Integrating sustainability

Sustainability for Santos involves operating across all elements of the company in a way that:

• conserves natural resources and protects ecosystems in operational areas

• respects the cultures and supports the development of the communities in which the company operates

• enhances the health and safety of our people and leverages the diversity, skills and knowledge of the entire workforce

• delivers strong governance, economic performance and returns on investment for shareholders.
Santos is an Australian company providing energy for Australia and Asia.

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

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

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

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

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

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

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

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

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

The company has a robust strategy to achieve this through:

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

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

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

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

VALUES

We are a team that:

- **Discovers** – by opening our minds to new possibilities, thinking creatively and having the courage to learn from successes and failures, to take on new challenges, to capture opportunities and to resolve problems.

- **Delivers** – by taking personal responsibility and pride in our work to deliver timely, quality results that benefit Santos and help achieve our vision and strategy.

- **Collaborates** – by recognising the value and power in diversity of thought and communicating openly to understand the perspectives of others; demonstrating leadership by sharing what we know and respectfully challenging each other to achieve the best results for all.

- **Cares** – by taking the long-term view to build a sustainable future for our company, our people and the environments and communities in which we operate.
About this report

This report provides a concise summary of Santos’ sustainability performance across all of its operations for 2008. Santos’ operations include the exploration, development and operation of oil and gas fields in both Australia and internationally (see map pages 4–5).

Santos’ Sustainability Report has been developed based on input from its stakeholders including employees, contractors, non-government organisations, regulators, investor research firms, shareholders and the broader public. This report aims to provide these stakeholders with further insight into Santos’ approach to sustainability and its performance across a comprehensive suite of indicators.

Sustainability reporting is one component of Santos’ framework for managing its operations sustainably. Reporting provides an opportunity to communicate with stakeholders, outlining performance on an annual year-end basis and documenting Santos’ commitments for the year ahead.

Santos’ sustainability framework provides a comprehensive cross-reference to the Global Reporting Initiative Sustainability Reporting Guidelines and the company will continue to report and manage performance on this basis (see page 49). In 2008, the key sustainability focus areas for Santos were climate change, water management, safety, incidents and spills, and economic performance.

Material in this report is complemented by information contained in Santos’ Annual Report 2008 and other communication media such as the Santos website www.santos.com.
Santos’ vision is to be the leading energy company for Australia and Asia through delivering the base business, tapping our resource riches, being a great place to work and doing it safely and sustainably to deliver a superior shareholder return.
Our sustainability performance in 2008 was pleasing on a number of levels. Our sound business strategy – continuing to deliver our base business in Australia and Indonesia while pursuing growth through LNG and opportunities in Asia – puts us in a good position to deal with the economic challenges of the coming years.

While our performance on the whole was strong, there are still areas to improve, most notably our disappointing safety performance early in the year. All of us at Santos were deeply saddened by the death of a contractor in January, on an oil rig in the Cooper Basin.

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

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

**Rewarding performance**

We boosted the prominence of the Santos Directors’ EHS Awards in 2008 by holding a breakfast ceremony in the Adelaide parklands. This event was open to all employees, with 350 attending.

Awards were presented in four categories:

- best safety performance within Santos
- best safety performance by a contractor
- best safety project or innovation
- best environmental project or innovation.

The high calibre of our apprentices was again on show at the 2008 Apprentice of the Year Awards, held in November.

In 2008 we continued our commitment to making a difference in the community, not by imposing our values, but by making valuable and meaningful contributions to organisations, programs and events that make the community a better place.

**Integrated approach to sustainability**

Santos’ sustainability practices received a huge endorsement with our inclusion in the Sustainable Asset Management (SAM) Sustainability Yearbook 2009.

Our comprehensive sustainability framework is testament to several years of hard work that have taken the company from the initial steps in sustainability management and reporting to the mature and integrated approach we are now delivering.

We will continue to measure our sustainability performance across the business to recognise high performance and flag areas for future improvement.

We value our stakeholders’ opinions, and invite you to tell us what you think of this report via www.santos.com/sustainability2008.

David Knox
Chief Executive Officer and Managing Director

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**Economic**

- Santos’ sustainability practices received a huge endorsement with inclusion in the Sustainable Asset Management (SAM) Sustainability Yearbook 2009. Each year, the top 2,500 companies as reflected in the Dow Jones Global Wilshire Index are assessed by SAM and the top 15% from each sector are included in the yearbook.

- Record net profit after tax of $1.7 billion included $1.2 billion from the sale of a 40% interest in GLNG to Malaysian oil and gas company PETRONAS. Underlying net profit rose 42% to $572 million after tax.

**Our People**

- $10 million Santos Indigenous Fund will back a company program to have up to 500 Aboriginal employees working with Santos and its contractors in the next few years.

- Pleasing results from the 2008 employee survey showed that many areas of the business have improved since the 2006 survey.

**Community**

- Led by employees and contractors in the Cooper Basin, Santos continued its support of the Royal Flying Doctor Service, raising approximately $100,000 in 2008.

- $5 million was provided to establish the Royal Institution of Australia, which will promote scientific knowledge in the wider community.

**Environment**

- A series of projects aimed at making Santos’ Moomba facility more energy efficient commenced, enabling savings of 2,500 TJ of gas per year.

- Santos supported tagging and tracking studies by the University of Adelaide on giant cuttlefish breeding at Point Lowly, South Australia, the only place in the world with dense breeding populations of cuttlefish.
### The world of Santos

Detailed exploration maps are available on the Santos website [www.santos.com](http://www.santos.com).

Percentage interests are provided in the Santos Group interests section of Santos’ Annual Report 2008.

<table>
<thead>
<tr>
<th>Ref</th>
<th>Activity</th>
<th>Location</th>
<th>Site/Asset</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>●</td>
<td>Gulf of Suez, offshore Egypt</td>
<td>Operated interest in South East July exploration concession.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>●</td>
<td>Fergana Basin, Kyrgyzstan</td>
<td>Operated interests in 14 prospecting licences.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>●</td>
<td>North East Coast Basin, offshore India</td>
<td>Operated interests in two exploration permits.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>▲ ▲</td>
<td>Bengal Basin, onshore and offshore Bangladesh</td>
<td>Non-operated interests in two exploration permits and gas and condensate production from Sangu development area.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>●</td>
<td>Song Hong Basin, offshore Vietnam</td>
<td>Operated interest in one exploration permit.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>●</td>
<td>Phu Khanh Basin, offshore Vietnam</td>
<td>Operated interest in one exploration permit.</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>▲ ▲</td>
<td>Nam Con San Basin, offshore Vietnam</td>
<td>Non-operated interest in one exploration permit, which contains Chim Sao oil and Dua oil and gas discoveries.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>▲ ▲</td>
<td>West Natuna Basin, offshore Indonesia</td>
<td>Non-operated interest in Kakap PSC, which contains oil and gas production.</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>▲ ▲</td>
<td>Kutel Basin, offshore Indonesia</td>
<td>Non-operated interest in Popodi and Papalang PSCs. Operated interest in Donggala PSC, which contains Hiu Aman gas discovery.</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>● ● ●</td>
<td>East Java Basin, offshore Indonesia</td>
<td>Operated interest in Sampang PSC, which contains Oyong oil production and gas development, and Jeruk oil and Wortel gas discoveries. Operated interest in Madura Offshore PSC, which contains Malao gas production.</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>▲ ▲</td>
<td>West Papua and Papua New Guinea</td>
<td>Interests in three exploration and two production permits in fold belt area of West Papua and PNG. In PNG, non-operated interest in PNG LNG development, the undeveloped Hides gas resource, and oil production from SE Gobe.</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>▲ ▲</td>
<td>Timor Sea and Timor Gap</td>
<td>Non-operated interests in four exploration permits, which contain gas, condensate and LPG production from Bayu-Undan, LNG production from Darwin LNG, and oil production from Jabiru-Challis.</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>▲ ▲</td>
<td>Bonaparte Basin, offshore northern Australia</td>
<td>Operated interest in four exploration permits in the southern Bonaparte, which contain the undeveloped Petrel-Tern gas resource. Operated interest in one exploration permit in the northern Bonaparte, which contains the undeveloped Evans Shoal gas resource, and non-operated interests in two exploration permits containing the undeveloped Barossa and Calidita gas resources.</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>▲ ▲</td>
<td>Darwin, Northern Territory</td>
<td>Non-operated Darwin LNG facility.</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>●</td>
<td>Browse Basin, offshore Western Australia</td>
<td>Operated interests in four exploration permits.</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>▲ ▲</td>
<td>Carnarvon Basin, offshore Western Australia</td>
<td>Operated interests in five exploration permits, which include oil production from Mutineer-Exeter. Non-operated interests in numerous exploration permits, which contain oil production from Barrow Island, Legendre, Stag and Thevenard, and gas and condensate production from John Brookes, and Reindeer gas development.</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>▲ ▲</td>
<td>Houtman Basin, offshore Western Australia</td>
<td>Non-operated interest in one exploration permit.</td>
<td></td>
</tr>
<tr>
<td>Ref</td>
<td>Activity</td>
<td>Location</td>
<td>Site/Asset</td>
<td>Description</td>
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</tr>
<tr>
<td>18</td>
<td>● ▲</td>
<td>Amadeus Basin, Northern Territory</td>
<td>Mereenie, Palm Valley, Brewer Estate</td>
<td>Operated interests in three exploration permits, which contain oil, gas and condensate production from Mereenie. Non-operated interest in one exploration permit, which contains gas production from Palm Valley. Also contains Brewer Estate liquids facility.</td>
</tr>
<tr>
<td>19</td>
<td>● ● ● ◄</td>
<td>Cooper/Eromanga Basins, South Australia and Queensland</td>
<td>Moomba, Ballera, Jackson</td>
<td>Operated interests in numerous exploration and production permits across South Australia and Queensland, which contain gas, condensate and LPG production from Moomba and Ballera and oil production from Jackson, plus satellite facilities and infrastructure.</td>
</tr>
<tr>
<td>20</td>
<td>●</td>
<td>Spencer Gulf, South Australia</td>
<td>Port Bonython</td>
<td>Operated processing and load-out facility.</td>
</tr>
<tr>
<td>21</td>
<td>● ▲</td>
<td>Surat/Bowen Basins, Queensland</td>
<td>Fairview, Roma, Scotia, GLNG, Wallumbilla</td>
<td>Operated and non-operated interests in numerous exploration and production permits, which contain coal seam gas production from Fairview and Scotia, and gas, condensate and LPG production from Roma and Wallumbilla. Development of coal seam gas fields underway for GLNG development.</td>
</tr>
<tr>
<td>22</td>
<td>● ◄</td>
<td>Gunnedah Basin, New South Wales</td>
<td>Patricia-Baleen, Kipper, Sole</td>
<td>Operated interests in seven exploration permits.</td>
</tr>
<tr>
<td>23</td>
<td>● ▲</td>
<td>Gippsland Basin, offshore Victoria</td>
<td>Patricia-Baleen, Kipper, Sole</td>
<td>Operated interests in three permits, which contain gas production from Patricia-Baleen, and the Sole gas resource. Non-operated interest in one permit, which contains the Kipper gas development.</td>
</tr>
<tr>
<td>24</td>
<td>● ▲</td>
<td>Otway Basin, offshore Victoria</td>
<td>Casino, Henry, Minerva</td>
<td>Operated interests in three permits, which contain gas and condensate production from Casino, and Henry gas development. Non-operated interest in two permits, which contain gas and condensate production from Minerva.</td>
</tr>
<tr>
<td>25</td>
<td>● ◄</td>
<td>Sorell Basin, offshore Tasmania</td>
<td></td>
<td>Operated interests in six exploration permits.</td>
</tr>
<tr>
<td></td>
<td>●</td>
<td>Santos offices</td>
<td>Adelaide, Brisbane, Perth, Gladstone, Roma, Jakarta, Port Moresby, Hanoi, New Delhi, Bishkek</td>
<td></td>
</tr>
</tbody>
</table>
Santos has developed a sustainability framework to integrate sustainability into its operations and drive improvement.

Sustainability is measured across 24 indicators using a 10-point rating scale. Results are then presented in the sustainability scorecard, opposite, showing which areas have improved, been maintained, or declined.

The 24 indicators are based on the Global Reporting Initiative G3 reporting guidelines and the International Petroleum Industry Environmental Conservation Association and American Petroleum Institute reporting guidance (see index on page 49).

In 2008, Santos conducted an extensive review of its scorecard with relevant employees. Diverse groups identified material issues, provided context, and established performance targets for each indicator for 2009. The review developed improvement plans for 2009 and assessed specific criteria for each indicator’s 10-point scale.

Security management and performance has previously been addressed under the Risk Management indicator. In 2008, it was elevated to a standalone indicator to reflect the development of Santos’ portfolio in Australia and internationally (see page 17). Research and Development has been integrated into each of the sustainability indicators rather than reported as a standalone indicator.

