Santos

A clear view...

ANNUAL REPORT 2006

Inside

Santos Ltd ABN 80 007 550 923

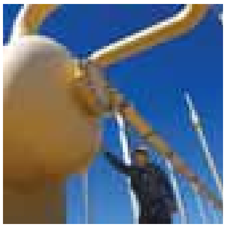
Cover photograph: Sedco 601 rig which drilled the Wortel-1 gas discovery offshore East Java.

…with a portfolio for growth.
We achieved record production and positive financial results in 2006, while fine-tuning our strategy around our portfolio of five growth businesses.

A PORTFOLIO OF GROWTH BUSINESSES

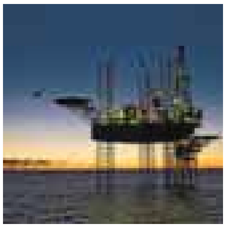
COOPER BASIN OIL

Unique infrastructure and know-how



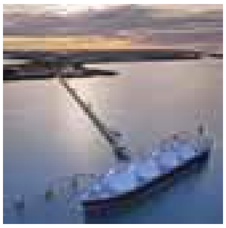
EASTERN AUSTRALIAN GAS

Versatility through supply hubs



WESTERN AUSTRALIAN OIL AND GAS

Growth at higher prices



LNG PROJECTS

Large contingent resources

ASIAN GROWTH

Growing international profile

Santos

is a major Australian-based oil and gas exploration and production company operating internationally.

COMPANY PROFILE

Santos has exploration interests and production operations in every major Australian petroleum province and in Indonesia, Papua New Guinea, Vietnam, India, Kyrgyzstan, Egypt and the United States.

We are Australia's largest domestic gas producer, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.

Through our interest in the Darwin LNG project, we are a producer of liquefied natural gas (LNG) which is exported to customers in Japan.

Santos has the largest Australian exploration portfolio by area of any company and is pursuing new venture opportunities with a focus on Asia.

HISTORY

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

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

Since 2000 the Company has continued to build its business in South East Asia while undertaking high-impact exploration and developing new projects to drive production and earnings growth.

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

Development drilling on the John Brookes gas field, Carnarvon Basin, offshore Western Australia.

VISION

Santos' vision is to become a leading energy company in South East Asia with a share price that continues to grow and a reputation for sustainability in its operations.

Our vision of future success is to be a safe, low-cost, fast-moving explorer and producer and an agile niche player with a well-developed ability to manage relationships with employees, partners and other stakeholders.

As the Company grows, it will provide a working environment that encourages innovation across the business and where employees are engaged in something which is tangibly more than just a job.

STRATEGY

Santos has in place a robust growth strategy to achieve its vision through a portfolio of growth businesses:

- Cooper Basin oil;
- Eastern Australian gas;
- Western Australian oil and gas;
- LNG projects; and
- Asian growth.

VALUES

We are a team that:

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

2006 operating and financial highlights

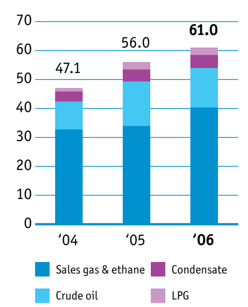
Installation of subsea wellheads for the Casino gas field, Otway Basin, offshore Victoria.

- Production up 9% to record 61.0 mmboe.
- Revenue up 12% to record $2.8 billion.
- Reported net profit after tax down 16% to $643 million impacted by impairment adjustments and one-off expenses.
- Underlying net profit after tax up 7% to record $683 million.
- Dividend up 5% to 40 cents per share.
- Proven plus Probable (2P) reserves up 6% to 819 mmboe.

	2006	2005	% change
Sales ($million)	**2,769.1**	2,462.8	12
Operating profit before tax ($million)	**964.7**	1,133.5	(15)
Cash flow from operations ($million)	**1,550.3**	1,457.9	6
Earnings per share (cents)	**102.8**	124.4	(17)
Ordinary dividends per share (cents)	**40**	38	5
Operating cash flow per share (cents)	**260.0**	248.0	5
Total shareholders' funds ($million)	**3,355.5**	2,963.9	13
Return on average ordinary equity (%)	**23.8**	35.1	(32)
Return on average capital employed (%)	**15.1**	19.8	(24)
Net debt/(net debt plus equity) (%)	**30.2**	35.0	(14)
Net interest cover (times)	**10.1**	14.9	(32)

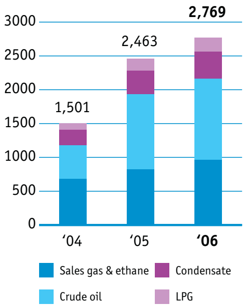
PRODUCTION BY PRODUCT

61.0 mmboe



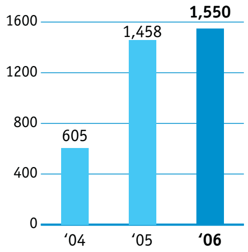
SALES REVENUE

$2,769m



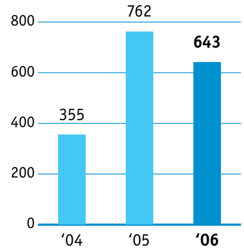
OPERATING CASH FLOW

$1,550m



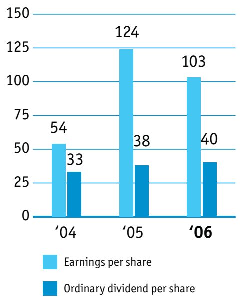
NET PROFIT AFTER TAX

$643m



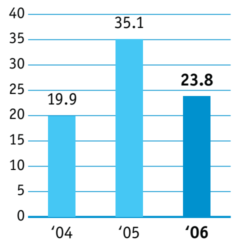
DIVIDENDS PER SHARE

40 cents



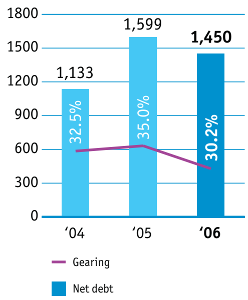
RETURN ON EQUITY

23.8%



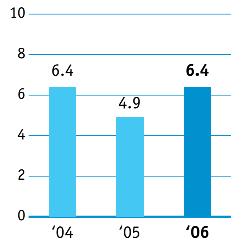
GEARING

30.2%



SAFETY PERFORMANCE

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



Progress made on the growth strategy in 2006

COOPER BASIN OIL

- Project commenced with three latest-generation drilling rigs mobilised and a significant amount of infrastructure installed (page 18).
- 108 wells drilled with 79% success rate, above expectations (page 18).
- 15 mmbbl of 2P reserves added (page 12).

