairment losses	**(67)**	**(31)**	**(98)**	(24)	(13)	(37)
Exchange differences	**(27)**	**(53)**	**(80)**	(50)	(137)	(187)
Balance at 31 December	**2,628**	**2,691**	**5,319**	2,727	2,822	5,549
Total oil and gas assets	**3,184**	**3,730**	**6,914**	3,265	3,052	6,317
Comprising:						
Exploration and evaluation expenditure pending commercialisation	**30**	**–**	**30**	57	–	57
Other capitalised expenditure	**3,154**	**3,730**	**6,884**	3,208	3,052	6,260
	3,184	**3,730**	**6,914**	3,265	3,052	6,317

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14. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	**2010** Land and buildings $million	**2010** Plant and equipment $million	**2010** Total $million	2009 Land and buildings $million	2009 Plant and equipment $million	2009 Total $million
Cost	**50**	**376**	**426**	42	339	381
Less accumulated depreciation and impairment	**(5)**	**(220)**	**(225)**	(4)	(177)	(181)
Balance at 31 December	**45**	**156**	**201**	38	162	200
Reconciliation of movements						
Balance at 1 January	**38**	**162**	**200**	32	128	160
Additions	**8**	**37**	**45**	7	62	69
Impairment	**–**	**(13)**	**(13)**	–	–	–
Depreciation	**(1)**	**(30)**	**(31)**	(1)	(28)	(29)
Balance at 31 December	**45**	**156**	**201**	38	162	200

15. IMPAIRMENT OF NON-CURRENT ASSETS

(A) EXPLORATION AND EVALUATION ASSETS

At 31 December 2010 the Group reassessed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the Group's accounting policy (refer note 1(H)). As a result, the recoverable amounts of some specific exploration and evaluation assets were formally reassessed, resulting in an impairment loss of $24 million (2009: nil). Estimates of recoverable amounts of exploration and evaluation assets are based on the assets fair value less cost to sell.

Area of interest	**Segment**	**Description**	**Subsurface assets $million**	**Plant and equipment $million**	**Total $million**
2010					
Kyrgyz Republic	Asia Pacific	Exploration area	**24**	**–**	**24**
Total impairment of exploration and evaluation assets			**24**	**–**	**24**

15. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

(B) OIL AND GAS ASSETS

At 31 December 2010 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 cash-generating units and some specific oil and gas assets were formally reassessed, resulting in an impairment loss of $98 million (2009: $37 million).

Estimates of recoverable amounts of oil and gas assets are based on either fair value less cost to sell or 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 9.3% and 16.1% (2009: 9.1% and 15.8%), depending on the nature of the risks specific to each asset.

Cash-generating unit	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2010					
Impairment of CGUs:					
Legendre	WA & NT	Oil field	**10**	**9**	**19**
Jabiru-Challis	WA & NT	Oil field	**16**	**1**	**17**
Thevenard	WA & NT	Oil field	**2**	**6**	**8**
Sampang	Asia Pacific	Oil and gas PSC	**(17)**	**(12)**	**(29)**
Impairment of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Oil assets	**56**	**25**	**81**
Cooper Basin	Eastern Australia	Pipeline	**–**	**2**	**2**
Total impairment of oil and gas assets			**67**	**31**	**98**
2009					
Impairment of CGUs:					
Mutineer-Exeter	WA & NT	Oil field	27	4	31
Thevenard	WA & NT	Oil field	2	6	8
Palm Valley	WA & NT	Gas field	4	–	4
Sampang	Asia Pacific	Oil and gas PSC	(6)	(6)	(12)
Sangu	Asia Pacific	Gas PSC	(3)	–	(3)
Impairment of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Pipeline	–	9	9
Total impairment of oil and gas assets			24	13	37

(C) OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT ASSETS

At 31 December 2010 the Group reassessed the carrying amount of its other land, buildings, plant and equipment assets for indicators of impairment. As a result, the recoverable amounts of some specific other land, buildings, plant and equipment assets were formally reassessed, resulting in an impairment loss of $13 million (2009: nil). Estimates of recoverable amounts of other land, buildings, plant and equipment assets are based on its fair value less cost to sell.

Asset	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2010					
Shaw River power station	Eastern Australia	Project costs	**–**	**13**	**13**
Total impairment of other land, buildings, plant and equipment assets			**–**	**13**	**13**

16. DEFERRED TAX ASSETS AND LIABILITIES	Assets 2010 $million	Assets 2009 $million	Liabilities 2010 $million	Liabilities 2009 $million	Net 2010 $million	Net 2009 $million
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Exploration and evaluation assets	**–**	–	**(185)**	(192)	**(185)**	(192)
Oil and gas assets	**–**	–	**(243)**	(241)	**(243)**	(241)
Other land, buildings, plant and equipment	**33**	36	**–**	–	**33**	36
Available-for-sale financial assets	**1**	1	**–**	–	**1**	1
Trade receivables	**–**	–	**(3)**	(6)	**(3)**	(6)
Other receivables	**–**	–	**(15)**	(4)	**(15)**	(4)
Inventories	**–**	–	**(24)**	(30)	**(24)**	(30)
Derivative financial instruments	**–**	–	**(12)**	(35)	**(12)**	(35)
Other assets	**–**	–	**(24)**	(16)	**(24)**	(16)
Equity-raising costs	**16**	19	**–**	–	**16**	19
Interest-bearing loans and borrowings	**–**	–	**(112)**	(71)	**(112)**	(71)
Other liabilities	**10**	–	**–**	(1)	**10**	(1)
Provisions	**53**	57	**–**	–	**53**	57
Royalty-related taxes	**–**	–	**(217)**	(269)	**(217)**	(269)
Other items	**–**	–	**(75)**	(49)	**(75)**	(49)
Investment in an associate	**1**	–	**–**	–	**1**	–
Tax value of carry-forward losses recognised	**7**	9	**–**	–	**7**	9
Tax assets/(liabilities)	**121**	122	**(910)**	(914)	**(789)**	(792)
Set-off of tax	**(67)**	(43)	**67**	43	**–**	–
Net tax assets/(liabilities)	**54**	79	**(843)**	(871)	**(789)**	(792)

	2010 $million	2009 $million
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences in relation to investments in subsidiaries	**709**	578
Deductible temporary differences	**445**	300
Tax losses	**66**	99
	1,220	977

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. Tax losses of $66 million (2009: $99 million) will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

17. TRADE AND OTHER PAYABLES

	2010 $million	2009 $million
Trade payables	**449**	430
Non-trade payables and accrued expenses	**311**	279
	760	709

18. INTEREST-BEARING LOANS AND BORROWINGS

	2010 $million	2009 $million
This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 38.		
Current		
Finance leases	**1**	1
Bank loans – secured	**–**	11
Bank loans – unsecured	**20**	22
Medium-term notes	**349**	–
Long-term notes	**–**	130
	370	164
Non-current		
Finance leases	**2**	2
Bank loans – secured	**344**	8
Bank loans – unsecured	**93**	128
Medium-term notes	**99**	448
Long-term notes	**960**	1,063
Subordinated notes	**1,289**	–
	2,787	1,649

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.10% as at 31 December 2010 (2009: 3.58%).

All interest-bearing loans and borrowings, with the exception of the finance leases, are arranged mainly through Santos Finance Ltd which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings are guaranteed by Santos Limited. All borrowings are unsecured, with the exception of the secured bank loans and finance leases.

Details of major credit facilities

(A) BANK LOANS – SECURED

			Effective interest rate			
Secured assets	**Year of maturity**	**Currency**	**2010 %**	2009 %	**2010 $million**	2009 $million
Maleo	2012	USD	**–**	6.33	**–**	19
PNG LNG	2024 to 2026	USD	**3.46**	–	**344**	–
					344	19

Maleo

During 2010, the reserve-based facility was secured by a first charge over the Group's interests in the Maleo oil and gas assets in Indonesia. These borrowings were repaid during December 2010. As at 31 December 2009, the value of oil and gas assets secured was $86 million.

PNG LNG

Loan facilities for the PNG LNG project for which Santos entities hold an equity interest of 13.5% were entered into by the joint venture participants on 15 December 2009 and are 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.

18. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)	2010 $million	2009 $million

(A) BANK LOANS – SECURED (CONTINUED)

The facilities include security over assets and entitlements of the participants in respect of the project. The carrying values of the Group's assets pledged as security are:

	2010 $million	2009 $million
Trade and other receivables	**33**	–
Oil and gas assets in development	**710**	–
	743	–

The coordinated development and operating agreement for the project is the key commercial agreement for the project and includes a "mandatory default step up" provision under which prior to first cargo:

(i) parties which have not defaulted in the payment of a cash call for a licence area within the project are required to pay a pro-rata share of cash calls not paid by the defaulting parties; and

(ii) if a licence area fails to collectively remedy a payment default, non-defaulting project participants from other licence areas are required to pay a pro-rata share of the amounts not paid by the defaulting licence area.

Where non-defaulting parties make "mandatory default step up" payments they are entitled to dilute the equity interests of defaulting parties at a penalty rate of 20%.

(B) BANK LOANS – UNSECURED

Term bank loans

		Effective interest rate			
Year of maturity	**Currency**	**2010 %**	2009 %	**2010 $million**	2009 $million
2010 to 2017	USD	**0.58**	2.30	**113**	150
				113	150

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 2010 is US$115 million (A$113 million) (2009: US$134 million (A$150 million)).

(C) MEDIUM-TERM NOTES

The Group has a $1,000 million (2009: $1,000 million) Australian medium-term note programme under which the following were issued in 2005:

		Effective interest rate			
Year of issue	**Year of maturity**	**2010 %**	2009 %	**2010 $million**	2009 $million
2005	2011	**5.55**	4.65	**349**	349
2005	2015	**6.29**	4.21	**99**	99
				448	448

18. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(D) 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:

		Effective interest rate			
Year of issue	**Year of maturity**	**2010 %**	2009 %	**2010 $million**	2009 $million
2000	2010 to 2015	**1.91**	3.75	**83**	227
2002	2010 to 2022	**2.71**	2.83	**288**	320
2007	2017 to 2027	**0.85**	0.85	**589**	646
				960	1,193

Long-term notes bear interest at 5.85% to 8.44% fixed-rate interest, most of which has been swapped to floating-rate commitments. The amount outstanding at 31 December 2010 is US$977 million (A$960 million) (2009: US$1,067 million (A$1,193 million)).