### Economic
- **Business partnerships’ performance**: Affiliations of joint venture partners and their sustainability performance. (Page 12)
- **Financial performance**: The contribution made by Santos directly and indirectly through its financial performance and outcomes. (Page 14)
- **New project development and acquisitions**: New development projects and acquisitions and their sustainability performance. (Page 12)
- **Risk management**: Identification and assessment of all business risk and mitigation within the company’s tolerance, including appropriate insurance cover. (Page 16)
- **Security**: Prevention, preparation, response and recovery to ensure the resilience of Santos’ people, assets, information systems and the communities in which we operate. (Page 17)
- **Supply chain performance**: The composition and efficient operation of the supply chain used by Santos, including the use, impact and concentration of the supply chain in companies and communities. (Page 15)

### Our People
- **Governance and policy**: Santos’ systems and policies to manage a socially responsible work environment. (Page 26)
- **Health and wellbeing**: Physical and mental health of Santos’ employees. (Page 21)
- **Safety**: Safety performance of Santos’ employees and contractors. (Page 19)
- **Workforce capability**: Attraction and development of employees’ skills, knowledge and behaviours to enable achievement of business goals. (Page 23)
- **Workforce composition, culture and commitment**: Alignment of business practices with shared values and principles to maximise the commitment and retention of our people. (Page 24)
- **Workforce remuneration and benefits**: Reward policies to attract and retain talent, pay for performance and promote long-term shareholder interests. (Page 25)

### Community
- **Community wellbeing**: Santos’ contribution to the quality of life in the communities in which Santos operates. (Page 33)
- **External stakeholder engagement**: Engagement and management of stakeholders. (Page 31)
- **Indigenous rights and cultural heritage**: Indigenous community engagement and development. (Page 29)
- **Product responsibility and reputation**: Santos’ products, their application and its reputation. (Page 36)
- **Social infrastructure**: Assessment of and contribution to the social infrastructure in the communities in which Santos operates. (Page 32)
- **Transparency and disclosure**: Public disclosure of reliable and timely information enabling stakeholders to make informed decisions on the company’s financial condition and performance, its business activities, and the risk related to those activities. (Page 30)

### Environment
- **Air quality**: The types and levels of emissions to air and the management of those emissions (excluding greenhouse gases). (Page 41)
- **Biodiversity and land disturbance**: Amount of land impacted by Santos and the biodiversity, mineral and hydrocarbon resources associated with the land, and the effectiveness of the land use. (Page 39)
- **Climate change management**: Climate change policies, governance, risk and reporting. (Page 44)
- **Incidents and spills**: Type, volume and impact of uncontrolled releases to the environment. (Page 43)
- **Waste management**: Type and volume of waste to landfill, recycled and reused. (Page 42)
- **Water resources**: Volume of water used, water management and the effectiveness of the water use. (Page 40)
Sustainability scorecard

Economic
Page 10

Environment
Page 38

Our people
Page 18

Community
Page 28

2008 PERFORMANCE COMPARED TO 2007

- Improved
- Maintained
- Decreased

SUSTAINABILITY SCORE

1–2 No procedure in place, poor performance
3–4 Developing policy/systems
5–6 Implementation and compliance focus
7–8 High performance
9–10 Recognised leader
The Environment, Health, Safety and Sustainability Committee of the Board endorsed a sustainability target average score of seven out of ten for 2008. Performance against this target is reported quarterly to the Committee.

Santos achieved its target score of seven in 2008.

A continued strong focus on sustainability has resulted in steady improvement in many areas across the company. Measurable improvements in 2008 included an increased focus on waste management, pleasing results from the 2008 employee survey and the implementation of Santos’ Aboriginal employment strategy. Santos also achieved its greenhouse emissions intensity target of a 20% reduction for the period 2002–08.

The 2009 improvement targets were determined via a series of employee workshops and have been presented to the Committee for endorsement.

Santos is committed to continually improving its framework for managing sustainability. To achieve this Santos will annually review the framework against relevant international sustainability guidelines.

The sustainability scorecard also has been integrated into Santos’ development projects. The GLNG project team has applied the 24 sustainability indicators to the project environmental assessment and concept selection, using the indicator criteria to provide guidance on company performance standards and assist in the evaluation process.

**Independent verification**

Santos commissioned Net Balance to conduct the verification of the 2008 Sustainability Report and scorecard.

**The challenge ahead**

Santos views sustainability not as an absolute but as a spectrum of progress that requires considerable focus to maintain performance. This is particularly challenging for an industry such as oil and gas, which operates complex equipment across a wide variety of environments and cultures.

Maintaining this progress and taking the next step towards becoming a recognised leader will be a great challenge, requiring a determined effort over a sustained period.

Santos is committed to meeting the challenge.

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**INDEPENDENT VERIFICATION STATEMENT**

To the Board of Directors, Management and Stakeholders of Santos Limited:

Santos Limited (Santos) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent verification of the information presented within the Santos Sustainability Report 2008 (the ‘report’). The report presents Santos’ sustainability performance over the period 1st January 2008 to 31st December 2008. Santos was responsible for the preparation of the report and the verification statement represents Net Balance’s independent opinion on the reliability of information presented within the report.

The objective of the verification process is to provide Santos and its stakeholders with an independent opinion on the accuracy of the information presented within the report. Net Balance verification team is led by a Lead Sustainability Assurance Practitioner (Lead CSAP) accredited by the Independent Register of Certified Auditors (IRCA UK).

Based on the scope of the verification process, it is Net Balance’s opinion that the information presented within the report is fair and accurate and that the report is a reliable account of Santos’ sustainability performance during the reporting period.

For additional information on the verification process, limitations, our opinion and recommendations, please refer to the full independent verification statement which can be found at www.santos.com/sustainability2008.

On behalf of the verification team
25th February 2008
Melbourne, Australia

Terence Jeyaretnam
Director, Net Balance & Lead CSAP (IRCA UK)
STAKEHOLDER ENGAGEMENT

SantoS’ SuStaInabIlIty management framework

INTEGRATED ACROSS THE BUSINESS

Below left: Milton Cooper, Manager Vietnam, (left) with representatives from Premier Oil at the opening of a bridge in the Mekong Delta built as part of a community program in the Block 12 joint venture, in which Santos is a participant.

STANDARDS AND GUIDELINES

Sustainability procedures
Sustainability scorecard
Sustainability reporting

24 Sustainability indicator custodians implement:

- Policies
- Strategy
- Plans
- Measurement
Economic

KEY RISK AREAS
RISK MANAGEMENT
MAINTAINING STRONG FINANCIAL PERFORMANCE
OPPORTUNITIES
LNG DEVELOPMENT
CLEAN ENERGY

Marie Jenner, Share Registrar; Andrew Nairn, Group Executive Investor Relations; and Matt Clarke, Financial Risk Adviser; discussing Santos’ off-market share buy-back conducted in 2008.
Exploration

What is exploration?
Santos’ geoscientists apply sophisticated mapping techniques to search for oil and gas thousands of metres below the earth’s surface.

Seismic surveying technology is deployed both onshore and offshore to assist in understanding subsurface geology. This survey technique measures sound waves that propagate from a surface source and reflect from layers of crustal rock below.

Using maps constructed from seismic data, Santos identifies the best location to drill exploratory wells. Unfortunately, not all wells locate commercial quantities of hydrocarbons, and water and other gases such as CO₂ are also encountered.

To minimise the impact of seismic surveys and drilling on the environment, Santos employs stringent practices such as:

• using newer compact drill rigs that disturb smaller areas of land
• conducting environmental and social impact assessments
• employing cultural heritage officers to ensure Santos avoids impact to areas of cultural significance
• routing seismic surveys around significant vegetation and whale migration pathways
• conducting spill modelling studies and training to prevent spills and mitigate any impact should a spill occur.

Santos undertakes exploration across a combination of new acreage, acquisitions and its existing portfolio of exploration permits. By doing this, Santos maintains a balanced exploration portfolio.

Key to a sustainable future
Santos is mindful that its growth into new areas requires its employees to be well prepared for different cultures, customs, values and expectations. The company is sensitive to how its conduct affects local communities.

Exploration activities in 2008
Santos’ exploration in 2008 has maintained its focus on Asian growth, with surveys well underway in frontier regions offshore in Vietnam, Indonesia, India, Bangladesh and in Kyrgyzstan.

Santos was awarded two offshore exploration blocks by the Indian Government in February 2007 under the competitive New Exploration Licensing Policy (Round NELP VI), ahead of a number of world-class energy companies. The blocks are in the north of the Bay of Bengal, about 175 kilometres off the Indian coast.

Between December 2007 and March 2008 Santos acquired data from the biggest 2D seismic survey ever undertaken in India, and the biggest ever acquired by Santos (17,250 km²). Follow-up 3D seismic surveys began in December 2008 to further define drilling targets for coming years. Exploration in this area is targeting gas for the rapidly growing Asian domestic market. Gas from areas such as this will reduce India’s dependence on coal for electricity generation as well as provide a clean energy source for economic growth.

Santos also has a non-operated interest in the offshore Sangu field in Bangladesh, which it purchased in October 2007. This field provides gas to industry in the Chittagong area, an emerging industrial area providing significant local employment opportunities. Further exploration is underway to ensure a continuing gas supply.

In Kyrgyzstan, Santos is undertaking a four-year phased work program over a series of licences. Data from seismic surveys have been used to identify potential areas for drilling, which began in 2008.

In 2008, Santos drilled 13 exploration wells, data from which will be used to plan further exploration and development in 2009. The latest data on Santos’ drilling activities are available online at www.santos.com.

Santos’ first entry into New South Wales, Australia, has come with the acquisition of exploration acreage in the Gunnedah Basin. The company is undertaking an exploration program for coal seam gas in the districts of Gunnedah, Coonabarabran, Scone, Quirindi and Boggabri.

Communities in the agriculturally rich area have been consulted extensively about Santos’ planned operations. Santos will continue to keep members of the public fully informed of its activities and answer their concerns.

Every effort has been made to minimise disruption to surface activity; for example, conducting seismic surveys along roadways instead of farmland wherever possible.

Information on Santos’ contributions to local communities and consultation programs are on pages 31–35.
Delivering our base business and realising growth

Building the Santos business
Santos has a robust business strategy: to continue to deliver its base business in Australia and Asia while pursuing growth through its LNG projects and focused opportunities in Asia.

In its Australian base business, Santos has oil and gas production assets in South Australia, Queensland, Western Australia, the Northern Territory and Victoria. In Asia, Santos’ Indonesian operations account for 10% of the company’s overall production.

The GLNG project will be the world’s first major coal seam gas to LNG project, and complements Santos’ existing Darwin LNG project and its developing Papua New Guinea LNG project. In Asia, Santos is pursuing further opportunities in Indonesia, Vietnam, and the Bay of Bengal.

Development and operations
Once Santos’ exploration team has discovered oil or gas in sufficient quantities, the development team determines the best way to develop the resource. This involves appraisal by engineering teams and designing development options such as offshore platforms, onshore processing plants, pipelines and support facilities.

Early consultation with stakeholders – including communities and government – and careful management of environmental impacts are crucial to smooth and efficient project development. By using this approach, Santos ensures it is welcome in the community in the future.

The operations team is then responsible for producing and processing Santos’ petroleum resources to deliver to customers. Oil and gas are extracted by wells and piped to large processing plants, such as Moomba in the Cooper Basin, or smaller satellite processing plants. From there, products are sent on for delivery to customers in Australia and overseas to be used for commercial, industrial or domestic purposes (see product efficiency figure on page 37).

Natural gas projects such as GLNG will be vital in helping the world move to a substantially less carbon-intensive future.

Gas-fired electricity generation produces less than half the greenhouse gas emissions of coal-fired generation, and uses a minute fraction of the water that coal-fired electricity requires.

Every million tonnes of LNG that replaces coal-fired power generation is equal to taking more than 500,000 cars off the road.

For every tonne of CO₂ emitted in LNG production in Australia, 4 tonnes of emissions from the coal alternative could be avoided in Japan. Between 5.5 and 9.5 tonnes can be avoided in China.*

*APPEA Submission to the Carbon Pollution Reduction Scheme Green Paper.

GLNG: A world-first project
As the world’s first major coal seam gas to LNG project, GLNG will be a significant step in moving towards a cleaner energy future.

The project will involve piping coal seam gas from the Surat and Bowen Basins in eastern Queensland to a liquefaction facility on Curtis Island where it will be converted into LNG for sale to overseas markets.

GLNG took an important step forward in 2008 when Santos, which holds a 60% operating interest in the project, teamed with Malaysian oil and gas company PETRONAS (40%), the world’s third-largest LNG producer.

GLNG will generate more than 3,000 jobs during construction, with over 200 full-time jobs thereafter in Gladstone, Fairview and Roma plus numerous drilling and subsurface specialists. The project will generate billions of dollars in economic returns to Queensland, and contribute extensively to regional communities through the purchase of goods and services, community support activities, and taxes and royalties.

Santos aims to build this project in partnership with the community, meaning early and clear communication is vital to its success. Santos has already consulted extensively through information sessions in Roma, Wallumbilla, the Arcadia Valley, Injune, Springsure, Rolleston, Taroom, Biloela, Gladstone and Curtis Island. The company has also set up information offices in Gladstone and Roma.

As part of its extensive stakeholder engagement, Santos will soon present the Queensland Government with an Environmental Impact Statement discussing the environmental, social and economic credentials of GLNG. The statement includes scientific studies of land use and infrastructure, flora and fauna, water, air, emissions, waste generation, and cultural heritage.

Above: Chris Bant, Wallumbilla gas operations, eastern Queensland.
Move to cleaner power generation

Santos’ commitment to moving Australia towards a cleaner energy future is reflected in the company’s proposal to build a gas-fired power station near Orford in western Victoria.

