SANTOS LTD

Appendix 4E

Preliminary Final Report under ASX Listing Rule 4.3A

For the period ended 31 December 2009

ABN	Previous corresponding period
80 007 550 923	31 December 2008

Results for announcement to the market

				$A million
Revenue	Down	19.8%	to	2,251
Underlying profit after tax	Down	53.1%	to	257
Profit after tax attributable to members	Down	73.7%	to	434
Net profit for the period attributable to members	Down	73.7%	to	434

Dividends	Amount per security	Franked amount per security at 30% tax
Interim Dividends		
Ordinary securities	22.0¢	22.0¢
Preference securities	$1.6191	$1.6191
Final Dividends		
Ordinary securities	20.0¢	20.0¢
Record date for determining entitlements to the dividends:	2 March 2010	

This report is based on financial statements which have been audited.

The 2009 Consolidated Financial Report, Commentary on Results and Media Release dated 18 February 2010 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).

Santos Ltd
Financial Commentary to Appendix 4E

The following comments should be read in conjunction with the Consolidated Financial Report for the Year ended 31 December 2009

1. Consolidated Income Statement

Net Profit for the period ($434 million, down by $1,216 million -73.7%)

Net profit after income tax decreased by $1,216 million to $434 million.

Earnings per share for 2009 decreased by 79.3% to 52.1 cents.

Underlying Profit after tax for the period ($257 million, down by $291 million -53.1%)

An analysis of the change in net profit after tax is set out below and reconciliation to underlying profit after tax is set out in Section 4 of this report.

Dividends

During the year Santos Ltd paid fully franked dividends of $299 million on ordinary shares and $28 million on redeemable convertible preference shares for a total of $327 million (2008: $286 million).

The Directors have declared a final dividend for 2009 of 20 cents per ordinary share, fully franked (2008: 20 cents, fully franked), payable on 31 March 2010.

Product Sales ($2,181 million, down by $581 million -21.0%)

Sales volumes increased to 60.1 mmboe, 4.3 mmboe or 7.7% higher than 2008. However, sales revenue decreased by $581 million to $2,181 million reflecting a sharp decline in global oil and related gas liquids prices following the global financial crisis.

Crude oil sales of $679 million were $472 million lower primarily due to lower oil prices and 12.2% lower sales volumes mainly due to natural decline of field production.

Sales gas, ethane and Liquefied Natural Gas (“LNG”) revenues of $1,098 million were 4.4% higher than 2008. Sales gas, ethane and LNG prices in 2009 averaged $4.09/GJ compared with $4.42/GJ in 2008. This reflects lower ethane prices, Asian gas prices and LNG prices which are impacted by lower global oil prices. Sales volumes increased 5.2 mmboe largely due to increased John Brookes production following the 2008 Varanus Island incident, higher Maleo sales and increased third party gas volumes.

Condensate/naptha sales of $233 million decreased by $88 million mainly due to lower prices. Sales volumes increased 10.0% mainly due to increased John Brookes production.

Liquefied petroleum gas (“LPG”) revenues decreased by $67 million to $171 million due to lower prices.

Other Income ($254 million, down by $1,481 million -85.4%)

Other income of $254 million includes the gains on sale of assets ($260 million) relating to sale of Petrel Tern, PRL5, Egypt assets and Barrow Island lease disposal, insurance recoveries in respect of the the Moonie to Brisbane Pipeline Algester incident ($8.0 million), partially offset by loss on sale of Kakap PSC assets($14 million).

Cost of Sales ($1,423 million, no change from 2008)

Overall, cost of sales is flat with lower cash costs of production, depletion and depreciation charges offset by higher third party purchases.

- **Production Costs**

  Field production costs of $532 million were $11 million lower than in 2008. Lower production costs are mainly due to reduced trucking costs at Cooper Oil relating to the Moonie to Brisbane pipeline (MBP) failure in 2008, lower Mutineer Exeter workover activity, shut in of Patricia Baleen field in 2008 and sale of Kakap, Brantas and Churchie. These cost decreases are offset by higher John Brookes production costs due to increased volumes, higher GLNG costs in line with production increases and higher Bayu Undan workover costs.

- **Pipeline Tariffs, Tolls and Other ($91 million, up $7 million +8.3%)**

  Pipeline tariffs, tolls and other expenses are $7 million higher in 2009 predominantly due to increased GLNG production, the start up of Orbost plant in 2009, and pipeline charges incurred by Santos Direct in relation to gas trading activities.

- **Royalties and Excise ($61 million, down $40 million -39.6%)**

  Royalties are $40 million lower in 2009 principally due to lower sales revenue.

- **Third Party Gas Purchases ($117 million, up $55 million +88.7%)**

  Third party gas purchases are $55 million higher than in 2008 reflecting increased gas trading and portfolio optimisation activities in Eastern Australia and Longtom gas purchases.

- **Depreciation and Depletion ($612 million, down by $50 million -7.6%)**

  - **Depletion**

    Depletion expense of $348 million is $54 million or 13.4% lower than in 2008 despite flat production. On a $/boe basis, depletion has decreased from $7.38/boe in 2008 to $6.39/boe in 2009.

    In Eastern Australia, lower production and the impact of reserves additions reduced depletion expense by $54 million. In Asia, depletion was $18 million lower despite higher production due to reserves additions and revisions to the depletion cost pool. These decreases were offset by higher depletion in Western Australia and Northern Territory mainly due to reserves reductions and higher restoration and other future costs.

  - **Depreciation**

    Depreciation of $264 million is $4 million higher than in 2008 principally due to additions of surface assets in support of the expanding GLNG activity.

Selling and Corporate Administrative Expenses ($94 million, down by $23 million -19.7%)

Selling and corporate administration expenses were $23 million lower than in 2008. This was primarily due to a self insured deductible relating to the Varanus Island incident in 2008 and lower growth project costs.

Change in Fair Value of Financial Assets Designated at Fair Value through Profit or Loss ($5 million gain, 2008: $12 million loss +141.7%)

A $5 million gain has been recognised in 2009 for the revaluation of derivatives embedded in sales contracts.

Impairment of Oil and Gas Assets ($37 million, 2008: $216 million)

The 2009 review of the net future cash flows (discounted) of cash-generating units identified the following assets which required impairments:

- Mutineer Exeter ($31 million)
- Palm Valley ($4 million)
- Moonie to Brisbane Pipeline ($9 million)
- Thevenard Island ($8 million).

Offset by partial reversal of Sampang (Oyong) ($15 million).

Exploration and Evaluation Expensed ($202 million up by $23 million +12.8%)

Exploration and evaluation expenditure expensed in 2009 was $202 million. The amount expensed relates to studies, seismic and unsuccessful wells primarily in offshore Australia, Vietnam, Indonesia, Kyrgyzstan, and the Cooper Basin.

In addition net $18 million of costs capitalised in prior year were written off in 2009 mainly relating to relinquished permits in Vietnam and Indonesia.

Financial Expenses ($98 million, down by $56 million -36.4%)

Interest expense has decreased due to lower average net debt following the capital raising in May 2009.

Income Tax Expense ($205 million, down by $563 million -73.3%)

Income tax expense is 28.6% of pre-tax profit compared to the 2008 effective tax rate of 30.3% of pre-tax profit. The lower 2009 effective tax rate reflects the benefit of recognising the investment allowances and other tax adjustments.

Royalty Related Taxation ($78 million, down by $37 million -32.2%)

Royalty related taxes have reduced principally as a result of reduced revenue subject to these taxes.

2. Consolidated Balance Sheet

Overview

The Group's net assets increased by $2,489 million (56%) during 2009 to $6,967 million, principally due to proceeds received from equity raising to fund the PNG LNG project/FUELS redemption, higher non trade receivables and prepayments and lower current tax liabilities.

Assets

Current assets of $3,519 million were $1,036 million higher than in 2008 predominantly due to cash received from equity raising placed in term deposits $726 million and higher non-trade receivables due to sale of interest in Petrel Tern and Frigate and higher receivables from JV parties $339 million.

Non-current assets were $7,842 million compared to $7,319 million at the end of 2008, an increase of $523 million, due to the acquisition of shares in Eastern Star Gas Ltd (investment in associate) and related exploration licences in the Gunnedah Basin and 2009 capital expenditure.

Capital expenditure in 2009 for exploration, delineation and development amounted to $1,509 million, of which $202 million was expensed in 2009 as unsuccessful exploration. These increases were offset in part by depreciation and depletion charges of $619 million and foreign currency translation impacts on oil and gas assets of $328 million.

Current Liabilities

Current liabilities of $1,080 million were $273 million lower predominantly due to a reduction in current tax liabilities of $449 million on 2009 profits offset by increased trade payables due to increased business activity and drawdown of long term notes.

Net Debt

Net cash (borrowings, net of cash on hand and value of financial derivatives used to hedge debt) of $605 million was $1,111 million higher than at the end of 2008 primarily as a result of proceeds received from equity raising.

The group's net debt/net debt plus equity ratio has decreased from 10.2% in 2008 to (9.5%) at the end of 2009.

Equity

Total equity increased by $2,489 million to $6,967 million at year end. The increase primarily reflects additional shares issued to fund the PNG LNG project of $2,914 million (net of transaction costs), the 2009 net profit after tax of $434 million less dividends paid during the year of ($327 million) and FUELS redemption ($600 million).

3. Consolidated Cash Flow Statement

Operating Cash Flows ($1,155 million inflow, decrease of $230 million -16.6%)

Lower operating cash flows are a result of decreased sales revenue and increased exploration studies and seismic costs offset by lower tax, royalty and finance payments.

Investing Cash Flows ($2,411 million outflow, 2008: $532 million inflow)

Capital expenditure payments decreased by $131 million from $1,485 million in 2008 to $1,354 million in 2009, largely as a result of the timing of the work program and related payments.

The Group acquired additional acreage in the Gunnedah Basin through the purchase of a 35% interest in various exploration permits and production areas operated by Eastern Star Gas Limited for $332 million, including transaction costs.

During 2009, the Group acquired a 100% beneficial interest in Gastar Power Pty Ltd for $8 million, and made deferred consideration payments of $9 million in relation to the following controlled entities acquired during prior years:

- Zhibek Resources Limited, and
- CJSC South Petroleum Company.

The Company also acquired a 19.99% interest in Eastern Star Gas Limited for $178 million (subsequently diluted to 19.42%).

In 2009 the Group received $12 million proceeds from the sale of non-current assets (2008: $2,080 million) and $24 million from the sale of controlled entities. Income tax of $497 million was paid in 2009 in relation to the 2008 profit on disposal of Coal Seam Gas assets to PETRONAS.

Financing Cash Flows ($1,954 million inflow, 2008: $584 million outflow)

The group paid $297 million of fully franked dividends during the year (2008: $251 million) and made net repayments of $92 million (2008: $252 million) to decrease borrowings. Proceeds from issues of ordinary shares totalled $3,003 million (2008: $220 million) which included $2,914 million, net of transaction costs, received from a two for five accelerated pro-rata non-renounceable entitlement offer.

Santos Ltd redeemed 6,000,000 redeemable convertible preference shares at their face of value of $100 per share.

4. Underlying Profit Reconciliation

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

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

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

Explanatory Notes:

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

Santos Ltd
ABN 80 007 550 923

SANTOS LTD

(INCORPORATED IN SOUTH AUSTRALIA ON 18 MARCH 1954)

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

SANTOS LTD AND CONTROLLED ENTITIES

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

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

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

SANTOS LTD AND CONTROLLED ENTITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

1. Significant Accounting Policies

The financial report of Santos Ltd ("the Company") for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the Directors on 18 February 2010.

Santos Ltd (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") and is the ultimate parent entity in the Group. The consolidated financial report of the Company for the year ended 31 December 2009 comprises the Company and its controlled entities ("the Group").

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

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars.

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

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

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Adoption of new accounting standards and interpretations

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2009. These are outlined in the following table:

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 3	*Business Combinations*	Adopts the acquisition method to account for business combinations; acquisition costs expensed; contingent consideration recognised at fair value on acquisition date.	1 July 2009	Will impact recognition of future acquisitions	1 January 2010
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2013	Unlikely to have material impact	1 January 2013
AASB 127	*Consolidated and Separate Financial Statements*	Changes in a parent's ownership in a subsidiary that result in a loss of control requires reserves to be recycled and remaining ownership interest to be measured at fair value; changes that do not result in a loss of control are accounted for as equity transactions.	1 July 2009	Unlikely to have impact	1 January 2010
AASB 2008-3	*Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*	Consequential amendments to number of standards following the issue of the revised AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements.*	1 July 2009	No impact	1 January 2010

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2008-6	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Extends scope of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* to require where entity is committed to sale plan involving loss of control of a subsidiary but retains a partial investment in the disposed subsidiary, in which case all of the subsidiary's assets and liabilities are classified as held for sale; also includes minor terminology or editorial amendments to other standards.	1 July 2009	No impact	1 January 2010
AASB 2008-8	*Amendments to Australian Accounting Standards – Eligible Hedged Items*	Clarifies the hedge accounting provisions of AASB 139 *Financial Instruments: Recognition and Measurement* to address inflation in a financial hedged item, and one-sided risk in a hedged item.	1 July 2009	No impact	1 January 2010
AASB 2008-13	*Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners*	Amends AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners and AASB 110 *Events after the Reporting Period* for the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue.	1 July 2009	No impact	1 January 2010

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2009-4	*Amendments to Australian Accounting Standards arising from the Annual Improvements Process*	Amends scope of AASB 2 *Share-based Payment* to exclude business combinations from scope; there are additional consequential amendments to AASB 138 *Intangible Assets* arising from revised AASB 3 *Business Combinations.*	1 July 2009	No impact	1 January 2010
AASB 2009-5	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	Includes a number of other amendments to existing standards which are not expected to have a material impact. Will amend classification of exploration expenditure in statement of cash flows.	1 July 2009	No impact	1 January 2010
AASB 2009-7	*Amendments to Australian Accounting Standards*	Various minor editorial amendments to a number of standards and an interpretation to correct errors that occurred in AASB 2008-12, AASB 2008-13 and AASB Interpretation 17 *Distributions of Non-Cash Assets to Owners* and other amendments reflect changes made by the IASB to its pronouncements.	1 July 2009	No impact	1 January 2010
AASB 2009-8	*Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*	The amendments clarify the scope of AASB 2 *Share-based Payment* by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	No impact	1 January 2010

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2009-09	*Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters*	Provides additional exemptions and modifications on transition to Australian Accounting Standards in relation to certain oil and gas and lease assessments under Interpretation 4 *Determining whether an Arrangement contains a Lease*.	1 January 2010	No impact	1 January 2010
AASB 2009-10	*Amendments to Australian Accounting Standards - Classification of Rights Issues*	Amends AASB 132 *Financial Instruments: Presentation* to require a financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Before this amendment, rights issues (rights, options, or warrants), denominated in a currency other than the functional currency of the issuer, were accounted for as derivative instruments.	1 February 2010	No impact	1 January 2011
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9*	This Standard gives effect to consequential changes arising from the issuance of AASB 9.	1 January 2013	Unlikely to have material impact	1 January 2013
AASB 2009-12	*Amendments to Australian Accounting Standards*	The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures	1 January 2011	No impact	1 January 2011

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2009-13	*Amendments to Australian Accounting Standards arising from Interpretation 19*	The objective of this Standard is to make amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* as a consequence of the issuance of Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments.*	1 July 2010	No impact	1 January 2011
Interpretation 17	*Distributions of Non-Cash Assets to Owners*	Provides guidance on when and how a liability for certain distributions of non-cash assets is recognised and measured, and how to account for that liability. Does not apply to common control transactions.	1 July 2009	No impact	1 January 2010
Interpretation 18	*Transfers of Assets from Customers*	Provides guidance on transfers of property, plant and equipment for entities that receive such contributions from their customers.	1 July 2009	No impact	1 January 2010
Interpretation 19	*Extinguishing Financial Liabilities with Equity Instruments*	This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.	1 July 2010	No impact	1 January 2011

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

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

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

The accounting policies have been consistently applied by the Group.