(E) SUBORDINATED NOTES

During the year the Group issued €1,000 million in subordinated notes which matures in 2070 and can be redeemed by the Group after 22 September 2017.

		Effective interest rate			
Year of issue	**Year of maturity**	**2010 %**	2009 %	**2010 $million**	2009 $million
2010	2070	**13.07**	–	**1,289**	–
				1,289	–

The subordinated notes accrue fixed coupons at a rate of 8.25% per annum for the first seven years, and thereafter on a floating rate basis plus a 6.851% margin. The subordinated notes are not convertible into Santos Limited ordinary shares.

(F) BILATERAL BANK LOAN FACILITY

As at 31 December 2010 the Group had undrawn bilateral bank loan facilities of $1,450 million and $492 million (US$500 million) that mature between 2014 and 2017. These facilities were executed during the year replacing the Group's existing $700 million undrawn bilateral bank loans.

19. PROVISIONS	2010 $million	2009 $million
Current		
Employee benefits	**76**	72
Restoration	**16**	12
Remediation	**5**	7
Non-executive Directors' retirement benefits	**–**	1
Other	**2**	2
	99	94
Non-current		
Employee benefits	**7**	5
Defined benefit obligations (refer note 29)	**32**	34
Restoration	**851**	728
Remediation	**1**	1
	891	768

Movement in provisions

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	Total $million
Balance at the beginning of the year	740	8	1	749
Provisions made during the year	79	–	–	79
Provisions used during the year	(13)	(2)	(1)	(16)
Unwind of discount	38	–	–	38
Disposal of provision	(14)	–	–	(14)
Change in discount rate	59	–	–	59
Exchange differences	(22)	–	–	(22)
Balance at the end of the year	867	6	–	873

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 existed 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 were fully provided for by the Group. 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 were annually indexed to the five-year Government bond rate.

20. OTHER FINANCIAL LIABILITIES	2010 $million	2009 $million
Current		
Interest rate swap contracts	**1**	1
Cross-currency swap contracts	**91**	7
Embedded derivatives	**1**	–
Other	**2**	2
	95	10
Non-current		
Other	**17**	9

21. CAPITAL AND RESERVES

	2010 $million	2009 $million
Issued capital		
874,991,455 (2009: 831,834,626) ordinary shares, fully paid	**5,514**	4,987
83,000 (2009: 88,000) ordinary shares, paid to one cent	**–**	–
	5,514	4,987

In accordance with changes to applicable corporations legislation effective from 1 July 1998, the shares issued do not have a par value and there is no limit on the authorised share capital of the Company.

	Note	2010 Number of shares	2009 Number of shares	2010 $million	2009 $million
Movement in fully paid ordinary shares					
Balance at 1 January		**831,834,626**	584,812,875	**4,987**	1,947
Institutional placement	21(A)	**39,840,637**	–	**493**	–
Dividend Reinvestment Plan ("DRP")	21(B)	**2,556,328**	2,005,880	**34**	30
DRP underwriting agreement	21(B)	**–**	6,857,808	**–**	106
Entitlement offer	21(C)	**–**	237,287,762	**–**	2,914
Transfer from redeemable convertible preference shares	21(D)	**–**	–	**–**	(16)
Santos Employee Share Acquisition Plan	30(A)	**–**	101,376	**–**	2
Santos Employee Share Purchase Plan	30(A)	**–**	18,400	**–**	–
Shares issued on exercise of options	30(B)	**25,668**	427,050	**–**	4
Shares issued on vesting of Share Acquisition Rights	30(B)	**725,652**	303,085	**–**	–
Santos Executive Share Plan	30(C)	**5,000**	–	**–**	–
Non-executive Director Share Plan	30(D)	**3,544**	20,390	**–**	–
Balance at 31 December		**874,991,455**	831,834,626	**5,514**	4,987
Redeemable convertible preference shares					
Balance at 1 January		**–**	6,000,000	**–**	584
Redeemable convertible preference shares bought back at face value and cancelled		**–**	(6,000,000)	**–**	(600)
Transfer to fully paid ordinary shares		**–**	–	**–**	16
Balance at 31 December		**–**	–	**–**	–

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 2010 was $13.15 (2009: $14.09).

21. CAPITAL AND RESERVES (CONTINUED)

(A) INSTITUTIONAL PLACEMENT

On 17 December 2010 the Company announced a fully underwritten institutional placement at an offer price of $12.55 per share. As a result, 39,840,637 fully paid ordinary shares were allotted to institutional investors of the Company on 24 December 2010. $500 million cash received from the institutional placement was credited and transaction costs, net of tax of $7 million, were 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 a 2.5% discount will apply to the Dividend Reinvestment Plan on and from the annual dividend for the year ended 31 December 2010. The last date for the receipt of an election notice to participate in the Dividend Reinvestment Plan is the record date, 1 March 2011. The Dividend Reinvestment Plan is currently not underwritten.

(C) 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, were debited to the Company's capital account.

(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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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 structure with a primary objective to maintain investment grade credit rating. The measures used to monitor the capital structure include two Standard & Poor's financial metrics, being Funds from Operations to Adjusted Debt ("FFO-to-Debt") of at least 40%, where the Group is in a net debt position, and Adjusted Debt divided by EBITDA ("Debt-to-EBITDA") to be below a factor of 2.0. The Group monitors these ratios on a forecast and actual results basis. Standard & Poor's makes various adjustments to operating cash flow, reported debt and EBITDA for the purposes of calculating these ratios. As at 31 December 2010, FFO-to-Debt was negative 75% (2009: positive 217%) and the Debt-to-EBITDA factor is negative 1.1 (2009: positive 0.4). The negative ratios are as a result of the Group being in a net cash position as at 31 December 2010. Consistent with Standard & Poor's approach, the Group is no longer focused on a debt-to-equity ratio as a financial indicator of its credit quality.

During 2010, the Group's target was to maintain a BBB+ Standard & Poor's credit rating. The credit rating was put on "negative outlook" in January 2011 by Standard & Poor's upon the Group's announcement of the final investment decision on Gladstone LNG.

21. CAPITAL AND RESERVES (CONTINUED)

Dividends

Dividends recognised during the year by the Company are:

	Dividend per share $	Total $million	Franked/ unfranked	Payment date
2010				
Interim 2010 ordinary	**0.22**	**184**	**Franked**	**6 Oct 2010**
Final 2009 ordinary	**0.20**	**166**	**Franked**	**31 Mar 2010**
		350		
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		

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 2010 ordinary	**0.15**	**131**	**Franked**	**31 Mar 2011**

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2010 and will be recognised in subsequent financial reports.

	2010 $million	2009 $million
Dividend franking account		
30% franking credits available to the shareholders of Santos Limited for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December	**919**	965

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 $56 million (2009: $71 million).

22. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Santos Limited (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 Limited (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.

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:

	2010 $million	2009 $million
Net profit attributable to ordinary equity holders of Santos Limited	**500**	434
Dividends paid on redeemable convertible preference shares	**–**	(28)
Earnings used in the calculation of basic and diluted earnings per share	**500**	406

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:

	2010	2009
	Number of shares	
Basic earnings per share	**835,519,677**	780,367,445
Partly paid shares	**66,906**	69,842
Executive share options	**479,133**	890,143
Share acquisition rights	**2,938,582**	2,445,269
Diluted earnings per share	**839,004,298**	783,772,699

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 have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2010. The number of shares included in the calculation is 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 2009 was retrospectively adjusted for the effect of the Institutional Offer (refer note 21(A)).

During the year 25,668 (2009: 427,050) options, 725,652 (2009: 303,085) SARs and 5,000 (2009: nil) partly paid shares 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 239,364 (2009: 197,097).

During the year 43,433 (2009: 24,690) options and 61,855 (2009: 61,961) SARs lapsed. 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 and SARs lapsed. The weighted average number included is 39,395 (2009: 45,570).

23. CONSOLIDATED ENTITIES

Name	Country of incorporation
Santos Limited (Parent Entity)	AUS
Controlled entities[1]:	
Alliance Petroleum Australia Pty Ltd[2]	AUS
Basin Oil Pty Ltd	AUS
Boston L.H.F. Pty Ltd	AUS
Bridgefield Pty Ltd	AUS
Bridge Oil Developments Pty Ltd[2]	AUS
Bronco Energy Pty Ltd	AUS
Canso Resources Pty Ltd	AUS
Coveyork Pty Ltd	AUS
Doce Pty Ltd	AUS
Fairview Pipeline Pty Ltd	AUS
Farmout Drillers Pty Ltd	AUS
Gidgealpa Oil Pty Ltd	AUS
Kipper GS Pty Ltd	AUS
Controlled entities of Kipper GS Pty Ltd	
Santos Carbon Pty Ltd	AUS
Controlled entity of Santos Carbon Pty Ltd	
SB Jethro Pty Ltd	AUS
Moonie Pipeline Company Pty Ltd	AUS
Reef Oil Pty Ltd[2]	AUS
Santos Asia Pacific Pty Ltd	AUS
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Sampang) Pty Ltd	AUS
Santos (Warim) Pty Ltd	AUS
Santos Australian Hydrocarbons Pty Ltd	AUS
Santos (BOL) Pty Ltd[2]	AUS
Controlled entity of Santos (BOL) Pty Ltd	
Bridge Oil Exploration Pty Ltd	AUS
Santos CSG Pty Ltd	AUS
Santos Darwin LNG Pty Ltd[2]	AUS
Santos Direct Pty Ltd	AUS
Santos Facilities Pty Ltd	AUS
Santos Finance Ltd	AUS
Santos GLNG Pty Ltd	AUS
Controlled entity of Santos GLNG Pty Ltd	
Santos GLNG Corp[4]	USA
Santos (Globe) Pty Ltd	AUS
Santos International Holdings Pty Ltd	AUS
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Ltd	PNG
Cairn Energy Sangu Field Ltd[3]	GBR
CJSC South Petroleum Company[1]	KGZ
Lavana Ltd	PNG
Santos Petroleum Ventures B.V.	NLD
Sanro Insurance Pte Ltd	SGP
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	AUS
Santos TPY CSG Corp	USA
Santos Bangladesh Ltd	GBR
Santos (Bawean) Pty Ltd	AUS
Santos (BBF) Pty Ltd	AUS
Controlled entities of Santos (BBF) Pty Ltd	
Santos (SPV) Pty Ltd	AUS
Controlled entity of Santos (SPV) Pty Ltd	
Santos (Madura Offshore) Pty Ltd	AUS
Santos (Donggala) Pty Ltd	AUS
Santos Egypt Pty Ltd	AUS
Santos Hides Ltd	PNG
Santos International Operations Pty Ltd	AUS
Santos International Ventures Pty Ltd	AUS
Santos Niugini Exploration Ltd	PNG
Santos (Nth Bali I) Pty Ltd	AUS
Santos (Papalang) Pty Ltd	AUS
Santos (Popodi) Pty Ltd	AUS
Santos Vietnam Pty Ltd	AUS
Zhibek Resources Ltd[1]	GBR
Santos (JBJ1) Pty Ltd	AUS
Controlled entities of Santos (JBJ1) Pty Ltd	
Santos (JBJ2) Pty Ltd	AUS
Controlled entity of Santos (JBJ2) Pty Ltd	
Shaw River Power Station Pty Ltd	AUS
Santos (JPDA 06-104) Pty Ltd	AUS
Santos (JPDA 91-12) Pty Ltd	AUS
Santos (NARNL Cooper) Pty Ltd[2]	AUS
Santos (N.T.) Pty Ltd	AUS
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Ltd	AUS
Santos Offshore Pty Ltd[2]	AUS
Santos Petroleum Pty Ltd[2]	AUS
Santos QNT Pty Ltd[2]	AUS
Controlled entities of Santos QNT Pty Ltd	
Santos TPC Pty Ltd	AUS
Santos Wilga Park Pty Ltd *(previously Gastar Power Pty Ltd)*	AUS
Santos QNT (No. 1) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd[2]	AUS
Santos Petroleum Operations Pty Ltd	AUS
TMOC Exploration Pty Ltd	AUS
Santos QNT (No. 2) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Moonie Oil Pty Ltd	AUS
Petromin Pty Ltd	AUS
Santos (299) Pty Ltd *(in liquidation)*	AUS
Santos Exploration Pty Ltd	AUS
Santos Gnuco Pty Ltd	AUS
Santos Upstream Pty Ltd *(previously Transoil Pty Ltd)*	AUS
Santos Resources Pty Ltd	AUS
Santos (TGR) Pty Ltd	AUS
Santos Timor Sea Pipeline Pty Ltd	AUS
Sesap Pty Ltd	AUS
Vamgas Pty Ltd[2]	AUS