The Shaw River Power Station will use proven technology to supply energy to Victoria and South Australia while emitting up to 70% less carbon, and using less than 1% of the water per megawatt hour, than a traditional coal-fired station.

The first round of community consultations occurred in September 2008, with 270 people attending information sessions in 10 locations. While most of the feedback from the surrounding community was positive, there were concerns from local residents, particularly those in the Macarthur and Orford regions, about the potential impact of the proposal on noise and air emissions.

These concerns will be addressed during the planning phase and management strategies to minimise the impact will be documented in the Environmental Effects Statement.

Focus on reliability

Santos strives to maintain the reliability of product supply to its customers while being a consistently safe, responsible and efficient operator.

In 2008, a reliability and maintenance management system was introduced as a new company policy to improve the reliability of plants and equipment and reduce operating costs.

Maintenance will be managed more thoroughly under the new system to reduce unplanned maintenance. This will make the operation of plants and equipment more predictable through planned maintenance and less disruptive emergency work.

As well as making resource management more effective, the evolving three-year initiative will enhance safety and increase output.

Pursuing growth in Asia

A key facet of the Santos strategy is to pursue growth in the company’s Asian operations. Santos has spent several years gaining significant resources, with a portfolio that includes a range of existing operations, expansion opportunities and exploration acreage.

The core region of Indonesia has been established as an area of solid output that still provides scope for expansion. The East Java Basin, which includes the Maleo gas field and Oyong oil and gas field, has been a strong producer. Oyong gas reserves are currently being developed, and there is development planning in progress for the nearby Wortel Field, which has the potential to tie back to Oyong.

Offshore southern Vietnam, appraisal drilling has shown the commercial potential of resources in the Chim Sao field. Oil discoveries were made at Chim Sao and Dua, in the Nam Con Son Basin.

With its acreage and asset position, strong relationship base, solid track record and reputation, Santos is in an excellent position to benefit from future Asian growth.

While pursuing opportunities in its Asian operations, Santos has also made significant contributions to communities. See pages 33–35 for more details.

PERFORMANCE HIGHLIGHTS

In 2008, Santos’ strategy was implemented well with strong production from existing projects and solid progress in new ventures.

• Santos grew its proved and probable oil and gas reserves by 134 million barrels of oil equivalent, taking the total past the 1 billion barrel mark.

• The GLNG project took big steps forward with the sale of a 40% stake in the project to Malaysian oil and gas company PETRONAS, the world’s third-largest LNG producer. GLNG also moved into the front-end engineering and design for the LNG liquefaction plant and associated infrastructure on Curtis Island.

• The PNG LNG project entered the front-end engineering and design phase after the signing of agreements between the PNG Government and the project’s joint venture participants. The project is the largest ever investment in PNG and will double the country’s GDP.

• In the Oyong field, Indonesia, engineering and construction are underway in the development of gas reserves. First gas production is expected in the third quarter of 2009. Oyong was discovered in 2001 and has been producing oil since September 2007.

• Production in the Cooper Basin oil project was up 19% from 2007.

• Substantial engineering and geoscience work undertaken in 2008 highlighted significant Cooper Basin growth potential, and resulted in the booking of 4.2 trillion cubic feet of contingent resources.

• The Reindeer gas project will continue to be developed to supply natural gas to CITIC Pacific’s Sino Iron project.
Financial performance

Santos Sustainability Report 2008

FOCUS AREA

Delivering the base business and executing our LNG and Asian growth strategies.

2009 TARGET

Production guidance of between 53 and 56 mmboe.

SUMMARY OF SOCIOECONOMIC CONTRIBUTION

<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees (full time equivalent)</td>
<td>1,918</td>
<td>1,774</td>
<td>1,679</td>
<td>1,521</td>
<td>1,526</td>
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<tr>
<td>Number of shareholders</td>
<td>78,933</td>
<td>77,498</td>
<td>83,566</td>
<td>78,157</td>
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<td>Wages and salaries ($million)</td>
<td>282.4</td>
<td>253.0</td>
<td>230.7</td>
<td>216.6</td>
<td>214.0</td>
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<td>Materials, goods and services ($million)</td>
<td>1,426</td>
<td>947.4</td>
<td>754.2</td>
<td>544.7</td>
<td>433.8</td>
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<tr>
<td>Royalties and taxes ($million)</td>
<td>545.6</td>
<td>534.6</td>
<td>427.5</td>
<td>209.3</td>
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<td>Sponsorship ($million)</td>
<td>7.5</td>
<td>3.8</td>
<td>3.8</td>
<td>3.5</td>
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</table>

SUMMARY OF FINANCIAL PERFORMANCE

As at 31 December

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Santos average realised oil price (A$/bbl)</td>
<td>117.45</td>
<td>92.10</td>
<td>89.35</td>
<td>73.83</td>
<td>51.83</td>
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<tr>
<td>Financial performance ($million)</td>
<td></td>
<td></td>
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<tr>
<td>Product sales revenue¹</td>
<td>2,761.8</td>
<td>2,488.5</td>
<td>2,750.3</td>
<td>2,462.8</td>
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<tr>
<td>Net profit after income tax</td>
<td>1,650.1</td>
<td>359.3</td>
<td>643.4</td>
<td>762.1</td>
<td>354.7</td>
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<tr>
<td>Financial position ($million)</td>
<td></td>
<td></td>
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<tr>
<td>Market capitalisation</td>
<td>8,696</td>
<td>8,274</td>
<td>5,907</td>
<td>7,280</td>
<td>4,965</td>
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<td>Total assets</td>
<td>9,801.9</td>
<td>7,320.2</td>
<td>6,902.9</td>
<td>6,191.3</td>
<td>4,836.6</td>
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<tr>
<td>Total equity (shareholder funds)</td>
<td>4,478.3</td>
<td>3,093.1</td>
<td>3,355.5</td>
<td>2,964.0</td>
<td>2,357.8</td>
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<tr>
<td>Reserves and production (mmboe)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Proven plus probable reserves (2P)</td>
<td>1,013</td>
<td>879</td>
<td>819</td>
<td>774</td>
<td>643</td>
</tr>
<tr>
<td>Production</td>
<td>54.4</td>
<td>59.1</td>
<td>61.0</td>
<td>56.0</td>
<td>47.1</td>
</tr>
<tr>
<td>Exploration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wells drilled (number)</td>
<td>13</td>
<td>10</td>
<td>25</td>
<td>22</td>
<td>16</td>
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<tr>
<td>Expenditure ($million)</td>
<td>233.1</td>
<td>149.8</td>
<td>258.5</td>
<td>187.0</td>
<td>125.6</td>
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<td>Other capital expenditure ($million)</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Delineation and development</td>
<td>1,290.3</td>
<td>954.6</td>
<td>865.5</td>
<td>666.1</td>
<td>672.7</td>
</tr>
<tr>
<td>Buildings, plant and equipment</td>
<td>105.1</td>
<td>202.2</td>
<td>182.1</td>
<td>106.0</td>
<td>131.1</td>
</tr>
</tbody>
</table>

¹ Full year 2006 sales revenue has been restated to exclude $18.8 million gain on embedded derivatives in sales contracts due to a change in statutory accounting disclosures.

Financial performance

Santos’ strong strategic and financial position allowed the company to perform well in a year of unprecedented economic volatility.

The company’s base businesses in Australia and Indonesia were solid, enabling the continued development of LNG growth projects, a strong balance sheet, and an increase in the final dividend to shareholders.

Record net profit after tax of $1.7 billion included a $1.2 billion after-tax profit from the sale of a 40% stake in the GLNG project to Malaysian oil and gas company PETRONAS. Underlying net profit rose 42% to $572 million after tax.

Sales revenue was up 11% to a record $2.8 billion. Higher commodity prices were seen across the Santos portfolio, with average realised Australian dollar oil, condensate and natural gas prices increasing by 28%, 20% and 12% respectively. A weaker Australian dollar increased revenue by $64 million compared to 2007.

Santos shares significantly outperformed the Australian market in 2008, rising by 5% while other stocks dropped an average of 40%.

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

Shareholder dividends were declared at 42 cents per share, up 5% from 2007.
Seeking local suppliers

One of the tangible benefits Santos can bring to a community is cash flow to local businesses by enlisting them as suppliers.

Santos’ local industry participation policy was revised in 2008 to bolster the company’s commitment to using local businesses where possible.

To that end, in 2008 Santos enlisted more local suppliers to its operations in Queensland. This is likely to continue as Santos increases its operations in Queensland to prepare for the GLNG project.

Strong supplier base

The company continues to manage a strong and stable supplier base. Building on its progress in 2007, Santos has procurement and logistics systems securely in place and working effectively.

In 2008, Santos launched a supplier management framework to ensure this supplier base continues to be effectively managed and maintained.

Sustainable procurement

Santos has undertaken a research project into sustainable procurement and has established a framework that will be used to integrate additional sustainable metrics into procurement practices.

Pre-qualification benchmarks for sustainability indicators will be used to expand Santos’ sustainable procurement assessment process. This will further enhance the company’s ability to source from the most appropriate areas.

The company continues to monitor its performance and investigate ways to improve the sustainability of its supply chain. For example, road freight services have been made more efficient by improving the scheduling, which has reduced greenhouse emissions and costs associated with fuel use.

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing in local suppliers.</td>
<td>Increase use of local suppliers.</td>
</tr>
</tbody>
</table>

Process reviews and updates

A range of tools, standards, processes and policies were reviewed and upgraded in 2008 to provide guidance to the management of all aspects of the Santos supply chain.

For example, a management tool to improve environment, health and safety performance was developed in 2008. A review of the supply chain aspects of the Santos Quality Asset Development tool was also undertaken and as a result of this work contracting and procurement practices have been improved.

Santos has also developed e-learning and competency based training programs to improve contractor and supplier management.

Continuous improvement

An online feedback portal enables all employees to contribute to improving the supply chain and therefore improving Santos’ approach to sustainable procurement. In 2008, 260 opportunities for improvement were received, assessed and actioned.

The Santos competency framework for roles within the supply chain provides a mechanism by which employees can assess their performance. The gap analysis of this assessment converts into an individual development plan (see page 23).
Risk management

A structured risk management approach

For Santos to achieve its sustainability objectives, it needs to understand, assess and effectively manage the risks that may prevent these objectives from being met.

Like many organisations, Santos is exposed to a wide variety of risks. These include environment, health, safety, fraud, security, operability, selection of suppliers, joint venture partners, finance, project execution, commercial, investment and divestment.

Santos manages these risks through its Enterprise-Wide Risk Framework. This framework is consistent with the AS/NZ 4360 Risk Management Standard and is reflected in the company’s Risk Management Policy.

A structured process of identifying and assessing risks is the cornerstone of Santos’ risk management practice. This qualitative approach to understanding risk supplements numerous other unique and often quantitative processes including modelling subsurface risk and uncertainty, calculating total cost of insurable risk, and the risking of economic cash flow models.

A consistent approach to risk management and reporting is required for all Santos procedures. Risk classification is based on a standard matrix of likelihood versus impact. Business risk is assessed and managed to include all events or factors that could have a material impact on Santos.

The Santos Leadership Team is challenged to identify business risks and cover all areas likely to have a material impact on the company.

Risk mitigation

Santos completes a comprehensive risk review each year to determine management options to avoid or reduce identified risks.

Insurance programs are also in place to limit the impact of any risk should it occur. Insurance strategies are tailored to each year’s requirements.

Assurance framework

Santos has also introduced an assurance framework that aims to understand and enhance the means by which management and the Board obtain reasonable assurance that risks are being managed and management system objectives are being met.

The monitoring of action plans is one component of this framework that also includes the company’s internal audit function, independent external audits and various methods of management assurance.

Completing the risk management framework is a comprehensive process of looking back and learning from past successes and failures. This activity is embedded in numerous processes across the company, including project management, drilling, business development and the Environment, Health and Safety Management System.

Continuous review

Risk management focus areas are:

- monitoring and reporting processes to the Board
- continuing to educate employees
- ensuring projects requiring formal risk management review are covered
- annually reviewing risks critical to Santos’ strategic goals
- covering commitments to shareholders, employees, customers, suppliers and communities
- managing all risks, from business-wide risks to detailed project-specific risks
- ensuring risk management is part of the governance framework.

FOCUS AREA

Increasing emphasis on risk management reporting.

2009 TARGET

Increased use of risk framework across the business.

RISK RESPONSIBILITY MATRIX

<table>
<thead>
<tr>
<th>Risk rating</th>
<th>Required action</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Vice President and CEO to be notified immediately. Immediate action required to reduce risk to a rating of 4 or suspension of activity unless specific authorisation for continued tolerance received.</td>
</tr>
<tr>
<td>4</td>
<td>Manager responsibility must be allocated.</td>
</tr>
<tr>
<td>3</td>
<td>Manager responsibility must be allocated.</td>
</tr>
<tr>
<td>2</td>
<td>Superintendent/Team Leader responsibility must be allocated. Manage by specific monitoring of controls.</td>
</tr>
<tr>
<td>1</td>
<td>Manage by routine procedures and regular monitoring. Record in risk register.</td>
</tr>
</tbody>
</table>

Vikrant Mulgund, Project Engineer, and David Emslie, Project Manager GLNG Plant.
Security

Increased profile
Security was included as one of the 24 sustainability indicators used to measure overall company performance. This addition improves the company’s ability to accurately assess the implementation and management of security measures.