EASTERN AUSTRALIAN GAS

- Gas production started from the Casino gas field, offshore Victoria (page 18).
- Fairview production increased by 67% since acquisition in late 2005 (page 12).
- Gas swap with Origin Energy expanded to 40 PJ per annum to mid 2012 (page 20).
- New gas sales contract to supply 34 PJ over nine years to Zinifex's Century zinc mine (page 20).

WESTERN AUSTRALIAN OIL AND GAS

- Gnu gas and Amulet oil discoveries in the Carnarvon Basin (page 16).
- Two new John Brookes gas sales contracts to supply 16 PJ to Newmont and 37 PJ to Wesfarmers (page 20).
- Two new Mutineer-Exeter oil wells brought online, lifting gross production to over 50,000 bopd (page 18).

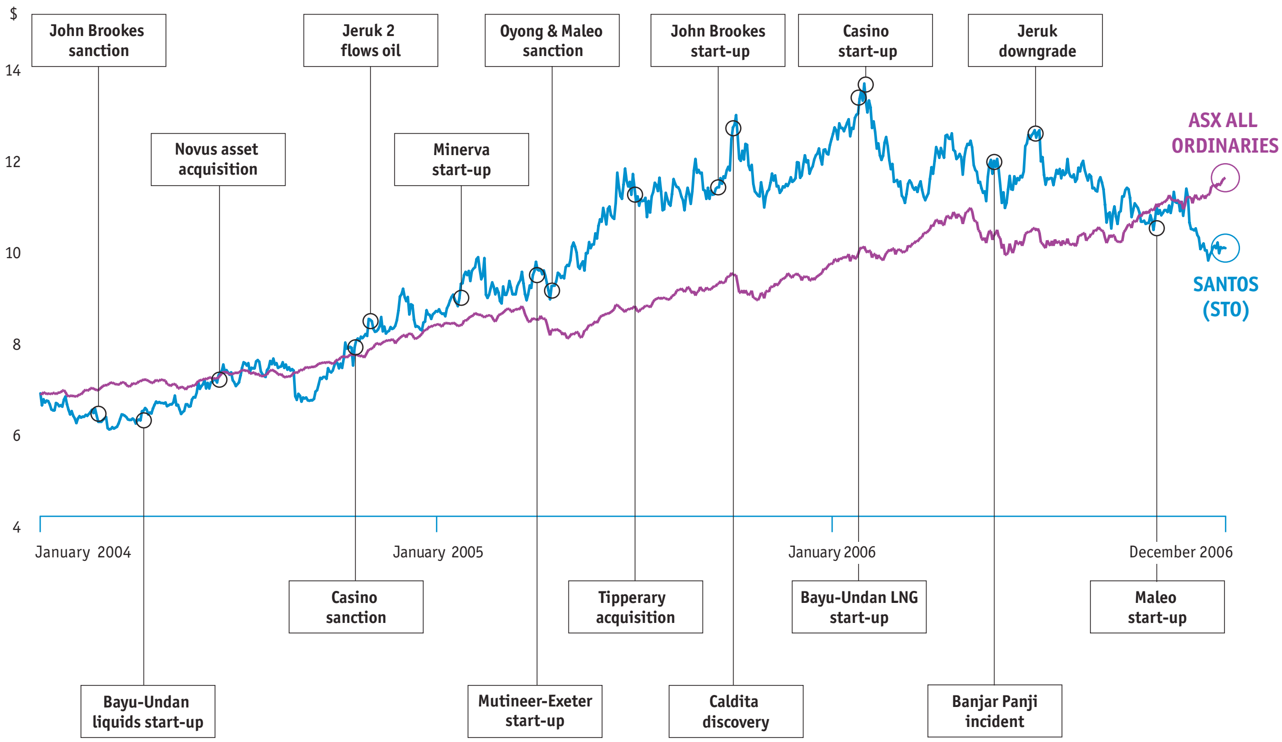
LNG PROJECTS

- LNG exports started from the Bayu-Undan Darwin LNG facility (page 18).
- Exploration/appraisal on the Barossa, Caldita and Evans Shoal South discoveries in Timor/Bonaparte (page 16).

ASIAN GROWTH

- Wortel gas discovery, offshore East Java (page 16).
- New country entry in Vietnam followed by oil discoveries at Dua and Blackbird (page 16).
- Gas production started from the Maleo field, offshore East Java (page 18).
- New country entry in India in February 2007 (page 16).

SANTOS VS ASX ALL ORDINARIES INDEX THREE-YEAR RELATIVE PERFORMANCE



Record results as targets met

REVIEW BY STEPHEN GERLACH, CHAIRMAN

Santos achieved its operational targets in 2006 to deliver a record production performance and robust financial results.

Sustained high product prices combined with lower production costs to generate a 7% increase in underlying net profit after tax of $683 million – the best result in the Company's history.

However, this gain was offset by one-off significant items, including costs associated with the Banjar Panji mudflow incident in Indonesia, with reported net profit after tax 16% lower at $643 million.

Operating cash flow of $1,550 million was a record for the Company and enabled a reduction of gearing at year end to 30.2%.

SHARE PRICE PERFORMANCE

Notwithstanding this excellent operational result, Santos' share price declined during the year with a total shareholder return of negative 17%.

While the lower global oil price resulted in negative sentiment towards companies operating in the upstream oil and gas sector, Santos was further impacted by uncertainty surrounding our ultimate exposure to the Banjar Panji mudflow incident, and disappointing appraisal drilling results at the Jeruk oil discovery.

This underperformance is of great concern to the Board and management, and we are committed to driving future increases in shareholder value.

FULL YEAR DIVIDEND INCREASED

The Board of Directors declared an unchanged final dividend of 20 cents per share. With the earlier increase in the interim payment, shareholders will receive a full year dividend of 40 cents per share, up 5% on the total distribution for 2005.

Santos' strong production and financial performance reflects the growth strategies which are creating a balanced production portfolio across onshore and offshore locations in Australia and overseas.

SHIFT IN EXPLORATION FOCUS

The oil and gas sector remains inherently a 'high-risk, high-reward' business and companies like Santos must be pragmatic and adaptable as they pursue continued growth.

With the costs of drilling rigs and other services at historically high rates, Santos will spend less on exploration in 2007 as the Company increases its focus on near-field targets of the type being pursued in the Cooper Basin Oil Project and coal seam gas activities in Queensland.

That said, Santos is also looking forward to further exploration in the exciting offshore acreage the Company has acquired in India and Vietnam where positive results have already been achieved.

Santos' contingent resources now comprise more than 2.2 billion barrels of oil equivalent in projects offshore and onshore Australia, Papua New Guinea and Asia. This provides a solid foundation for Santos' future development and the opportunity to create further shareholder value.