Notes

1 Beneficial interests in all controlled entities are 100%, except:
- *CJSC South Petroleum Company (70%); and*
- *Zhibek Resources Ltd (75%).*

2 Company is party to a Deed of Cross Guarantee. Refer note 37.
3 Company acquired during the year. Refer note 24.
4 Company incorporated during the year.
5 Santos Oil Exploration (Malaysia) Sdn Bhd was liquidated on 24 December 2009.

Country of incorporation

AUS – Australia
GBR – United Kingdom
KGZ – Kyrgyz Republic
NLD – Netherlands
PNG – Papua New Guinea
SGP – Singapore
USA – United States of America

24. 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
Cairn Energy Sangu Field Ltd	4 November 2010	100	1	(2)

Cairn Energy Sangu Field Ltd is the owner and operator of a 37.5% interest in the Sangu producing field and 50% interest in the Block 60 Magnama exploration prospect. If the acquisition had occurred on 1 January 2010 the Group's revenue would have increased by $7 million and the net profit attributable to equity holders of Santos Limited would have reduced by $5 million. This acquisition has been provisionally accounted for at reporting date, as the fair value of the net assets acquired has not been finally determined.

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

	Carrying amounts $million	Fair value adjustments $million	Recognised values $million
Trade and other receivables	7	–	7
Exploration and evaluation assets	26	(16)	10
Trade and other payables	(6)	–	(6)
Other financial liabilities	–	(9)	(9)
Tax liabilities	–	(1)	(1)
Net identifiable assets and liabilities	27	(26)	1

Reconciliation to cash outflow from payments for acquisition of controlled entities:

	$million
Cash paid	1
Net cash acquired with subsidiaries	–
Total cash paid for current year acquisition	1
Deferred consideration paid*	3
Net consolidated cash outflow	4

* *Deferred consideration paid in 2010 comprises $3 million to fund phase two of the exploration programme relating to the 2006 acquisition of CJSC South Petroleum Company.*

In 2009, the Group acquired 100% beneficial interest in Gastar Power Pty Ltd for $8 million.

25. DISPOSALS OF SUBSIDIARIES

During 2009, the Group disposed of the wholly-owned subsidiaries Santos UK (Kakap) Ltd 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.

26. INVESTMENT IN AN ASSOCIATE

Company	Country	Principal activity	Ownership interest 2010 %	Ownership interest 2009 %	2010 $million	2009 $million
Eastern Star Gas Limited	Australia	Oil and gas	**20.97**	19.42	**208**	177

	2010 $million	2009 $million
Movement in the carrying amount of the Group's investment in an associate		
Balance at beginning of the year	**177**	–
Purchase of investment in associate	**33**	178
Share of losses, after tax	**(2)**	(1)
Balance at end of the year	**208**	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	**173**	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:

	2010 $million	2009 $million
The Group's share of the associate's statement of financial position		
Total assets	**212**	181
Total liabilities	**(4)**	(4)
Net assets	**208**	177
The Group's share of the associate's income statement		
Revenue	**1**	–
Net loss after tax	**(2)**	(1)

* *The Group's share of the associate's summarised financial information is estimated based on Eastern Star Gas Limited's 30 June 2010 annual financial report and the latest ASX releases.*

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27. INTERESTS IN JOINT VENTURES

(A) JOINT VENTURE ASSETS

The following are the significant joint ventures assets in which the Group is a joint venturer:

Joint venture	Cash-generating unit	Principal activities	**Interest 2010 %**	Interest 2009 %
Oil and gas assets – Producing assets				
Bayu-Undan	Bayu-Undan	Gas and liquids production	**11.4**	11.4
Casino	Casino	Gas production	**50.0**	50.0
Fairview	Fairview Roma	Gas (CSG[1]) production	**34.2**	45.7
John Brookes	John Brookes	Gas production	**45.0**	45.0
Madura Offshore PSC (Maleo)	Madura PSC	Gas production	**67.5**	67.5
Mereenie	Mereenie	Oil and gas production	**65.0**	65.0
Mutineer-Exeter	Mutineer-Exeter	Oil production	**33.4**	33.4
Roma	Fairview Roma	Gas (CSG) production	**45.0**	60.0
SA Fixed Factor Area	Cooper Basin	Oil and gas production	**66.6**	66.6
Sampang PSC (Oyong, Wortel)	Sampang PSC	Oil and gas production	**45.0**	45.0
Sangu	Sangu PSC	Gas production	**75.0**	37.5
Stag	Stag	Oil and gas production	**66.7**	66.7
SWQ Unit	Cooper Basin	Gas production	**60.1**	60.1
Oil and gas assets – Assets in development				
Chim Sao	Vietnam (Block 12)	Gas development	**31.9**	31.9
Halyard/Spar[2]	Halyard/Spar	Gas development	**45.0**	45.0
Kipper	Kipper	Gas development	**35.0**	35.0
PNG LNG	PNG LNG	Gas development	**13.5**	13.5
Reindeer	Reindeer	Gas development	**45.0**	45.0
Exploration and evaluation assets				
Caldita/Barossa	–	Contingent gas (CSG) resource	**40.0**	40.0
Evans Shoal	–	Contingent gas resource	**40.0**	40.0
Gunnedah	–	Contingent gas (CSG) resource	**35.0**	35.0
PEL1 and 12	–	Contingent gas (CSG) resource	**25.0**	25.0
Petrel, Tern & Frigate	–	Gas development	**40.0**	40.0
Spar[2]	–	Contingent gas resource	**–**	100.0

1 *CSG – Coal Seam Gas.*

2 *Spar – 55% of Spar was sold during 2010 and is now included in the Halyard/Spar gas development.*

27. INTERESTS IN JOINT VENTURES (CONTINUED)

(B) JOINTLY CONTROLLED ENTITIES

The Group recognises its interests in the following jointly controlled entities using the proportionate consolidation method of accounting:

Joint venture entity	**Interest 2010 %**	Interest 2009 %
CJSC KNG Hydrocarbons	**54.0**	54.0
Darwin LNG Pty Ltd	**11.4**	11.4
Easternwell Drilling Services Holdings Pty Ltd	**50.0**	50.0
GLNG Operations Pty Ltd*	**60.0**	60.0
Lohengrin Pty Ltd	**50.0**	50.0
Papua New Guinea Liquefied Natural Gas Global Company LDC	**13.5**	13.5

* *Percentage interest in GLNG Operations Pty Ltd reduced to 45% on completion of transfer of shares on 13 January 2011.*

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:

	2010 $million	2009 $million
Current assets	**109**	63
Non-current assets	**468**	150
Total assets	**577**	213
Current liabilities	**43**	23
Non-current liabilities	**350**	24
Net assets	**184**	166
Revenue	**290**	225
Expenses	**(250)**	(178)
Profit before income tax	**40**	47

(C) JOINT VENTURE COMMITMENTS

The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:

Capital expenditure commitments	**1,692**	2,113
Minimum exploration commitments	**140**	157

Notes to the Consolidated Financial Statements
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28. NOTES TO THE STATEMENT OF CASH FLOWS	2010 $million	2009 $million
(A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	**498**	434
Add/(deduct) non-cash items:		
Depreciation and depletion	**600**	619
Exploration and evaluation expensed	**46**	64
Net impairment loss on exploration and evaluation assets	**24**	–
Net impairment loss on oil and gas assets	**98**	37
Net impairment loss on other land, buildings, plant and equipment assets	**13**	–
Net impairment loss on receivables	**22**	–
Net losses/(gains) on fair value hedges	**7**	(5)
Share-based payments expense	**9**	11
Borrowing costs capitalised	**(4)**	(9)
Unwind of the effect of discounting on provisions	**38**	38
Change in fair value of financial assets designated as at fair value through profit or loss	**–**	(5)
Defined benefit plan expense	**2**	3
Foreign exchange losses	**10**	28
Net gain on sale of exploration and evaluation assets	**(59)**	(233)
Net gain on sale of oil and gas assets	**(255)**	(29)
Net loss on sale of other land, buildings, plant and equipment	**1**	2
Share of net loss in an associate	**2**	1
Amortisation of prepaid loan transaction costs	**1**	–
Net loss on sale of controlled entities	**–**	14
Net cash provided by operating activities before changes in assets or liabilities	**1,053**	970
(Deduct)/add change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
(Increase)/decrease in trade and other receivables	**(16)**	17
Decrease in inventories	**13**	17
Increase in other assets	**(45)**	(8)
(Decrease)/increase in net deferred tax liabilities	**(46)**	63
Increase in current tax liabilities	**260**	95
Increase in trade and other payables	**42**	14
Increase/(decrease) in provisions	**6**	(13)
Net cash provided by operating activities	**1,267**	1,155
(B) NON-CASH FINANCING AND INVESTING ACTIVITIES		
Dividend Reinvestment Plan	**34**	31
(C) TOTAL TAXATION PAID		
Income tax received/(paid)		
Cash inflow/(outflow) from operating activities	**71**	(55)
Cash outflow from investing activities	**(67)**	(497)
Royalty-related tax paid		
Cash outflow from operating activities	**(139)**	(71)
	(135)	(623)

29. EMPLOYEE BENEFITS

(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.