As one of the first organisations to incorporate security as a lead sustainability indicator, Santos is well placed to continue to enhance its management of security and its resilience within the community.

Diverse measures ensure resilience
The company is exposed to a diverse and varied range of risks and threats. Each identified risk requires unique mitigation measures.

As Santos looks to deliver on growth opportunities developed over the past few years, ensuring new risks and threats are identified and controlled is imperative to future stability.

The main focus for Santos is the development, establishment and maintenance of systems, processes and procedures that will strengthen the resilience of the company.

Region-specific risks and mitigation measures include the pandemic preparedness program. Santos has an extensive response program to manage the effect of the outbreak of a virulent disease.

Using local knowledge
Developing appropriate security measures in new areas can be a difficult task.

To enhance its understanding of new areas Santos liaises with local communities and security specialists when developing and implementing plans for new operations sites.

Kyrgyzstan security adviser
In 2008, Santos established a security adviser position to support its operations in Kyrgyzstan.

FOCUS AREA
Systems and procedures that ensure Santos’ resilience.

2009 TARGET
Integration of security procedures into all business areas.

This is the first time such an appointment has been made directly to support activities in pre-operations phases. It highlights the importance of identifying and managing specific risks in the early stages of a project.

Keeping track of travellers
In 2008, Santos introduced the Santos Travel Assistance Program. This system provides a single point of contact for travel safety and security information and guidance for the organisation.

The travel assistance program provides the ability to track staff on international business travel and enables an effective method of communication in the event of an incident. Santos can quickly and effectively locate and communicate with its employees anywhere in the world.

This system played a key role in the company’s response to the Bangkok airport shutdown and the terrorist attacks in Mumbai in November 2008.

Incorporating security into existing processes
A review and upgrade of the Santos Quality Asset Development system began in 2008, with the wider incorporation of security throughout this process.

As a result, current and future projects will have a clearer definition of security considerations for each phase of the process. This work will be enhanced in 2009 as security related documents and policies are revised and implemented.
Our people

Nick Harley, Graduate Engineer, is South Australia Chapter President of Engineers Without Borders Australia, which works with disadvantaged communities to improve their quality of life through education and sustainable engineering projects.
Safety

Poor performance will not be accepted

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

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

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

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

The injury rate for the year was 5.8 total recordable case frequency rate (TRCFR), a statistical representation of injury rates. This rate of 5.8 was higher than the 2008 target of less than 4.8.

Working with contractors

There has been an unacceptable rate of injury to contractors and Santos continues to work closely with companies to improve their performance. In 2008, the company developed a comprehensive training program for its contract managers. This program will help to train Santos’ personnel to effectively manage contractors.

Safety the focus

There is a very strong emphasis on safety from all areas of the business, under which are more specific focus areas that remain at the forefront of safety at Santos.

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

FOCUS AREA | 2009 TARGET
---|---
Personal and process safety. | Improve TRCFR by 17%.
| No high impact process safety incidents.

ONLINE INDUCTION PROGRAM SUCCESS

More than 10,000 contractors have used Santos’ online environment, health and safety induction program since its inception two years ago. The internet-based system gives contractors based anywhere in the world the opportunity to learn about Santos’ environment, health and safety requirements before starting work.

Contractors based in the United States, Canada and Scotland have used the system to understand their work environment before arriving on site. Users have lauded the program as simple, clear, and effective.

TOTAL RECORDABLE CASE FREQUENCY RATE

Recordable injuries per million hours worked

![Graph showing total recordable case frequency rate (TRCFR) from 2004 to 2008. The graph compares contractor, combined, and employee data.]
Prevention the key
Process safety management has been integrated into Santos’ environment, health and safety management system to prevent major hazards or events that could lead to fatalities, serious injury, significant property damage or environmental harm.

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

Improving reporting
Reporting is critical to understanding how Santos is performing.

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

In 2008, there were 11 high potential incidents. Reviewing incidents, identifying the cause and implementing appropriate action will help Santos prevent future incidents and the possibility of serious injury.

Santos Directors’ EHS Awards
These annual awards recognise outstanding achievements and innovation by Santos’ employees and the company’s contractors.

In 2008, the importance of the awards was given even more prominence when they were presented by the Directors at a breakfast ceremony held in the Adelaide parklands. All employees were invited to the October event, with 350 attending.

Awards were given for the best safety performance within Santos, best safety performance by a contractor, best safety project or innovation, and best environmental project or innovation. High commendations were given to other high performers.

In total, 19 entries were submitted to the four categories. There were five winners – the best safety performance by a contractor was awarded jointly.

Best safety performance within Santos was awarded to Petroleum Engineering for its low injury rate. This was achieved over an 18-month period by increasing the experience and knowledge of work teams and leaders in the field, and working closely with contractors to ensure they maintain Santos’ safety standards.

Best safety performance by a contractor went to Baker Atlas and O&G Solutions. In 2007, Baker Atlas achieved 650,000 work hours without a recordable injury. O&G Solutions had a very low injury rate in 2007, achieved through good safety systems, reinforcing safety messages, and 2,184 workplace inspections.

Santos’ Indonesian operations received the best environmental project award for its huge feat of planting 55,000 mangrove seedlings along the coast of Madura Island. This project was part of a broader community development program implemented by the company’s Indonesian operations in recent years. See pages 32–33 for more information.

The Onshore Drilling and Petroleum Engineering team won the best health and safety project or innovation award for its permit-to-work system. The system provides greater planning control over wellsite activities and ensures work is carried out safely at all times.
Health and wellbeing

Improving health and wellbeing

Santos recognises the importance of focusing on the general health and wellbeing of its staff.

There are significant two-way benefits in having healthy, happy and physically fit employees. Employees benefit from having a good quality of life and reduced risk of serious illness and disease, while the company benefits from increased productivity, reduced absenteeism, and attracting and retaining employees.

Santos again provided employees with a comprehensive Health and Wellbeing Program in 2008. The program started in 2006 and has now conducted health expos at all Santos sites. A number of health practitioners talked to staff on various topics such as healthy eating, blood pressure checks, diabetes, and skin cancer. Attendance at expos was consistently high, with over one thousand people attending.

Voluntary individual health checks began in 2006 and have been offered every year. The checks highlighted a high number of staff with health issues such as obesity, high blood pressure, high cholesterol, high blood glucose (an indicator of diabetes) and poor diet.

The program is designed to educate and motivate staff to improve their health in these areas. Reducing fatigue and improving sleep was also included. Addressing these potential problems can reduce a person’s risk of serious illnesses such as heart disease, cancer, stroke, diabetes and arthritis.

Results of the health check program indicate a good level of improvement on key measures by individuals who had a check three years ago.

A fatigue management project was a major focus in 2008 and an extensive study was undertaken to examine fatigue issues in the workplace and whether current strategies are adequate. The study indicated that Santos is managing fatigue appropriately and identified some areas for improvement.

Santos provides easily accessible instruction, equipment and facilities for all employees. Gym participation increased in 2008, with 40% of employees now active gym users.

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

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

The key to engaging staff has been to offer a variety of programs. Over the past three years core activities have included health expos, health checks, seminars and activities.

Seminars have featured information on healthy breakfasts, family health, men’s and women’s health, healthy snacks, relaxation, improving sleep, and healthy barbecues.

Activities have included a walking competition, fun runs/walks, a ‘biggest loser’ competition, Ride or Walk to Work Day, Movember (supporting prostate cancer and male depression), and a Pink Ribbon Day breakfast (supporting breast cancer research).

A rewards card was introduced in 2008 to encourage sustained participation in the program. Similar to a frequent flyer program, staff members get points for participating and receive rewards.

Weight reduction programs delivered great individual success stories – Alison Sargent lost 17kg, Matt Jones 25kg, Dave Crimmins 38kg, and Michael McNamara 70kg.

Drug and alcohol testing began in 2007 and continued in 2008. There was a low failure rate in 2007 and this has decreased further in 2008.

The Employee Assistance Program continued to assist employees with counselling on a range of issues.

HEALTH AND WELLBEING PROGRAMS 2008

<table>
<thead>
<tr>
<th>Number of employees in attendance</th>
<th>Health expo</th>
<th>Health checks</th>
<th>Time to relax</th>
<th>Happiness</th>
<th>Family health</th>
<th>Core strength and flexibility</th>
<th>Moomba pipeline walk</th>
<th>City–Bay Fun Run</th>
<th>Healthy BBQ</th>
<th>Movember</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Health expo</td>
<td>Health checks</td>
<td>Time to relax</td>
<td>Happiness</td>
<td>Family health</td>
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<td>City–Bay Fun Run</td>
<td>Healthy BBQ</td>
<td>Movember</td>
</tr>
<tr>
<td>0</td>
<td>Health expo</td>
<td>Health checks</td>
<td>Time to relax</td>
<td>Happiness</td>
<td>Family health</td>
<td>Core strength and flexibility</td>
<td>Moomba pipeline walk</td>
<td>City–Bay Fun Run</td>
<td>Healthy BBQ</td>
<td>Movember</td>
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<td>Health expo</td>
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<td>Moomba pipeline walk</td>
<td>City–Bay Fun Run</td>
<td>Healthy BBQ</td>
<td>Movember</td>
</tr>
</tbody>
</table>

HEALTH CHECK RESULTS 2006–08

<table>
<thead>
<tr>
<th>Positive results %</th>
<th>Body mass index</th>
<th>Waist girth</th>
<th>Blood pressure</th>
<th>Cholesterol</th>
<th>Glucose</th>
<th>Diet</th>
<th>Flexibility</th>
<th>Abdominal strength</th>
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</thead>
<tbody>
<tr>
<td>0</td>
<td>No change</td>
<td>Improved</td>
<td>No change</td>
<td>Improved</td>
<td>No change</td>
<td>Improved</td>
<td>No change</td>
<td>Improved</td>
</tr>
</tbody>
</table>

Note: As people age they tend to increase weight and health risks, so even no change (status quo) is considered a positive result.
Workforce capability

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

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

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

The framework was developed two years ago, based on globally researched capabilities relevant to the oil and gas industry and the organisational behaviours and values required for success at Santos. It has since formed the basis of further competencies developed for specific disciplines, which incorporate definitions of desired levels of proficiency.

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

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

Future leaders identified
Leadership continued to be an important focus in 2008. Santos added new programs to its structured leadership program, called the Santos Way of Managing and Leading.

The program includes courses that help develop the necessary skills required at successive stages of leadership.

With an integrated approach to leadership development, Santos can ensure learning is consistent and content is relevant to both business needs and the Santos values.

Starting with an established process to identify and develop people with leadership potential early in their career, the company then provides the training and resources for potential leaders to plan and implement appropriate development activities and experiences. The benefit of these planned development experiences is enhanced with regular feedback and coaching from the manager.

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

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

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

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

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

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

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

Comparisons with the 2006 results show improvement across almost all areas of the survey.

Among the biggest improvers were those identified for particular focus after the 2006 survey – personal development and change management. Santos will continue its focus on these areas over the next two years, to further consolidate and extend their improvement.

Effective management of change
The Santos Change Management Framework was launched in 2008 in response to the need to improve the company’s ability to manage change effectively. The framework is complemented with comprehensive resources to guide change planning and implementation.

Already, several project teams have used the framework to implement important change initiatives. The framework is accessible to all employees via the intranet.

Ethical conduct
An updated Code of Conduct employee handbook was released across Santos in 2008. All employees in Australia and Indonesia attended education sessions with their leaders and completed online training to ensure the company’s standards of ethical conduct were understood.

Contractors were also advised of the code, its importance and its application.

Face-to-face CEO updates
CEO David Knox and the Santos Leadership Team conducted communication sessions across Australia and in Indonesia, focusing on company strategy and ‘must win’ objectives.

The sessions emphasised the importance of working safely and making Santos a great place to work, while driving the achievement of the company’s performance objectives.

Flexible working arrangements
While Santos has provided flexible approaches to work for several years, 2008 saw these practices and policies compiled and presented on an intranet-based work/life balance site.

The work/life balance site contains a range of policies, guidelines and resources to help employees develop flexible work plans that meet the needs of both the individual and the company.

New arrangements introduced in 2008 include the ability for employees to purchase additional annual leave and the increase of paid maternity leave to 16 weeks.
Santos’ remuneration and benefits policies and practices play an important role in the sustainable management of its human capital. They aim to strike a balance between Santos’ ability to compete for talent in the oil and gas sector, and its ability to manage costs, of which human capital is a major component.

**Governance**

The Remuneration Committee of the Board sets the company’s remuneration policy objectives and oversees the major programs aimed at achieving those objectives. Santos’ remuneration policies aim to:

- help Santos to prudently secure and retain the services of professionals able to contribute to the company’s success
- encourage employees to strive for superior performance by rewarding achievement of targets that are challenging yet fair
- with regard to senior executives, encourage creation of long-term shareholder value.

**Sustainable management of remuneration**

Santos applies the principles of differentiation and performance to prioritise its remuneration expenditure. This is underpinned by a performance management and development program which rates performance with regard to target achievement and alignment with Santos’ values. These performance ratings heavily influence the distribution of funds allocated by the Board for short-term incentives and pay rises.

The total amount paid in short-term incentives varies from year to year depending on company performance. Instead of relying purely on financial measures for this purpose, a range of performance metrics is used to drive balanced business performance. These metrics include indicators that assess the company’s current performance as well as indicators that ensure Santos is positioning itself for future growth.