(c) Basis of consolidation

Subsidiaries

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

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

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

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

Minority interests

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

1. Significant Accounting Policies (continued)

(c) Basis of consolidation (continued)

Jointly controlled assets

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

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

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

Jointly controlled entities

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

Investment in an associate

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

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

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

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

1. Significant Accounting Policies (continued)

(d) Foreign currency

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

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

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

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

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

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

(e) Derivative financial instruments

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

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

1. Significant Accounting Policies (continued)

(e) Derivative financial instruments (continued)

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

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

(f) Hedging

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

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

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

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

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

1. Significant Accounting Policies (continued)

(f) Hedging (continued)

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

Hedge of net investment in a foreign operation
The gain or loss on an instrument used to hedge a net investment in a foreign operation is recognised directly in equity. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

(g) Acquisition of assets

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

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

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

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

1. Significant Accounting Policies (continued)

(h) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Significant Accounting Policies (continued)

(i) Oil and gas assets

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

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

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

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

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

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

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

(j) Land, buildings, plant and equipment

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

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

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

1. Significant Accounting Policies (continued)

(k) Depreciation and depletion

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

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

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

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

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

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

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

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

(l) Available-for-sale financial assets

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

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

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

1. Significant Accounting Policies (continued)

(m) Inventories

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

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

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

(n) Trade and other receivables

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

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

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

(o) Cash and cash equivalents

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

(p) Impairment

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

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

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

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

1. Significant Accounting Policies (continued)

(p) Impairment (continued)

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

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

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

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

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

(q) Provisions

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

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

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

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1. Significant Accounting Policies (continued)

(q) Provisions (continued)

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

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

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

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

(r) Employee benefits

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

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

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

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

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

1. Significant Accounting Policies (continued)

(r) Employee benefits (continued)

Defined benefit plan (continued)

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

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

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

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

Share-based payment transactions

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

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

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

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

1. Significant Accounting Policies (continued)

(r) Employee benefits (continued)

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

(s) Interest-bearing borrowings

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

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

(t) Borrowing costs

Borrowing costs, including interest and finance charges relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate (refer note 19). Borrowing costs incurred after commencement of commercial operations are expensed.

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

(u) Deferred income

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

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

(v) Trade and other payables

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

(w) Share capital

Ordinary share capital
Ordinary share capital is classified as equity.

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

1. Significant Accounting Policies (continued)

(w) Share capital (continued)

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

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

(x) Revenue

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

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

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

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

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

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

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

(y) Interest income

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

1. Significant Accounting Policies (continued)

(z) Other income

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

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

(aa) Leases

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

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

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

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

(ab) Goods and services tax

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

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

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

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

1. Significant Accounting Policies (continued)

(ac) Taxation

Royalty related taxation
Petroleum resource rent tax, resource rent royalty and additional profits tax are recognised as an income tax under AASB 112 *Income Taxes.*

Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the amount of income tax payable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the statement of financial position approach, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the appropriate tax bases. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Santos Ltd is the head entity in the tax-consolidated group. Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated among the members of the tax-consolidated group using a "stand-alone taxpayer" approach in accordance with Interpretation 1052 *Tax Consolidation Accounting* and are recognised in the separate financial statements of each entity. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The Company and the other entities in the tax-consolidated group have entered into a tax funding agreement. Tax contribution amounts payable under the tax funding agreement are recognised as payable to or receivable by the Company and each other member of the tax-consolidated group. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period under the tax funding agreement is different from the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period assumed by the Company, the difference is recognised as a contribution from (or distribution to) equity participants.

The Company and the other entities in the tax-consolidated group have also entered into a tax sharing agreement pursuant to which the other entities may be required to contribute to the tax liabilities of the Company in the event of default by the Company or upon leaving the tax-consolidated group.

1. Significant Accounting Policies (continued)

(ad) Discontinued operations and non-current assets held for sale

A discontinued operation is a component of the Group that has been disposed of, or is classified as held for sale, and that represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the statement of financial position.

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group) but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(ae) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

Estimates of reserve quantities

The estimated quantities of Proven plus Probable hydrocarbon reserves reported by the Group are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Group's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

1. Significant Accounting Policies (continued)

(ae) Significant accounting judgements, estimates and assumptions (continued)

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(h). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement. The carrying amount of exploration and evaluation assets is disclosed in note 13.

Provision for restoration

The Group estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation, the extent of restoration activities required and future removal technologies.

The carrying amount of the provision for restoration is disclosed in note 20.

Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of oil and gas assets and the assumptions used in the estimation of recoverable amount are discussed in notes 14 and 16 respectively.

2. Segment Information

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

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

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

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

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2. Segment Information

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

2. Segment Information (continued)

	Eastern Australia		WA & NT		Asia Pacific		GLNG		Other and unallocated		Total	
	2009 $million	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:												
Gain on sale of oil and gas assets	**-**	-	**227**	-	**34**	-	**1**	1,697	**-**	-	**262**	1,697
Loss on sale of controlled entity	**-**	-	**-**	-	**(14)**	-	-	-	**-**	-	**(14)**	-
Insurance recoveries from incidents	**8**	9	**-**	-	**-**	27	-	-	**-**	-	**8**	36
Change in provisions of remediation and related incidents	**4**	(32)	**-**	-	**9**	-	-	-	**-**	-	**13**	(32)
Provision for contracting losses	**-**	-	**-**	-	**(16)**	-	**(2)**	-	**-**	-	**(18)**	-

2. Segment Information (continued)

	Note	Eastern Australia 2009 $million	Eastern Australia 2008 $million	WA & NT 2009 $million	WA & NT 2008 $million	Asia Pacific 2009 $million	Asia Pacific 2008 $million	GLNG 2009 $million	GLNG 2008 $million	Other and unallocated 2009 $million	Other and unallocated 2008 $million	Total 2009 $million	Total 2008 $million
Total segment assets*		**3,442**	3,329	**2,005**	1,928	**807**	660	**1,238**	995	**3,869**	2,890	**11,361**	9,802
Total segment liabilities		**488**	583	**747**	711	**149**	94	**123**	143	**2,887**	3,793	**4,394**	5,324
Investments accounted for using the equity method		**-**	-	**-**	-	**-**	-	**-**	-	**177**	-	**177**	-
Additions and acquisitions of non-current assets													
Exploration and evaluation assets	**13**	**-**	-	**-**	-	**-**	**-**	**89**	42	**500**	303	**589**	345
Oil and gas assets	**14**	**407**	666	**229**	314	**268**	141	**196**	277	**6**	11	**1,106**	1,409
Other land, buildings, plant and equipment	**15**	**-**	-	**2**	-	**2**	4	**26**	-	**39**	44	**69**	48
Investment in an associate	**27**	**-**	-	**-**	-	**-**	-	**-**	-	**178**	-	**178**	**-**
		407	666	**231**	314	**270**	145	**311**	319	**723**	358	**1,942**	1,802

* *Total other and unallocated segment assets include:*

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

	Note	CONSOLIDATED 2009 $million	2008 $million
2. Segment Information (continued)			
Revenue from external customers by geographical location of production			
Australia		**2,084**	2,563
Other countries		**167**	242
Total revenue	3	**2,251**	2,805

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

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

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	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$million	$million	**$million**	$million
3. Revenue and Other Income				
Product sales:				
Gas, ethane and liquefied gas	**1,098**	1,052	**310**	301
Crude oil	**679**	1,151	**250**	407
Condensate and naphtha	**233**	321	**58**	81
Liquefied petroleum gas	**171**	238	**63**	84
	2,181	2,762	**681**	873
Other revenue:				
Overriding royalties	**8**	16	**12**	24
Pipeline tariffs and tolls	**30**	9	**2**	4
Trading revenue	**18**	13	**19**	8
Dividends from controlled entities	**-**	-	**-**	27
Other	**14**	5	**1**	1
	70	43	**34**	64
Total revenue	**2,251**	2,805	**715**	937
Other income:				
Insurance recoveries	**8**	36	**-**	-
Net gain on sale of non-current assets	**260**	1,699	**49**	1
Net loss on sale of controlled entities	**(14)**	-	**-**	-
	254	1,735	**49**	1
4. Expenses				
Cost of sales:				
Cash cost of production				
Production costs:				
Production expenses	**460**	465	**95**	155
Production facilities operating leases	**72**	78	**29**	30
	532	543	**124**	185
Other operating costs:				
Pipeline tariffs, tolls and other	**91**	84	**29**	21
Royalty and excise	**61**	101	**25**	43
	152	185	**54**	64
Total cash cost of production	**684**	728	**178**	249
Depreciation and depletion	**612**	662	**250**	273
Third party gas purchases	**117**	62	**35**	7
Decrease/(increase) in product stock	**10**	(29)	**-**	(8)
Total cost of sales	**1,423**	1,423	**463**	521

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED		SANTOS LTD	
	2009 **$million**	2008 $million	**2009** **$million**	2008 $million
4. Expenses (continued)				
Other expenses:				
Selling	**10**	18	**4**	11
Corporate	**77**	97	**86**	87
Depreciation	**7**	2	**3**	-
	94	117	**93**	98
Foreign exchange losses/(gains)	**28**	(24)	**7**	(6)
Change in fair value of financial assets designated as at fair value through profit or loss	**(6)**	12	**-**	-
Fair value hedges, losses/(gains):				
On the hedging instrument	**134**	(236)	**-**	-
On the hedged item attributable to the hedged risk	**(138)**	229	**-**	-
Exploration and evaluation expensed	**202**	179	**32**	22
Net impairment loss of oil and gas assets	**37**	216	**35**	71
Impairment reversal of receivables due from controlled entities	**-**	-	**(8)**	(24)
Net impairment loss of investments in controlled entities	**-**	-	**5**	50
	351	493	**164**	211

	CONSOLIDATED 2009	CONSOLIDATED 2008	SANTOS LTD 2009	SANTOS LTD 2008
Profit before tax includes the following:				
Depreciation and depletion:				
Depletion of subsurface assets	**348**	402	**147**	181
Depreciation of plant and equipment	**268**	257	**105**	90
Depreciation of buildings	**3**	5	**1**	2
Total depreciation and depletion	**619**	664	**253**	273
Employee benefits expense	**243**	217	**223**	210
Net write-down of inventories	**-**	1	**-**	-
Operating lease rentals:				
Minimum lease payments	**85**	88	**41**	39

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	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
5. Earnings				
EBITDAX is calculated as follows:				
Profit before tax	**717**	2,533	**201**	103
Add back:				
Net financing costs/(income)	**13**	91	**(64)**	103
EBIT	**730**	2,624	**137**	206
Add back:				
Depreciation and depletion	**619**	664	**253**	273
Exploration and evaluation expensed	**202**	179	**32**	22
Net impairment loss on oil and gas assets	**37**	216	**35**	71
Impairment reversal on receivables due from controlled entities	**-**	-	**(8)**	(24)
Net impairment loss on investments in controlled entities	**-**	-	**5**	50
EBITDAX	**1,588**	3,683	**454**	598
6. Net Financing Costs				
Interest income:				
Controlled entities	-	-	**(117)**	(129)
Other entities	**(85)**	(63)	**(80)**	(54)
Interest income	**(85)**	(63)	**(197)**	(183)
Interest expense:				
Controlled entities	-	-	**121**	276
Other entities	**69**	132	**1**	1
Less borrowing costs capitalised	**(9)**	(10)	**-**	-
	60	122	**122**	277
Unwind of the effect of discounting on provisions	**38**	32	**11**	9
Finance expenses	**98**	154	**133**	286
Net financing costs/(income)	**13**	91	**(64)**	103

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	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
7. Taxation Expense				
Recognised in the income statement:				
Income tax expense				
Current tax expense				
Current year	**79**	727	**74**	(8)
Adjustments for prior years	**(15)**	(9)	**9**	14
	64	718	**83**	6
Deferred tax expense				
Origination and reversal of temporary differences	**116**	90	**(21)**	42
Benefit of tax losses recognised	**-**	(28)	**-**	(28)
Adjustments for prior years	**25**	(12)	**-**	31
	141	50	**(21)**	45
Total income tax expense	**205**	768	**62**	51
Royalty related taxation expense				
Current tax expense				
Current year	**72**	79	**4**	28
Adjustments for prior years	**(1)**	7	**-**	2
	71	86	**4**	30
Deferred tax expense				
Origination and reversal of temporary differences	**6**	29	**(7)**	2
Adjustments for prior years	**1**	-	**-**	-
	7	29	**(7)**	2
Total royalty related taxation expense	**78**	115	**(3)**	32
Numerical reconciliation between tax expense and pre-tax net profit:				
Profit before tax	**717**	2,533	**201**	103
Prima facie income tax at 30% (2008: 30%)	**215**	760	**60**	31
Increase in income tax expense due to:				
Investment allowance	**(21)**	-	**(10)**	-
Net impairment loss of investments in controlled entities	**-**	-	**2**	15
Net impairment reversal of receivables from controlled entities	**-**	-	**-**	(7)
Benefit arising from previously unrecognised tax losses or temporary differences that is used to reduce current tax expense	**(7)**	(2)	-	-
Foreign losses not recognised	**25**	26	-	-
Dividends from controlled entities	**-**	-	-	(10)
Tax losses recognised/(derecognised)	**15**	(28)	**-**	(28)
Benefits arising from previously unrecognised tax basis in assets upon change in use	**(32)**	-	**-**	-
Under provided in prior years	**10**	19	**9**	45
Other	**-**	(7)	**1**	5
Income tax expense	**205**	768	**62**	51
Royalty related taxation expense	**78**	115	**(3)**	32
Total taxation expense	**283**	883	**59**	83

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$million	$million	**$million**	$million
7. Taxation Expense (continued)				
Deferred tax (credited)/charged directly to equity:				
Gain/(loss) on foreign currency loans designated as hedges of net investments in foreign operations	**86**	(82)	**-**	-
Change in fair value of available-for-sale financial assets	**-**	(4)	**-**	(4)
Off-market buy-back transaction costs	**-**	(1)	**-**	(1)
Entitlement offer transaction costs	**(23)**	-	**(23)**	-
Actuarial gain/(loss) on defined benefit plan	**5**	(11)	**5**	(11)
	68	(98)	**(18)**	(16)
8. Cash and Cash Equivalents				
Cash at bank and in hand	**234**	273	**58**	155
Short-term deposits	**2,006**	1,280	**1,973**	1,248
Cash and cash equivalents in the statements of cash flows	**2,240**	1,553	**2,031**	1,403

The carrying amounts of cash and cash equivalents represent fair value. Bank balances and short-term deposits earn interest at floating rates based upon market rates.

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

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2009 of US$16 million (2008: US$10 million) which can only be repatriated to Australia with the permission of the Internal Revenue Commission of Papua New Guinea in accordance with the financing plan submitted in respect of PDL 3.

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

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

Trade receivables are non-interest-bearing and settlement terms are generally within 30 days. Trade receivables that are neither past due nor impaired relate to a number of independent customers for whom there is no recent history of default.

Impaired receivables
An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss was recognised by the Group or the Company during the year.

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

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million

11. Other Financial Assets

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

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

Receivables due from controlled entities are for loans made in the ordinary course of business for an indefinite period. Interest-bearing amounts owing by controlled entities are at normal market terms and conditions.

Receivables due from other related entities are for loans made in the ordinary course of business for a term of five years, and interest is calculated on normal market terms and conditions.