	2010 $million	2009 $million
Amount recognised in the statement of financial position		
Deficit in plan recognised in non-current provisions (refer note 19)	**32**	34
Non-current receivables (refer note 9)	**(10)**	(9)
	22	25
Movements in the liability for net defined benefit obligations recognised in the statement of financial position		
Liability at the beginning of the year	**25**	45
Expense recognised in income statement	**2**	3
Amount capitalised in oil and gas assets	**1**	1
Amount recognised in retained earnings	**1**	(16)
Employer contributions	**(7)**	(8)
Liability at the end of the year	**22**	25
Expense recognised in the income statement		
Service cost	**2**	4
Interest cost	**2**	3
Expected return on plan assets	**(2)**	(4)
	2	3
The expense is recognised in the following line item in the income statement:		
Cost of sales	**2**	3
Amounts recognised in other comprehensive income		
Actuarial (loss)/gain in the year	**(1)**	16
Tax effect	**–**	(5)
Net actuarial (loss)/gain in the year	**(1)**	11
Cumulative actuarial loss recognised in other comprehensive income, net of tax	**(13)**	(12)

Historical information for the current and previous periods

	2010 $million	2009 $million	2008 $million	2007 $million	2006 $million
Present value of defined benefit obligations	**173**	170	175	162	158
Fair value of plan assets	**(141)**	(136)	(113)	(146)	(132)
Deficit in plan	**32**	34	62	16	26
Experience adjustments loss/(gain) on plan assets	**5**	(9)	43	(4)	(6)
Experience adjustments (gain)/loss on plan liabilities	**(3)**	(7)	(14)	(1)	18

29. EMPLOYEE BENEFITS (CONTINUED)	2010 $million	2009 $million
(A) DEFINED BENEFIT PLAN (CONTINUED)		
Reconciliation of the present value of the defined benefit obligations		
Opening defined benefit obligations	**170**	175
Service cost	**7**	8
Interest cost	**8**	7
Contributions by plan participants	**5**	8
Actuarial gain	**(3)**	(14)
Benefits paid	**(12)**	(3)
Taxes and premiums paid	**(3)**	(3)
Transfers in	**1**	–
Curtailments	**–**	(1)
Settlements	**–**	(7)
Closing defined benefit obligations	**173**	170
Reconciliation of the fair value of plan assets		
Opening fair value of plan assets	**136**	113
Expected return on plan assets	**9**	8
Actuarial (loss)/gain	**(5)**	9
Employer contributions	**10**	11
Contributions by plan participants	**5**	8
Benefits paid	**(12)**	(3)
Taxes and premiums paid	**(3)**	(3)
Transfers in	**1**	–
Settlements	**–**	(7)
Closing fair value of plan assets	**141**	136

	2010 %	2009 %
Plan assets		
The percentage invested in each asset class at the reporting date:		
Australian equity	**28**	32
International equity	**27**	29
Fixed income	**14**	10
Property	**11**	9
Other	**10**	7
Cash	**10**	13

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	2010 $million	2009 $million
Actual return on plan assets – gain	**3**	12

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.

29. EMPLOYEE BENEFITS (CONTINUED)	2010 % p.a.	2009 % p.a.
(A) DEFINED BENEFIT PLAN (CONTINUED)		
Principal actuarial assumptions at the reporting date (expressed as weighted average)		
Discount rate	**4.8**	4.8
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 $6 million to the defined benefit superannuation plan in 2011.

(B) DEFINED CONTRIBUTION PLANS

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $9 million (2009: $8 million).

30. SHARE-BASED PAYMENT PLANS

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS

The Company introduced the two general employee share plans in 2010:

- Share1000, governed by the Santos Employee Share Acquisition Plan rules ("Share1000 Plan"); and
- ShareMatch, governed by the ShareMatch Plan rules ("ShareMatch Plan").

No employee share plan offers were made pursuant to the Santos Employee Share Acquisition Plan ("SESAP") or the Santos Employee Share Purchase Plan ("SESPP") in 2010. General employee offers were made pursuant to the SESAP and SESPP from 1997 to 2009.

The SESPP and SESAP rules continue in force as the relevant rules for the Share1000 and the Executive Long-term Incentive Programme respectively.

Share1000 Plan

The Share1000 Plan was introduced in late 2010, with issue of shares pursuant to the plan made on 4 January 2011. The Share1000 Plan provides for the issue of $1,000 worth of shares at no cost, to eligible employees. No shares were issued pursuant to the Share1000 Plan in 2010.

ShareMatch Plan

The ShareMatch Plan was also introduced in 2010 as an alternative to the Share1000 Plan. The ShareMatch Plan provides an opportunity for eligible employees to purchase shares and to receive a matched Share Acquisition Right ("SAR") at a ratio set by the Board and with vesting subject to conditions of service. Issue of shares pursuant to the plan was made on 4 January 2011. No shares were issued pursuant to the ShareMatch Plan in 2010.

SESAP

The SESAP was replaced by the Share1000 Plan and ShareMatch Plan in 2010 and accordingly, no shares were issued pursuant to the SESAP in 2010.

In 2009 the SESAP provided for permanent eligible employees with at least a minimum period of service determined by the Directors as at the offer date (one year completed service) to be entitled to acquire shares under the plan. Senior executives who report directly to the CEO and Managing Director as the Santos Leadership Team participating in the Executive Long-term Incentive Programme in 2009, casual employees and Directors of the Company were excluded from participating in this Plan. Employees were not eligible to participate under the Plan while they were resident overseas unless the Board decided otherwise.

The SESAP 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 funded by the Group acquired shares directly from the Company. The trustee holds the shares on behalf of the participants in the plan until the shares are no longer subject to restrictions.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

The employee's ownership of shares allocated under the SESAP, 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 2010 (and comparative 2009 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 $
2010							
20 November 2007	**86,475**	**–**	**–**	**86,475**	**1,100,189**	**–**	**–**
21 November 2008	**103,490**	**–**	**–**	**5,767**	**78,924**	**97,723**	**1,285,057**
20 November 2009	**100,782**	**–**	**–**	**5,940**	**77,195**	**94,842**	**1,247,172**
	290,747	**–**		**98,182**	**1,256,308**	**192,565**	**2,532,229**
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

Distributions during the year occurred at various dates throughout the year and therefore have not been separately listed.

In the years shown, shares were 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 issue 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.

The amounts recognised in the financial statements of the Group in relation to SESAP during the year were:

	2010 $000	2009 $000
Employee expenses	**–**	1,532
Issued ordinary share capital	**–**	1,532

At 31 December 2010, the total number of shares acquired under the Plan since its commencement was 2,408,566.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

SESPP

The SESPP was replaced by the Share1000 Plan and ShareMatch Plan in 2010 and, accordingly, no shares were issued as part of a general employee offer pursuant to the SESPP in 2010.

Information is provided below in respect of the 2009 SESPP offer.

In 2009, the general employee offer under the SESPP was open to all employees (other than a casual employee or Director of the Company) determined by the Board who were continuing employees at the date of the offer. Employees who were not resident in Australia at the time of an offer under the SESPP and participants in the Executive Long-term Incentive Programme in the same period were not eligible to participate in SESPP.

Under the SESPP, eligible employees were 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 was 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 SESPP, at the discretion of the Board, financial assistance may have been available to employees to subscribe for and acquire shares under the Plan. The 5% discount constituted financial assistance for these purposes. Participants were entitled to vote, receive dividends and participate in bonus and rights issues during the restriction period.

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

	Opening balance	**Granted during the year**		**Distributions during the year**		**Closing balance**
Grant date	**Number**	**Number**	**Fair value per share $**	**Number**	**Date**	**Number**
2010						
20 November 2009	**18,400**	**–**	**–**	**18,400**	**22 November 2010**	**–**
	18,400	**–**		**18,400**		**–**
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

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.

The amounts recognised in the financial statements of the Group in relation to the general employee offer under the SESPP during the year were:

	2010 $000	2009 $000
Issued ordinary share capital	**–**	273

At 31 December 2010, the total number of shares acquired under the general employee offer of the Plan since its commencement was 1,140,800.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(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 is governed by the Santos Employee Share Purchase Plan rules in respect of offers of Share Acquisition Rights ("SARs") and the Santos Executive Share Option Plan in respect of offers of options.

The Santos Executive Share Option Plan rules have been in force since 1997 and the Santos Employee Share Purchase Plan rules have been used as a basis of executive compensation since 2003.

Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance or service conditions, on terms and conditions determined by the Board.

SARs and options carry no voting or dividend rights until the performance or service conditions are satisfied and, in the case of options, when the options are exercised or, in the case of SARs, when the SARs vest.

The 2010 LTI Programme offer consisted only of SARs.

Chief Executive Officer and Managing Director Specific Award

This section details specific LTI grants made to the Chief Executive Officer and Managing Director ("CEO") while in that role. Prior to his appointment as CEO, Mr DJW Knox received LTI grants as part of the general Executive LTI Programme as detailed in the eligible senior executives' awards section below. Details of these prior grants forming part of a general executive award are not included in this section.

No new LTI grant was made to the Chief Executive Officer ("CEO") in 2010 as the grants made to Mr Knox in 2008 constitute his LTI entitlement for 2008, 2009 and 2010.