**FOCUS AREA**

<table>
<thead>
<tr>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudent management of remuneration in a contracting economy.</td>
</tr>
</tbody>
</table>

**Sustainable management of benefits**

For non-award employees, Santos operates on the principle of total fixed remuneration, whereby the value of benefits is paid to the employee as cash, and outsourced salary packaging facilities are made available for that cash to be tax-effectively deployed as the employee wishes. Salary packaging is also available to employees covered by certified agreement. This approach provides employees with maximum flexibility and contains the company’s administrative overheads.

Santos’ superannuation arrangements are outsourced, and for roughly 80 percent of employees, contributions are paid into an accumulation fund. The remainder are members of a defined benefit plan, which was closed to new entrants in 2002. The company obtains professional actuarial advice to ensure the plan is adequately funded to meets its obligations.

**Share-based remuneration**

Santos considers linking the interests of its employees and shareholders to be important to the sustainable management of its human capital. The majority of employees have some equity in the company through share-based remuneration. For non-executive employees this is provided via an annual share grant and an annual opportunity to purchase company shares at a discount. The shares issued under both plans cannot be sold, transferred or otherwise dealt with until minimum periods have expired.

With the exception of the CEO, share-based remuneration provided to executives is either deferred for three years, or both deferred and subject to shareholder value-based performance hurdles. All share-based remuneration provided to the CEO is subject to performance hurdles measured over three years, therefore powerfully linking the interests of the company’s shareholders with that of its key executive.

**Certified agreements**

Two collective union agreements cover approximately 22% of employees. These are the Santos Ltd Cooper Basin Workplace Agreement and the Santos Petroleum Management Collective Workplace Agreement.

Both agreements set wages and conditions for employees in line with the nature of the work done to ensure appropriately skilled employees are sourced and retained. Conditions provided under the agreements exceed those in their underpinning Federal Enterprise Awards.

Further, employees covered by the Santos Petroleum Management Agreement participate in the same performance management and short-term incentive frameworks applying to non-award employees, and therefore have the opportunity to earn additional reward based on personal accountability for performance.

**VOLUNTARY EMPLOYEE TURNOVER %**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>0</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
</tbody>
</table>

Certified agreements

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Santos Sustainability Report 2008

Governance and policy

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivering strong governance systems.</td>
<td>Improve ability to measure effectiveness in achieving Management System Objectives.</td>
</tr>
</tbody>
</table>

SANTOS SYSTEMS AND POLICIES INCLUDE:

- Asset Development Policy
- Code of Conduct
- Environment, Health and Safety Management System
- How Santos Works
- Business conduct
- Anti-corruption
- Company resources
- Confidentiality
- Conflict of interest
- Financial governance
- Financial management and accounting
- Gifts and benefits
- Guidelines for dealing in securities
- Political affiliation
- Privacy
- Recruitment and selection
- Reporting misconduct
- Risk management
- Shareholder communication and market disclosure

Environment and social

- Community
- Environment
- Greenhouse
- Health and wellbeing
- Human rights
- Safety

Workplace and employment

- Conditions of employment
- Equal opportunity
- Internet and electronic communications
- Issue resolution
- Leave
- Performance management
- Remuneration and benefits
- Training and development

Policies

The Santos Board has established a set of corporate governance policies. The policies ensure the company and its officers meet the requirements of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange (ASX).

In the opinion of the Board, the policies comply with best practice, including the ASX Corporate Governance Principles and Recommendations.

Each year, the Board reviews and updates the company’s corporate governance policies, practices, and procedures in light of changes to law, Listing Rules and corporate best practices. Company policies are continually updated as required to ensure continuing compliance with legislation and best practice.

The corporate governance sections of Santos’ Annual Report 2008 and website www.santos.com contain further information relating to the company’s corporate governance policies and procedures.

Assuring good governance

Santos’ management and governance system, documented as How Santos Works, defines the company’s management system objectives that drive governance activities.

How Santos Works establishes the framework in which the company sets policies, manages risk, and provides assurance about its performance and corporate behaviour.

The system sets out how the company’s vision, values and strategy relate to the organisational structures and objectives that in turn drive business activities.

How Santos Works was created to ensure Santos’ operational systems and decision-making processes are capable of achieving the corporate strategy, while remaining faithful to the vision and values.

This year extensive work has been done to further develop the assurance component introduced in 2007. The assurance framework aims to foster understanding and enhance the means by which management and the Board obtain reasonable assurance that risks are being managed and management system objectives are being met.

How Santos Works was extended with the introduction of How GLNG Works. This sub-system defines and documents how the GLNG business works, and outlines the attributes of the GLNG business that will support the achievement of its strategic objectives. It aims to ensure the business will meet its obligations to its owners, employees, external stakeholders and the community in which it operates.

Compliance obligations

Santos has in place, and in 2008 significantly increased the scope and power of, a system for tracking its compliance obligations. The system comprises a database of obligations (such as permits, licences and legal instruments), and a mechanism to ensure, and keep records relating to, the company’s compliance with those obligations.

Project governance and asset development

Extensive work was done in 2008 to enhance the company’s project management governance methods. The Santos Quality Asset Development process establishes the critical link between the executives responsible for determining and guiding the strategic direction of an organisation and those responsible for executing and supporting those strategies.

Project governance provides transparency and steering of the project team’s activities to enable the accountable executive to make quality decisions to ensure business objectives are achieved.
In 2009, Santos adopted a new organisational structure which focuses on generating growth options and building functional excellence.

The new operating model is structured around three key elements – Corporate Core, Disciplines and Business Units – and managed by the Santos Leadership Team. It will enable Santos to drive business performance through Business Units and drive excellence through the Disciplines.

The new operating model strikes a balance between increasing business performance, clear accountability and preserving the strengths of the existing structure.

**The Santos Board**

The composition of the Board is determined in accordance with the company’s Constitution and the Board Guidelines. The names and details of the experience, qualifications, special responsibilities, and term of office of each Director of the company and the Company Secretary are set out in Santos’ Annual Report 2008.

To achieve the highest standards of corporate governance, the Board has established corporate governance policies and charters including:

- Board Guidelines
- Board Committee Charters
- Risk Management Policy
- Code of Conduct
- Guidelines for Dealing in Securities
- Continuous Disclosure Policy
- Shareholder Communications
- Market Disclosure Policy.
KEY RISK AREAS

PRODUCT RESPONSIBILITY AND REPUTATION

OPPORTUNITIES

INDONESIAN COMMUNITY DEVELOPMENT PROGRAM

TRANSPARENCY AND DISCLOSURE

ABORIGINAL ENGAGEMENT

Community

Anita Setyorini, Community Development Coordinator, with Mas Ar1, inspecting a section of 55,000 mangrove seedlings funded by Santos and planted along the Giligenting coast of Madura, East Java.
Managing by agreement

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

Where practical, Santos’ preference is to manage cultural heritage and native title by agreement with relevant parties. Santos has processes that are specially developed, implemented, and continually assessed, sustaining its performance in this area.

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

Aboriginal Engagement Policy

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

Increasing employment and training opportunities

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

The scheme is a cooperative approach between Santos and its contractors, who have indicated their enthusiasm for the strategy. Extra opportunities for Aboriginal people will be supported by the development of the Santos Contractor Aboriginal Training and Employment Scheme.

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

FOCUS AREA

Improving relationships with indigenous groups.

2009 TARGET

Implementation of systems to ensure meaningful engagement at all times.

Cultural Heritage Management Plans

Cultural Heritage Management Plans are negotiated with Aboriginal groups to define site identification procedures, ensure Aboriginal participation in the identification and protection of cultural heritage and specify impact mitigation measures.

In 2008, five plans were completed for review by the Queensland Government.

Boosting resources

A challenge in 2008 was to develop and maintain appropriate systems and structures to support Santos’ expanded land-based activity in Australia.

To accomplish this, resources were expanded with the appointment of additional office- and field-based cultural heritage personnel.

In addition, Santos continued to invest in the training and developing cultural heritage officers.

Improving clearance systems

The system for managing all cultural heritage clearances was improved to incorporate the specific requirements of each State and Territory government, and each indigenous group with which Santos has a cultural heritage agreement.

In all, 11 indigenous groups were involved in cultural heritage clearances in 2008.

BY THE NUMBERS

- The company is engaged in active agreement with 18 different Aboriginal groups, including in areas where there are no native title or land rights claims.
- Approximately 150 meetings were held with Aboriginal groups in 2008.
- Santos has contributed over $100,000 funding to Aboriginal communities outside any formal native title or cultural heritage agreements.
Transparency and disclosure

FOCUS AREA | 2009 TARGET
--- | ---
Assurance framework. | Maintenance of the existing performance level and integration with assurance framework.

QUALITY OF DISCLOSURE RECOGNISED

The quality of Santos’ transparency and disclosure was recognised in 2008 with a Gold Award at the 58th Australasian Reporting Awards. This award recognises the quality of information provided in Santos’ 2007 Annual Report and the level of disclosure about the company’s performance and outlook.

It was the third year in a row Santos has received this award.

Also, Santos’ website was judged in the top 10 of all ASX 200 companies in the Australian Investor Relations Association’s 2008 awards.

Committed to openness
Santos is committed to providing timely and equal access to information about the company and its activities. It has developed policies and procedures to ensure directors and employees fulfil their obligations in this regard. These policies were reviewed and updated in 2007.

Code of Conduct re-launched
As result of the 2007 review, Santos’ Code of Conduct was re-launched. The code elaborates on the company’s values, particularly the commitment to achieving the highest ethical standards in all dealings.

It also summarises company policies relating to good conduct and ethical business practice in areas such as anti-corruption, gifts and benefits, reporting misconduct, shareholder communication and market disclosure, and human rights.

The code is a guide for employees to the standards of behaviour expected in everyday work situations. Compliance with the code and related policies will help to ensure Santos meets its obligations to the community, shareholders, employees and partners.

The re-launch of the code included information sessions for employees and their leaders, the requirement that employees familiarise themselves with the contents of the code and the related policies, and a compulsory e-learning module.

Disclosure
Santos has policies clearly stating that company information must not be selectively disclosed. Directors and employees must notify a designated disclosure officer as soon as they become aware of information that should be considered for release to the market.

Company market announcements are released to both exchanges where company shares are listed: the ASX and NASDAQ.

The Vice President Corporate Development and Legal is responsible for communications with the exchanges. All material information disclosed to the exchanges is posted on the company website at www.santos.com. This includes news announcements, annual reports, sustainability reports, notices of meetings and material presented at investor briefings.

The website provides an email alert and an automated feed, for anyone wanting automatic notification of company announcements. Also available is the opportunity to make general enquiries and provide feedback.

Environmental statutory declaration of compliance
During the financial year no fines were imposed, no prosecutions were instituted and no official directions or notices were issued by the relevant regulatory bodies regarding non-compliance by Santos (further information is included in the Annual Report – Directors’ Statutory Report).

Internal Audit
The objective of the Santos Internal Audit is to provide independent and objective assurance to the Board of Directors and management regarding the effectiveness of Santos’ risk management and internal compliance and control systems. Santos Internal Audit is accountable to the Board of Directors, through the Chairman of the Audit Committee (see page 27).

Santos Internal Audit is required to report to management, the Board and the Audit Committee with respect to the adequacy of internal control systems. To maintain independence, Santos Internal Audit has no responsibility for operational business management. This ensures the integrity and objectivity of its reviews.
External stakeholder engagement

Breaking new ground

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

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

Stakeholder Engagement Plans are integral to ensuring projects proceed with the best results for all parties. It is vitally important that Santos gains the trust of the community and the government in its exploration, development and operation capacities.

Detailed requirements for stakeholder engagement were incorporated into the review of the Santos Quality Asset Development (SQAD) process during 2008. SQAD is a company-wide new project management framework underpinned by guiding principles for making decisions.

Established relationships continue

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

In eastern Queensland and the Cooper Basin, Santos’ landholder liaison employees have regular interaction with the landowners in the vicinity of Santos’ exploration and production activities, including a Pastoralists’ Update newsletter which details upcoming field activities.

In the Gippsland area of Victoria, Santos participates in a stakeholder engagement program relating to the Patricia-Baleen gas plant. The centrepiece of this program is the Community Advisory Committee which meets regularly to discuss relevant issues.

In 2008, the focus of these meetings was the Patricia-Baleen plant upgrade to process gas from Nexus Energy’s Longtom field.

Santos also continued its extensive stakeholder consultation and community development programs in Indonesia, which are discussed on pages 32–33.

Expanding profile in Queensland

Santos’ profile around Roma and Injune is growing rapidly as the company establishes coal seam gas production facilities in these areas to meet targets for the GLNG project.

Santos has operated in eastern Queensland for many years, but with a lower level of activity than is now required for GLNG.

The company is new to the Gladstone community, where the LNG plant will be located, and looks forward to building this relationship as the GLNG project moves forward.

Santos is working collaboratively with state and federal governments, local leaders and the community to identify and address issues that might impact local residents and the project. These include land access and infrastructure, water resources and transportation methods and routes.

In 2008, Santos held 25 information sessions across 11 locations and more than 140 project briefings with key stakeholders. More than 250 community enquiries were followed up.

The company also set up information shop fronts in Gladstone’s and Roma’s shopping districts as the beginning of an ongoing program.