QUALITY GOVERNANCE RECOGNISED

Our focus on high quality corporate governance continues to be recognised by the independent report prepared by leading accounting and management firm, Horwath, and the University of Newcastle. For the fifth successive year, this highly regarded report has awarded Santos a measure of five out of five for its corporate governance.

ACROSS THE BOARD TABLE

There were a number of changes to the composition of Santos' Board in 2006.

We were saddened by the sudden death of Mr Chris Recny in June 2006 following a short illness. Chris was a very able and constructive Director and his contribution to the work of the Board will be missed.

Mr Michael O'Leary resigned from the Board in December 2006 following 10 years of service.

Mr Roy Franklin was appointed to the Board in September 2006, bringing extensive international petroleum experience from his recent roles as CEO of Paladin Resources plc and Clyde Petroleum plc and from previous senior positions with BP plc.

Mr Kenneth Borda was appointed to the Board in February 2007 bringing to the Board his extensive international banking experience drawing on his most recent position as CEO – Middle East and North Africa of Deutsche Bank.

On behalf of the Board, I would like to record my appreciation for the significant contribution made by both Mr Recny and Mr O'Leary and to formally welcome Mr Franklin and Mr Borda to the Company.

On behalf of the Directors, I thank everyone at Santos for their continuing commitment and performance during 2006 to building value for shareholders.

STEPHEN GERLACH
CHAIRMAN

15 MARCH 2007

Growth continued as production and revenue rose

REVIEW BY JOHN ELLICE-FLINT, MANAGING DIRECTOR

Santos achieved excellent operational results in 2006 with record production during a period of sustained high oil prices and encouraging signs of strengthening gas prices.

We also made a successful new country entry, in Vietnam, where we have three potential development projects which will be the subject of further appraisal and studies in 2007.

Tempering these positive features of 2006 were the Banjar Panji mudflow incident in Indonesia, an event of significant concern to the Company at all levels, and the disappointing appraisal of the Jeruk oil discovery.

Looking ahead, Santos' Cooper Basin Oil Project and the eastern Australian coal seam gas initiatives are reinvigorating one legacy asset and establishing another. These opportunities represent two of the Company's most important growth engines.

The emergence of a robust political and public debate over climate change in Australia also has profound implications for future energy use and Santos' role as a significant gas supplier to domestic and international markets.

Throughout a dynamic period of change, one constant is the energy and commitment of Santos' employees. The Company's values and goals are being widely embraced by employees and, with a move to a new corporate headquarters in early 2007, Santos is entering an exciting phase as an emerging international oil and gas producer.

I would like to record my appreciation for the positive contribution made by the Santos team to the Company's success in 2006.

SAFETY A PRIORITY

In 2006, our employee injury frequency rate continued to fall for the fifth successive year but the contractor injury frequency rate increased, resulting in the total recordable case frequency rate increasing from 4.9 to 6.4 recordable injuries per million hours worked.

We have put systems, processes and training in place to improve our future safety performance.

STRONG OPERATIONAL RESULTS

Santos achieved its highest ever production in 2006 of 61 mmboe, up 9% on the previous year.

With higher prices lifting sales revenue 12% to $2.8 billion and unit production costs down 3% to $6.41 per barrel, Santos' earnings before interest, tax, depreciation and amortisation increased by 17% to $2.14 billion.

For the third year in a row, we increased our 2P reserves base, with year-end reserves of 819 mmboe, an increase of 6%, even after production of 61 mmboe.

Contingent resources also rose by 14% and now stand at 2,248 mmboe. Commercialising these reserves is an important focus across the Company.

BANJAR PANJI INCIDENT

In May 2006 an incident occurred at the Banjar Panji-1 exploration well located near Surabaya, in East Java, in which Santos holds an 18% non-operated interest.

Hot, non-toxic mud started flowing to the surface through vents near the drillhole and continues unabated. By early 2007, the mud had covered an area in excess of 450 hectares and, in doing so, has had a significant impact on the local community, environment and economy.

A large number of people have been displaced and the process of relocating the affected communities is ongoing. Santos is very concerned about the impact of this incident and has made a significant contribution toward the response efforts led by the Indonesian Government-appointed National Team.

Uncertainty surrounding the liability and insurance aspects of this incident has clearly had a significant impact on share market sentiment towards Santos in the latter part of 2006 and into 2007.

Santos has provisioned $89 million as at 31 December 2006 in relation to the Banjar Panji incident which reflects the current best estimate of drilling, mud management and other costs. Offsetting this, the Company has recognised an amount of $22 million as insurance proceeds, leading to a net expense of $67 million.

GROWTH ON FIVE FRONTS

Cooper Basin Oil Project – Santos is one year into a five-year, 1000-well project which is expected to increase Cooper Basin oil production from 10,000 barrels to 30,000 barrels a day of oil by the end of the decade.

Initial results exceeded expectations in 2006 with 108 wells drilled, adding 15 million barrels of Proven plus Probable (2P) reserves: double the extra reserves anticipated.

One of the most rewarding elements of the project is that the exploration, appraisal and extraction of oil is being achieved with leading edge technology that leaves only a light environmental footprint to be rehabilitated.

Eastern Australian gas – Santos is still the largest producer of natural gas in eastern Australia and is well positioned to meet the growing gas demand in this region.

The Fairview coal seam gas (CSG) project was fully integrated into Santos' operations during 2006 and has recorded a 67% increase in production since acquisition.

With existing production from the Scotia and Fairview fields, plus significant additional upside demonstrated by successful pilot drilling at Roma, CSG has been built into a new legacy asset for Santos. Total CSG reserves in southern Queensland now outweigh the gas reserves in the Cooper Basin.

Western Australian oil and gas – Reflecting robust demand for energy, gas contract prices in Western Australia have recently moved to more than $5/GJ – sharply higher pricing that will support further gas developments.

With uncontracted 2P reserves of 200 PJ of gas at John Brookes and a 45% interest in the 300–500 PJ resource at Reindeer (from which the joint venture is targeting first production in 2010), Santos is set to make a significant contribution towards meeting Western Australia's domestic demand for gas.

LNG projects – Santos became a LNG producer for the first time in 2006 with the initial cargoes from the Darwin LNG plant shipped to customers in Japan.

The potential to convert the large contingent gas reserves in Papua New Guinea into producing assets has been boosted by renewed consideration of a LNG development in the country.

Santos is aligned with the operator ExxonMobil in the evaluation of a 5–6.5 million tonnes per annum LNG plant, with a target start-up date of 2012–2013.

In the waters off the Northern Territory, appraisal work continues targeting a second train of 3.5–6 million tonnes per annum at the Darwin LNG project.

Santos has a 40% interest in each of the Barossa, Caldita and Evans Shoal gas fields. A large 3D seismic survey is currently underway following the drilling of three wells on these structures in the past 12 months.