12. Available-For-Sale Financial Assets

Equity securities available for sale	**2**	2	**2**	2

Investments in equity securities available for sale consist of investments in ordinary shares listed on the Australian Securities Exchange, and have no fixed maturity date or coupon rate.

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13. Exploration and Evaluation Assets

	CONSOLIDATED			SANTOS LTD		
	Sub-surface assets $million	Plant and equipment $million	Total $million	Sub-surface assets $million	Plant and equipment $million	Total $million
Balance at 31 December 2009	783	140	923	30	-	30
Reconciliation of movements						
Balance at 1 January 2009	451	42	493	43	-	43
Acquisition of controlled entities	-	8	8	-	-	-
Acquisition of exploration and evaluation assets	351	-	351	-	-	-
Additions	140	90	230	16	-	16
Exploration and evaluation expensed	(63)	-	(63)	(13)	-	(13)
Disposals and recoupment of exploration and evaluation expenditure	(24)	-	(24)	(23)	-	(23)
Transfer to oil and gas assets	(38)	-	(38)	7	-	7
Exchange differences	(34)	-	(34)	-	-	-
Balance at 31 December 2009	783	140	923	30	-	30
Comprising						
Acquisition related costs	527	8	535	7	-	7
Successful exploration wells	199	-	199	23	-	23
Exploration and evaluation assets pending determination of success*	57	132	189	-	-	-
	783	140	923	30	-	30

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

13. Exploration and Evaluation Assets (continued)

	CONSOLIDATED			SANTOS LTD		
	Sub-surface assets $million	Plant and equipment $million	Total $million	Sub-surface assets $million	Plant and equipment $million	Total $million
Balance at 31 December 2008	451	42	493	43	-	43
Balance at 1 January 2008	332	-	332	16	-	16
Acquisition of controlled entities	15	-	15	-	-	-
Acquisition of exploration and evaluation assets	28	-	28	-	-	-
Additions	260	42	302	81	-	81
Exploration and evaluation expensed	(82)	-	(82)	(22)	-	(22)
Net impairment losses	(1)	-	(1)	-	-	-
Transfer to oil and gas assets	(160)	-	(160)	(32)	-	(32)
Exchange differences	59	-	59	-	-	-
Balance at 31 December 2008	451	42	493	43	-	43
Comprising						
Acquisition related costs	218	-	218	12	-	12
Successful exploration wells	106	-	106	23	-	23
Exploration and evaluation assets pending determination of success*	127	42	169	8	-	8
	451	42	493	43	-	43

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

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14. Oil and Gas Assets

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

14. Oil and Gas Assets (continued)

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

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15. Other Land, Buildings, Plant and Equipment

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

16. Impairment of Cash-generating Units

At 31 December 2009 the Group reassessed the carrying amount of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. As a result, the recoverable amounts of some cash-generating units were formally reassessed resulting in an impairment loss of $37 million (2008: $216 million).

Estimates of recoverable amounts are based on the asset's value in use, determined by discounting each asset's estimated future cash flows at asset-specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates between 9.1% and 15.8% (2008: 8.8% and 15.8%) depending on the nature of the risks specific to each asset. Where an asset does not generate cash flows that are largely independent of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

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

17. Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 $million	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million
Consolidated						
Exploration and evaluation assets	-	-	**(192)**	(73)	**(192)**	(73)
Oil and gas assets	-	-	**(241)**	(289)	**(241)**	(289)
Other land, buildings, plant and equipment	**36**	46	**-**	-	**36**	46
Available-for–sale financial assets	**1**	1	**-**	-	**1**	1
Trade receivables	-	-	**(6)**	(4)	**(6)**	(4)
Other receivables	-	-	**(4)**	(4)	**(4)**	(4)
Inventories	-	-	**(30)**	(27)	**(30)**	(27)
Prepayments	-	-	**-**	(2)	**-**	(2)
Derivative financial instruments	-	-	**(35)**	(117)	**(35)**	(117)
Other assets	-	-	**(16)**	(10)	**(16)**	(10)
Equity-raising costs	**19**	1	**-**	-	**19**	1
Interest-bearing loans and borrowings	-	86	**(71)**	-	**(71)**	86
Other liabilities	-	-	**(1)**	(3)	**(1)**	(3)
Provisions	**57**	66	**-**	-	**57**	66
Royalty related taxes	-	-	**(269)**	(258)	**(269)**	(258)
Other items	-	-	**(49)**	(52)	**(49)**	(52)
Tax value of carry-forward losses recognised	**9**	6	**-**	-	**9**	6
Tax assets/(liabilities)	**122**	206	**(914)**	(839)	**(792)**	(633)
Set-off of tax	**(43)**	(95)	**43**	95	**-**	-
Net tax assets/(liabilities)	**79**	111	**(871)**	(744)	**(792)**	(633)

17. Deferred Tax Assets and Liabilities (continued)

	Assets		Liabilities		Net	
	2009 $million	2008 $million	**2009 $million**	2008 $million	**2009 $million**	2008 $million
Santos Ltd						
Exploration and evaluation assets	**-**	-	**(2)**	(10)	**(2)**	(10)
Oil and gas assets	**-**	-	**(48)**	(77)	**(48)**	(77)
Other land, buildings, plant and equipment	**-**	-	**(21)**	(9)	**(21)**	(9)
Available-for-sale financial assets	**1**	1	**-**	-	**1**	1
Trade receivables	**-**	-	**(6)**	(3)	**(6)**	(3)
Other receivables	**-**	-	**(4)**	(5)	**(4)**	(5)
Inventories	**-**	-	**(17)**	(15)	**(17)**	(15)
Other assets	**1**	1	**-**	-	**1**	1
Equity-raising costs	**19**	1	**-**	-	**19**	1
Provisions	**41**	46	**-**	-	**41**	46
Royalty related taxes	**-**	-	**(61)**	(61)	**(61)**	(61)
Other items	**-**	-	**(6)**	(3)	**(6)**	(3)
Tax assets/(liabilities)	**62**	49	**(165)**	(183)	**(103)**	(134)
Set-off of tax	**(62)**	(49)	**62**	49	**-**	-
Net tax liabilities	**-**	-	**(103)**	(134)	**(103)**	(134)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Temporary differences in relation to investments in subsidiaries	**578**	915	-	-
Deductible temporary differences	**110**	74	-	-
Tax losses	**35**	46	-	-
	723	1,035	-	-

Deferred tax assets have not been recognised in respect of these items because it is not probable that the temporary differences will reverse in the future and that there will be sufficient future taxable profits against which the benefits can be utilised. Unrecognised deductible temporary differences and tax losses of $35 million (2008: $46 million) will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
18. Trade and Other Payables				
Trade payables	**430**	391	**129**	132
Non-trade payables and accrued expenses	**279**	214	**70**	65
Tax related balances owing to controlled entities	**-**	-	**62**	-
Amounts owing to controlled entities	**-**	-	**517**	526
	709	605	**778**	723

19. Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 38.

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

The amounts owing to controlled entities are for loans made in the ordinary course of business on normal market terms and conditions and are not repayable for a minimum of nine years.

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 3.58% as at 31 December 2009 (2008: 5.74%). All borrowings are unsecured, with the exception of the secured bank loan, and arranged through a controlled entity, Santos Finance Ltd, and guaranteed by Santos Ltd.

19. Interest-Bearing Loans and Borrowings (continued)

Details of major credit facilities

(a) Bank loans - secured

A reserve-based lending facility for US$65.0 million was entered into in the 2006 reporting period which bears a floating rate of interest. The facility is secured by a first charge over the Group's interests in the Maleo assets in Indonesia with a carrying amount at 31 December 2009 of A$86 million. The average rate for the year was 6.33%, and A$19 million was outstanding at the reporting date (2008: A$44 million). The facility is available until 2012, and the current amount drawn down is expected to be fully repaid by 2011.

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

(b) Bank loans - unsecured

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

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

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

Term bank loans

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

Term bank loans bear interest at the relevant interbank reference rate plus a margin of up to 0.75%. The amount outstanding at 31 December 2009 is US$134 million (A$150 million) (2008: US$153 million (A$222 million)) at a weighted average annual effective interest rate of 2.30% (2008: 5.03%).

19. Interest-Bearing Loans and Borrowings (continued)

(c) Commercial paper

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

(d) Medium-term notes

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

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

** Floating rate of interest.*

(e) Long-term notes

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

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

20. Provisions

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

20. Provisions (continued)

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

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

Restoration

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

Remediation

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

Non-executive Directors' retirement benefits

Agreements exist with Non-executive Directors appointed prior to 1 January 2004 providing for the payment of a sum on retirement from office as a Director in accordance with shareholder approval at the 1989 Annual General Meeting. Such benefits ceased to accrue with effect from 30 June 2004. These benefits have been fully provided for by the Company. In June 2007, the Board resolved to adopt a policy of indexation of these frozen benefits to prevent further erosion of the real value. The entitlements are annually indexed to the five-year government bond rate.

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
21. Other Liabilities				
Current				
Interest rate swap contracts	**1**	-	-	-
Cross-currency swap contracts	**7**	-	-	-
Embedded derivatives	**-**	6	-	-
Other	**2**	2	-	-
	10	8	-	-

	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
21. Other Liabilities (continued)				
Non-current				
Other	**9**	9	-	-

22. Capital and Reserves

Issued capital

	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
831,834,626 (2008: 584,812,875) ordinary shares, fully paid	**4,987**	1,947	**4,987**	1,947
88,000 (2008: 88,000) ordinary shares, paid to one cent	**-**	-	**-**	-
Nil (2008: 6,000,000) redeemable convertible preference shares	**-**	584	**-**	584
	4,987	2,531	**4,987**	2,531

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

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

22. Capital and Reserves (continued)

Fully paid ordinary shares carry one vote per share, which entitles the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. The market price of the Company's ordinary shares on 31 December 2009 was $14.09 (2008: $14.87).

(a) Entitlement offer

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

(b) Dividend reinvestment plan

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the business day after the Dividend Record Date. At this time, the Board has determined that no discount will apply. The Dividend Reinvestment Plan is currently not underwritten.

(c) Off-market buy-back

On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid ordinary shares on issue at that date, at a price of $16.23 per share. $56 million was debited against the Company's capital account (including $1 million transaction costs, net of tax) and $245 million was debited against retained earnings.

(d) Redeemable convertible preference shares

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

Nature and purpose of reserves

Translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the financial asset is derecognised.

Capital risk management

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

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

22. Capital and Reserves (continued)

The Group manages its capital with a primary objective to maintain investment grade credit rating. One of the measures which is used to monitor capital is the gearing ratio. The Group undertakes this on a forecast and actual results basis. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents and value of financial derivatives used to hedge net debt. Total capital is calculated as total equity as shown in the statement of financial position plus net debt. Equity in 2008 included redeemable convertible preference shares which were redeemed in September 2009 (refer note 22(d) above).

During 2009 the Group's target was to maintain a gearing ratio below 45% and a BBB+ Standard & Poor's credit rating. The gearing ratios at 31 December 2009 and 31 December 2008 were as follows:

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

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

Dividends

Dividends recognised during the year by the Company are:

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

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

22. Capital and Reserves (continued)

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

	Dollars per share	Total $million	Franked/ unfranked	Payment date
Final 2009 ordinary	**$0.20**	**166**	**Franked**	**31 Mar 2010**
		166		

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

	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
Dividend franking account		
30% franking credits available to shareholders of Santos Ltd for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December 2009	**965**	1,062

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by $71 million (2008: $58 million).

23. Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Santos Ltd (after deducting dividends paid on redeemable convertible preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Santos Ltd (after adding back the dividends paid on redeemable convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

23. Earnings per Share (continued)

	CONSOLIDATED	
	2009 $million	2008 $million
Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows:		
Net profit attributable to ordinary equity holders of Santos Ltd	**434**	1,650
Dividends paid on redeemable convertible preference shares	**(28)**	(38)
Earnings used in the calculation of basic earnings per share	**406**	1,612
Dividends paid on redeemable convertible preference shares	**-**	38
Earnings used in the calculation of diluted earnings per share	**406**	1,650

The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

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

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan and Share Acquisition Rights (“SARs”) issued to eligible executives and redeemable convertible preference shares have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2009. The number of shares included in the calculation are those assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price. The weighted average number of shares used for the purposes of calculating diluted earnings per share in 2008 was retrospectively adjusted for the effect of the Entitlement offer (refer note 22(a)).

During the year, 427,050 options (2008: 303,583) and 303,085 SARs (2008: 141,330) were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 197,097 (2008: 181,447).

24,690 options (2008: 460,385) and 61,961 SARs (2008: 236,426) lapsed during the year. The diluted earning per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options or SARs lapsed. The weighted average number included is 45,570 (2008: 177,527).

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

24. Consolidated Entities

Name	Country of incorporation
Santos Ltd (Parent Entity)	AUST
Controlled entities[1]:	
Alliance Petroleum Australia Pty Ltd [2]	AUST
Basin Oil Pty Ltd	AUST
Boston L.H.F. Pty Ltd	AUST
Bridgefield Pty Ltd	AUST
Bridge Oil Developments Pty Limited [2]	AUST
Bronco Energy Pty Limited	AUST
Canso Resources Pty Ltd	AUST
Coveyork Pty Ltd	AUST
Doce Pty Ltd	AUST
Fairview Pipeline Pty Ltd	AUST
Farmout Drillers Pty Ltd	AUST
Gidgealpa Oil Pty Ltd	AUST
Kipper GS Pty Ltd	AUST
Controlled entity of Kipper GS Pty Ltd	
Santos Carbon Pty Ltd	AUST
Moonie Pipeline Company Pty Ltd	AUST
Reef Oil Pty Ltd [2]	AUST
Santos Asia Pacific Pty Ltd	AUST
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Sampang) Pty Ltd	AUST
Santos (Warim) Pty Ltd	AUST
Santos Australian Hydrocarbons Pty Ltd	AUST
Santos (BOL) Pty Ltd [2]	AUST
Controlled entity of Santos (BOL) Pty Ltd	
Bridge Oil Exploration Pty Limited	AUST
Santos CSG Pty Ltd	AUST
Santos Darwin LNG Pty Ltd [2]	AUST
Santos Direct Pty Ltd	AUST
Santos Facilities Pty Ltd	AUST
Santos Finance Ltd	AUST
Santos GLNG Pty Ltd	AUST
Santos (Globe) Pty Ltd	AUST
Santos International Holdings Pty Ltd	AUST
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Limited	PNG
CJSC South Petroleum Company [1]	KGZ
Lavana Limited	PNG
Santos Petroleum Ventures B.V.	NL
Sanro Insurance Pte Ltd	SG
Santos Americas and Europe Corporation	USA
Controlled entities of Santos Americas and Europe Corporation	
Santos TPY Corp	USA
Controlled entities of Santos TPY Corp	
Santos Queensland Corp	USA
Santos TOG Corp	USA
Controlled entities of Santos TOG Corp	
Santos TOGA Pty Ltd	AUST
Controlled entity of Santos TOGA Pty Ltd	
Santos TPC Pty Ltd	AUST
Santos TPY CSG Corp	USA
Santos Bangladesh Limited	UK
Santos (Bawean) Pty Ltd	AUST