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 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;
- 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%

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

- none of the grants have vested as at 31 December 2010. Tranche 1 is expected to vest in 2011 subject to assessment of the performance condition and vesting schedule;
- upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to restrictions until the earlier of ten years from the grant date, cessation of employment, or the date at which the Board approves, at Mr Knox's request, the removal of the restrictions;
- options may be exercised at any time between the vesting date and the expiry date (27 July 2018), subject to payment of the exercise price of $17.36 per option (being the volume weighted average price in the week up to and including the grant date);
- full details of the equity grants made to Mr Knox in 2008 are contained in the 2008 Remuneration Report.

During the current and previous financial year, the Company did not grant options over unissued shares to the CEO as set out below:

	2010		2009	
	Weighted average exercise price $	**Number**	Weighted average exercise price $	Number
Outstanding at the beginning of the year	**17.36**	**358,145**	17.36	358,145
Granted during the year	**–**	**–**	–	–
Outstanding at the end of the year	**17.36**	**358,145**	17.36	358,145
Exercisable at the end of the year	**–**	**–**	–	–

In addition to the options issued to Mr Knox in his capacity as CEO above, as at 31 December 2010, Mr Knox has an additional 186,869 options which were issued to him before he was appointed CEO (2009: 186,869). As at 31 December 2010, 100,000 of these options have vested and are exercisable (2009: nil).

The options outstanding at 31 December 2010 have an exercise price of $17.36, and a weighted average remaining contractual life of 7.58 years.

During the year no options were exercised (2009: 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.

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.

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. During the current and previous financial year, the Company did not grant SARs to the CEO as set out below:

	2010	2009
	Number of SARs	
Outstanding at the beginning of the year	**136,779**	136,779
Granted during the year	**–**	–
Outstanding at the end of the year	**136,779**	136,779
Exercisable at the end of the year	**–**	–

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

In addition to the SARs issued to Mr Knox in his capacity as CEO above, as at 31 December 2010, Mr Knox has no SARs that were issued to him before he was appointed CEO (2009: 50,000). During 2010, 50,000 SARs vested and were converted to shares (2009: nil).

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.

Former CEO

At 31 December 2010, 2,500,000 options are on issue, and are exercisable (2009: 2,500,000). The exercise price for the options granted is $11.36. The options have a weighted average remaining contractual life of 5.34 years.

Eligible senior executives' awards

During 2010, the Company made equity grants to its senior executives as the LTI component of their remuneration for 2010. The grants comprised:

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

Both the Performance Award and the Deferred Award were delivered in the form of SARs under the Santos Employee Share Purchase Plan rules.

SARs 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.

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

Performance Award

Vesting period	1 January 2010 to 31 December 2012.	
Vesting condition	Vesting of the Performance Award is based on relative TSR against ASX 100 companies as at 1 January 2010.	
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	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.	

Deferred Award

Vesting period	2 March 2010 to 1 March 2013.
Vesting condition	Vesting of the Deferred Award is based on continuous service to 1 March 2013, 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 other circumstances approved by the Board, then a proportion of the SARs and options may vest and become exercisable.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

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 did not grant options over unissued shares (2009: 275,884) as set out below:

	2010		2009	
	Weighted average exercise price $	**Number**	Weighted average exercise price $	Number
Outstanding at the beginning of the year	**13.72**	**2,106,266**	12.80	2,282,122
Granted during the year	**–**	**–**	14.81	275,884
Forfeited during the year	**15.23**	**(43,433)**	11.34	(24,690)
Exercised during the year	**10.60**	**(25,668)**	9.61	(427,050)
Outstanding at the end of the year	**13.73**	**2,037,165**	13.72	2,106,266
Exercisable at the end of the year	**11.79**	**894,833**	10.15	521,250

The options outstanding at 31 December 2010 have an exercise price in the range of $8.46 to $15.39, and a weighted average remaining contractual life of 6.9 years.

During the year 25,668 (2009: 427,050) options were exercised. The weighted average share price at the dates of exercise was $13.37 (2009: $14.40).

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 in relation to executive share options exercised during the financial year were:

	2010 $000	2009 $000
Issued ordinary share capital	**272**	4,103

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	
Option grant	Performance Award G1	Deferred Award G2
Fair value at grant date ($)	4.54	6.75
Share price on grant date ($)	15.00	15.00
Exercise price ($)	14.81	14.81
Expected volatility (weighted average, % p.a.)	46.5	46.5
Option life (weighted average, years)	10.0	10.0
Expected dividends (% p.a.)	2.6	2.6
Risk-free interest rate (based on Australian Government bond yields, % p.a.)	2.94	2.94

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.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

During the financial year, the Company granted 1,015,166 (2009: 723,792) 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.

	2010	2009
	Number of SARs	
Outstanding at the beginning of the year	**1,588,458**	1,229,712
Granted during the year	**1,015,166**	723,792
Forfeited during the year	**(61,855)**	(61,961)
Vested during the year	**(725,652)**	(303,085)
Outstanding at the end of the year	**1,816,117**	1,588,458
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.

	2010						
	Performance Awards				Deferred Awards		
SARs grant	**H1**	**H3**	**H4**	**H7**	**H2**	**H5**	**H6**
Fair value at grant date ($)	**6.46**	**6.37**	**5.97**	**5.81**	**11.92**	**12.30**	**11.91**
Share price on grant date ($)	**13.40**	**13.18**	**13.18**	**12.65**	**13.40**	**12.69**	**12.69**
Exercise price ($)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Expected volatility (weighted average, % p.a.)	**44.9**	**44.0**	**44.0**	**44.0**	**44.9**	**44.0**	**44.0**
Right life (weighted average, years)	**2.8**	**2.1**	**2.8**	**2.1**	**3.0**	**1.0**	**2.0**
Expected dividends (% p.a.)	**3.2**	**3.3**	**3.3**	**3.2**	**3.2**	**3.2**	**3.2**
Risk-free interest rate (based on Australian, Government bond yields, % p.a.)	**4.8**	**5.1**	**5.1**	**4.9**	**4.8**	**n/a**	**n/a**

	2009	
SARs grant	Performance Award G1	Deferred Award G2/G3
Fair value at grant date ($)	8.67	14.45
Share price on grant date ($)	15.00	15.00
Exercise price ($)	–	–
Expected volatility (weighted average, % p.a.)	46.5	46.5
Right life (weighted average, years)	2.8	3.0
Expected dividends (% p.a.)	2.6	2.6
Risk-free interest rate (based on Australian Government bond yields, % p.a.)	2.94	2.94

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

The amounts recognised in the financial statements of the Group during the financial year in relation to equity-settled share-based payment grants issued under the Executive Long-term Incentive Programme were:

	2010 $000	2009 $000
Employee expenses:		
Chief Executive Officer and Managing Director specific award options	**467**	447
Chief Executive Officer and Managing Director specific award SARs	**401**	387
Eligible senior executives' awards options	**2,127**	2,452
Eligible senior executives' awards SARs	**5,727**	5,261
Total employee expenses	**8,722**	8,547
Retained earnings	**8,722**	8,547

Cash-settled share-based payments

As a result of the 2009 Entitlement offer, issued at a 26.9% discount to the closing price of the shares before the announcement of the Entitlement offer (refer note 21(C)), the Board determined that for every unvested SAR and option as at the time of the Entitlement offer, eligible senior executives would be entitled to payment of $1.31 per SAR and option if and when those applicable SARs and options are converted to shares.

The amounts recognised in the financial statements of the Group during the financial year in relation to cash-settled share-based payment grants issued under the Executive Long-term Incentive Programme were:

	2010 $000	2009 $000
Opening balance of liability	**2,084**	–
Employee expenses	**828**	2,000
Revaluation	**135**	84
Cash payments	**(935)**	–
Closing balance of liability	**2,112**	2,084
Intrinsic value of vested liability	**506**	–

(C) LEGACY PLAN – SANTOS EXECUTIVE SHARE PLAN

The Santos Executive Share Plan ("SESP") operated between 1987 and 1997, when it was discontinued. Under the terms of the SESP, 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 SESP shares on issue. During the financial year 5,000 (2009: nil) Plan shares were fully paid and $18,450 were received by the Company. As at 31 December 2010 there were 83,000 (2009: 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.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

In 2010, 3,544 (2009: 20,390) shares were allocated to participating Directors as follows:

Date	Shares issued Number	Price per share $
6 April 2010	774	14.7600
30 June 2010	897	12.7383
16 September 2010	906	12.6196
21 December 2010	967	13.3836

The amounts recognised in the financial statements of the Group in relation to the NED Share Plan during the year were:

	2010 $000	2009 $000
Employee expenses	**47**	315
Issued ordinary share capital	**47**	315

(E) ELIGIBLE SENIOR EXECUTIVES – SHARES

The Santos Executive Share Purchase Plan (“SESEP”) operated in 2003 and 2004. No shares have been issued under the SESEP since 2004. At 31 December 2010, the total number of shares acquired under the executive long-term incentive component of the SESEP since its commencement was 220,912.

The shares allocated pursuant to the SESEP 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 remain on trust until December 2013 or July 2014 applicable to the 2003 and 2004 grants respectively. During this time the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues while the shares are held on trust.

31. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION

	2010 $000	2009 $000
Short-term employee benefits	**10,317**	10,106
Post-employment benefits	**245**	399
Other long-term benefits	**314**	113
Termination benefits	**518**	–
Share-based payments	**2,615**	3,615
	14,009	14,233

(B) 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 to any key management person, including their related parties.

(C) 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
2010								
Options								
Directors								
Knox, David John Wissler	544,974	–	–	–	544,974	100,000	100,000	–
Executives								
Anderson, John Hugh	123,637	–	–	–	123,637	78,100	78,100	–
Baulderstone, James Leslie	91,678	–	–	–	91,678	50,000	50,000	–
Cleary, Peter John	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	78,667	–	–	–	78,667	25,000	25,000	–
Macfarlane, Mark Stuart	108,682	–	–	(108,682)	–	–	–	–
Wasow, Peter Christopher	–	–	–	–	–	–	–	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–
Total	947,638	–	–	(108,682)	838,956	253,100	253,100	–
Rights								
Directors								
Knox, David John Wissler	186,779	–	(50,000)	–	136,779	–	–	–
Executives								
Anderson, John Hugh	44,527	23,560	(27,000)	–	41,087	–	–	–
Baulderstone, James Leslie	43,107	43,796	(24,600)	–	62,303	–	–	–
Cleary, Peter John	–	20,000	–	–	20,000	–	–	–
Eames, Martyn Edward James	52,215	26,243	(32,000)	–	46,458	–	–	–
Macfarlane, Mark Stuart	44,633	22,456	(27,000)	(40,089)	–	–	–	–
Wasow, Peter Christopher	93,845	41,188	(37,000)	(98,033)	–	–	–	–
Wilkinson, Richard John	65,650	24,424	(28,200)	–	61,874	–	–	–
Total	530,756	201,667	(225,800)	(138,122)	368,501	–	–	–

1 SARs granted to executives in the current year were granted on 2 March 2010 and 15 November 2010.

2 Each 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 vesting of SARs.

3 (i) Due to a Company restructure, Mr MS Macfarlane ceased to be a key management person on 29 August 2010.