Asian growth – Santos refocused its international strategy in 2006 with a greater emphasis on Asia and a decision to divest the Company's United States holdings.

We made a new country entry into Vietnam which yielded almost immediate success with the Blackbird and Dua oil discoveries. These fields, in addition to the existing Swan gas field discovery in southern Vietnamese waters, are being considered for development.

In Indonesia, the Maleo gas project came on-stream in 2006 and the Oyong project is scheduled to begin producing oil in mid 2007, with the gas component of this project to follow in 2008.

We added India to our Asian portfolio in early 2007 when, against strong international competition, we secured two blocks of attractive frontier exploration acreage in the offshore Bengal Basin.

The Company has committed to an eight-year $90 million work program which includes 2D and 3D seismic data acquisition and one exploration well.

ADVANCING SUSTAINABILITY

Santos took significant steps in 2006 towards achieving the important goal of having a fully-integrated approach to managing our business for long-term sustainability.

This Company-wide program demands continuous improvement in our approach to exploration, development and production, and other key indicators of sustainability such as environment, health and safety, ethics and conduct, our people and community relations.

One area in which we will redouble our efforts in 2007 is occupational health and safety.

As well as producing positive outcomes for all stakeholders, sustainability improves Santos' efficiency and profitability as it strives for a leadership position in the international energy marketplace.

Our 2006 Sustainability Report provides more information about Santos' sustainability performance and initiatives. A copy can be obtained by contacting the Company's Share Register or visiting our website at www.santos.com/sustainability.

CLIMATE CHANGE VISION REQUIRED

Sustainability is at the heart of the debate over Australia's national response to global warming and climate change. As an energy provider with large reserves of natural gas, the least carbon-intensive of fossil fuels, the political and policy parameters flowing from this discussion have positive implications for Santos.

However, we believe that the current situation represents a more fundamental opportunity to shape the future and the lifestyle that we can all lead. There are no 'silver bullets' to address climate change but there are a number of initiatives that we should embrace, including:

- changing behaviours through education to conserve energy;
- using cleaner fuels including natural gas for power generation and industrial use;
- introducing a national emissions trading scheme to send a carbon pricing signal to the market; and
- accelerating the research and investment required to develop new, clean energy technologies in Australia.

Santos is contributing to the technology responses to climate change by participating in a major carbon capture and geosequestration trial project.

The Company is evaluating the construction of a 100 megawatt power station, fuelled by coal seam gas at Fairview in Queensland, that would capture and store exhaust emissions in one of the largest carbon dioxide (CO_2) geosequestration projects in the world.

We are also examining the potential to inject CO_2 into depleted reservoirs deep underground in the Cooper Basin.

However, on a broader scale, we need a vision that will see Australians respond to the challenge of climate change and, in doing so, gain a comparative advantage in technology and lifestyle.

When we build a clean, green nation we will attract the people, the skills and the investment that are vital to the prosperity of generations to come. We will also retain our 'best and brightest' because the opportunities in Australia will be second to none.

Australia can lead the world. We simply need the will and drive to do so.

JOHN C ELLICE-FLINT
MANAGING DIRECTOR

15 MARCH 2007

Operating performance remained strong

Sales revenue in 2006 was a record $2,769 million, an increase of 12% on the previous record achieved in 2005.

Santos' record revenue reflected higher production from new projects commissioned during the year, including the Casino gas project, the Darwin LNG project and the Maleo gas project, together with a full year of production from the John Brookes gas project which was brought online in the latter part of 2005.

HIGHER PRODUCT PRICES

Favourable movements in commodity prices also contributed to the increased revenue, with a 21% increase in oil price of A$89.35 compared with A$73.83 in 2005, and a 4% increase in gas price to $3.78 per GJ from $3.62 previously.

LOW UNIT COSTS OF PRODUCTION

Unit production costs of $6.41 per boe were 3% lower than 2005, reflecting increased production from fields with low operating cost, notably the John Brookes field in Western Australia.

OPERATING PROFIT HIGHER

As a result of higher prices and lower costs, the netback or cash margin sold increased by 12% to $33.10 per boe.

Earnings before interest, tax, depreciation, amortisation (EBITDA) increased by 17% to a record $2.14 billion.

UNDERLYING NET PROFIT HIGHER

One-off charges in 2006 reduced the reported net profit by $40 million, compared with an uplift of $123 million in 2005.

Combined with higher depletion, depreciation and amortisation expense, reflecting an increase in future development and restoration costs, reported net profit after tax (NPAT) of $643 million was 16% lower than 2005.

After adjusting for significant items, underlying NPAT was $683 million, 7% higher than 2005.

CASH FLOW AND BALANCE SHEET ROBUST

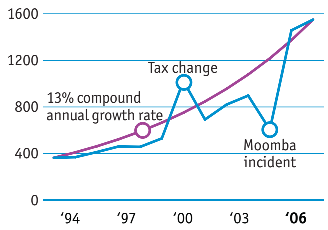
Operating cash flow increased by 6% to $1,550 million, a record for the Company.

Net debt of $1,450 million at year end was $149 million lower than 2005, as sufficient operating cash flow was generated after funding exploration, development, net acquisitions and dividends.

Net assets increased by $392 million to $3,356 million, resulting in gearing (net debt to net debt plus equity) of 30.2%, which is lower than the Company's preferred maximum of around 40%.

OPERATING CASH FLOW

$ million



Over the past 13 years, Santos has achieved an average compound annual growth rate for operating cash flow of 13%. This cash has been reinvested to build a business that continues to deliver on its strategic targets.

Performance against strategic targets in 2006

Santos achieved strong results in 2006 against a series of targets established three years ago to measure performance.

Production growth for the year was above target at 9% as the impact of new projects more than offset the natural decline of existing fields.

Santos' netback target was set at a A$45 oil price. Given the oil price experienced during the year, the Company was able to exceed this target. Together with the higher level of production, this has resulted in more cash being available to build reserves.