Name	Country of incorporation
Santos (BBF) Pty Ltd	AUST
Controlled entities of Santos (BBF) Pty Ltd	
Santos (SPV) Pty Ltd	AUST
Controlled entities of Santos (SPV) Pty Ltd	
Santos (Madura Offshore) Pty Ltd	AUST
SB Jethro Pty Ltd *(previously Santos*	AUST
Brantas Pty Ltd)	AUST
Santos (Donggala) Pty Ltd	AUST
Santos Egypt Pty Ltd	AUST
Santos Hides Ltd	PNG
Santos International Operations Pty Ltd	AUST
Santos International Ventures Pty Ltd	AUST
Santos Niugini Exploration Limited	PNG
Santos (Nth Bali 1) Pty Ltd	AUST
Santos (Papalang) Pty Ltd	AUST
Santos (Popodi) Pty Ltd	AUST
Santos Vietnam Pty Ltd	AUST
Zhibek Resources Limited [1]	UK
Controlled entity of Zhibek Resources Limited	
CJSC KNG Hydrocarbons [1]	KGZ
Santos (JBJ1) Pty Ltd	AUST
Controlled entities of Santos (JBJ1) Pty Ltd	
Santos (JBJ2) Pty Ltd	AUST
Controlled entity of Santos (JBJ2) Pty Ltd	
Shaw River Power Station Pty Ltd	AUST
Santos (JPDA 06-104) Pty Ltd	AUST
Santos (JPDA 91-12) Pty Ltd	AUST
Santos (NARNL Cooper) Pty Ltd [2]	AUST
Santos (N.T.) Pty Ltd	AUST
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Limited	AUST
Santos Offshore Pty Ltd [2]	AUST
Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MY
Santos Petroleum Pty Ltd [2]	AUST
Santos QNT Pty Ltd [2]	AUST
Controlled entities of Santos QNT Pty Ltd	
Gastar Power Pty Ltd [3]	
Santos QNT (No. 1) Pty Ltd [2]	AUST
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd [2]	AUST
Santos Petroleum Operations Pty Ltd	AUST
TMOC Exploration Proprietary Limited	AUST
Santos QNT (No. 2) Pty Ltd [2]	AUST
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Moonie Oil Pty Ltd	AUST
Petromin Pty Ltd	AUST
Santos (299) Pty Ltd (in liquidation)	AUST
Santos Exploration Pty Ltd	AUST
Santos Gnuco Pty Ltd	AUST
Transoil Pty Ltd	AUST
Santos Resources Pty Ltd	AUST
Santos (TGR) Pty Ltd	AUST
Santos Timor Sea Pipeline Pty Ltd	AUST
Sesap Pty Ltd	AUST
Vamgas Pty Ltd [2]	AUST

24. Consolidated Entities (continued)

Notes

1 *Beneficial interests in all controlled entities are 100%, except:*
- *CJSC South Petroleum Company (70%);*
- *CJSC KNG Hydrocarbons (54%); and,*
- *Zhibek Resources Limited (75%).*

2 *Company is party to a Deed of Cross Guarantee. Refer note 37.*

3 *Company acquired during the year. Refer note 25.*

Country of incorporation

AUST - Australia
KGZ - Kyrgyz Republic
MY - Malaysia
NL - Netherlands
PNG - Papua New Guinea
SG - Singapore
UK - United Kingdom
USA - United States of America

In the financial statements of the Company, investments in controlled entities are recognised at cost, less any impairment losses.

25. Acquisitions of Subsidiaries

During the financial year the following controlled entities were acquired and their operating results have been included in the income statement from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest acquired %	Purchase consideration $million	Contribution to consolidated profit since acquisition $million
Gastar Power Pty Ltd	2 July 2009	100%	**8**	**-**

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

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

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

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

* *Deferred consideration paid in 2009 comprises:*

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

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

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

26. Disposal of Subsidiaries

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

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

	10 May 2009 $million
Trade and other receivables	2
Inventories	1
Exploration and evaluation assets	38
Interest bearing loan receivable	14
Trade and other payables	(3)
Tax liabilities	(2)
Provisions	(1)
Deferred tax liabilities	(11)
Net assets attributable to the disposed entities	38

The cash inflow on disposal of controlled entities is as follows:

Cash received	24
Net cash and cash equivalents disposed with subsidiaries	-
Net consolidated cash inflow	24

27. Associated Company

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

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

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

Summarised financial information*

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

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

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

28. Interests in Joint Ventures

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

Joint venture	Cash-generating unit	Principal activities	% interest
Oil and gas assets - Producing assets			
Bayu-Undan Liquids	Bayu-Undan	Gas production	11.4
Bayu-Undan LNG	Bayu-Undan	Gas production	11.4
Casino	Casino	Gas production	50.0
Fairview	Fairview	Gas (CSG) production	45.7
Madura PSC (Maleo)	Madura PSC	Gas production	67.5
Mereenie	Mereenie	Oil and gas production	65.0
John Brookes	John Brookes	Gas production	45.0
Mutineer-Exeter	Mutineer-Exeter	Oil production	33.4
Sampang PSC (Oyong, Wortel)	Sampang PSC	Oil and gas production	45.0
Sangu	Sangu PSC	Gas production	37.5
Stag	Stag	Oil and gas production	66.7
SA Fixed Factor Area	Cooper Basin	Oil and gas production	66.6
SWQ Unit	Cooper Basin	Gas production	60.1
Oil and gas assets - Assets in development			
PNG LNG	PNG LNG	Gas development	13.5
Kipper	Kipper	Gas development	50.0
Reindeer	Reindeer	Gas development	45.0
Chim Sao	Vietnam (Block 12)	Gas development	31.9
Exploration and evaluation assets			
Evans Shoal	-	Contingent gas resource	40.0
Gunnedah	-	Contingent gas (CSG) resource	35.0
PEL1 and 12	-	Contingent gas (CSG) resource	25.0

28. Interests in Joint Ventures (continued)

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

Joint venture entity	**% interest**
Darwin LNG Pty Ltd	11.4
Papua New Guinea Liquefied Natural Gas Global Company LDC	13.5
Easternwell Drilling Services Holdings Pty Ltd	50.0
GLNG Operations Pty Ltd	60.0

	CONSOLIDATED		**SANTOS LTD**	
	2009 $million	2008 $million	**2009 $million**	2008 $million
The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities, which are included in the consolidated financial statements using the proportionate consolidation method of accounting, are as follows:				
Current assets	**64**	50	-	-
Non-current assets	**164**	194	-	-
	228	244	-	-
Current liabilities	**(21)**	(98)	-	-
Non-current liabilities	**(24)**	(15)	-	-
Net assets	**183**	131	-	-
Revenue	**216**	238	-	-
Expenses	**(189)**	(214)	-	-
Profit before income tax	**27**	24	-	-

(c) The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:				
Capital expenditure commitments	**2,113**	366	**104**	93
Minimum exploration commitments	**157**	187	**9**	7

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

29. Notes to the Statements of Cash Flows (continued)

(b) Non-cash financing and investing activities

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

(c) Total taxation paid

	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
Income tax paid				
Cash flow from operating activities	**(55)**	(292)	**(24)**	(229)
Cash flow from investing activities	**(497)**	-	**(497)**	-
Royalty related tax paid				
Cash flow from operating activities	**(71)**	(152)	**(25)**	(35)
	(623)	(444)	**(546)**	(264)

30. Employee Benefits

(a) Defined benefit plan

Defined benefit members of the Santos Superannuation Plan receive a lump sum benefit on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.

Amount recognised in the statements of financial position:

	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
Deficit in plan recognised in non-current provisions (refer note 20)	**34**	62	**34**	62
Non-current receivables (refer note 9)	**(9)**	(17)	**(9)**	(17)
	25	45	**25**	45

Movements in the liability for net defined benefit obligations recognised in the statements of financial position

	CONSOLIDATED 2009 $million	CONSOLIDATED 2008 $million	SANTOS LTD 2009 $million	SANTOS LTD 2008 $million
Liability at the beginning of the year	**45**	11	**45**	11
Expense recognised in income statement	**3**	3	**2**	2
Amount capitalised in oil and gas assets	**1**	2	**1**	1
Amount recognised in retained earnings	**(16)**	37	**(16)**	37
Defined benefit receivable from controlled entities	**-**	-	**1**	2
Employer contributions	**(8)**	(8)	**(8)**	(8)
Liability at the end of the year	**25**	45	**25**	45

30. Employee Benefits (continued)

(a) Defined benefit plan (continued)

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Expense recognised in the income statements				
Service cost	**4**	3	**2**	2
Interest cost	**3**	4	**2**	2
Expected return on Plan assets	**(4)**	(4)	**(2)**	(2)
	3	3	**2**	2
The expense is recognised in the following line items in the income statements:				
Cost of sales	**3**	-	**2**	-
Other expenses	**-**	3	**-**	2
	3	3	**2**	2
Amounts recognised in the statements of comprehensive income				
Actuarial gain/(loss) in the year	**16**	(37)	**16**	(37)
Tax effect	**(5)**	11	**(5)**	11
Net actuarial gain/(loss) in the year	**11**	(26)	**11**	(26)
Cumulative actuarial gain/(loss) recognised in the statements of comprehensive income, net of tax	**8**	(23)	**8**	(23)

Historical information for the current and previous periods

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

30. Employee Benefits (continued)

(a) Defined benefit plan (continued)

Historical information for the current and previous periods (continued)

Santos Ltd

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

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

30. Employee Benefits (continued)

(a) Defined benefit plan (continued)

Plan assets

	CONSOLIDATED		SANTOS LTD	
	2009 %	2008 %	**2009 %**	2008 %
The percentage invested in each asset class at the reporting date:				
Australian equity	**32**	28	**32**	28
International equity	**29**	27	**29**	27
Fixed income	**10**	10	**10**	10
Property	**9**	13	**9**	13
Other	**7**	10	**7**	10
Cash	**13**	12	**13**	12

Fair value of Plan assets

The fair value of Plan assets includes no amounts relating to:

- any of the Group's own financial instruments; or
- any property occupied by, or other assets used by, the Group.

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Actual return on Plan assets				
Actual return on Plan assets – gain/(loss)	**12**	(24)	**12**	(24)

Expected rate of return on Plan assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for asset-based administration expenses has been deducted from the expected return.

Principal actuarial assumptions at the reporting date (expressed as weighted average)	**2009 % pa**	2008 % pa
Discount rate	**4.8**	4.0
Expected rate of return on Plan assets	**7.0**	7.0
Expected average salary increase rate over the life of the Plan	**6.0**	6.0

The expected rate of return on Plan assets includes a reduction to allow for the administrative expenses of the Plan.

Expected contributions

The Group expects to contribute $8 million to the defined benefit superannuation plan in 2010.

(b) Defined contribution plans

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $8 million (2008: $6 million).

31. Share-based Payment Plans

(a) Current general employee share plans

The Company currently operates two general employee share plans:

- the Santos Employee Share Acquisition Plan (“SESAP”); and
- the Santos Employee Share Purchase Plan (“SESPP”).

Both of these plans have operated since 1997.

SESAP

Broadly, SESAP provides for permanent eligible employees with at least a minimum period of service determined by Directors as at the offer date (one year of completed service) to be entitled to acquire shares under this Plan. Executives participating in the Executive Long-term Incentive Programme in 2009, casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

The Plan provides for grants of fully paid ordinary shares in the capital of the Company up to a value determined by the Board being $1,000 per annum per eligible employee. A trustee is funded by the Group to acquire shares directly from the Company or on market. The shares are then held by the trustee on behalf of eligible employees who participate in the Plan.

The employee’s ownership of shares allocated under the Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period determined by the Board (being three years) and the time when he or she ceases to be an employee. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues during the restriction period. At the end of the reporting period shares are granted to eligible employees at no cost to the employee.

Summary of share movements in the SESAP during 2009 (and comparative 2008 information):

		Granted during the year		Distributions during the year		Closing balance	
Grant date			Fair value per share		Fair value aggregate		Fair value aggregate
	Number	Number	$	Number	$	Number	$
2009							
17 November 2006	**97,980**	**-**	**-**	**97,980**	**1,495,791**	**-**	**-**
20 November 2007	**92,625**	**-**	**-**	**6,150**	**95,780**	**86,475**	**1,218,433**
21 November 2008	**110,679**	**-**	**-**	**7,189**	**111,436**	**103,490**	**1,458,174**
20 November 2009	**-**	**101,376**	**15.11**	**594**	**8,602**	**100,782**	**1,420,018**
	301,284	**101,376**		**111,913**	**1,711,609**	**290,747**	**4,096,625**
2008							
18 November 2005	**89,848**	-	-	89,848	1,164,977	-	-
17 November 2006	**105,156**	-	-	7,176	117,648	97,980	1,456,963
20 November 2007	**99,825**	-	-	7,200	119,379	92,625	1,377,334
21 November 2008	**-**	111,153	12.62	474	6,621	110,679	1,656,797
	294,829	111,153		104,698	1,408,625	301,284	4,491,094

31. Share-based Payment Plans (continued)

(a) Current general employee share plans (continued)

Shares are allocated at a price equal to the weighted average sale price of the Company's ordinary shares on the ASX during the one-week period up to and including the Grant Date. This is shown as fair value per share for shares granted during the year. The fair value of shares distributed from the trust during the year and remaining in the trust at the end of the financial year is the market price of shares of the Company on the ASX as at close of trading on the respective dates.

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

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

	CONSOLIDATED		**SANTOS LTD**	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Employee expenses	**1,532**	1,403	**1,532**	1,403
Issued ordinary share capital	**1,532**	1,403	**1,532**	1,403

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

SESPP

The general employee offer under SESPP is open to all employees (other than a casual employee or Director of the Company) determined by the Board who are continuing employees at the date of the offer. However, employees who are not resident in Australia at the time of an offer under the Plan and those who have participated in the Executive Long-term Incentive Programme during the year will not be eligible to participate in that offer unless the Board otherwise decides.

Under the Plan, eligible employees may be offered the opportunity to subscribe for or acquire fully paid ordinary shares in the capital of the Company at a discount to market price, subject to restrictions, including on disposal, for a period determined by the Board (one year). The subscription or acquisition price is Market Value (being the weighted average sale price of the Company's ordinary shares on the ASX during the one-week period up to and including the offer date) less any discount determined by the Board (5%). Under the Plan, at the discretion of the Board, financial assistance may be provided to employees to subscribe for and acquire shares under the Plan. The 5% discount constitutes financial assistance for these purposes. Participants are entitled to vote, receive dividends and participate in bonus and rights issues during the restriction period.

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

31. Share-based Payment Plans (continued)

(a) Current general employee share plans (continued)

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

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

The fair value per share for shares granted during the year is Market Value (as defined above). The consideration received by the Company per share is Market Value less the discount of 5% referred to above.

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

	CONSOLIDATED		SANTOS LTD	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Issued ordinary share capital	**273**	3,274	**273**	3,274

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

(b) Executive Long-term Incentive Programme

The Company's Executive Long-term Incentive ("LTI") Programme provides for invitations to be extended to eligible executives selected by the Board.

The Programme currently consists of an offer of securities under:

- the Santos Employee Share Purchase Plan ("SESPP"); and
- the Santos Executive Share Option Plan ("SESOP").

SESOP has operated since 1997 and the SESPP has been used as a component of executive compensation since 2003.

Share Acquisition Rights and options
Each Share Acquisition Right ("SAR") and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.

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

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Chief Executive Officer and Managing Director

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

The 2008 grants comprised:

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

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

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

- The LTI grants made in 2008 were structured to provide Mr Knox with an annual LTI opportunity of 100% of Total Fixed Remuneration ("TFR") (based on the 2008 level of $1.75 million) for each of the 2008, 2009 and 2010 years, subject to achieving applicable vesting conditions.
- Mr Knox was able to elect to receive his LTI grant as either SARs, market value options or a combination of the two. He chose to take a combination of the two.
- All of the performance-based LTIs are subject to hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a three-year performance period. There is no retesting of performance conditions.
- The CEO Performance Award is divided into three tranches:

  Tranche 1 – Tested over the period from 1 January 2008 to 31 December 2010;
  Tranche 2 – Tested over the period from 1 January 2009 to 31 December 2011; and
  Tranche 3 – Tested over the period from 1 January 2010 to 31 December 2012.
- Each Tranche of the CEO Performance Award vests in accordance with the following vesting schedule:

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

- None of the grants has vested as the period over which the performance hurdles are tested has not expired.
- Upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to restrictions until the earlier of ten years from the grant date, cessation of employment, or the date at which the Board approves, at Mr Knox's request, the removal of the restrictions.