(ii) Mr PC Wasow's holding of 98,033 SARs has been removed from the key management personnel disclosure as a result of his retirement from the Company on 31 December 2010.

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 30(B).

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

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 TJ Brown and Mr RM Kennett ceased to be key management persons 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 30(B).

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) 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	Received on vesting of rights	Purchased on market	Redeemed	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2010							
Ordinary shares – fully paid							
Directors							
Borda, Kenneth Charles	67,308	–	–	–	1,527	68,835	–
Coates, Peter Roland	19,714	–	7,000	–	407	27,121	–
Dean, Kenneth Alfred	11,638	–	–	–	3,945	15,583	–
Franklin, Roy Alexander	–	–	–	–	–	–	–
Harding, Richard Michael	2,441	–	–	–	78	2,519	–
Hemstritch, Jane Sharman	–	–	–	–	14,000	14,000	–
Knox, David John Wissler	3,550	50,000	–	–	114	53,664	–
Martin, Gregory John Walton	3,250	–	7,500	–	–	10,750	–
Executives							
Anderson, John Hugh	26,626	27,000	–	–	–	53,626	–
Baulderstone, James Leslie	–	24,600	–	–	–	24,600	–
Cleary, Peter John	–	–	–	–	1,971	1,971	–
Eames, Martyn Edward James	29,780	32,000	–	–	–	61,780	–
Macfarlane, Mark Stuart	11,207	27,000	–	–	(38,207)	–	–
Wasow, Peter Christopher	67,828	37,000	–	–	(104,828)	–	–
Wilkinson, Richard John	65,088	28,200	–	–	–	93,288	–
Total	308,430	225,800	14,500	–	(120,993)	427,737	–

1 *Other changes include:*

(i) NED Share Plan and Dividend Reinvestment Plan share allocations.

(ii) Due to a Company restructure, Mr Macfarlane ceased to be a key management person on 29 August 2010.

(iii) Mr Wasow's equity holding of 104,828 shares has been removed from the key management personnel disclosure as a result of his retirement from the Company on 31 December 2010.

(iv) Ms JS Hemstritch held 14,000 shares when appointed as a Director on 16 February 2010.

(v) A related party of Mr PJ Cleary held 1,971 shares on the date he was appointed as a key management person.

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Name	Balance at beginning of the year	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	(68,037)	–	–
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	(380,592)	308,430	–
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 Brown and Mr Kennett ceasing to be key management persons in 2009 due to a company restructure.

(iv) Mr S Gerlach received 1,720 shares as a result of the Dividend Reinvestment Plan and 2,093 shares as a result of the NED Share Plan. Mr Gerlach's equity holding of 71,850 shares has been removed from the key management personnel disclosure as a result of him ceasing to be a Director of the Company on 31 December 2009.

32. RELATED PARTIES

Identity of related parties

Santos Limited 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 11 as to amounts owing by other related entities;
- notes 18 and 36 as to Santos Limited's parent company financial guarantees provided for its controlled entities;
- note 19 as to Non-executive Directors' retirement benefits;
- note 23 as to its controlled entities;
- note 26 as to interests in an associate;
- note 27 as to interests in joint ventures; and
- note 31 as to disclosures relating to key management personnel.

33. REMUNERATION OF AUDITORS	**2010 $000**	2009 $000
The auditor of Santos Limited 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 Group	**1,311**	1,035
Other services in relation to the entity and any other entity in the Group:		
Other assurance services	**953**	513
Taxation	**11**	–
Other services	**–**	–
	2,275	1,548
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:		
External audit	**113**	143
Other assurance services	**20**	20
Taxation	**36**	73
Other services	**–**	4
	169	240
Amounts received or due and receivable by overseas non-Ernst & Young audit firms for:		
Audit of financial reports for subsidiaries incorporated overseas	**10**	40
Amounts received or due and receivable by related Australian practices of non-Ernst & Young audit firms for:		
Other assurance services	**–**	195
Taxation	**–**	657
Other services	**–**	35
	–	887

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34. COMMITMENTS FOR EXPENDITURE	2010 $million	2009 $million
The Group have the following commitments for expenditure:		
(A) CAPITAL COMMITMENTS		
Capital expenditure contracted for at reporting date for which no amounts have been provided in the financial statements, payable:		
Not later than one year	**933**	935
Later than one year but not later than five years	**805**	1,285
Later than five years	**9**	10
	1,747	2,230
(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	**143**	76
Later than one year but not later than five years	**91**	270
Later than five years	**–**	8
	234	354

The Group have 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 the Group.

	2010 $million	2009 $million
(C) OTHER OPERATING EXPENSE COMMITMENTS		
Other operating expense expenditure contracted for at reporting date for which no amounts have been provided in the financial statements, payable:		
Not later than one year	**117**	63
Later than one year but not later than five years	**129**	149
Later than five years	**–**	8
	246	220
(D) OPERATING LEASE COMMITMENTS		
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**150**	82
Later than one year but not later than five years	**316**	245
Later than five years	**180**	130
	646	457

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 2010 the Group recognised $79 million (2009: $85 million) as an expense in the income statement in respect of operating leases.

34. COMMITMENTS FOR EXPENDITURE (CONTINUED)	2010 $million	2009 $million
(E) FINANCE LEASE COMMITMENTS		
Finance lease commitments are payable as follows:		
Not later than one year	**1**	1
Later than one year but not later than five years	**3**	2
Later than five years	**–**	1
Total minimum lease payments	**4**	4

The Group has finance leases for various items of plant and equipment with a carrying amount of $2 million (2009: $3 million) for the Group. 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.

(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:

	2010 $million	2009 $million
Not later than one year	**7**	6

Amounts included as remuneration commitments include commitments arising from the service contracts of Directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

(G) 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 2010, approximately $39 million remains to be paid over the next seven 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 2010, if this condition had not been met, the Company would have been liable to pay approximately $70 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

35. CONTINGENT LIABILITIES	2010 $million	2009 $million
The Group has the following contingent liabilities as at 31 December arising in respect of:		
Litigation and proceedings	–	6
The Group's share of contingent liabilities of joint ventures:		
Litigation and proceedings	–	1
	–	7

In relation to legal claims and proceedings, provision has been made where relevant (refer to note 20). Legal advice in relation to actual and possible legal claims and proceedings not provided for indicates that on the basis of available information, any liability in respect of these claims is unlikely as at 31 December 2010.

A number of the Australian interests of the Group are located within areas which are 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.

36. PARENT ENTITY DISCLOSURES	2010 $million	2009 $million
Selected financial information of the ultimate parent entity in the Group, Santos Limited, is as follows:		
Net profit for the period of the parent	**602**	142
Total comprehensive income of the parent	**601**	153
Current assets	**4,632**	2,594
Total assets	**12,237**	10,239
Current liabilities	**984**	856
Total liabilities	**6,028**	4,817
Issued capital	**5,514**	4,987
Fair value reserve	**(3)**	(2)
Retained earnings	**698**	437
Total equity	**6,209**	5,422
(A) COMMITMENTS OF THE PARENT ENTITY		
The parent entity's capital expenditure commitments and minimum exploration commitments are:		
Capital expenditure commitments	**77**	124
Minimum exploration commitments	**13**	20

36. PARENT ENTITY DISCLOSURES (CONTINUED)

(B) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

All interest-bearing loans and borrowings, as disclosed in note 18 with the exception of the finance leases, are arranged mainly through Santos Finance Ltd which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings are guaranteed by Santos Limited.

(C) CONTINGENT LIABILITIES OF THE PARENT ENTITY

In relation to legal claims and proceedings, provision has been made where relevant for Santos Limited. Legal advice in relation to actual and possible legal claims and proceedings not provided for indicates that on the basis of available information, any liability in respect of these claims is unlikely as at 31 December 2010 (2009: $2 million).

A number of the Australian interests of Santos Limited are located within areas which are 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.

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 ("Deed"). 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 Ltd;
- Reef Oil Pty Ltd;
- Santos (BOL) Pty Ltd;
- Santos Darwin LNG Pty Ltd;
- Santos (NARNL Cooper) Pty Ltd;
- 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)

Set out below is a consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the year ended 31 December 2010 of the Closed Group:

	2010 $million	2009 $million
Consolidated income statement		
Product sales	**1,970**	1,875
Cost of sales	**(1,552)**	(1,399)
Gross profit	**418**	476
Other revenue	**130**	53
Other income	**139**	132
Other expenses	**(349)**	(178)
Interest income	**139**	82
Finance expenses	**(115)**	(127)
Profit before tax	**362**	438
Income tax expense	**(125)**	(89)
Royalty-related taxation expense	**(24)**	(39)
Total taxation expense	**(149)**	(128)
Net profit for the period	**213**	310
Consolidated statement of comprehensive income		
Net profit for the period	**213**	310
Other comprehensive income:		
Exchange losses on translation of foreign operations, net of tax	**(22)**	(22)
Actuarial (loss)/gain on defined benefit plan, net of tax	**(1)**	11
Total comprehensive income	**190**	299
Summary of movements in Closed Group's retained earnings		
Retained earnings at 1 January	**1,085**	1,082
Net profit for the period	**213**	310
Actuarial (loss)/gain on defined benefit plan, net of tax	**1**	11
Dividends to shareholders	**(350)**	(327)
Share-based payment transactions	**9**	9
Retained earnings at 31 December	**958**	1,085

37. DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated statement of financial position as at 31 December 2010 of the Closed Group:

	2010 $million	2009 $million
Current assets		
Cash and cash equivalents	**4,226**	2,048
Trade and other receivables	**891**	938
Inventories	**243**	254
Other financial assets	**3**	63
Tax receivable	**–**	9
Total current assets	**5,363**	3,312
Non-current assets		
Receivables	**11**	9
Other financial assets	**2,491**	2,473
Exploration and evaluation assets	**814**	601
Oil and gas assets	**4,402**	4,410
Other land, buildings, plant and equipment	**134**	134
Deferred tax assets	**4**	6
Total non-current assets	**7,856**	7,633
Total assets	**13,219**	10,945
Current liabilities		
Trade and other payables	**534**	471
Deferred income	**14**	31
Interest-bearing loans and borrowings	**–**	1
Tax liabilities	**171**	9
Provisions	**54**	94
Total current liabilities	**773**	606
Non-current liabilities		
Deferred income	**2**	4
Interest-bearing loans and borrowings	**4,819**	3,193
Deferred tax liabilities	**429**	452
Provisions	**746**	618
Total non-current liabilities	**5,996**	4,267
Total liabilities	**6,769**	4,873
Net assets	**6,450**	6,072
Equity		
Issued capital	**5,514**	4,987
Reserves	**(22)**	–
Retained earnings	**958**	1,085
Total equity	**6,450**	6,072

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 corporate objectives and meet its obligations to stakeholders. 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, borrowings denominated in US dollars and Euros and foreign currency 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 (2010: US$1,021 million; 2009: US$1,090 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 statement in 2010. 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.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically restated to Australian dollar equivalents, and the associated gain or loss is taken to the income statement. The exception is foreign exchange gains or losses on foreign currency provisions for restoration at operating sites which are capitalised in oil and gas assets. Based on the Group's net financial assets and liabilities at 31 December 2010, the following table demonstrates the estimated sensitivity to a ±14 cent movement in the US dollar exchange rate (2009: ±13 cents) and a ±9 cent movement in the Euro with all other variables held constant, on post-tax profit and equity:

	2010 $million	2009 $million
Impact on post-tax profit:		
AUD/USD +14 cents (2009: +13 cents)	**–**	–
AUD/USD –14 cents (2009: –13 cents)	**–**	–
AUD/EUR +9 cents (2009: –)	**–**	–
AUD/EUR –9 cents (2009: –)	**–**	–
Impact on equity:		
AUD/USD +14 cents (2009: +13 cents)	**–**	–
AUD/USD –14 cents (2009: –13 cents)	**–**	–
AUD/EUR +9 cents (2009: –)	**–**	–
AUD/EUR –9 cents (2009: –)	**–**	–

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The ±14 cent sensitivity in the US dollar exchange rate and ±9 cent in the Euro exchange rate is the Group's estimate of reasonably possible changes 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 2010, the Group had interest rate swaps with a notional contract amount of $856 million (2009: $1,028 million).

The net fair value of swaps at 31 December 2010 was $130 million (2009: $125 million), comprising assets of $131 million and liabilities of $1 million. These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2010, taking into account interest rate swaps, it is estimated that if interest rates changed by US London-Interbank Offered Rate ("LIBOR") ±0.09% (2009: ±0.13%), Euro Interbank Offered Rate ("EURIBOR") ±0.07% and Australian Bank Bill Swap reference rate ("BBSW") ±0.86% (2009: ±1.14%), with all other variables held constant, the estimated impact on post-tax profit and equity would have been:

	2010 $million	2009 $million
Impact on post-tax profit as a result of changing interest rates:		
US +0.09%/EU +0.07%/AU +0.86% (2009: US +0.13%/AU +1.14%)	**22**	14
US −0.09%/EU −0.07%/AU −0.86% (2009: US −0.13%/AU −1.14%)	**(22)**	(14)
Impact on equity as a result of changing interest rates:		
US +0.09%/EU +0.07%/AU +0.86% (2009: US +0.13%/AU +1.14%)	**22**	14
US −0.09%/EU −0.07%/AU −0.86% (2009: US −0.13%/AU −1.14%)	**(22)**	(14)

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 ±0.09%, EURIBOR ±0.07% and the Australian BBSW ±0.86% sensitivity employed in the estimates above.

Cash flow hedge accounting

During the year the Group executed €1,000 million subordinated notes with an average fixed interest rate of 8.25%.

In order to reduce the variability of the Australian dollar cash flows arising from the Euro interest payments to be paid in March 2011, the Group entered into cross-currency interest rate swap contracts to which it has a right to receive interest at fixed Euro rates and pay interest at fixed Australian dollar interest rates. These swaps are in place to cover all March 2011 interest payments on the subordinated notes. The Euro rates were fixed at 8.25% and the fixed Australian dollar rates range between 12.64% and 13.03%.

€50 million of the subordinated notes have been swapped to a fixed US dollar amount for seven years.

The swaps are recognised at fair value and all gains and losses attributable to the hedged risks are taken directly to equity and reclassified into profit or loss when the interest expense is recognised.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) MARKET RISK (CONTINUED)

The movement in the cross-currency interest rate swap contract hedge reserve is as follows:

	2010 $million	2009 $million
Opening balance	–	–
Charged to comprehensive income	2	–
Closing balance	2	–

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 2010 the Group has no open oil price swap contracts (2009: 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.

(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–	7	11,500	5,517	0 – 1,782
A+	7	1,600	296	0 – 199

* *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.

(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, and financial assets held to manage liquidity risk, 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. Estimated variable interest expense is based upon appropriate yield curves existing as at 31 December 2010.

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2010				
Financial assets held to manage liquidity risk				
Cash	**4,463**	**–**	**–**	**–**
Derivative financial assets				
Interest rate swap contracts	**40**	**60**	**44**	**10**
Non-derivative financial liabilities				
Trade and other payables	**(760)**	**–**	**–**	**–**
Obligations under finance leases	**(1)**	**(1)**	**(2)**	**–**
Bank loans	**(40)**	**(44)**	**(79)**	**(491)**
Medium-term notes	**(371)**	**(6)**	**(13)**	**(106)**
Long-term notes	**(52)**	**(245)**	**(486)**	**(443)**
Subordinated debt	**(108)**	**(108)**	**(323)**	**(1,523)**
Derivative financial liabilities				
Cross-currency swap contracts	**(32)**	**-**	**(1)**	**-**
	3,139	**(344)**	**(860)**	**(2,553)**
2009				
Financial assets held to manage liquidity risk				
Cash	2,279	–	–	–
Term deposits	63	–	–	–
Derivative financial assets				
Interest rate swap contracts	50	34	32	35
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				
Cross-currency swap contracts	(5)	–	–	–
	1,422	(436)	(314)	(1,186)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES

The financial assets and liabilities of the Group 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$70 million and their fair value is estimated at US$74 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 2010. 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:

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:

	2010	2009
	%	%
Derivatives	**0.3 – 6.3**	0.4 – 6.3
Loans and borrowings	**0.3 – 6.2**	0.4 – 6.9

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.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES (CONTINUED)

The Group held the following financial instruments measured at fair value:

	Total $million	Level 1 $million	Level 2 $million	Level 3 $million
2010				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	**131**	**–**	**131**	**–**
Embedded derivatives	**1**	**–**	**1**	**–**
Available-for-sale financial assets:				
Equity shares	**1**	**1**	**–**	**–**
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	**(960)**	**–**	**(960)**	**–**
Medium-term notes	**(99)**	**–**	**(99)**	**–**
Cross-currency swap contracts	**(91)**	**–**	**(91)**	**–**
Interest rate swap contracts	**(1)**	**–**	**(1)**	**–**
Embedded derivatives	**(1)**	**–**	**(1)**	**–**
2009				
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 periods ended 31 December 2010 and 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

The following events occurred subsequent to 31 December 2010, the financial effects of which have not been brought to account in the full-year financial statements for the twelve months ended 31 December 2010:

(a) On 17 December 2010 Santos announced the sale of an aggregate 15% interest in the GLNG joint venture to Total E&P Australia ("Total") and Korean Gas Corporation ("KOGAS") (7.5% each) for US$651 million subject to approval by the Australian Foreign Investment Review Board. On 24 January 2011, all conditions precedent were satisfied, reducing the Group's interest in the Gladstone LNG project to 30%. At 31 December 2010, the carrying value of exploration and evaluation assets to be sold is $70 million and the carrying amount of oil and gas assets to be sold is $290 million;

(b) On 13 January 2011 the GLNG joint venture partners approved the final investment decision for the development of the US$16 billion, 7.8 million tonnes per annum ("mtpa") GLNG project in Queensland. The Group's 30% share of future capital expenditure is US$4.8 billion. The GLNG joint venture includes the development of coal seam gas resources in the Bowen and Surat basins in south-east Queensland, construction of a 420 kilometre gas transmission pipeline from the gas fields to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 mtpa on Curtis Island. The GLNG joint venture has binding LNG sales agreements with PETRONAS and KOGAS for 7 mtpa in aggregate. First LNG sales exports are expected to commence in 2015; and

(c) On 17 February 2011, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2010 financial year. Refer to note 21 for dividends declared after 31 December 2010.

Directors' Declaration
For the year ended 31 December 2010

In accordance with a resolution of the Directors of Santos Limited (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 2010 and of their performance for the year ended on that date; and
      (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;
   (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(A); and
   (c) 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 ending 31 December 2010.
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 17th day of February 2011.

On behalf of the Board:

Peter Coates
Director
Adelaide

David Knox
Director

Independent Audit Report
to the members of Santos Limited

Report on the Financial Report

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(A), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 154 of the Annual Report and referred to in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

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Auditor's opinion

In our opinion:

1. the financial report of Santos Limited is in accordance with the *Corporations Act 2001*, including:
   (a) giving a true and fair view of the consolidated entity's financial positions as at 31 December 2010 and of its performance for the year ended on that date; and
   (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
2. the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A) to the financial statements.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 52 to 70 of the Directors' Report for the year ended 31 December 2010. 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 Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Adelaide
17 February 2011

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Auditor’s Independence Declaration
to the Directors of Santos Limited

In relation to our audit of the financial report of Santos Limited for the year ended 31 December 2010, 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

RJ Curtin
Partner
Adelaide
17 February 2011

Liability limited by a scheme approved under Professional Standards Legislation.

Information for shareholders

NOTICE OF MEETING

The Annual General Meeting of Santos Limited will be held in the Banquet Room at Adelaide Festival Centre, King William Road, Adelaide, South Australia, on Thursday 5 May 2011 at 10:00 am.