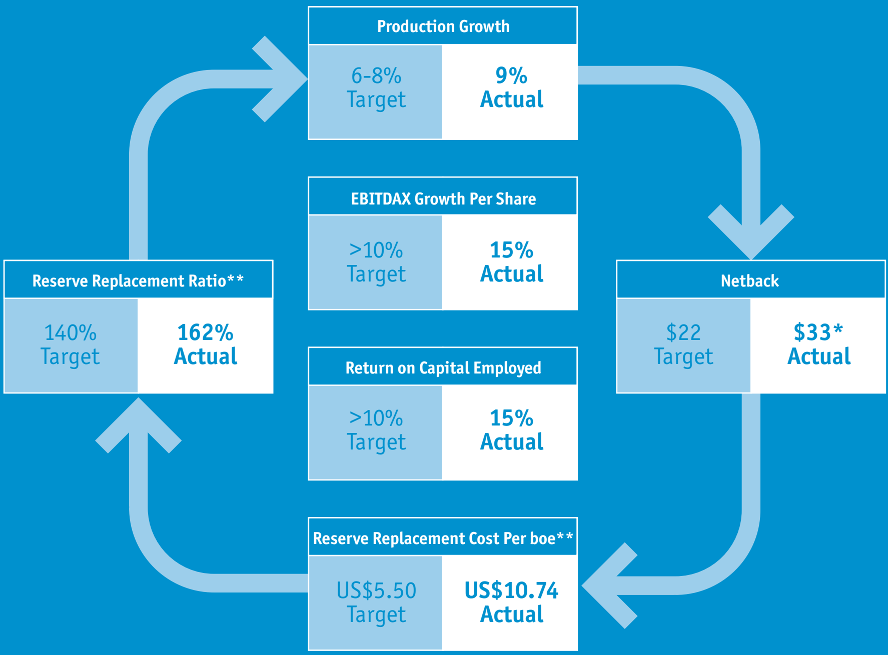
The same cycle that is driving netback higher is also driving replacement cost higher. Three-year average reserve replacement cost of US$10.74 per boe was above target, reflecting cost inflation seen across the industry.

Taking netback and reserve replacement cost together shows that Santos' ability to replace reserves from the cash generated by production remains strong.

Over the past three years, Santos has replaced 162% of production on a Proven (1P) basis which exceeds the Company's target reserve replacement rate and therefore extends reserve life. This is a strong performance when the industry generally is struggling to replace reserves.

Success on these metrics in conjunction with higher prices means Santos is increasing its cash generation and operating income per share at well above target rates. Return on capital is also well in excess of target.

2006 PERFORMANCE AGAINST TARGETS



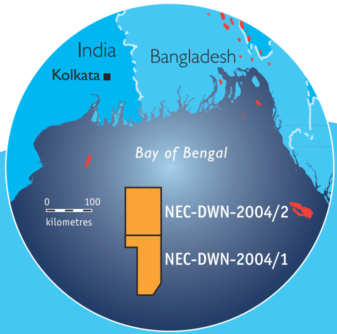
* *Normalised for the A$45 oil price implicit in the target, netback would have been approximately $20.*
** *Three-year rolling average.*