First entry into NSW

An exploration program to search for coal seam gas in the Gunnedah Basin marks Santos’ first entry into New South Wales. Santos has up to 21,000 square kilometres of exploration acreage that takes in the communities of Gunnedah, Coonabarabran, Scone, Quirindi and Boggabri. Here, rich agricultural land supports an established rural community.

To ensure local people have been kept well informed of the work Santos is doing, Santos has conducted six community information sessions, personally consulted 77 landholders, and responded to 18 enquiries in 2008. This engagement will continue for the duration of Santos’ presence in the region.

Move into power generation

The proposed Shaw River Power Station will be a gas-fired plant situated near Orford in western Victoria. This project marks a new entry for Santos into both power generation and the Orford district.

The first round of community consultations occurred during September 2008, with 270 people attending public display sessions in 10 locations, as well as 124 who attended stakeholder information sessions in three locations. Santos has already responded to 93 enquiries.

The move into power generation reflects Santos’ recognition of the important role natural gas will play in Australia’s energy future.
Understanding impacts on social infrastructure

Social infrastructure refers to the built environment in areas in which Santos operates. This may include roads, energy and water infrastructure, hospitals, schools, housing, access to goods and services and other infrastructure that is required for a sustainable community.

Social impact studies assess the positive and negative impacts that Santos’ operations may have on this infrastructure and enable the company to put in place appropriate development plans to contribute positively to the communities in which it operates.

Consultation guides community investment

Santos consults with community members in areas where its work programs may affect them. This helps identify the impact of Santos’ activities on social infrastructure. For example, the purchase of local goods and services, and impacts on road use or resident amenity.

Social needs identified

In response to Santos’ increasing presence in Roma, Queensland, the company has commissioned a social needs study of the region. Santos will use this information to help guide future community investment in the Roma and Gladstone areas.

Elsewhere, Santos will use similar systematic programs to develop relationships in new regions. The primary regional focus will be on the Gunnedah Basin in New South Wales, Orford in western Victoria, and Gladstone in Queensland.

The effectiveness of Santos’ social investments in these new areas will be measured and reviewed to ensure it is meeting community needs.

Indonesian community programs continue

All of Santos’ community activities in Indonesia are governed by its Community Development Plan, which aims to contribute to activities and projects that improve community wellbeing in areas surrounding Santos’ operations.

Each year, company representatives sit down with Indonesian Regency government officials and community leaders to pinpoint the most important community projects for the next 12 months.

This way, Santos can make contributions that directly address community needs and regularly review these projects to ensure they are achieving their set goals.

In the past year the company’s work has continued to include planting 55,000 mangroves along the Camplong coast on Madura Island, building six new health clinics on Giligenting and Giliraja Islands, and contributing to schools, mosques and cultural events.

Focus area: 2009 Target

Impact on social infrastructure. Positive contribution to social infrastructure.

Local knowledge delivers in Gippsland

In Victoria’s east Gippsland towns of Orbost and Newmerella near the Patricia-Baleen gas plant, Santos has an extensive community support program which focuses on building the area’s social infrastructure and capacity.

Santos employs 14 local people at Patricia-Baleen and has supported 18 community organisations. These include pre-schools, primary and secondary schools, sporting and recreational clubs, the local fire brigade, aged health support and environmental and historical projects.

The success of the program is due to the extensive community knowledge and relationships of site employees who have been recruited locally.

Above: Students at Newmerella Primary School, Victoria, with playground equipment funded by Santos.
Community wellbeing

Corporate responsibility
Santos has formed relationships with the many communities in which it operates. The company recognises its responsibility to contribute to the social fabric of those communities.

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

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

Understanding community needs
Santos seeks to contribute to organisations and activities that are of long-term value to the community, such as health, education, the environment, youth, art and culture, and indigenous matters.

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

This consultation can range from informal discussions with local employees and other stakeholders to more comprehensive community needs assessments, such as those undertaken in Roma during 2008.

Indonesia a shining light
A structured approach to community development, involving considerable local consultation (see pages 31–32) has allowed Santos’ Indonesian operations to make valuable, lasting contributions to local communities.

Projects have included:

• planting 55,000 mangroves along the Camplong coast, restoring a natural defence for coastal communities against aggressive tides, and boosting fish habitats

FOCUS AREA
Making meaningful contributions to communities.

2009 TARGET
Improve quality of life in the areas in which we operate.

• increasing the number of health clinics on Giligenting and Giliraga Islands, in the Madura Strait, from two to eight

• ensuring the traditional Islamic coming-of-age circumcision for boys was carried out in clean, safe environments by experienced health practitioners

• providing building materials to schools and mosques.

This structured approach will be used in other regions as Santos looks to engage and contribute to new communities.

Exhibition fosters reconciliation
Santos’ employees helped organise Australia’s largest ever touring exhibition of commercially available indigenous art.

The exhibition featured artists such as Clifford Possum, Rover Thomas and Minnie Pwerle, and was valued at over $4 million. Proceeds from the auction went towards implementing the Engineers Without Borders Reconciliation Action Plan.

Engineers Without Borders Australia, a non-government registered charity, hosted the fundraising auction of the artworks with planning assistance from Santos’ staff. The company also made a contribution from the Santos Community Fund, to complement its employees’ efforts.

Engineers Without Borders works with disadvantaged communities to improve quality of life through education and by implementing sustainable engineering projects.

SPONSORSHIP BY ACTIVITY 2008

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<thead>
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<th>%</th>
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<tr>
<td>General community</td>
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<tr>
<td>Arts and culture</td>
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<tr>
<td>Conference/industry/govt.</td>
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<tr>
<td>Indigenous</td>
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SPONSORSHIP BY AREA 2008

<table>
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<th>Region</th>
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<tr>
<td>South Australia</td>
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<tr>
<td>Queensland</td>
<td>4.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.8</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>1.0</td>
</tr>
<tr>
<td>Victoria</td>
<td>0.8</td>
</tr>
<tr>
<td>New South Wales</td>
<td>0.6</td>
</tr>
<tr>
<td>Western Australia</td>
<td>0.4</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>0.2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.2</td>
</tr>
</tbody>
</table>
Focused sponsorship program

Santos’ contribution to the wellbeing of communities is achieved in part through its sponsorship and donations program.

Through this program, Santos provides support to community-based programs, organisations and events that are valued by people in those regions, and reflect each community’s specific socioeconomic and cultural circumstances.

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

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

Employee fundraising supported

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

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

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

Many employee fundraising activities included a fitness component. For example, Brisbane staff participated in the 2008 Crewzing Corporate Rowing Regatta which raised funds for Diabetes Australia (Qld) and Youngcare.

Community wellbeing (continued)
In 2008, Santos contributed to 206 community events and organisations, including the following:

**Examples of Community Support**

Santos began community development projects in Kyrgyzstan in 2008 to complement seismic activity underway in the central Asian country.

Facilities in rural areas are basic, and infrastructure has significantly decayed since the Soviet Union collapsed in 1991.

So far, two community projects in southern Kyrgyzstan have been completed by South Petroleum Company, in which Santos holds a 70% share.

The company has upgraded school gym and kitchen facilities in Arka, and given Ala Buka schools and hospital sports equipment, heating supplies and building materials.

Above: Trevor Brown, Vice President Exploration; Bob Ambrose, Vision Services seismic representative; Mark Shimmield, Manager Commercial & Finance Asia; Temir Azhykulov, General Director South Petroleum Company; the Akim (Head) of Arka; and Julian Evanochko, Country Manager Kyrgyzstan; during the presentation of supplies provided by Santos.
Reliability and quality of supply

It is important that Santos continues to sustainably meet its obligations to deliver high quality product.

Santos is one of Australia’s largest producers of natural gas for the domestic market, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.

The company’s vast gas reserves will also play an important role to help Australia and, through LNG exports, the world move to a substantially less carbon-intensive future.

LNG is in strong demand in carbon-intensive economies such as China and India. When used instead of coal, LNG provides a cost-effective low carbon-intensive energy source.

Critical to Santos’ customer relationships is reliability of supply – maintaining the quality and quantity of product.

For example, in domestic gas production this includes processing reservoir gas to remove water and carbon dioxide to meet sales specifications, delivering a low-carbon-intensive product to the electricity generation sector.

Santos’ reputation is determined by its ability to manage the safety of its workforce; set and meet performance objectives at the highest level (for example, financial, operational, environmental); keep the market and other stakeholders fully informed; interact with communities successfully; and provide a great place to work.

In August 2008, water was identified in auto LPG (a propane/butane mix) supplied to motorists in Adelaide. Santos switched its auto LPG customers to 100% propane as a precaution while the issue was investigated and rectified. Santos worked with distributors to minimise disruption.

Bill Loof, Operator Maintainer, at the Fairview coal seam gas fields, Queensland.

Lorna McGinnis, Community Consultation Adviser for the GLNG project.

Compliance with regulations

Santos operates in accordance with relevant legislation and has developed a robust system of governance to ensure compliance across the company (see page 26).

As Santos does not have a retail customer base, there has been no need for a formal grievance mechanism. Santos addresses operational issues directly with its relatively small number of large corporate customers.

Also available is the opportunity to make general enquiries and provide feedback via the company website at www.santos.com.

For particular exploration, development or operational activities (such as coal seam gas exploration in the Gunnedah Basin, and the GLNG and Shaw River Power Station developments) Santos has set up avenues for people to contact the company with questions or concerns via telephone hotlines, websites or email addresses (see page 31).

Working safely in the community

The transportation and transfer of Santos’ hydrocarbon product is managed under strict safety protocols. This is equally important for people living in the vicinity of Santos’ operations as it is for the company’s own employees (see page 19).

It is important for Santos to understand the implications of its activities on a community and address them in a way that allows the company to continue to operate in that community.

Santos contributes both directly through sponsorships and indirectly through the local employment and business opportunities that its operations create (see pages 32–35).
Product figures (mmboe) for this diagram are calculated as gross annual production from Santos-operated sites in Australia. Net production from all Santos-operated sites is published in Santos’ Annual Report 2008; in 2008 this was 54.4 mmboe, broken down as 39.4 mmboe of sales gas, ethane and LNG; 3.3 mmboe of condensate; 2.1 mmboe of LPG; and 9.6 mmboe of crude oil.

Santos continues to work towards capturing data across all operated and non-operated sites, which will be incorporated progressively into future sustainability reporting.

For this report:
- produced water (page 40) and footprint (page 39) data have been calculated for Santos-operated sites in Australia
- landfill data (page 42) have been calculated for major Santos-operated sites in central Australia
- greenhouse gas emissions (page 44) for all Santos-operated sites are calculated and verified mid year therefore this ratio represents 2007 emissions and production data.
Environment

Tree planting on National Tree Day on the River Torrens embankment at Tainmundilla Park, Adelaide. Santos has participated in this activity for five years as part of the "Our Patch" project.
Culture change

The importance of biodiversity and caring for the environment is reflected in Santos’ values (see inside front cover fold-out for Santos’ values).

Santos is continuously mindful of reducing its environmental impact in all areas of its business. Santos will look to continue to improve its environmental training to develop a strong environmental culture among all employees and contractors.

A revised Statement of Environmental Objectives was promoted at a Santos drilling and petroleum engineering wellsite forum in December 2008. The revised statement put a greater focus on reporting.

Santos will continue to work towards having a uniform approach to environmental management across all its operations.

Practical applications

A range of projects have been implemented to reduce the company’s environmental footprint.

These include:

• recycling drilling waste
• site selection to minimise impact on sensitive vegetation
• developing drill pads that can be used to drill multiple wells, reducing the overall area disturbance by 58%.

Eastern Queensland challenges

Operations in eastern Queensland expanded in 2008 in preparation for the GLNG project. With this comes a range of challenges.

Company policy and direction enables effective field planning, such as running roads and pipelines in the same corridors and locating wells to have the least impact.

In the Fairview field, an environmental constraints map was developed to improve the understanding of environmental sensitivities and licence conditions of the area. The map outlines legislative requirements determined by the Environment Protection Agency, and identifies environmentally sensitive areas.

Protecting fauna

Santos is developing new tools to identify habitats of species and ecological communities that have been prioritised by conservation organisations. Ongoing strategies to protect them from oil and gas operations are continuing to be refined. This includes revising pipeline construction techniques.

On-site construction and supervision personnel completed snake handling courses to reduce the impact on local species in areas of Santos’ operations.

Cooper Basin strategies

Field services teams provide on-the-ground support in all operating areas to help contractors implement sound environmental practices.

Santos’ line-of-sight reports assess development proposals and identify lower impact routes for pipelines and well leases.

Santos continued to work with its geographic information systems team to develop more efficient methods of data capture, storage and query to accurately track land disturbance and rehabilitation.

Biodiversity and land disturbance

FOCUS AREA

Protecting sensitive ecosystems and native fauna.

2009 TARGET

Impact assessment and mitigation plans and rollout of training.

<table>
<thead>
<tr>
<th>LAND USE FOOTPRINT 2008</th>
<th>Hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore pipelines</td>
<td>8,592</td>
</tr>
<tr>
<td>Roads</td>
<td>4,409</td>
</tr>
<tr>
<td>Wells</td>
<td>2,708</td>
</tr>
<tr>
<td>Borrow pits</td>
<td>1,577</td>
</tr>
<tr>
<td>Evaporation ponds</td>
<td>1,117</td>
</tr>
<tr>
<td>Plants</td>
<td>867</td>
</tr>
<tr>
<td>Waste facilities</td>
<td>156</td>
</tr>
<tr>
<td>Offshore pipelines</td>
<td>123</td>
</tr>
<tr>
<td>Camps</td>
<td>33</td>
</tr>
</tbody>
</table>

Clem Faulkner, Operator Maintainer, near Santos’ eastern Queensland gas fields.
Water resources

Responsible management

Water is a significant part of Santos’ operations and the responsible management of water resources is important to the company.