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

- Options may be exercised at any time between the vesting date and the expiry date (27 July 2018), subject to payment of the exercise price of $17.36 per option (being the volume weighted average price in the week up to and including the grant date).
- Full details of the equity grants made to Mr Knox in 2008 are contained in the 2008 Remuneration Report.

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

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

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

During the year no options were exercised (2008: nil).

The fair value of shares issued as a result of exercising the options or vesting of SARs during the reporting period at their issue date is the market price of shares of the Company on the ASX as at close of trading.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the models.

	2008				
	Performance Award	Deferred Award	CEO Performance Awards		
Option grant	F1	F2	F3	F4	F5
Fair value at grant date ($)	5.25	7.30	5.77	4.22	4.29
Share price on grant date ($)	17.71	17.71	17.40	17.40	17.40
Exercise price ($)	15.39	15.39	17.36	17.36	17.36
Expected volatility (weighted average, %pa)	30.7	30.7	30.9	30.9	30.9
Option life (weighted average)	10 years	10 years	10 years	10 years	10 years
Expected dividends (%pa)	2.3	2.3	2.3	2.3	2.3
Risk-free interest rate (based on Australian Government bond yields, %pa)	6.29	6.29	6.05	6.05	6.05

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

During the financial year, the Company granted nil (2008: 136,779) SARs to the CEO as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

	2009 Number	2008 Number
Outstanding at the beginning of the year	**136,779**	-
Granted during the year	**-**	136,779
Outstanding at the end of the year	**136,779**	136,779
Exercisable at the end of the year	**-**	-

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into the Monte Carlo simulation method.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

	2008		
	CEO Performance Award		
SARs grant	F3	F4	F5
Fair value at grant date ($)	13.82	8.60	8.41
Share price on grant date ($)	17.40	17.40	17.40
Exercise price ($)	-	-	-
Expected volatility (weighted average, %pa)	30.9	30.9	30.9
Right life (weighted average)	10 years	10 years	10 years
Expected dividends (%pa)	2.3	2.3	2.3
Risk-free interest rate (based on Australian Government bond yields, %pa)	6.05	6.05	6.05

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Former CEO

Mr J C Ellice-Flint retired on 25 March 2008. Consistent with the terms of his service agreement, 2,312,500 of Mr Ellice-Flint's options, which had not previously vested, were vested and became exercisable upon cessation of his employment.

Each option entitles Mr Ellice-Flint to acquire one fully paid ordinary share in the Company at a predetermined price, subject to satisfaction of vesting conditions. The grant size is determined by reference to the median grant size given to executives in similar roles in comparable companies.

No options have been granted to Mr Ellice-Flint since 2006.

At 31 December 2009, the 2,500,000 options are on issue, and are exercisable. The exercise price for the options granted is $11.36, being the volume weighted average price in the ten days up to and including 9 March 2006 as approved by shareholders on 4 May 2006. The options have a contractual life of ten years.

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Eligible senior executives – SARs and options

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

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

Both the Performance Award and the Deferred Award were delivered, at the executive's election, in the form of either SARs (under the SESPP) or options (under the SESOP).

SARs and options were granted at no cost to the executives with the number of SARs awarded being determined by dividing the amount of the award by the volume weighted average price of the Company's shares over the week up to and including the award date. The number of options awarded is of equivalent value calculated by an independent expert based on an acceptable valuation method.

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

Performance Award		
Vesting period	1 January 2009 to 31 December 2011.	
Vesting condition	Vesting of the Performance Award is based on relative TSR against ASX 100 companies as at 1 January 2009.	
Vesting schedule	**Relative TSR condition**	
	Santos TSR percentile ranking	***% of grant vesting***
	< 50^{th} percentile	0%
	= 50^{th} percentile	33.33%
	51^{st} to 99^{th} percentile	Further 1.33% for each percentile
	100^{th} percentile	100%
Exercise price	$14.81 for options, being the volume weighted average price in the week up to and including the grant date of 2 March 2009. SARs have no exercise price.	
Expiry/lapse	Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited. There is no re-testing of the performance conditions if they are not satisfied.	

Deferred Award	
Vesting period	2 March 2009 to 1 March 2012.
Vesting condition	Vesting of the Deferred Award is based on continuous service to 1 March 2012, or three years from the grant date.
Vesting schedule	0% if the continuous service condition is not met. 100% if the continuous service condition is met.
Exercise price	As for Performance Award.
Expiry/lapse	As for Performance Award.

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in special circumstances approved by the Board, then a proportion of the SARs and options may vest and become exercisable.

Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.

During the financial year, the Company granted 275,884 (2008: 880,533) options over unissued shares as set out below:

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

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

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

The fair value of shares issued as a result of exercising the options or vesting of SARs during the reporting period at their issue date is the market price of shares of the Company on the ASX as at close of trading.

The amounts recognised in the financial statements of the Group and the Company in relation to executive share options exercised during the financial year were:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	**SANTOS LTD 2009 $'000**	SANTOS LTD 2008 $'000
Issued ordinary share capital	**4,103**	2,553	**4,103**	2,553

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the models.

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

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

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

During the financial year, the Company granted 723,792 (2008: 241,668) SARs to eligible senior executives as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

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

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received is measured based on the Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into the Monte Carlo simulation method.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

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

Cash-settled share-based payments

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

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

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

- to use TSR data which takes into account the impact of rights issues and other capital management activities on both Santos and comparator group companies when testing the satisfaction of TSR performance hurdles that apply to Santos LTI awards; and

- subject to the SARs and options vesting following satisfaction of applicable hurdles (and, in the case of options, being exercised), to make a future cash remuneration payment to executives equal to the value of the right to participate in the rights issue (calculated at $1.31 for each underlying share in accordance with the formula in ASX Listing Rule 6.22.2). The intention is to “keep whole” the executives in respect of SARs and options that actually vest in due course. No cash payment will be made in respect of SARs that do not vest or options that do not vest or are not exercised.

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

31. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

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

Financial statement impact of Executive Long-term Incentive Programme
The amounts recognised in the financial statements of the Group and the Company, during the financial year in relation to equity grants issued under the Executive Long-term Incentive Programme were:

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

Eligible senior executives - Shares
No shares have been issued under the executive long-term incentive component of the SESPP since 2004. At 31 December 2009, the total number of shares acquired under the executive long-term incentive component of the Plan since its commencement was 220,912.

The shares allocated pursuant to the SESPP were allotted to a trustee at no cost to participants, to be held on their behalf. The allocation price is Market Value (as defined below) and the trustee was funded by the Company to subscribe for the shares.

In general the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board in its discretion could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. The shares can remain on trust for up to ten years from the date of allotment, during which time the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues while the shares are held on trust.

31. Share-based Payment Plans (continued)

(c) Legacy Plan - Santos Executive Share Plan

The Santos Executive Share Plan operated between 1987 and 1997, when it was discontinued. Under the terms of the Plan, shares were issued as partly paid to one cent. While partly paid, the Plan shares are not transferable, carry no voting right and no entitlement to dividend but are entitled to participate in any bonus or rights issue. After a "vesting" period, calls could be made for the balance of the issue price of the shares, which varied between $2.00 and the market price of the shares on the date of the call being made. Shares were issued principally on: 22 December 1987; 7 February and 5 December 1989; and 24 December 1990.

At the beginning of the financial year there were 88,000 Plan shares on issue. During the financial year no Plan shares were fully paid and no aggregate proceeds were received by the Company. As at 31 December 2009 there were 88,000 Plan shares outstanding.

(d) Non-executive Director Share Plan

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

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

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

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

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

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Employee expenses	**315**	553	**315**	553
Issued ordinary share capital	**315**	553	**315**	553

32. Key Management Personnel Disclosures

(a) Key management personnel compensation

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Short-term employee benefits	**10,106**	10,442	**10,106**	10,442
Post-employment benefits	**399**	1,739	**399**	1,739
Other long-term benefits	**113**	259	**113**	259
Termination benefits	**-**	2,705	**-**	2,705
Share-based payments	**3,615**	4,619	**3,615**	4,619
	14,233	19,764	**14,233**	19,764

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32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel

Options and rights holdings

The movement during the reporting period in the number of rights and options over ordinary shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009

Name	Balance at beginning of the year	Granted[1]	Options exercised/ rights vested [2]	Other Changes[3]	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
Options								
Directors								
Knox, David John Wissler	**544,974**	**-**	**-**	**-**	**544,974**	**-**	**-**	**-**
Executives								
Anderson, John Hugh	**123,637**	**-**	**-**	**-**	**123,637**	**78,100**	**78,100**	**-**
Baulderstone, James Leslie	**91,678**	**-**	**-**	**-**	**91,678**	**-**	**-**	**-**
Brown, Trevor John	**137,917**	**-**	**-**	**(137,917)**	**-**	**-**	**-**	**-**
Eames, Martyn Edward James	**78,667**	**-**	**-**	**-**	**78,667**	**25,000**	**25,000**	**-**
Kennett, Roger Maxwell	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Macfarlane, Mark Stuart	**108,682**	**-**	**-**	**-**	**108,682**	**63,700**	**63,700**	**-**
Wasow, Peter Christopher	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Wilkinson, Richard John	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,085,555**	**-**	**-**	**(137,917)**	**947,638**	**166,800**	**166,800**	**-**
Rights								
Directors								
Knox, David John Wissler	**186,779**	**-**	**-**	**-**	**186,779**	**-**	**-**	**-**
Executives								
Anderson, John Hugh	**27,000**	**17,527**	**-**	**-**	**44,527**	**-**	**-**	**-**
Baulderstone, James Leslie	**24,600**	**18,507**	**-**	**-**	**43,107**	**-**	**-**	**-**
Brown, Trevor John	**27,200**	**-**	**-**	**(27,200)**	**-**	**-**	**-**	**-**
Eames, Martyn Edward James	**51,900**	**20,215**	**(19,900)**	**-**	**52,215**	**-**	**-**	**-**
Kennett, Roger Maxwell	**46,668**	**-**	**-**	**(46,668)**	**-**	**-**	**-**	**-**
Macfarlane, Mark Stuart	**27,000**	**17,633**	**-**	**-**	**44,633**	**-**	**-**	**-**
Wasow, Peter Christopher	**83,220**	**33,625**	**(23,000)**	**-**	**93,845**	**-**	**-**	**-**
Wilkinson, Richard John	**62,515**	**19,335**	**(16,200)**	**-**	**65,650**	**-**	**-**	**-**
Total	**536,882**	**126,842**	**(59,100)**	**(73,868)**	**530,756**	**-**	**-**	**-**

32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel (continued)

Options and rights holdings (continued)

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

[2] *Each option exercised or SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the exercise of options and vesting of SARs.*

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

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 31(b).

32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel (continued)

Options and rights holdings (continued)

2008

Name	Balance at beginning of the year	Granted[1,2,3,4]	Options exercised/ rights vested[5]	Other changes[6]	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
Options								
Directors								
Ellice-Flint, John Charles	2,500,000	-	-	(2,500,000)	-	2,500,000	2,500,000	-
Knox, David John Wissler	100,000	444,974	-	-	544,974	-	-	-
Executives								
Anderson, John Hugh	105,244	45,537	(12,744)	(14,400)	123,637	14,400	14,400	-
Baulderstone, James Leslie	50,000	41,678	-	-	91,678	-	-	-
Brown, Trevor John	109,400	43,017	-	(14,500)	137,917	29,000	29,000	-
Eames, Martyn Edward James	50,000	53,667	-	(25,000)	78,667	25,000	25,000	-
Kennett, Roger Maxwell	-	-	-	-	-	-	-	-
Macfarlane, Mark Stuart	63,700	44,982	-	-	108,682	-	-	-
Wasow, Peter Christopher	-	-	-	-	-	-	-	-
Wilkinson, Richard John	-	-	-	-	-	-	-	-
Total	2,978,344	673,855	(12,744)	(2,553,900)	1,085,555	2,568,400	2,568,400	-
Rights								
Directors								
Knox, David John Wissler	50,000	136,779	-	-	186,779	-	-	-
Executives								
Anderson, John Hugh	27,000	-	-	-	27,000	-	-	-
Baulderstone, James Leslie	24,600	-	-	-	24,600	-	-	-
Brown, Trevor John	27,200	-	-	-	27,200	-	-	-
Eames, Martyn Edward James	71,500	-	(9,800)	(9,800)	51,900	-	-	-
Kennett, Roger Maxwell	38,000	17,668	(4,500)	(4,500)	46,668	-	-	-
Macfarlane, Mark Stuart	36,600	-	(4,800)	(4,800)	27,000	-	-	-
Wasow, Peter Christopher	83,600	23,220	(11,800)	(11,800)	83,220	-	-	-
Wilkinson, Richard John	62,100	18,115	(8,850)	(8,850)	62,515	-	-	-
Total	420,600	195,782	(39,750)	(39,750)	536,882	-	-	-

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32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel (continued)

Options and rights holdings (continued)

[1] *With the exception of Mr D J W Knox, options granted to executives in the current year were granted on 3 May 2008 have an expiration date of 2 May 2018 and an exercise price of $15.39. At the date of grant, the options granted have a fair value of $5.25 per option (174,613 options) and $7.30 per option (54,268 options). The options were provided at no cost to the recipients. Providing vesting conditions are met, the options are exercisable no earlier than 1 January 2011.*

[2] *Options granted to Mr D J W Knox in the current year were granted as follows:*

- *(i) Executive grant on 3 May 2008: expiration date of 2 May 2018, exercise price of $15.39, fair value per option on the date of grant of $5.25 (for 64,992 options) and $7.30 (for 21,837 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2011.*
- *(ii) CEO grant on 28 July 2008, tranche 1: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $5.83 per option (94,193 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2011.*
- *(iii) CEO grant on 28 July 2008, tranche 2: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $4.25 per option (131,976 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2012.*
- *(iv) CEO grant on 28 July 2008, tranche 3: expiration date 27 July 2018, exercise price of $17.36, fair value on the date of grant of $4.32 per option (131,976 options). Providing vesting conditions are met, all of the options are exercisable no earlier than 1 January 2013.*

The options were provided at no cost to Mr D J W Knox.

[3] *With the exception of Mr D J W Knox, SARs granted to executives in the current year were granted on 3 May 2008, have an expiration date of 2 May 2018, and vest with the recipient for no consideration. At the date of grant, 44,430 of the SARs granted have a fair value of $11.23 per SAR, and 14,573 of the SARs granted have a fair value of $16.73 per SAR.*

[4] *SARs granted to Mr D J W Knox in the current year were granted on 28 July 2008, have an expiration date of 27 July 2018, and vest with Mr D J W Knox for no consideration. At the date of grant, the SARs granted have a fair value of $14.07 per SAR (35,973 SARs), $8.65 (50,403 SARs) and $8.44 (50,403 SARs).*

[5] *Each option exercised or SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the exercise of options and vesting of SARs.*

[6] *Other changes may include the lapse of options on the expiry of the exercise period, reductions in SARs entitlements due to performance conditions not being met, forfeiture of SARs when service conditions are not met, or the removal of an employee's equity holding from the key management personnel disclosure when they terminate employment with the Company.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 31(b).