The world of Santos

EGYPT

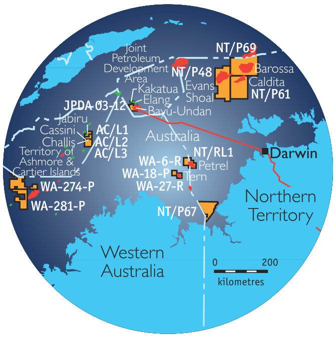
KYRGYZSTAN

INDIA

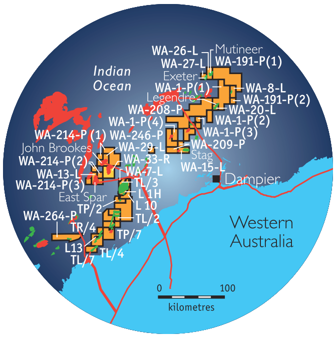


UNITED STATES

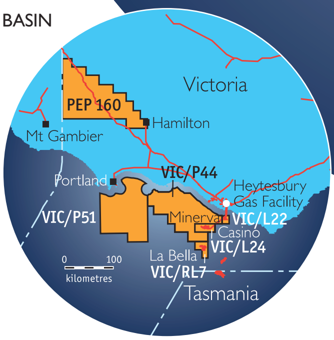
BROWSE, TIMOR AND BONAPARTE



CARNARVON BASIN



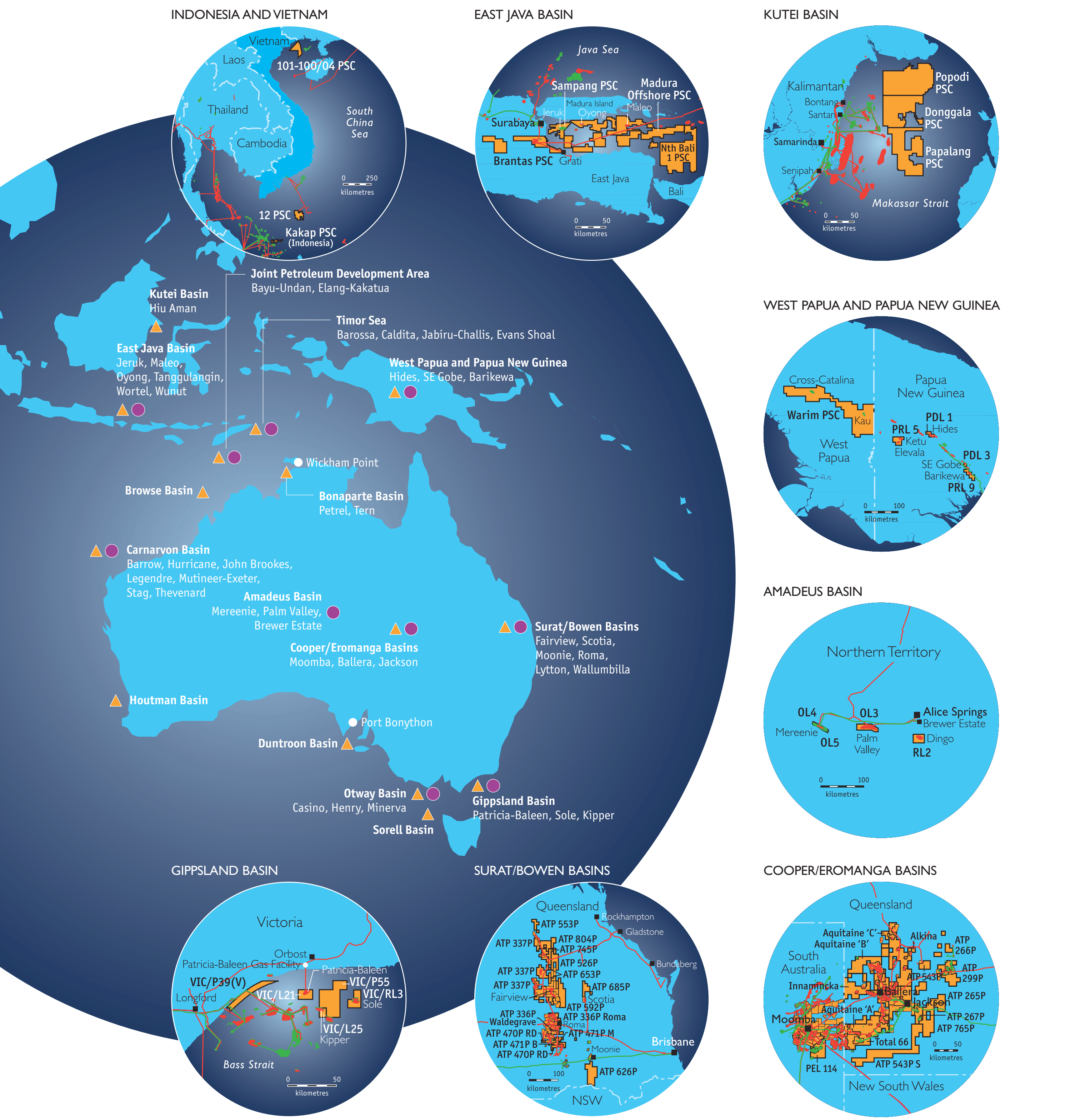
OTWAY BASIN



SORELL BASIN

KEY TO MAPS

- Exploration
- Production
- Processing and load-out facility
- Oil field
- Gas field
- Oil pipeline
- Gas pipeline



Record production and sales were achieved

Santos achieved its highest ever oil and gas output of 61 mmboe in 2006 as production from new developments came on-stream.

For the first time in the Company's history, areas outside the Cooper Basin contributed more than 50% of total hydrocarbons produced.

Nevertheless, production from the Cooper Basin Oil Project more than offset the natural decline in the basin's existing oil fields. The success of this venture to date bodes well as drilling and development activity accelerates in 2007.

COOPER OIL SUCCESS

The initial results from the Cooper Basin Oil Project exceeded expectations in 2006. This is a high-value, scaleable opportunity that is unique to Santos.

Activities relating to the project added 2P reserves of 15 mmbbl to Santos' portfolio in 2006.

The potential of the Cooper Basin Oil Project was further expanded during 2006 and early 2007 with a number of farm-ins by Santos securing additional exploration acreage.

Santos' net acreage has increased by more than 33% in the past four years to more than 30,000 square kilometres.

FAIRVIEW DELIVERS

Santos' coal seam gas (CSG) production from the Fairview field in southern Queensland was another operations highlight in 2006.

Fairview has been fully integrated into Santos' CSG operations and now forms an important element of the Wallumbilla gas hub, near Roma.

Since its acquisition in late 2005, production at Fairview has increased by 67%, with the extra output readily finding a market through Santos' extensive sales portfolio.

Importantly, production efficiency has been enhanced with a decrease in water production.

In an Australian first in 2006, Santos successfully trialed the underground injection of salty water produced with the CSG at Fairview.

This sustainable solution for the disposal of produced water will, at current injection rates, prevent the equivalent of five tonnes of salt from entering the Dawson River system each day.

Santos plans to expand its CSG exploration program in the Roma area in 2007.

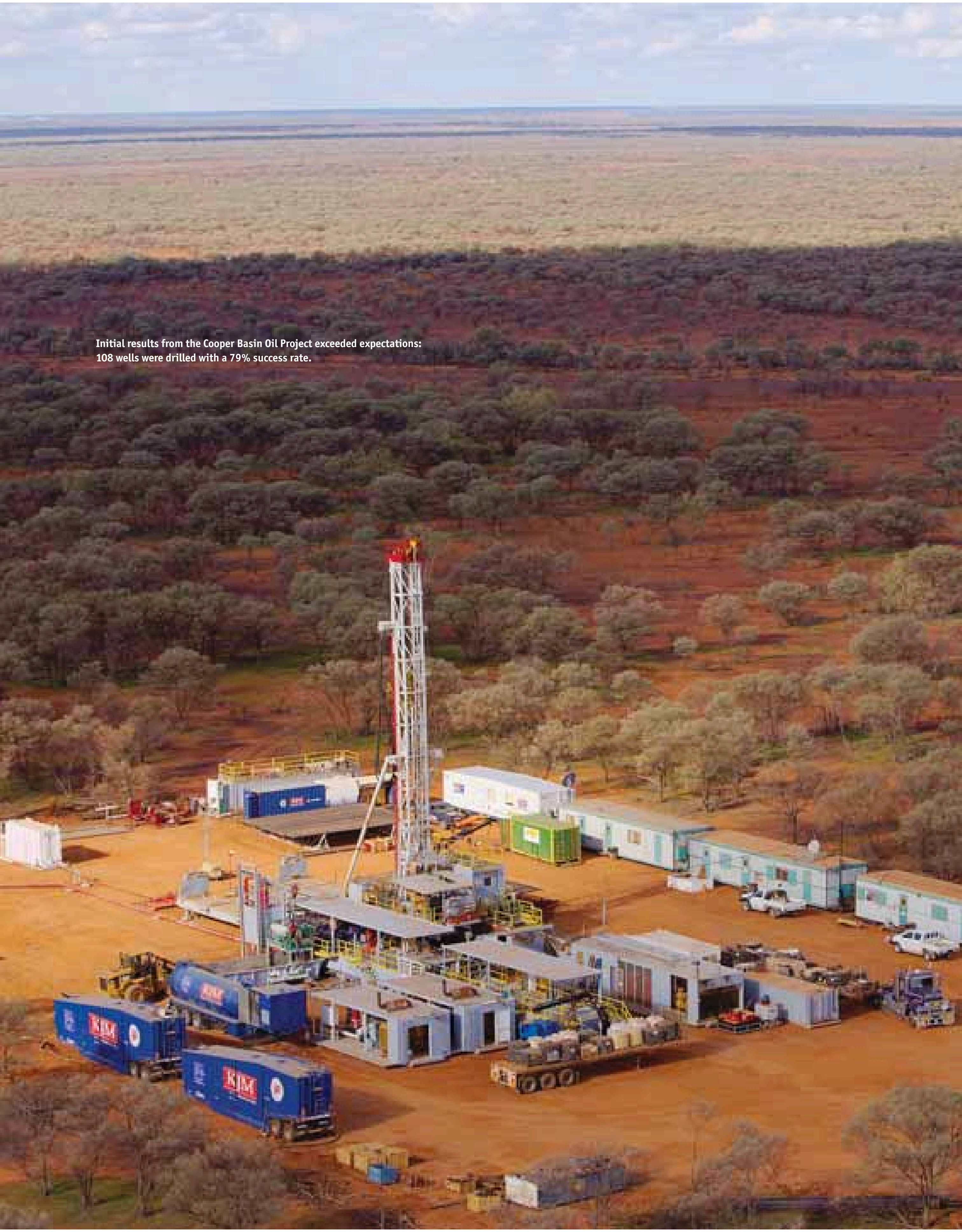
REDOUBLING SAFETY EFFORT

Santos recorded a disappointing increase in contractor personal safety incidents in 2006, many of which were hand and finger injuries.