Water is sourced under appropriate authorisation from mains water, surface water, groundwater bores and recycling initiatives.

Where water quality is not sufficient for the plant and amenities it is treated by reverse osmosis. This produces potable water for personnel use and demineralised water for steam condensate and plant processes.

Waste water is treated strictly in accordance with applicable regulations before disposal. Where practicable, Santos tries to recycle waste water.

Santos aims to reduce its water consumption and improve the reuse and recycling of water across its sites.

In 2008, Santos implemented a number of initiatives, including:

- The design of a waste water treatment plant at Jackson. This can provide treatment for 45,000 litres of waste water per day, which may be used for irrigation at the camp. A second unit is planned for Tarbat, south-west Queensland.
- Installation of AAA water-saving shower heads across Santos’ sites in the Cooper Basin – 60% of all shower heads have been replaced.
- The use of Multizyme (a product that reduces levels of bacteria, grease and fat) in the grease traps, which has eliminated the need for pumping.
- The construction of desalination plant feed tank, part of the Pony Hills water treatment project at Fairview coal seam gas operations, eastern Queensland.

Produced water

In addition to oil and gas, Santos’ wells bring to the surface varying volumes of water that have accumulated in the rock strata and are mingled with the hydrocarbons.

The quality of produced water varies from well to well. It is usually unfit for human consumption as it can contain naturally occurring suspended solids, salts and hydrocarbons.

Offshore, this produced water is separated from hydrocarbons primarily by centrifugal separators and discharged in accordance with strict environmental licence conditions.

Onshore, the primary means of disposing of produced water has been by evaporation.

Produced water in the Cooper Basin is gravity separated from hydrocarbons in process vessels before flowing through a series of bunded ponds – a common practice in the oil and gas industry.

Produced water rejoins the natural water cycle through evaporation.

A produced water management strategy has been developed for Santos’ coal seam gas production in Queensland.

This strategy includes substantial secondary use for the produced water including agricultural use, tree plantings and supply of treated water for the local community.

Continuous review

In 2009, the focus will be on:

- implementing an integrated Surface and Groundwater Monitoring Plan across the Cooper Basin
- completing the Produced Water Register, a central repository to store data such as location, flow rates and receiving environment for each produced water facility, including a link to relevant monitoring data
- a comprehensive review of all produced water assets, assessed and evaluated against both regulatory requirements and Santos’ standards.

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Produced water management.</td>
<td>Register and action plan for produced water assets. Managin g water from coal seam gas operations with no net negative environmental impact.</td>
</tr>
</tbody>
</table>

Construction of desalination plant feed tank, part of the Pony Hills water treatment project at Fairview coal seam gas operations, eastern Queensland.
Air quality

Transparent emissions reporting

Air quality management and reporting includes emissions to air of pollutants. Greenhouse gas emissions and climate change management are addressed in detail on pages 44–47.

Santos aims to manage operations to comply with regulatory air quality requirements.

The Australian National Pollution Inventory was established in February 1998 to phase in compulsory emissions reporting. Santos has disclosed its emissions since then. The inventory nominates 93 substances, of which Santos produces 24 and reports levels of these emissions annually.

This reporting provides the community, industry and government with information about emissions in Australia and promotes waste minimisation, cleaner production, and energy and resource efficiency.

Santos’ operations are in areas remote from dense population centres and areas of high public use. Santos has operations in Indonesia and Australia and records its emissions from 53 separate facilities. These include 10 major plants, 41 smaller satellites, one pipeline and one trucking facility.

The majority of the emissions are by-products from the combustion of natural gas. Other emission sources from these facilities may include the use of production chemicals, flaring, fuel loading, fuel storage tanks and vehicles.

Santos determines its emissions from these sources by using calculation methods outlined by the Australian Department of the Environment, Water, Heritage and the Arts’ Emissions Estimation Manual for Oil and Gas Exploration and Production.

Reduced well venting

An initiative implemented in 2008 has reduced the venting to atmosphere from wells (well blow-downs). Santos’ engineers have introduced a cycling process where a series of flow and shut-in periods are used to clear the column of fluid in liquid-loaded wells and thus reduce the frequency of well blow-downs and associated emissions to atmosphere.

Designing lower-emissions plants

Air quality studies are integral to major project environmental assessments for Santos. Detailed computer modelling studies can be applied to examine the volume and dispersion behaviour of emissions to the atmosphere. These studies assess the cumulative impact that emissions from a new facility will have on the local environment and ensure levels meet relevant regulatory guidelines. Santos will then design the plant and equipment to ensure its activities meet these guidelines.

SANTOS AUSTRALIAN OPERATIONS EMISSIONS INVENTORY 2007a

<table>
<thead>
<tr>
<th>Santos’ emissions</th>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>(tonnes)</td>
<td></td>
</tr>
<tr>
<td>Arsenic and compounds</td>
<td>0.008</td>
</tr>
<tr>
<td>Benzene</td>
<td>170</td>
</tr>
<tr>
<td>Beryllium and compounds</td>
<td>0.005</td>
</tr>
<tr>
<td>Cadmium and compounds</td>
<td>0.039</td>
</tr>
<tr>
<td>Carbon monoxide</td>
<td>3,600</td>
</tr>
<tr>
<td>Chromium (III) compounds</td>
<td>0.043</td>
</tr>
<tr>
<td>Copper and compounds</td>
<td>0.060</td>
</tr>
<tr>
<td>Ethylbenzene</td>
<td>9.4</td>
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<tr>
<td>Ethylene glycol (1,2-ethanediol)</td>
<td>48</td>
</tr>
<tr>
<td>Hydrogen sulphide</td>
<td>0.130</td>
</tr>
<tr>
<td>Lead and compounds</td>
<td>0.011</td>
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<tr>
<td>Mercury and compounds</td>
<td>0.005</td>
</tr>
<tr>
<td>Methanol</td>
<td>77</td>
</tr>
<tr>
<td>n-Hexane</td>
<td>190</td>
</tr>
<tr>
<td>Nickel and compounds</td>
<td>0.076</td>
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<tr>
<td>Oxides of nitrogen</td>
<td>16,000</td>
</tr>
<tr>
<td>Particulate matter 10.0 μm</td>
<td>240</td>
</tr>
<tr>
<td>Phenol</td>
<td>46</td>
</tr>
<tr>
<td>Polycyclic aromatic hydrocarbons</td>
<td>0.110</td>
</tr>
<tr>
<td>Sulphur dioxide</td>
<td>25</td>
</tr>
<tr>
<td>Toluene (methylbenzene)</td>
<td>83</td>
</tr>
<tr>
<td>Total volatile organic compounds (VOCs)</td>
<td>5,300</td>
</tr>
<tr>
<td>Xylenes</td>
<td>73</td>
</tr>
</tbody>
</table>

* This data is reported mid-year and therefore 2007 emissions are presented.

FOCUS AREA

Development projects.

2009 TARGET

Conduct air quality studies and implement mitigation.

SANTOS FACILITIES

<table>
<thead>
<tr>
<th>State</th>
<th>Plant</th>
<th>Satellite/platform</th>
<th>Pipeline/trucking</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia</td>
<td>2</td>
<td>24</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Queensland</td>
<td>5</td>
<td>13</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Victoria</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Western Australia</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10</td>
<td>41</td>
<td>2</td>
<td>53</td>
</tr>
</tbody>
</table>
Waste management

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

In the Cooper Basin, recycling programs diverted more than 5,976 m³ of waste from landfill.

This improvement is not only beneficial to the environment – it also offsets some of the costs associated with landfill disposal.

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

Managing Moomba landfill
New landfill regulations were introduced in South Australia in 2008, with direct implications for Santos’ Moomba waste depot.

The changes have seen Santos conduct risk assessment works on waste management. The results of the assessment are being used to design an appropriate landfill cell, which is scheduled to be constructed in 2009.

Getting a measure on waste
Quantifying a baseline from which to make improvements at all onshore facilities was the key sustainability focus for waste management at a corporate level in 2008.

Consistency of waste services and the need for performance indicators in waste management contracts were identified as challenges in 2008. With a major waste management contract due for tender in 2009, Santos has the opportunity to improve the quality (and, potentially, the consistency) of services to onshore Australian facilities.

Currently, all onshore facilities have waste management plans.

Data collection has also taken place at some facilities without waste disposal, with the intention of finding out the amount of waste generated at all sites. Santos is analysing site-based waste generation to identify ways to be more efficient.

Santos is focused on ensuring a consistent and accurate approach at all facilities so improvements can be measured with confidence.

Improvements to sludge treatment
Sludge is unusable product left at the bottom of vessels and tanks.

A crude recovery rate of 50% was achieved from 16,055 kilolitres of Cooper Basin sludge in 2008. This sludge volume is down on previous years, while the total crude recovered and the recovery rates are at record highs. These numbers clearly indicate improved separation of water and sludge at source sites and the success of point-of-source sludge reduction activities.

There remain further opportunities for improvement in the handling of sludge and waste water at Moomba. A team has been formed to scope a long-term solution through a feasibility assessment. This study is underway and expected to be complete in 2009, after which a project will be initiated to improve sludge treatment.
Incidents and spills

Prevention the top priority
Santos is committed to the prevention of oil spills.

Systems in place to prevent spills include:
- bunding around fuel and chemical sites
- monitoring systems
- pipeline integrity management
- pigging (cleaning pipes).

Raising hazard awareness
Santos has identified high-risk areas and has implemented strategies to avoid or minimise any spill impact.

In 2008, a proactive reporting ratio target was set. This ratio is the number of safety and environment hazards and near misses reported per person (full-time equivalent). Santos set a target of 3.5 and the actual ratio achieved was 3.3.

The proactive reporting ratio has raised awareness of environmental hazards. Santos has identified potential root causes, and these issues are being considered in 2009 improvement plans.

Thorough preparation
Should an incident occur, Santos is well prepared to deal with it.

Employees are trained to respond immediately and appropriately, and the company has in place a comprehensive plan for mitigation, management and remediation of the effects of a spill.

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

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

In the Brisbane suburb of Carindale, 110m³ of hydrocarbon was released from the pipeline. Prompt action was taken and the site has been remediated.

In Moonie East, Queensland, hydrocarbons continue to be recovered from bores. An automated hydrocarbon recovery system has been installed.

Excavation works to remove contaminated soil have been completed. A bore installation program for ongoing monitoring is nearing completion.

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

Banjar Panji, Indonesia
Although it was a non-operator in this project, Santos gave its full support to managing mud and water outflow from near the Banjar Panji-1 well on the Indonesian island of Java.

This incident, which occurred in May 2006, at Sidoarjo near the city of Surabaya, was of significant concern to Santos.

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

In December 2008, Santos transferred its 18% minority interest in the production sharing contract to a company associated with the operator. The transfer was approved by the Government of Indonesia.

### FOCUS AREA

<table>
<thead>
<tr>
<th>2009 TARGET</th>
<th>2009 TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventing spills.</td>
<td>Reduced frequency and volume of spills.</td>
</tr>
</tbody>
</table>

### OIL SPILL VOLUMES

<table>
<thead>
<tr>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

David Olds, Team Leader Cooper Basin Field Services, inspecting oil spill containment kits.
Climate change policy
Climate change is a global issue requiring significant resources to meet complex environmental, energy, economic and political challenges.

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

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

Natural gas – a clean energy solution
Santos has a range of projects based on producing natural gas, which can play a pivotal role in helping Australia’s economy move to a cleaner energy portfolio.

Natural gas presents the following benefits for Australia in terms of supporting practical solutions aimed at delivering clean, cheap energy for Australian consumers and industry over both the transition period (2010 to 2025) and in the long term (2025 to 2050):

- It is a clean energy source, with combined-cycle gas-fired power generation emitting 40% of the CO₂ produced by a conventional coal-fired power station.¹
- It has a far lower water intensity, using a fraction of the water per megawatt hour as an existing coal-fired power station.
- Gas-fired power generation has a small environmental footprint (150 hectares for 1,000MW) and hence low community visibility and infrastructure requirements.
- Gas-fired power generation is an immediately available and reliable energy source, capable of producing peaking, intermediate and baseload power generation.
- Australia’s natural gas reserves (both conventional and coal seam gas) are abundant and in close proximity to the major gas demand nodes, particularly on the Australian east coast.²
- Gas is a perfect partner for intermittent renewable energy sources in ensuring smooth supply-side dynamics in, and the integrity of, the electricity sector.
- The expansion of the Australian gas industry, both LNG and domestic, will provide a major economic boost to the Australian economy and create a substantial number of new jobs, measured in the thousands.
A series of projects aimed at making Santos’ Moomba facility more energy efficient are underway and showing good results for the business and the environment.

Santos, with a total energy use of approximately 30 PJ in Australia, has been actively participating in the Australian Government’s energy efficiency opportunities program since its introduction in 2006.

Participation in the program is part of Santos’ ongoing energy efficiency strategy to look at ways to run operations more efficiently, preserve sales gas reserves, increase revenue and reduce Santos’ carbon footprint.