32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel (continued)

Share holdings

The movement during the reporting period in the number of shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

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

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

32. Key Management Personnel Disclosures (continued)

(b) Equity holdings of key management personnel (continued)

Share holdings (continued)

2008 Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Received on vesting of rights	Purchased on market	Other changes [1]	Balance at end of the year	Balance held nominally at end of the year
Ordinary shares – fully paid								
Directors								
Borda, Kenneth Charles	35,207	-	-	-	-	9,965	45,172	-
Coates, Peter Roland	-	-	-	-	3,376	7,440	10,816	-
Dean, Kenneth Alfred	4,145	-	-	-	-	2,723	6,868	-
Ellice-Flint, John Charles	4,113,344	-	-	-	-	(4,113,344)	-	-
Franklin, Roy Alexander	-	-	-	-	-	-	-	-
Gerlach, Stephen	49,210	-	-	-	-	5,154	54,364	-
Harding, Richard Michael	608	-	-	-	-	1,149	1,757	-
Knox, David John Wissler	-	-	-	-	-	-	-	-
Sloan, Judith	10,639	-	-	-	-	9,496	20,135	-
Executives								
Anderson, John Hugh	6,243	-	12,744	-	-	31	19,018	-
Baulderstone, James Leslie	-	-	-	-	-	-	-	-
Brown, Trevor John	246,369	-	-	-	-	-	246,369	-
Eames, Martyn Edward James	-	-	-	9,800	-	-	9,800	-
Kennett, Roger Maxwell	59,795	-	-	4,500	-	-	64,295	-
Macfarlane, Mark Stuart	3,204	-	-	4,800	-	-	8,004	-
Wasow, Peter Christopher	27,934	-	-	11,800	-	-	39,734	-
Wilkinson, Richard John	21,441	-	-	8,850	-	-	30,291	-
Total	4,578,139	-	12,744	39,750	3,376	(4,077,386)	556,623	-
Redeemable convertible preference shares								
Directors								
Ellice-Flint, John Charles	225	-	-	-	-	(225)	-	-
Sloan, Judith	195	-	-	-	-	-	195	-
Executives								
Kennett, Roger Maxwell	165	-	-	-	-	-	165	-
Total	585	-	-	-	-	(225)	360	-

[1] *Other changes include:*

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

(ii) Removal of Mr J C Ellice-Flint's equity holding from the key management personnel disclosure as a result of his ceasing to be a Director of the Company on 25 March 2008.

32. Key Management Personnel Disclosures (continued)

(c) Loans to key management personnel

There have been no loans made, guaranteed or secured, directly or indirectly, by the Group or any of its subsidiaries at any time throughout the year with any key management person, including their related parties.

33. Related Parties

Identity of related parties
Santos Ltd and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are conducted on normal terms and conditions.

Details of related party transactions and amounts are set out in:

- Note 6 as to interest charged to/by controlled entities;
- Note 11 as to amounts owing by controlled entities and other related entities;
- Notes 18 and 19 as to amounts owing to controlled entities;
- Note 19 and 36 as to Santos Ltd's parent company guarantees (including financing facilities) provided for its controlled entities;
- Note 20 as to Non-executive Directors' retirement benefits;
- Notes 11 and 24 as to investments in controlled entities;
- Note 28 as to interests in joint ventures; and
- Note 32 as to disclosures relating to key management personnel.

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
34. Remuneration of Auditors				
The auditor of Santos Ltd is Ernst & Young.				
Amounts received or due and receivable by Ernst & Young (Australia):				
An audit or review of the financial report of the entity and any other entity in the consolidated group	**1,035**	1,061	**725**	813
Other assurance services	**513**	368	**433**	292
Other services:				
Taxation	-	5	**-**	4
Other	-	38	**-**	38
	1,548	1,472	**1,158**	1,147
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:				
External audit	**143**	122	-	-
Assurance	**20**	20	-	-
Taxation	**73**	33	-	-
Other services	**4**	4	-	-
	240	179	-	-

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$000	$000	**$000**	$000
34. Remuneration of Auditors (continued)				
Amounts received or due and receivable by overseas non-Ernst & Young audit firm for:				
Audit of financial reports for subsidiaries incorporated in Papua New Guinea	**40**	62	-	-
Amounts received or due and receivable by related Australian practice of non-Ernst & Young audit firm for:				
Assurance	**195**	60	**137**	42
Taxation	**657**	297	**151**	69
Other services	**35**	190	**25**	133
	887	547	**313**	244

	CONSOLIDATED		SANTOS LTD	
	2009	2008	**2009**	2008
	$million	$million	**$million**	$million
35. Commitments for Expenditure				
The Group has the following commitments for expenditure:				
(a) Capital commitments				
Capital expenditure contracted for at balance date for which no amounts have been provided in the financial statements, payable:				
Not later than one year	**935**	330	**124**	109
Later than one year but not later than five years	**1,285**	150	-	23
Later than five years	**10**	4	-	-
	2,230	484	**124**	132
Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 37 for further details).				
(b) Minimum exploration commitments				
Minimum exploration commitments for which no amounts have been provided in the financial statements or capital commitments, payable:				
Not later than one year	**76**	270	**6**	4
Later than one year but not later than five years	**270**	162	**6**	9
Later than five years	**8**	-	**8**	-
	354	432	**20**	13

The Group has certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.

35. Commitments for Expenditure (continued)

(c) Operating lease commitments

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	**82**	94	**37**	38
Later than one year but not later than five years	**245**	167	**70**	68
Later than five years	**130**	49	**36**	46
	457	310	**143**	152

The Group leases floating production, storage and offtake facilities, floating storage offloading facilities and mobile offshore production units under operating leases. The leases typically run for a period of four to six years, and may have an option to renew after that time.

The Group also leases building office space and a warehouse under operating leases. The leases are generally for a period of ten years, with an option to renew the lease after that date. The lease payments typically increase annually by CPI.

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

(d) Finance lease commitments

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Finance lease commitments are payable as follows:				
Not later than one year	**1**	1	**1**	1
Later than one year but not later than five years	**2**	1	**2**	1
Later than five years	**1**	1	**1**	1
Total minimum lease payments	**4**	3	**4**	3
Less amounts representing finance charges	**(1)**	(1)	**(1)**	(1)
Present value of minimum lease payments	**3**	2	**3**	2

The Group has finance leases for various items of plant and equipment with a carrying amount of $3 million (2008: $3 million) for both the Group and the Company. The leases generally have terms of between three to twelve years with no escalation clauses and no option to renew. Title to the assets passes to the Group at the expiration of the relevant lease periods.

35. Commitments for Expenditure (continued)

(e) Commitment on removal of shareholder cap

Pursuant to a Deed of Undertaking to the Premier of South Australia dated 16 October 2006 and as a consequence of the enactment of the *Santos Limited (Deed of Undertaking) Act 2007* on 29 November 2007, Santos has agreed to:

- Continue to make payments under its existing Social Responsibility and Community Benefits Programme specified in the Deed totalling $60 million over a ten-year period from the date the legislation was enacted. As at 31 December 2009, approximately $48 million remains to be paid over the next eight years.
- Continue to maintain the South Australian Cooper Basin asset's Head Office and Operational Headquarters together with other roles in South Australia for ten years subsequent to the date the legislation was enacted. At 31 December 2009, if this condition had not been met, the Company would have been liable to pay approximately $90 million to the State Government of South Australia.

Santos is required to make these payments only if the State Government of South Australia does not reintroduce a shareholder cap on the Company's shares or introduce any other restriction on or in respect of the Company's Board or senior management which have an adverse discriminatory effect in their application to the Company relative to other companies domiciled in South Australia.

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
(f) Remuneration commitments				
Commitments for the payment of salaries and other remuneration under the long-term employment contracts in existence at the reporting date but not recognised in liabilities, payable:				
Not later than one year	**6**	7	**6**	7

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

36. Contingent Liabilities

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of:

	CONSOLIDATED		SANTOS LTD	
	2009 $million	2008 $million	**2009 $million**	2008 $million
The Group:				
Performance guarantees*	**18**	29	**8**	10
Actual and possible legal claims and proceedings	**30**	17	**15**	3
The Group's share of contingent liabilities of joint venture operations:				
Performance guarantees	**21**	13	**6**	3
Litigation and proceedings	**2**	5	**-**	2
	71	64	**29**	18

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

Legal advice in relation to the actual and possible legal claims and proceedings referred to above indicates that on the basis of available information, any liability in respect of these claims is unlikely to exceed $7 million on a consolidated basis.

A number of the Australian interests of the Group are located within areas the subject of one or more claims or applications for native title determination. Whatever the outcome of those claims or applications, it is not believed that they will significantly impact the Group's asset base. Compliance with the "future act" provisions of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and consequently impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

Guarantees provided by Santos Ltd for borrowings of controlled entities are disclosed in note 19.

36. Contingent Liabilities (continued)

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

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

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

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

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

(a) the performance obligations of their subsidiary or related companies in relation to:
- the sale of certain interest in the Bonaparte Basin;
- the sale of certain interests in the KAKAP PSC; and
- the acquisition of interest from Gastar Exploration USA Inc. and Gastar Exploration New South Wales, Inc.; and

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

37. Deed of Cross Guarantee

Pursuant to Class Order 98/1418, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order the Company and each of the listed subsidiaries ("the Closed Group") have entered into a Deed of Cross Guarantee. The effect of the Deed is that the Company has guaranteed to pay any deficiency in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. The subsidiaries have also given a similar guarantee in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Alliance Petroleum Australia Pty Ltd;
- Bridge Oil Developments Pty Limited;
- Reef Oil Pty Ltd;
- Santos (BOL) Pty Ltd;
- Santos Darwin LNG Pty Ltd;
- Santos (NARNL Cooper) Pty Ltd (became a party to the Deed on 28 November 2008);
- Santos Offshore Pty Ltd;
- Santos Petroleum Management Pty Ltd;
- Santos Petroleum Pty Ltd;
- Santos QNT Pty Ltd;
- Santos QNT (No. 1) Pty Ltd;
- Santos QNT (No. 2) Pty Ltd; and
- Vamgas Pty Ltd.

37. Deed of Cross Guarantee (continued)

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

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

37. Deed of Cross Guarantee (continued)

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

37. Deed of Cross Guarantee (continued)

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

38. Financial Risk Management

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk, and liquidity risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its business plans. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices.

The Group uses various methods to measure the types of financial risk to which it is exposed. These methods include Cash Flow at Risk analysis in the case of interest rate, foreign exchange and commodity price risk, and ageing analysis for credit risk.

Financial risk management is carried out by a central treasury department ("Treasury") which operates under Board approved policies. The policies govern the framework and principles for overall risk management and covers specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(a) Foreign currency risk

Foreign exchange risk arises from commercial transactions and valuations in assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting and Cash Flow at Risk analysis.

The Group is exposed to foreign currency risk principally through the sale of products denominated in US dollars, foreign currency borrowings and expenditure. In order to economically hedge foreign currency risk, the Group has from time to time entered into forward foreign exchange, foreign currency swap and foreign currency option contracts.

All US dollar ("USD") denominated borrowings of Australian dollar ("AUD") functional currency companies (2009: US$1,090 million; 2008: US$1,141 million) are either designated as a hedge of US dollar denominated investments in foreign operations, or swapped using cross-currency swaps to Australian dollars in order to achieve an economic hedge. As a result, there were no net foreign currency gains or losses arising from translation of US denominated dollar borrowings recognised in the income statements in 2009.

The Group's risk management policy is to hedge between 0% and 50% of forecasted cash flows in US dollars for the current financial year.

Based on the Group's net financial assets and liabilities at 31 December 2009, the following table demonstrates the estimated sensitivity to a +/- 13 cent movement in the US dollar exchange rate (2008: +/- 10 cents) with all other variables held constant, on post-tax profit and equity:

	CONSOLIDATED		**SANTOS LTD**	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Impact on post-tax profit:				
AUD/USD +13 cents	-	(1)	-	-
AUD/USD -13 cents	-	1	-	-
Impact on equity:				
AUD/USD +13 cents	-	(1)	-	-
AUD/USD -13 cents	-	1	-	-

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

The +/- 13 cent sensitivity is the Group's estimate of reasonably possible changes in the US dollar exchange rate over the following financial year, based on recent volatility experienced in the market.

38. Financial Risk Management (continued)

(b) Market risk

Cash flow and fair value interest rate risk
The Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes and long-term notes respectively. When transacted, these swaps have maturities ranging from one to 20 years, and align with the maturity of the related notes. At 31 December 2009, the Group had interest rate swaps with a notional contract amount of $1,028 million (2008: $1,302 million).

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

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

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

This assumes that the change in interest rates is effective from the beginning of the financial year and the net debt position and fixed/floating mix is constant over the year. However, interest rates and the debt profile of the Group are unlikely to remain constant and therefore the above sensitivity analysis will be subject to change.

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

Commodity price risk exposure
The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil price linked contracts. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2009 the Group has no open oil price swap contracts (2008: nil), and therefore is not exposed to movements in commodity prices on financial instruments. The Group continues to monitor oil price volatility and to assess the need for commodity price hedging.

38. Financial Risk Management (continued)

(c) Credit risk

Credit risk arises from investments in cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management has Board approved credit policies and the exposure to credit risk is monitored on an ongoing basis. The majority of Santos' gas contracts are spread across major Australian energy retailers and industrial users. Contracts exist in every mainland state whilst the largest customer accounts for less than 20% of contracted gas.

The Group controls credit risk by setting minimum creditworthiness requirements of counterparties, which for banks and financial institutions is a Standard & Poor's rating of A or better.

Rating	Approved counterparties	Total credit limit $million	Total exposure* $million	Exposure range $million
AA, AA-	6	3,400	2,356	0 - 653
A+	7	1,300	203	0 - 152

* *Cash deposits plus accrued interest, bank account balances and the mark-to-market gain and percentage of notional value weighted by term on derivatives.*

If customers are independently rated these ratings are used, otherwise the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors including credit support from a third party. Individual risk limits for banks and financial institutions are set based on external ratings in accordance with limits set by the Board. Limits for customers are determined within contract terms. The daily nomination of gas demand by customers and the utilisation of credit limits by customers is monitored by line management.

In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not hold collateral, nor does it securitise its trade and other receivables.

At the reporting date there were no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of default by counterparties.

The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group, excluding investments, which have been recognised on the statement of financial position.

(d) Liquidity risk

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

38. Financial Risk Management (continued)

(d) Liquidity risk (continued)

The following table analyses the contractual maturities of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments, except for interest rate swaps. Estimated variable interest expense is based upon appropriate yield curves existing as at 31 December 2009.

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

38. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Amounts owing to controlled entities are shown at their carrying value as any interest charged on the loans is added to the loan balance. The loans are made in the ordinary course of business on normal market terms and conditions and are not repayable for a minimum of nine years.

(e) Fair values

The financial assets and liabilities of the Group and the Company are recognised on the statement of financial position at their fair value in accordance with the accounting policies in note 1, except for long-term notes that are not swapped to a variable interest rate, and bank borrowings, which are recognised at face value. The carrying value of these long-term notes is US$125 million and their fair value is estimated at US$131 million based on discounting the future cash flows excluding the credit spread at the time of issue. The discount rate used is the interest rate swap rate for the remaining term to maturity of the note as at 31 December 2009. The carrying value of the bank borrowings approximates fair value as it is a floating rate instrument.