As the Company expands its operations, a large increase in workforce numbers, including contractors, presents challenges in educating new staff and instilling Santos' strong commitment to employee health and safety.

Santos' goal in 2007 will be to return to the continuous improvement that had been achieved in the previous three years which produced a 50% reduction in the Company's total recordable case frequency rate – a statistical measure of safety performance.

Further discussion of Santos' safety performance appears on page 26.



Initial results from the Cooper Basin Oil Project exceeded expectations: 108 wells were drilled with a 79% success rate.

Production statistics

	Total 2006 Field units	Total 2006 mmboe	Total 2005 Field units	Total 2005 mmboe
Sales gas, ethane and LNG (PJ)				
Cooper	**109.2**	**18.8**	124.7	21.5
Surat/Bowen/Denison	**29.4**	**5.1**	22.9	3.9
Amadeus	**12.7**	**2.2**	12.7	2.2
Otway/Gippsland	**26.3**	**4.5**	14.1	2.4
Carnarvon	**31.7**	**5.4**	7.7	1.3
Bonaparte	**13.1**	**2.2**	–	–
Indonesia	**6.8**	**1.2**	4.6	0.8
United States	**6.1**	**1.0**	10.6	1.8
Total production	**235.3**	**40.4**	197.3	33.9
Total sales volume	**254.8**	**43.8**	228.2	39.3
Total sales revenue ($million)		**963.0**		825.7

	Total 2006 Field units	Total 2006 mmboe	Total 2005 Field units	Total 2005 mmboe
Crude oil ('000 bbls)				
Cooper	**3,455.1**	**3.5**	3,205.9	3.2
Surat/Denison	**66.8**	**0.1**	74.5	0.1
Amadeus	**139.3**	**0.1**	196.4	0.2
Legendre	**462.0**	**0.5**	882.8	0.9
Thevenard	**390.4**	**0.4**	473.7	0.5
Barrow	**687.5**	**0.6**	760.1	0.7
Stag	**2,768.9**	**2.8**	2,363.9	2.4
Mutineer-Exeter	**4,865.1**	**4.9**	6,492.0	6.5
Elang-Kakatua	**160.8**	**0.2**	184.1	0.2
Jabiru-Challis	**157.1**	**0.1**	164.4	0.1
Indonesia	**111.6**	**0.1**	138.3	0.1
SE Gobe	**267.5**	**0.3**	269.8	0.3
United States	**38.6**	**0.0**	58.0	0.1
Total production	**13,570.7**	**13.6**	15,263.9	15.3
Total sales volume	**13,452.2**	**13.5**	14,990.2	15.0
Total sales revenue ($million)		**1,202.0**		1,106.8

	Total 2006 Field units	Total 2006 mmboe	Total 2005 Field units	Total 2005 mmboe
Condensate ('000 bbls)				
Cooper	**1,618.9**	**1.5**	1,922.6	1.8
Surat/Denison	**24.0**	**0.0**	30.8	0.0
Amadeus	**58.0**	**0.1**	43.7	0.1
Otway	**23.2**	**0.0**	12.8	0.0
Carnarvon	**424.6**	**0.4**	101.5	0.1
Bonaparte	**2,384.4**	**2.3**	2,139.9	2.0
United States	**124.2**	**0.1**	236.1	0.2
Total production	**4,657.3**	**4.4**	4,487.4	4.2
Total sales volume	**4,623.9**	**4.3**	4,602.7	4.3
Total sales revenue ($million)		**397.3**		345.9

	Total 2006 Field units	Total 2006 mmboe	Total 2005 Field units	Total 2005 mmboe
LPG ('000 t)				
Cooper	**200.6**	**1.7**	213.6	1.8
Bonaparte	**106.3**	**0.9**	93.6	0.8
Total production	**306.9**	**2.6**	307.2	2.6
Total sales volume	**294.0**	**2.5**	302.2	2.5
Total sales revenue ($million)		**206.8**		184.4

	Total 2006	Total 2005
Total		
Production (mmboe)	**61.0**	56.0
Sales volume (mmboe)	**64.1**	61.1
Sales revenue* ($million)	**2,769.1**	2,462.8

** Full year 2006 revenue includes an $18.8 million year-end revaluation of embedded derivatives in sales contracts.*

Reserves statistics

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) BY ACTIVITY

	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Reserves year end 2005	3,667	76	43	3,195	774
Production	-235	-14	-5	-307	-61
Additions	328	13	2	-257	69
Acquisitions/divestments	189	0	3	264	37
Estimated reserves year end 2006	3,949	75	43	2,895	819

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) YEAR END 2006 BY AREA

Area	Sales gas (incl. ethane & LNG) PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Cooper Basin	811	39	11	1,448	200
Onshore Northern Territory	118	2	0	0	22
Offshore Northern Territory	328	0	21	1,041	85
Eastern Queensland	1,451	0	0	16	251
Southern Australia	437	0	5	390	83
Carnarvon Basin	586	30	5	0	136
Papua New Guinea	0	1	0	0	1
Indonesia	192	3	0	0	36
United States	26	0	1	0	5
Total	3,949	75	43	2,895	819

RESERVES SUMMARY (SANTOS SHARE)

(mmboe)

	Year end 2005	Production	Additions	Acquisitions/ divestments	Year end 2006
Proven (1P) reserves	414	-61	62	26	441
Proven plus Probable (2P) reserves	774	-61	69	37	819
Contingent resources (best estimate)	1,971	0	177	100	2,248

DEFINING RESERVES

Santos has in place an evaluation and reporting process that is in line with international industry practice and is in general conformity with reserves definitions and resource classification systems published by the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC) and the American Association of Petroleum Geologists (AAPG). The definitions used are consistent with the requirements of the Australian Securities Exchange (ASX).

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Santos reports reserves net of the gas required for processing and transportation to the customer. Reserves reported are based on, and accurately reflect, information compiled by full-time employees of the Company who have the requisite qualifications and experience prescribed by the ASX Listing Rules.

EXTERNALLY REVIEWED BOOKING PROCESS

Santos' reserves processes and procedures were reviewed by independent expert, Gaffney, Cline & Associates, and found to be 'appropriate to providing robust estimates of Santos' reserve position in accordance with international industry practice'.

Strong drilling results and expansion into Asia

Positive perceptions of Santos as a maturing oil and gas company in Asia contributed to a successful new country entry in Vietnam, adding another dimension to the Company's international profile in 2006.