Santos has conducted a detailed energy assessment across the Moomba facility and plans to conduct similar reviews of other major sites operated by Santos within the first five-year program cycle. To this end, Santos will meet and exceed its obligations under the energy efficiency opportunities program.

Summary of assessments conducted

The Moomba facility consumes approximately 15 PJ of gas, equal to approximately 47% of Santos’ total energy use.

Energy use at Santos’ Moomba gas processing plant in central Australia has been assessed and opportunities for improving efficiency identified.

The assessment of energy efficiency opportunities at the Moomba facility was carried out between January 2006 and July 2008.

A significant number of energy saving opportunities were identified by this process, many of which have been implemented, are in the process of implementation, or are undergoing further investigation.

<table>
<thead>
<tr>
<th>Sites assessed</th>
<th>Energy use per annum in the year the assessment is completed</th>
<th>Energy data accuracy (if not within ±5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moomba facility</td>
<td>14.9 PJ</td>
<td>±20%</td>
</tr>
<tr>
<td>Total</td>
<td>14.9 PJ</td>
<td></td>
</tr>
<tr>
<td>Total as a % of total energy use of the group covered by this report</td>
<td>47%</td>
<td></td>
</tr>
</tbody>
</table>

Energy data accuracy

Given the nature of the operations at the Moomba facility, energy use is unable to be measured to an accuracy of ±5%. This is due to a number of factors, including the utilisation of own product for fuel (thereby negating any prior requirement for fiscal metering), the age of certain assets, developed at a time when energy metering was not required, and the difficulty of retrofitting metering to these assets.

A review of the uncertainty level of all greenhouse and energy data is currently underway, aiming to assess current uncertainty, determine future requirements, and develop a plan to progress measurement in the future.

The energy assessments of the Moomba facility have been thorough and comprehensive. The assessments have two broad themes.

The first looked at energy efficiency measures associated with efficient use of fuel, including the efficiency of equipment such as burners, turbines, engines, heat exchangers, boilers, pumps, compressors and process plant operational procedures.

The second examined energy recovery measures associated with reducing loss of hydrocarbon to flare and vent.

All assessments have complied with the intent and key requirements of the energy efficiency opportunities program and have identified significant opportunities for achieving greater energy efficiency.

The Hon Kevin Rudd MP was the first Australian Prime Minister to visit Santos’ Moomba operations, announcing the Australian Government’s launch of a Global Carbon Capture and Storage Initiative. He is pictured with Nick Lagonik, General Manager Plant Operations & Reliability, and John Anderson, Vice President WA & NT.

3. Santos’ greenhouse gas emissions are reported as carbon dioxide equivalents and include carbon dioxide, methane and nitrous oxide.
## Energy Efficiency Opportunities Report (continued)

### Energy Efficiency Assessment – Results and Response

#### Moomba Facility

<table>
<thead>
<tr>
<th>Status of opportunities</th>
<th>Number of opportunities</th>
<th>Estimated energy savings per annum by payback period (GJ)</th>
<th>Total estimated energy savings per annum (GJ)</th>
<th>Accuracy range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0 – 2 years</td>
<td>2 – 4 years</td>
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<tr>
<td>Outcomes of assessment</td>
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<tr>
<td>Identified</td>
<td>12</td>
<td>4,046,000</td>
<td>426,000</td>
<td>4,472,000</td>
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<tr>
<td>(accuracy ≤ ±30%)</td>
<td></td>
<td></td>
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<tr>
<td>Identified</td>
<td>6</td>
<td>873,000</td>
<td>39,000</td>
<td>912,000</td>
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<tr>
<td>(accuracy &gt; ±30%)</td>
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<tr>
<td>Total identified</td>
<td>18</td>
<td>4,919,000</td>
<td>465,000</td>
<td>5,384,000</td>
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<tr>
<td>Santos’ response</td>
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<td>Under investigation</td>
<td>6</td>
<td>873,000</td>
<td>39,000</td>
<td>912,000</td>
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<tr>
<td>To be implemented</td>
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<td>373,000</td>
<td>0</td>
<td>373,000</td>
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<td>Implementation commenced</td>
<td>4</td>
<td>1,753,000</td>
<td>250,000</td>
<td>2,003,000</td>
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<tr>
<td>Implemented</td>
<td>4</td>
<td>1,760,000</td>
<td>0</td>
<td>1,760,000</td>
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<tr>
<td>Not to be implemented</td>
<td>3</td>
<td>160,000</td>
<td>176,000</td>
<td>336,000</td>
</tr>
</tbody>
</table>

*Above left:* Energy use at Santos’ Moomba facility was assessed during 2008 and opportunities for improving efficiency identified.

*Above right:* Cooper Basin oil wellheads feature energy efficient progressive cavity pumps and solar powered telemetry.
The Moomba plant was designed for one export compressor to service each of the two liquids recovery plant (LRP) trains. As demand for export compression from Moomba has reduced with declining plant throughput, compression can now be met within the capacity of a single residue compressor.

Before this project began, each compressor was required to run at a minimum flow constraint, effectively doubling the throughput of the compressors by recycling gas through the units.

The project, costing about $2 million to implement, enables sales gas from both LRP trains to be compressed in a single residue compressor, saving about 1,000 TJ of gas per year.

Since the implementation of the project on 21 October 2008, a noticeable improvement to the fuel gas consumption has been realised, with daily average fuel consumption reduced by about 4 TJ per day. These initial savings were further increased by the replacement of anti-surge recycle valves.

Additional benefits include significant maintenance savings and allowing for the mothballing of the third (redundancy) compressor.

The Moomba facility originally operated two waste heat boilers connected to the exhaust streams associated with the residue (export) compressors. One of the waste heat boilers was decommissioned a number of years ago, while the second boiler was shut down in 2006.

A plan was developed to isolate and refurbish the waste heat boiler at a cost of approximately $2 million, thereby utilising spent heat from the residue compressor to generate ‘free’ high pressure steam for use throughout the plant. The refurbished waste heat boiler will be able to produce approximately 28 tonnes per hour of steam, corresponding to a saving in fuel of about 1,200 TJ per year.

The first phase of the boiler refurbishment was completed in March 2008 and resulted in 80% return to service. The second phase involving the reinstallation of the economiser tube bank, which should enable 100% return to service, is expected to be completed in early 2009.

The Moomba plant utilises Benfield absorber columns for removal of carbon dioxide from raw gas. Benfield solution is circulated through these columns using pumps powered by high pressure steam.

A power recovery turbine is connected to the pumps to reduce the amount of steam required to drive the pumps. These turbines are driven by the Benfield solution directed to high pressure from the absorber columns under level control.

Rapid degeneration of the upstream level control valves has historically resulted in poor power recovery to the turbines. This has resulted in more high pressure steam consumption than necessary and additional fuel consumption in the plant boilers to create the steam.

A project was initiated in 2007 to replace the level control valves on three of the absorber columns with customised valves more suited to the harsh, corrosive environment. The implementation is expected to cost approximately $1 million, and is anticipated to provide energy savings of about 300 TJ per year from improved power recovery to the turbines. The customised valves should also reduce the amount of plant down-time historically attributed to these valves.

Two of the three new absorber valves were replaced and commissioned in June 2008 and have shown promising results in improving the power recovery turbines’ performance. The third valve was commissioned in late 2008.

**DECLARATION**

Controlling Corporation – Santos Ltd
Period to which this energy efficiency opportunities report relates: 1 January 2006 to 30 June 2008.

The information included in this energy efficiency opportunities report has been reviewed and noted by the Board of Directors and is to the best of my knowledge correct and in accordance with the Energy Efficiency Opportunities Act 2006 and Energy Efficiency Opportunities Regulations 2006.

David Knox
Chief Executive Officer and Managing Director
barrel/bbl
The standard unit of measurement for all production and sales. 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. The factor used by Santos to convert volumes of different hydrocarbon production to barrels of oil equivalent.

CO₂-e
Carbon dioxide equivalent.

cultural heritage
Definitions of cultural heritage are highly varied. Cultural heritage can be considered to include property (‘things’ such as landscapes, places, structures, artefacts and archives) or a social, intellectual or spiritual inheritance.

crude oil
A general term for unrefined liquid petroleum or hydrocarbons.

condensate
A natural gas liquid that occurs in association with natural gas and is mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

hazard
A source of potential harm.

hydropower
Compounds containing only the elements hydrogen and carbon, which may exist as solids, liquids or gases.

LNG
Liquefied natural gas. Natural gas that has been liquefied by refrigeration to store or transport it. Generally, LNG comprises mainly methane.

LPG
Liquefied petroleum gas. 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.

lost time injury frequency rate (LTIFR)
A statistical measure of health and safety performance. A lost time injury is a work-related injury or illness that results in a permanent disability or time lost of one complete shift or day or more any time after the injury or illness. LTIFR is calculated as the number of lost time injuries per million hours worked.

market capitalisation
A measurement of a company’s stock market value at a given date. Market capitalisation is calculated as the number of shares on issue multiplied by the closing share price on that given date.

medical treatment injury frequency rate (MTIFR)
A statistical measure of health and safety performance. A medical treatment injury is a work-related injury or illness, other than a lost time injury, where the injury is serious enough to require 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.

PJ
Petajoules. Joules are the metric measurement unit for energy. A petajoule is equal to 1 joule x 10¹⁵.

sales gas
Natural gas that has been processed by gas plant facilities and meets the required specifications under gas sales agreements.

Santos
Santos Ltd 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

<table>
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<th>Product</th>
<th>Conversion Factor</th>
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<tr>
<td>Crude oil</td>
<td>1 barrel = 1 boe</td>
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<tr>
<td>Sales gas</td>
<td>1 petajoule = 171,937 boe</td>
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<tr>
<td>Condensate/naptha</td>
<td>1 barrel = 0.935 boe</td>
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<tr>
<td>LPG</td>
<td>1 tonne = 8.458 boe</td>
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</table>

For a comprehensive online conversion calculator tool, visit the Santos website, www.santos.com.
Santos’ 24 sustainability indicators are based on the Global Reporting Initiative (GRI) G3 reporting guidelines and the International Petroleum Industry Environmental Conservation Association (IPIECA) and American Petroleum Institute (API) reporting guidance. Below is an index referencing Santos’ 24 sustainability indicators, the international guidelines and relevant pages of this report. This report provides a succinct overview of Santos’ performance against these indicators. Further detail on many of these indicators is provided in the Annual Report and the Santos website at www.santos.com/sustainability2008.

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<th>SANTOS SUSTAINABILITY INDICATORS</th>
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<th>IPIECA/API GUIDANCE</th>
<th>SANTOS SUSTAINABILITY REPORT 2008</th>
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<td>EC1, 4</td>
<td>ECO-1, A1, 2, A3</td>
<td>p.14 and Annual Report 2008</td>
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<td>and acquisitions</td>
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<td>–</td>
<td>p.16 and Annual Report 2008</td>
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<td>p.17</td>
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<td>Supply chain performance</td>
<td>EN1, 2, 26, 29, EC6</td>
<td>ECO-3</td>
<td>p.15</td>
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<td><strong>OUR PEOPLE</strong></td>
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<td>SO3, 4, 8, HR1, 2, 5, 6, 7, PR9, LA9</td>
<td>SOC-1, 6, 7, 9, ENV-6</td>
<td>pp.26–27 and Annual Report 2008</td>
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<td>H&amp;S-1, 2, 3, 4, 5</td>
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<td>H&amp;S-1, 4</td>
<td>p.19–20</td>
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<td>SOC-5, A3</td>
<td>p.23</td>
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<td>Workforce composition,</td>
<td>LA1, 2, 13, 14, HR3, 4, EC7, LA5</td>
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<td>Workforce remuneration and</td>
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<td>Community wellbeing</td>
<td>SO1, EC9</td>
<td>SOC-8, A3, A4, A5</td>
<td>pp.33–35</td>
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<td>EN26, 27, PR1, 2, 3, 4, 5, 6, 7, 8</td>
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<td>p.36</td>
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<td><strong>ENVIRONMENT</strong></td>
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<td>ENV-3, 4, A6, 5, A8</td>
<td>pp.37 and 44–47*</td>
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<td>EN23, 25, 28, 30</td>
<td>ENV-1, A1, A2</td>
<td>p.43</td>
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<tr>
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<td>EN22, 24</td>
<td>ENV-A3, A4, A5</td>
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<tr>
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<td>EN8, 9, 10, 21, 25</td>
<td>ENV-2, A7</td>
<td>pp.37 and 40</td>
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* Carbon Disclosure Project www.cdproject.net
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USEFUL EMAIL CONTACTS

Share register enquiries: share.register@santos.com
Investor enquiries: investor.relations@santos.com
Employment enquiries: recruitment@santos.com
Website: www.santos.com

Corporate directory

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
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

Brisbane
Level 14 Santos House
60 Edward Street
Brisbane Queensland 4000
Telephone: 61 7 3838 3666
Facsimile: 61 7 3838 3700

Perth
Level 28 Forrest Centre
221 St Georges Terrace
Perth Western Australia 6000
Telephone: 61 8 9333 9500
Facsimile: 61 8 9333 9571

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

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

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

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

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

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

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

Bishkek
CJSC South Petroleum Company
Str. Isanova, 128
Bishkek
Kyrgyzstan 720033
Telephone: 996 312 90 1004
Facsimile: 996 312 90 1005

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