Basis for determining fair values
The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

Trade and other receivables
The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

Available-for-sale financial assets
The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Derivatives
The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms of maturity of each contract and using market interest rates for a similar instrument at the reporting date. Where these cash flows are in a foreign currency the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

Financial liabilities
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

Interest rates used for determining fair value
The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve at the reporting date. The dealt credit spread is assumed to be the same as the market rate for the credit as at reporting date as allowed under AASB 139 *Financial Instruments: Recognition and Measurement*. The interest rates including credit spreads used to determine fair value were as follows:

	2009	2008
Derivatives	0.41% - 6.29%	1.3% - 4.3%
Loans and borrowings	0.41% - 6.94%	1.7% - 4.9%

38. Financial Risk Management (continued)

(e) Fair values (continued)

Fair value hierarchy

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

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

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

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

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

	2009 $million	Level 1 $million	Level 2 $million	Level 3 $million
Assets measured at fair value				
Financial assets at fair value through profit and loss				
Interest rate swap contracts	126	-	126	-
Available-for-sale financial assets				
Equity shares	2	2	-	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Long-term notes	(1,193)	-	(1,193)	-
Medium-term notes	(99)	-	(99)	-
Cross-currency swap contracts	(7)	-	(7)	-
Interest rate swap contracts	(1)	-	(1)	-

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

39. Events After the End of the Reporting Period

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

SANTOS LTD AND CONTROLLED ENTITIES

DIRECTORS DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2009

In accordance with a resolution of the Directors of Santos Ltd ("the Company"), we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 31 December 2009.

3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 37 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee between the Company and those members of the Closed Group pursuant to Class Order 98/1418.

Dated this 18 day of February 2010

On behalf of the Board:

Director　　　　　　　　　　　　Director

Adelaide

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Independent auditor's report to the members of Santos Ltd

Report on the Financial Report

We have audited the accompanying financial report of Santos Ltd, which comprises the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the Directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Santos Ltd is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Santos Ltd and the consolidated entity at 31 December 2009 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 28 of the directors' report for the year ended 31 December 2009. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Santos Ltd for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

RJ Curtin
Partner
Adelaide
18 February 2010

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Auditor's Independence Declaration to the Directors of Santos Ltd

In relation to our audit of the financial report of Santos Ltd and the entities it controlled for the year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

R J Curtin
Partner
Adelaide
Ernst & Young
18 February 2010

SANTOS LIMITED
A.B.N. 80 007 550 923

DIRECTORS' STATUTORY REPORT

The Directors present their report together with the financial report of Santos Limited ("Santos" or "the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 December 2009, and the auditors report thereon. Information in the Annual Report referred to by page number in this report, including the Remuneration Report, or contained in a Note to the financial statements referred to in this report is to be read as part of this report.

DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

Directors' Shareholdings

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

Surname	Other Names	Shareholdings in Santos Ltd Ordinary Shares	Surname	Other Names	Shareholdings in Santos Ltd Ordinary Shares
Borda	Kenneth Charles	67,308	Harding	Richard Michael	2,441
Coates	Peter Roland	19,714	Hemstritch	Jane Sharman	14,000
Dean	Kenneth Alfred	11,638	Knox	David John Wissler	3,550
Franklin	Roy Alexander	-	Martin	Gregory John Walton	3,250

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

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

All shareholdings are of fully paid ordinary shares.

At the date of this report, Mr D.J.W. Knox holds 544,974 options and 186,779 share acquisition rights ("SARs") under the Santos Executive Share Option Plan and Santos Employee Share Purchase Plan respectively and subject to the further terms described in Note 31 to the financial statements. Details of the options and SARs granted to Mr Knox during the year are set out in the Remuneration Report on page 15.

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

Directors' Meetings

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

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

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

2 In addition to formal meetings, the Board participated in a site visit to Jakarta and the Oyong field in Indonesia.

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

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

PRINCIPAL ACTIVITIES

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

REVIEW AND RESULTS OF OPERATIONS

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

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

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

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

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

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

NET PROFIT

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

Underlying Profit Table[1]
The following amounts are included in the calculation of underlying profit for the year ending 31 December:

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

1 This table has been prepared in accordance with the AICD/Finsia principles for reporting underlying profit.
2 Adjustment to prior year to ensure comparability with current year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

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

DIVIDENDS

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

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

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

ENVIRONMENTAL REGULATION

The consolidated entity's Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation. Applicable legislation and requisite environmental licences are specified in the entity's EHS Compliance Database, which forms part of the consolidated entity's overall Environmental Management System. Compliance performance is monitored on a regular basis and in various forms, including environmental audits conducted by regulatory authorities and by the Company, either through internal or external resources.

During the financial year, the consolidated entity did not receive any fines and was not subject to prosecution or other enforcement action in respect of applicable environmental regulations or environmental protection legislation, except as set out below:

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

Dividends declared after 31 December 2009 are set out above and Note 22 to the financial statements.

LIKELY DEVELOPMENTS

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

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

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and senior management (including shares, options and SARs granted during the financial year) are set out in the Remuneration Report commencing on page 10 of this report.

INDEMNIFICATION

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

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

During the year, the Company paid premiums in respect of Directors' and Officers' Liability and Legal Expenses insurance contracts for the year ending 31 December 2009 and since the end of the year the Company has paid, or agreed to pay, premiums in respect of such contracts for the year ending 31 December 2010. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company and its controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

NON-AUDIT SERVICES

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

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

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

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

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001*(Cth) is set out on page 112 of the financial statements.

SHARES UNDER OPTION AND UNVESTED SARS

Options

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

Date options granted	Expiry date	Issue price of shares[1]	Number under option
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	77,100
24 October 2006	24 October 2016	$10.48	435,800
4 May 2006	3 May 2016	$11.36	2,500,000
1 July 2007	30 June 2017	$14.14	225,968
1 July 2007	30 June 2017	$14.14	59,800
3 September 2007	2 September 2017	$12.81	100,000
3 May 2008	2 May 2018	$15.39	641,791
3 May 2008	2 May 2018	$15.39	281,573
28 July 2008	27 July 2018	$17.36	94,193
28 July 2008	27 July 2018	$17.36	131,976
28 July 2008	27 July 2018	$17.36	131,976
02 March 2009	2 March 2019	$14.81	207,988
02 March 2009	2 March 2019	$14.81	67,896
			4,964,411

[1] This is the exercise price payable by the option holder.

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

SARs

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

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

No amount is payable on the vesting of SARs.

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

Further details regarding the SARs (including when they will lapse) are contained in the Remuneration Report commencing on page 10 of this report.

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

Options

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2009 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
15 June 2004	$6.95	50,000
23 May 2005	$8.46	14,500
23 May 2005	$8.46	82,350
24 October 2006	$10.48	280,200
		427,050

SARs

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

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

ROUNDING

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

This report is made on 18 February 2010 in accordance with a resolution of the Directors.

Director   Director

2010   2010

2009 REMUNERATION IN BRIEF

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

It should be read in conjunction with the Remuneration Report on pages 10 to 28, which provides disclosure of the remuneration framework of the Company in accordance with statutory obligations and accounting standards.

KEY REMUNERATION DRIVERS AND ACTIONS IN 2009

Exercising restraint

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

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

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

Rewarding strong performance

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

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

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

The external environment

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

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

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

Remuneration outcomes for the CEO and Senior Executives

The remuneration values for the CEO and Senior Executives, contained on pages 15 and 21 of the Remuneration Report, are calculated in accordance with statutory obligations and accounting standards, and are theoretical.

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

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

1 Comprising base salary and superannuation.

2 This figure represents the amount of the short term incentive or bonus paid to the executive for 2009 performance. For further details of the Company's short term incentive program, please see pages 14 to 17 of the Remuneration Report.

3 This figure represents the value of vested Share Acquisition Rights ("SARs") which vested in 2009 based on the closing share price of $13.40 on the date of vesting (23 January 2009) and options that were exercised (if any) in 2009 based on the difference between the exercise price and the closing share price on the date of exercise. No options were exercised by the Senior Executives in 2009. Although shares allocated under Share Acquisition Rights are subject to a further restriction on dealing of up to 10 years after the grant date and can be forfeited for misconduct, their full value is included here. For further details of the Company's LTI program, please see pages 14 to 15 and 17 to 21 of the Remuneration Report.

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

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

2009 REMUNERATION REPORT

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

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

Table 1: Directors and Senior Executive

Executive	
Name	*Position*
D.J.W. Knox	Managing Director and Chief Executive Officer
J.H. Anderson	Vice President Western Australia and Northern Territory
J.L. Baulderstone	Vice President Corporate Development and Legal, Company Secretary and General Counsel
M.E.J. Eames	Vice President Asia
M.S. Macfarlane	Vice President Eastern Australia
P.C. Wasow	Chief Financial Officer and Executive Vice President
R.J. Wilkinson	President GLNG and Queensland

Non-Executive	
Name	*Position*
P.R. Coates	Deputy Chairman (Chairman from 9 December 2009)
K.C. Borda	Director
K.A. Dean	Director
R.A. Franklin	Director
R.M. Harding	Director
G.J.W. Martin	Director[2]
Former	
S. Gerlach	Chairman (until 8 December 2009)[1]
J. Sloan	Director[3]

1 Retired 31 December 2009.
2 Appointed 29 October 2009.
3 Retired 6 May 2009.

SENIOR EXECUTIVE REMUNERATION

REMUNERATION POLICY

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

Attracting and retaining talented, qualified executives	Encouraging executives to strive for superior performance	Aligning executive and shareholder interests
• Remuneration levels are market-aligned against similar roles in comparable companies. • Individual performance targets determine 30% of the short-term incentive award for Senior Executives. • The deferred component of the long-term incentive plan promotes retention and rewards loyalty.	• A significant component of remuneration is "at risk" under short-term and long-term incentive plans. Value to the executive is dependent on meeting challenging targets. • Consistently high-performing executives are also rewarded through higher base remuneration.	• The long-term incentive component of remuneration is delivered through equity instruments linked to Santos ordinary shares. • Vesting of performance-based long term incentive awards is contingent on delivery of superior shareholder returns. • Executives cannot hedge equity instruments that are unvested or subject to restrictions.

LINKING REMUNERATION STRUCTURES TO CORPORATE OBJECTIVES

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

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

CEO REMUNERATION ARRANGEMENTS

Remuneration components and their relative weightings

Total remuneration for the Managing Director and Chief Executive Officer ("CEO"), Mr D.J.W. Knox, is made up of the following components:

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

The Board received external advice on Mr Knox's remuneration package, which is benchmarked against the remuneration paid to CEOs of comparable companies in the industry. In line with the Company's general pay freeze, Mr Knox's remuneration did not change in 2009 and, in fact, has not changed since his appointment in 2008.

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

Table 2: Relative weightings of remuneration components[1]

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

[1] These figures do not reflect the relative value derived by the CEO from each of the components, which is dependent on actual performance against targets for the "at risk" components. This is discussed in the STI and LTI sections below.

Base remuneration

Mr Knox is paid Total Fixed Remuneration ("TFR"), which includes the Company's contributions into his accumulation superannuation fund of at least the minimum statutory amount. He may, if he wishes, salary sacrifice part of his TFR for additional superannuation contributions.

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

Short-term Incentive

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

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

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

As outlined above, for the 2009 performance period, Mr Knox's STI targets were based on agreed objectives linked to Company performance targets and delivery of its strategic growth initiatives. Consistent with his role as CEO, these performance measures for 2009 included the Company's strategic positioning in Australia and Asia, delivery of financial and operational performance targets, in particular, from the base business, achievement of specific milestones in the GLNG and PNG LNG projects in furtherance of the Company's vision to achieve transformational growth through its LNG portfolio and achievement of safety and environmental performance milestones.

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

Long-term Incentive

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

The 2008 grants comprised:

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

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

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

- The LTI grants made in 2008 were structured to provide Mr Knox with an annual LTI opportunity of 100% of TFR (based on the 2008 level of $1.75 million) for each of the 2008, 2009 and 2010 years, subject to achieving applicable vesting conditions.
- Mr Knox was able to elect to receive his LTI grant as either SARs, market value options or a combination of the two. He chose to take a combination of the two.
- All of the performance based LTIs are subject to hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a 3 year performance period. There is no retesting of performance conditions.
- The CEO Performance Award is divided into 3 tranches:
  - Tranche 1 – Tested over the period from 1 January 2008 to 31 December 2010;
  - Tranche 2 – Tested over the period from 1 January 2009 to 31 December 2011; and
  - Tranche 3 – Tested over the period from 1 January 2010 to 31 December 2012.
- Each tranche of the CEO Performance Award vests in accordance with the following vesting schedule:

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

- None of the grants have vested as none of their performance periods have been completed.
- Upon vesting of SARs, ordinary shares in Santos will automatically be allocated to Mr Knox. These shares will be subject to restrictions until the earlier of ten years from the grant date, cessation of employment, or if the Board approves, at Mr Knox's request, the removal of the restrictions.
- Options may be exercised at any time between the vesting date and the expiry date (27 July 2018), subject to payment of the exercise price of $17.36 per option (being the volume weighted average price in the week up to and including the grant date).
- Full details of the equity grants made to Mr Knox in 2008 are contained in the 2008 Remuneration Report.

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

Table 3: SARs and options granted to Mr Knox in 2008[1]

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

1 These grants constitute Mr Knox's full LTI awards for the 2008, 2009 and 2010 financial years. As the SARs and options only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs or options detailed above were forfeited during the year.

2 Maximum value represents the fair value of the LTI Awards as at their grant date (being 3 May 2008 for the Performance Award and Deferred Award and 28 July 2008 for the CEO Performance Award). The fair value per instrument at the grant date was:

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

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

2009 Remuneration details for Mr D.J.W. Knox

Table 4: 2008 and 2009 remuneration details for Mr D.J.W. Knox

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

1 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the theoretical value of equity linked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated as remuneration is not related to or indicative of the actual benefit (if any) that Mr Knox may ultimately realise should the equity instruments vest. The theoretical value of equity linked compensation was determined in accordance with AASB 2 *Share-based payment* applying the Monte Carlo simulation method. Details of the assumptions underlying the valuation are set out in Note 31 to the financial statements.

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

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

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

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

6 "Share-based payments" in 2009 consists of the following equity linked theoretical compensation, and as a consequence of the rights issue in May 2009, now includes a cash-settled component. This matter is discussed further at pages 19 to 20.

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

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

Service Agreement

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

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

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

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

SENIOR EXECUTIVE REMUNERATION ARRANGEMENTS

Remuneration components and their relative weightings

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

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

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

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

Table 5: Relative weightings of remuneration components[1]

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

[1] These figures do not reflect the actual value derived by Senior Executives from each of the components, which is dependent on actual performance against targets for the "at risk" components. This is discussed in the STI and LTI sections below.

Base remuneration

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

Short-term Incentive

Frequency	STI is assessed and paid annually.
Maximum STI	75% of TFR for Chief Financial Officer and Executive Vice President. 50% of TFR for other Senior Executives.
Performance measures	To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 70% of their STI is based on Company performance. The remaining 30% is based on the executive's individual performance. A range of Company performance measures is used in order to drive balanced business performance. These measures include lagging indicators to assess the Company's past performance, as well as forward-looking indicators to ensure the Company is positioning itself effectively for future growth. The areas covered by the measures include reserve growth, reserve replacement cost, production, margin, new growth options, shareholder value creation, people, environment, health and safety and continuous improvement. Individual performance is assessed against targets set within each executive's own area of responsibility.
Assessment of performance	Individual performance is assessed by the CEO. Company performance is assessed by the Remuneration Committee. Each metric is assessed against target and assigned a score on a five-point scale. The average of these scores forms the basis of the overall Company performance score. The Board believes the above methods of assessment are rigorous and transparent and provide a balanced assessment of the executive's performance.
Payment method	Cash.
STI awarded in 2009	Company performance against the measures in 2009 resulted in an average STI of 80% of maximum payable to all eligible employees. 2009 STI awards made to individual Senior Executives ranged from 75% to 92% of maximum. The difference between actual STI paid and maximum STI will not be carried forward.

Long-term Incentives

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

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

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

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

Grant sizes were market-aligned.