FINAL DIVIDEND

The 2010 final ordinary dividend will be paid on 31 March 2011 to shareholders registered in the books of the Company at the close of business on 1 March 2011 in respect of fully paid shares held at record date.

SECURITIES EXCHANGE LISTING

Santos Limited. Incorporated in Adelaide, South Australia, on 18 March 1954. Quoted on the official list of the Australian Securities Exchange (ordinary shares code STO).

DIRECTORS

PR Coates (Chairman), DJW Knox (Managing Director), KC Borda, KA Dean, RA Franklin, RM Harding, GJW Martin, JS Hemstritch.

SECRETARY

DTJ Lim

CHANGE OF SHAREHOLDER DETAILS

Shareholders can access their current shareholding details and change many of these details online via the Santos Limited 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 via 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, interim Report and the Sustainability Report are the major sources of printed information about Santos. Printed copies of the reports are available from the Share Registry 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 Limited
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

2010 Full-Year Results announcement
17 February 2011

Ex-dividend date for 2010 full-year dividend
23 February 2011

Record date for 2010 full-year dividend
01 March 2011

Payment date for 2010 full-year dividend
31 March 2011

Annual General Meeting
05 May 2011

2011 Interim Results announcement
18 August 2011

Ex-dividend date for 2011 interim dividend
24 August 2011

Record date for 2011 interim dividend
30 August 2011

Payment date for 2011 interim dividend
30 September 2011

Dates may be subject to change.

QUARTERLY REPORTING CALENDAR

2011 First Quarter Activities Report
21 April 2011

2011 Second Quarter Activities Report
21 July 2011

2011 Third Quarter Activities Report
20 October 2011

2011 Fourth Quarter Activities Report
19 January 2012

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

Securities exchange and shareholder information

SECURITIES EXCHANGE AND SHAREHOLDER INFORMATION

Listed on Australian Securities Exchange at 28 February 2011 were 874,246,838 fully paid ordinary shares. Unlisted were 41,500 partly paid Plan 0 shares, 41,500 partly paid Plan 2 shares, 307,023 fully paid ordinary shares issued pursuant to the ShareMatch Plan, 35,725 fully paid ordinary shares held on trust and issued pursuant to the Santos Executive Share Purchase Plan (SESEP), 892,066 restricted fully paid ordinary shares issued to eligible senior executives pursuant to the Santos Employee Share Purchase Plan (SESPP) and 46,279 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan (NED Share Plan).

There were 110,382 holders of all classes of issued ordinary shares (including 5 holders of Plan 0 shares; 5 holders of Plan 2 shares; 883 holders of ShareMatch shares; 7 beneficial holders of SESEP shares; 50 holders of restricted shares pursuant to the SESPP; 4 holders of NED Share Plan shares). This is compared with 111,111 holders of all classes of issued ordinary shares a year earlier.

On 28 February there were also 49 holders of 4,789,065 options granted pursuant to the Santos Executive Share Option Plan; 100 holders of 1,683,393 Share Acquisition Rights pursuant to the SESPP and 883 holders of 307,203 Share Acquisition Rights pursuant to the ShareMatch Plan.

The listed issued ordinary shares plus the ordinary shares issued pursuant to the SESEP, the shares issued pursuant to the ShareMatch Plan, the restricted shares issued pursuant to the SESPP and the shares issued pursuant to the NED Share Plan, represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 57.99% of the total voting power in Santos (57.38% on 26 February 2010). The 20 largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 28 February 2011 were:

Name	Number of fully paid ordinary shares	%
HSBC Custody Nominees (Australia) Limited	125,139,886	14.32
National Nominees Limited	115,368,013	13.20
JP Morgan Nominees Australia Limited	110,238,690	12.61
Citicorp Nominees Pty Limited	42,237,386	4.83
JP Morgan Nominees Australia Limited (Cash Income A/c)	14,034,849	1.61
Cogent Nominees Pty Limited	13,743,980	1.57
Bainpro Nominees Pty Limited	11,267,707	1.29
AMP Life Limited	11,204,567	1.28
Cogent Nominees Pty Limited (SL Non Cash Collateral A/c)	8,577,500	0.98
Australian Foundation Investment Company Limited	7,068,492	0.81
Neweconomy Com Au Nominees Pty Ltd (SBL Account)	6,500,110	0.75
UBS Nominees Pty Ltd	5,952,593	0.68
ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/c)	5,369,084	0.61
Cogent Nominees Pty Limited (SMP Accounts)	5,321,797	0.61
Queensland Investment Corporation	5,187,945	0.59
CS Fourth Nominees Pty Ltd (Accumulation Account)	4,319,629	0.49
HSBC Custody Nominees (Australia) Limited – A/C 3	4,216,249	0.48
JP Morgan Nominees Australia Limited (Income Reinvestment A/c)	3,877,559	0.44
Merrill Lynch (Australia) Nominees Pty Limited	3,718,593	0.43
Argo Investments Limited	3,610,002	0.41
Total	**506,954,631**	**57.99**

Analysis of Shares – Range of Shares Held

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1–1,000	46,035	41.71	2.69
1,001–5,000	51,011	46.21	13.65
5,001–10,000	8,654	7.84	6.97
10,001–100,000	4,511	4.09	10.55
100,001 and over	171	0.15	66.14
Total	**110,382**	**100.00**	**100.00**
Less than a marketable parcel of $500	2,009		

Substantial Shareholders as disclosed by notices received by the Company as at 28 February 2011:

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

For Directors' Shareholdings see the Directors' 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.

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Glossary

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

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

boe
Barrels of oil equivalent.

carbon dioxide equivalent (CO_2-e)
CO_2-e is a measure of greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide) with the same global warming potential as carbon dioxide when measured over a specific time.

climate change
A term used to define the result of changes in weather patterns because of an increase in the earth's average temperature, caused by increases in greenhouse gases in the atmosphere.

the company
Santos Ltd and its subsidiaries.

condensate
A natural gas liquid that occurs in association with natural gas and is mainly composed of pentane and heavier hydrocarbon fractions.

crude oil
A general term for unrefined liquid petroleum or hydrocarbons.

CSG
Coal seam gas. Predominatly methane gas stored within coal deposits or seams.

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

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

greenhouse gas
A gas that contributes to the greenhouse effect by absorbing infrared radiation.

- Scope 1 – direct greenhouse emissions.
- Scope 2 – indirect greenhouse emissions.

hazard
A source of potential harm.

Hydrocarbon compounds containing only the elements hydrogen and carbon, which may exist as solids, liquids or gases.

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.

joules
Joules are the metric measurement unit for energy.

- A gigajoule is equal to 1 joule × 10^9
- A terajoule is equal to 1 joule × 10^{12}
- A petajoule is equal to 1 joule × 10^{15}

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

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.

mmboe
Million barrels of oil equivalent.

oil
A mixture of liquid hydrocarbons of different molecular weights.

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

Santos
Santos Limited and its subsidiaries.

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

top quartile
Top 25%.

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

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

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

Major announcements made in 2010

11 January 2010	GLNG marketing update
21 January 2010	Fourth Quarter Activities Report
08 February 2010	Santos 2009 Reserves Report
16 February 2010	Santos appoints Jane Hemstritch to Board
18 February 2010	Santos reports $434 million net profit for 2009
26 February 2010	First gas from Henry and Netherby fields
02 March 2010	PNG LNG Project signs LNG Sale and Purchase Agreement with CPC
15 March 2010	PNG LNG Project Clears Final Conditions to Proceed
26 March 2010	Santos sells interest in Evans Shoal for up to $200 million
13 April 2010	Santos signs Gas Sale and Purchase Agreement with Wesfarmers
22 April 2010	First Quarter Activities Report
06 May 2010	Santos 2010 AGM address
14 May 2010	Santos awards upstream early works contract for GLNG
28 May 2010	GLNG wins Queensland environmental approval
19 July 2010	Santos executes $2 billion bilateral bank facility
22 July 2010	Santos Second Quarter Activities Report
03 August 2010	Chief Financial Officer, Peter Wasow, to retire at the end of 2010
09 August 2010	Santos expects half-year profit to exceed analysts' forecasts
11 August 2010	Senior Management Appointment – Peter Cleary
26 August 2010	2010 Half-Year Results Presentation
26 August 2010	Santos reports 94% lift in half-year net profit to $198 million
30 August 2010	Santos and Apache development a major boost for Western Australian domestic gas supply
09 September 2010	Santos sells 15% interest in GLNG to Total for $650 million
17 September 2010	Santos completes €650 million hybrid with 100% equity credit from S&P
22 September 2010	Euro Subordinated Notes Prospectus
13 October 2010	Appointment of Deputy Chief Financial Officer – Andrew Seaton
15 October 2010	Santos increases hybrid funding to €1 billion with follow-on issue
21 October 2010	Third Quarter Activities Report
22 October 2010	GLNG wins Federal environmental approval
25 October 2010	Santos to supply 750 PJ of portfolio gas to GLNG
04 November 2010	Santos acquires additional interests in Bangladesh
19 November 2010	SA Premier opens Santos Conservation Centre
24 November 2010	Spar-2 appraisal well confirms Spar Field upside
26 November 2010	Wortel project in Indonesia approved for development
06 December 2010	Santos welcomes proposed carbon limit on power generation
17 December 2010	GLNG signs binding LNG off-take agreement with KOGAS for 3.5 mtpa
20 December 2010	Successful completion of $500 million institutional placement

Santos
We have the energy.

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
Telephone: 61 8 8116 5000
Facsimile: 61 8 8116 5050

SHARE REGISTER

Computershare
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

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Facsimile: 996 312 96 1260

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Brisbane Queensland 4000
GPO Box 1010
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Facsimile: 61 7 3838 3700

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Jakarta 12060 Indonesia
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Santos International
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23 Barakhamba Road
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New Delhi 110 001 India
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Facsimile: 91 11 4351 2070

Perth

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

Port Bonython

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

Port Moresby

Barracuda Ltd
PO Box 1159
Level 8 Pacific Place Building
Cnr Musgrave Street and
Champion Parade
Port Moresby
Papua New Guinea
Telephone: 675 321 2633
Facsimile: 675 321 2847

Roma

39 Currey Street
Roma Queensland 4455
Telephone: 61 7 4624 2100
Facsimile: 61 7 4624 2140

PAPER AND PRINTING OF THE ANNUAL REPORT

This report is printed on paper 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.

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