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

Table 6: Performance Award and Deferred Award vesting details

<table>
<tr><th></th><th>Performance Award</th><th>Deferred Award</th></tr>
<tr><td>Vesting period</td><td>1 January 2009 to 31 December 2011.</td><td>2 March 2009 to 1 March 2012.</td></tr>
<tr><td>Vesting condition</td><td>Vesting of this grant is based on relative TSR against ASX 100 companies as at 1 January 2009.
The Board believes the chosen performance hurdle effectively aligns the interests of the individual executives with that of the Company’s shareholders, as TSR is a fair measure of shareholder returns and the ASX 100 represents the companies in which most of the Company’s shareholders could invest as an alternative to Santos.</td><td>Vesting of the Deferred Award is based on continuous service to 1 March 2012, or three years from the grant date.</td></tr>
<tr><td>Vesting schedule</td><td>Vesting commences when Santos’ TSR performance equals the median for ASX 100 companies, with one-third of the total grant vesting at this level of performance.
A further 1.33% of the grant vests for each percentile improvement in Santos’ TSR ranking, with full vesting only occurring if Santos is the top performing ASX 100 company based on its TSR growth over the vesting period.
There is no re-testing of the performance condition if it is not satisfied.
<table><tr><td><u>Santos TSR percentile ranking</u></td><td><u>% of grant vesting</u></td></tr><tr><td>< 50th percentile</td><td>0%</td></tr><tr><td>= 50th percentile</td><td>33.33%</td></tr><tr><td>51st to 99th percentile</td><td>Further 1.33% for each percentile improvement</td></tr><tr><td>100th percentile</td><td>100%</td></tr></table></td><td>0% if the continuous service condition is not met.
100% if the continuous service condition is met.</td></tr>
<tr><td>Exercise price</td><td>$14.81 for options, being the volume weighted average price in the week up to and including the grant date of 2 March 2009.
SARs have no exercise price.</td><td>As for Performance Award.</td></tr>
<tr><td>Exercise period</td><td>Options may be exercised at any time between the vesting date and the expiry date.
Upon vesting of SARs, shares will automatically be allocated to the executive. These shares will be subject to restrictions until the earlier of ten years from the grant date, cessation of employment, or the date at which the Board approves the removal of the restrictions.</td><td>As for Performance Award.</td></tr>
<tr><td>Expiry/lapse</td><td>SARs and options that do not vest upon testing of the performance condition will lapse.
Vested options will expire if not exercised before 2 March 2019.</td><td>SARs and options will lapse if the service condition is not satisfied.
Vested options will expire if not exercised before 2 March 2019.</td></tr>
</table>

Cessation/ change of control	Upon cessation of employment, SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in special circumstances approved by the Board, then a proportion of the SARs and options may vest and become exercisable. Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.	As for Performance Award.
Hedging Policy	Consistent with the objective of creating a meaningful alignment of interests, Directors and Senior Executives are not permitted to hedge their shareholdings or LTIs unless those securities have fully vested and are no longer subject to restrictions. Breaches of this policy will be subject to appropriate sanctions, which could include disciplinary action or termination of employment.	As for Performance Award.

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

Executive	Grant name	Number of SARs granted	Number of options granted	Maximum value of grant [2]
J.H. Anderson	*Performance Award*	13,359	-	115,823
	Deferred Award	4,168	-	60,228
J.L. Baulderstone	*Performance Award*	13,450	-	116,612
	Deferred Award	5,057	-	73,074
M.E.J. Eames	*Performance Award*	15,744	-	136,500
	Deferred Award	4,471	-	64,606
M.S. Macfarlane	*Performance Award*	13,481	-	116,880
	Deferred Award	4,152	-	59,996
P.C. Wasow	*Performance Award*	25,320	-	219,524
	Deferred Award	8,305	-	120,007
R.J. Wilkinson	*Performance Award*	14,175	-	122,897
	Deferred Award	5,160	-	74,562

1 The grants made to the Senior Executives during the year constitute their full LTI awards for the 2009 financial year. As the SARs and options only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs or options detailed above were forfeited during the year.

2 Maximum value represents the fair value of the Performance Award and Deferred Award as at their grant date (being 2 March 2009). The fair value per instrument at the grant date was:

Performance Award SARs - $8.67, Options - $4.54

Deferred Award SARs - $14.45, Options - $6.75

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

Preserving alignment under the LTI Plan in response to equity issue

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

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

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

- to use TSR data which takes into account the impact of rights issues and other capital management activities on both Santos and comparator group companies when testing the satisfaction of TSR performance hurdles that apply to Santos LTI awards; and

- subject to the SARs and options vesting following satisfaction of applicable hurdles (and, in the case of options, being exercised), to make a future cash remuneration payment to executives equal to the value of the right to participate in the rights issue (calculated at $1.31 for each underlying share in accordance with the formula in ASX Listing Rule 6.22.2). The intention is to "keep whole" the executives in respect of SARs and options that actually vest in due course. No cash payment will be made in respect of SARs that do not vest or options that do not vest or are not exercised.

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

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

LTI grants to Senior Executives

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

Table 8: LTI grants to Senior Executives

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

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

Service Agreements – Senior Executives

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

2009 Senior Executive Remuneration Details

Table 9: 2009 Senior Executive remuneration details

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

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

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

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

Executive	SARs	Options	Cash-settled
J.H. Anderson	$126,470	$80,240	$55,626
J.L. Baulderstone	$122,994	$126,768	$115,255
M.E.J. Eames	$147,935	$94,566	$65,626
M.S. Macfarlane	$126,705	$79,049	$55,325
P.C. Wasow	$296,065	-	$62,204
R.J. Wilkinson	$210,646	-	$46,846

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

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

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

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

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

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

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

2008 Senior Executive remuneration details

Table10: 2008 Senior Executive remuneration details

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

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

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

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

Executive	SARs	Options
J.H. Anderson	$122,742	$80,852
J.L. Baulderstone	$111,832	$119,641
M.E.J. Eames	$173,306	$68,556
M.S. Macfarlane	$122,742	$79,811
P.C. Wasow	$265,239	-
R.J. Wilkinson	$201,462	-

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

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

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

LINK BETWEEN COMPANY PERFORMANCE AND SENIOR EXECUTIVE REMUNERATION OUTCOMES

Table 11 sets out the Group's performance over the past five years in respect of the key financial and non-financial indicators used to measure year-on-year performance. Table 11 also shows how the size of the STI pool available to Senior Executives has varied over this period based on the level of performance achieved each year across these key indicators.

Table 11: Key indicators of Company performance 2005 – 2009

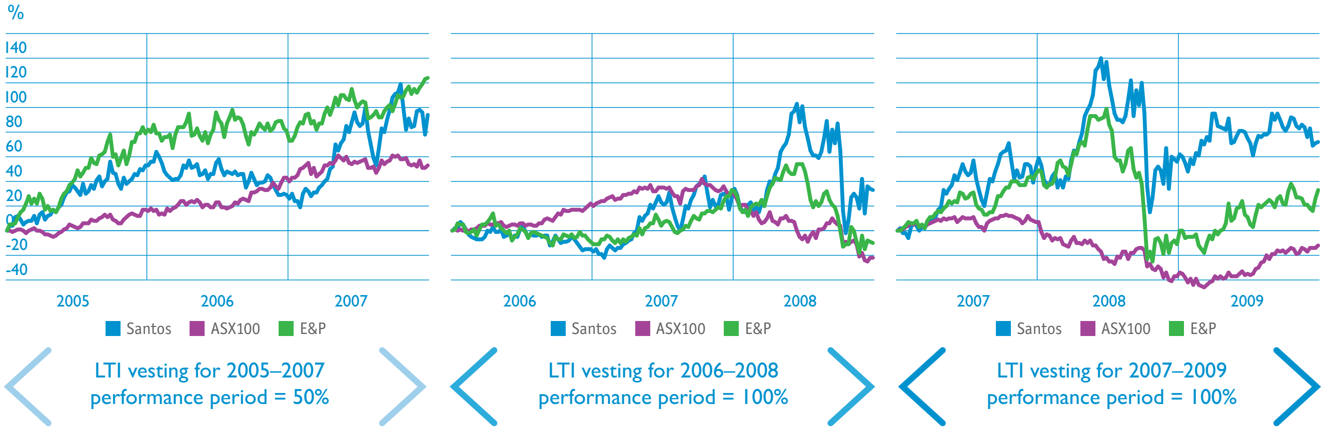
Key Indicator	2005	2006	2007	2008	2009
Safety (total recordable case frequency rate)	4.9	6.4	5.3	5.8	3.6
Production (mmboe)	56.0	61.0	59.1	54.4	54.4
Reserve replacement cost - 1P (A$/boe)	13	15	13	13	9
Reserve replacement rate - 1P (%)	218	143	175	160	336
Proven plus probable reserves – 2P	774	819	879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

As set out earlier, Company performance in 2009 against the STI measures (detailed on page 17 above) resulted in an average STI award of 80% of the maximum payable to all eligible employees. Performance against key metrics was on target in 2009 including the achievement of key strategic milestones such as:

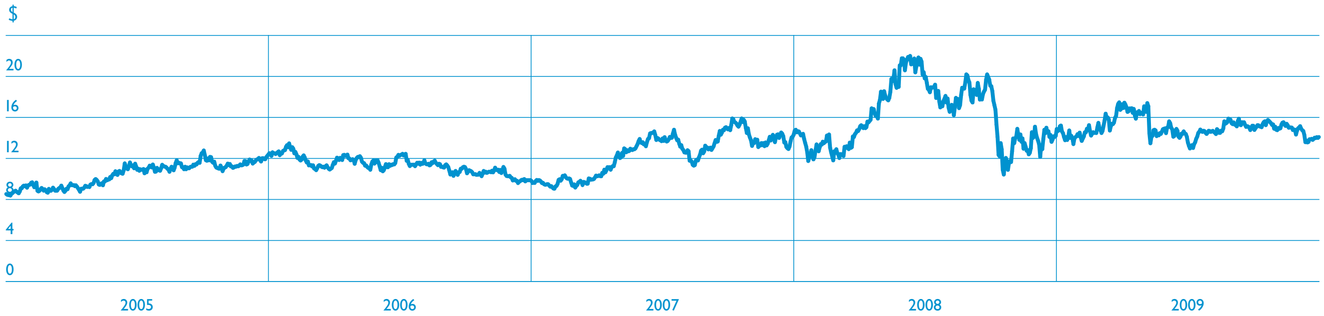
- sanction of PNG LNG on schedule in December 2009 in furtherance of the Company's vision to achieve transformational growth through an LNG portfolio;
- the GDF Suez - Bonaparte LNG partnership resulting in the commercialisation of substantial contingent resources in the Petrel, Tern and Frigate fields;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

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

TSR OF SANTOS, ASX100 AND AUSTRALIAN AND INTERNATIONAL EXPLORATION AND PRODUCTION COMPANIES 2005–2009



SANTOS SHARE PRICE 2005–2009



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

(Dividends per ordinary share)

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

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

- On 30 June 2007, the Company bought back 24,671,275 fully paid ordinary shares, representing 4.10% of fully paid ordinary shares on issue at that date, at a price of $12.16 per share.
- On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid shares on issue at that date, at a price of $16.23 per share.
- On 30 September 2009, the Company redeemed the 6,000,000 Franked Unsecured Equity Listed Securities (“FUELS”) on issue at the price of $100 each.

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

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

Table 12: Senior Executives' LTI remuneration outcomes in 2009

	Vested		Exercised		Forfeited/ Lapsed	
	Number	Value[1]	Number	Value[2]	Number	Value
D.J.W. Knox						
SARs	-	-	-	-	-	-
Options	-	-	-	-	-	-
J.H. Anderson						
SARs	-	-	-	-	-	-
Options	63,700	224,224	-	-	-	-
J.L. Baulderstone						
SARs	-	-	-	-	-	-
Options	-	-	-	-	-	-
M.E.J. Eames						
SARs	19,900	288,351	-	-	-	-
Options	-	-	-	-	-	-
M.S. Macfarlane						
SARs	-	-	-	-	-	-
Options	63,700	224,224	-	-	-	-
P.C. Wasow						
SARs	23,000	333,270	-	-	-	-
Options	-	-	-	-	-	-
R.J. Wilkinson						
SARs	16,200	234,738	-	-	-	-
Options	-	-	-	-	-	-
Total SARs	**59,100**	**856,359**	**-**	**-**	**-**	**-**
Total Options	**127,400**	**448,448**	**-**	**-**	**-**	**-**

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

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

NON-EXECUTIVE DIRECTOR REMUNERATION

REMUNERATION POLICY

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

Securing and retaining talented, qualified directors

Fee levels are set with regard to:

- time commitment and workload;
- the risk and responsibility attached to the role;
- experience and expertise; and
- market benchmarking.

Promoting independence and impartiality

- Fee levels do not vary according to the performance of the Company or individual director performance from year to year.
- Santos' market capitalisation is considered in setting the aggregate fee pool and in benchmarking of board and committee fees.

Aligning director and shareholder interests

- Santos encourages its non-executive directors to build a long-term stake in the Company.
- Traditionally, this has been facilitated through the non-executive director share plan.

REMUNERATION ARRANGEMENTS

Maximum aggregate amount

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

2009 Non-executive Directors' fees

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

Table 13: Non-executive Directors' fees per annum

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

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

Superannuation

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

Retirement benefits

Professor J. Sloan and Mr S. Gerlach who were appointed prior to 1 January 2004 were contractually entitled to receive benefits upon their retirement under the agreements entered into at their appointment, the terms of which were approved by shareholders at the 1989 AGM. These retirement benefits were frozen with effect from 30 June 2004, at which time their entitlements ceased to accrue. However, to prevent erosion in the real value of the frozen benefits, the Board determined that from 1 July 2007 the benefits would be indexed annually against the five-year Australian Government Bond Rate.

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

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

Table 14: Non-executive Director retirement benefits

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

1 Mr Gerlach retired on 31 December 2009.
2 Professor Sloan retired on 6 May 2009.

Non-executive Director Share Plan

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

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

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

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

Table 15: 2009 NED Share Plan allocations

Director	**Q1 2009 allocation[1]**	**Q2 2009 allocation[2]**	**Q3 2009 allocation[3]**	**Q4 2009 allocation[4]**	**Total**
K.C. Borda	2,284	2,753	2,598	2,824	10,459
P.R. Coates	1,655	1,907	-	-	3,562
K.A. Dean	665	802	-	-	1,467
S. Gerlach	949	1,144	-	-	2,093
R.M. Harding	284	343	-	-	627
J. Sloan[5]	2,182	-	-	-	2,182

1 Shares were allocated to the participating Directors on 7 April 2009 at $17.1811 per share.
2 Shares were allocated to the participating Directors on 29 June 2009 at $14.2552 per share.
3 Shares were allocated to the participating Directors on 7 October 2009 at $15.1076 per share.
4 Shares were allocated to the participating Directors on 23 December 2009 at $13.8947 per share.
5 Retired 6 May 2009.

Details of remuneration paid to non-executive Directors

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

Table 16: 2009 Non-executive Director remuneration details

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

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

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

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

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

5 Retired 31 December 2009.

6 Retired 6 May 2009.

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

Table 17: 2008 Non-executive Director remuneration details

	Short-term benefits			Retirement benefits		Share-based payments	Total
	Directors' fees (incl Committee Fees)[1]	Fees for special duties or exertions	Other[2]	Superannuation contributions[3]	Increase to retirement benefit	NED Share Plan	
	$	$	$	$	$	$	$
S. Gerlach	350,625	-	4,796	13,437	39,897	61,875	470,630
K.C. Borda	0	-	-	13,060	-	147,141	160,201
P.R. Coates	0	-	-	10,246	-	124,644	134,890
K.A. Dean	130,687	-	-	13,437	-	43,563	187,687
R.A. Franklin	150,250	-	-	813	-	-	151,063
R.M. Harding	167,287	-	-	6,872	-	18,588	192,747
J. Sloan	0	-	-	13,376	12,235	157,342	182.953

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

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

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