In a year in which Santos recorded strong drilling results in its traditional search areas, both onshore and offshore Australia, the success of the Company's 'growth through exploration' strategy was underscored by its experience in Vietnam.

Santos continues to consider other opportunities in Asia and was granted acreage in the Bengal Basin, in the northern Bay of Bengal offshore India, in early 2007.

SIGNIFICANT DISCOVERIES

Santos drilled 25 exploration wells in 2006, with discoveries in the Timor/Bonaparte region, Carnarvon Basin, Cooper Basin, Vietnam and Indonesia.

The Barossa-1 well in the Timor/Bonaparte region offshore Northern Territory flowed gas at a rate of 30 mmscf/d and provided valuable reservoir data. An ongoing exploration and appraisal effort, also incorporating the nearby Caldita field, will aim to convert the area's gas into feedstock for a second train at the Wickham Point LNG plant, near Darwin.

In the Carnarvon Basin, the Gnu-1 well flowed gas at 26 mmscf/d and considerably enhanced Santos' Western Australian gas portfolio. Gnu has added to the reserves of the adjacent Reindeer field for which commercialisation options are being considered by the project operator, Apache.

The Amulet-1 discovery, also in the Carnarvon Basin, yielded a 28-metre oil column with a subsequent sidetrack and appraisal well helping to define a significant oil accumulation. Further appraisal drilling in 2007 will establish the number of oil accumulations present at the Amulet field.

In Indonesia, the Wortel-1 exploration well discovered gas and flowed at 18.5 mmscf/d. Further appraisal drilling of the Wortel structure is planned in 2007.

SUCCESSFUL ENTRY TO VIETNAM

Santos recorded strong oil and gas flows from the Blackbird and Dua discovery wells after farming into the Nam Con Son Basin off Vietnam's southern coast in 2006.

Blackbird yielded oil from four zones and flowed at rates of more than 3,700 bopd and 2.5 mmscf/d, while Dua flowed at 5,500 bopd and 6.76 mmscf/d.

Two appraisal wells provided information on the Dua reservoirs and studies in 2007 will consider the type and scale of potential development options. Santos is acquiring 3D seismic data to delineate the Blackbird structure and, with the two discoveries in close proximity, consideration will be given to joint development of Dua and Blackbird.

Santos' standing as a professional and skilled explorer saw the Company become operator of a joint venture in the Song Hong Basin, offshore northern Vietnam.

Santos funded the acquisition and interpretation of 2D seismic data in this prospective area and has committed to shooting a 3D seismic program and drilling an exploration well within three years.

The strong long-term political, education and trade ties that exist between Australia and Vietnam are now delivering in a commercial sense, and Santos is the most active Australian exploration company operating in the country.

PROGRESS IN KYRGYZSTAN AND EGYPT

Santos established a sound platform for exploring the prospective Fergana Basin in western Kyrgyzstan with the completion of a reinterpretation of Soviet-era seismic data. Santos will undertake a 2D seismic program in early 2007 and apply technology and techniques not previously employed in the region to plan a drilling program.

In Egypt, Santos drilled two unsuccessful wells in 2006; however, seismic data previously acquired is being reprocessed to allow improved imaging.

2007 FOCUS ON NEAR-FIELD EXPLORATION

With drilling rig and service costs to remain high in the current competitive market, Santos will sharpen its focus on near-field exploration and appraisal of recent successes in the year ahead.

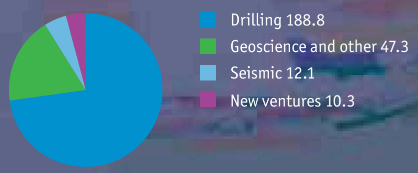
The Company's exploration budget reflects this prudent stance and has a greater emphasis on seismic acquisition and less on drilling. Twelve exploration wells with a budget of $173 million are planned for 2007, with oil as the principal target.

Martin Novak, Senior Staff Geophysicist, and Aaron Cummings, Geologist, in the Offshore Southern and Western Australia Exploration team.

2007 WILDCAT EXPLORATION PROGRAM

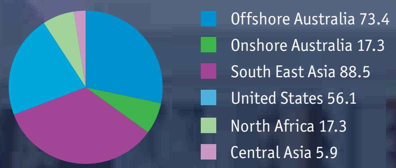
2006 EXPLORATION EXPENDITURE BY CATEGORY

$million



2006 EXPLORATION EXPENDITURE BY AREA

$million



Three new developments started production

Robust analysis coupled with advanced technology and development techniques delivered strong results across Santos' portfolio of oil and gas projects in 2006.

The Cooper Basin Oil and Mutineer-Exeter projects are two examples of Santos breaking new ground in drilling and development activity. The skills and knowledge gained on such projects can be leveraged across all of the Company's activities.

Underpinning the Company's approach to the planning, implementation and construction of new oil and gas facilities is the Santos Quality Asset Development (SQAD) process.

This is a structured framework in which the Company appraises projects, assesses risks and rewards, undertakes investment decisions, initiates Front End Engineering and Design (FEED) and ultimately brings a project to production.

A WINNER IN CASINO

SQAD played an important role in the Casino gas field development which was brought into production in record time and ahead of budget early in 2006.

Located 30 kilometres off Victoria's south-west coast, Casino performed well in its first year, producing an average of 100 mmscf/d of gas with limited downtime.

Casino is the centrepiece of an emerging gas hub in the Otway Basin where the Henry gas field, located 8.5 kilometres north-west of Casino, has advanced in Santos' development pipeline.

The Company approved the commencement of FEED for Henry in late 2006, with a final investment decision on the project to be made in the second half of 2007.

Santos has a number of attractive exploration prospects in tenement VIC/P44, which hosts Casino and Henry, to be drilled in late 2007 and 2008. If successful, these prospects would add to the resources which could be developed in conjunction with the Henry gas field.

MALEO INTO PRODUCTION

Santos' first offshore operated gas field outside Australia, the Maleo gas project located off the East Java coast in Indonesia, came on-stream in September 2006 and soon achieved its contracted production level of approximately 80 TJ/day.

The Maleo field, containing gross 2P reserves of 240 billion cubic feet of gas, was developed using a jack-up rig converted into a Mobile Offshore Production Unit connected to a short pipeline to existing production infrastructure in the area.

BAYU-UNDAN LNG STARTS EXPORTS

The first shipment of LNG from the Bayu-Undan processing plant in Darwin during February 2006 was a major milestone for Santos. With a 10.64% interest, Santos is the only Australian company involved in this project which is operated by ConocoPhillips.

The LNG phase of the project involves the transportation of lean gas from the Bayu-Undan fields in the Timor Sea via a 500-kilometre subsea pipeline for processing at a single train LNG plant at Wickham Point, Darwin.

MUTINEER-EXETER DEVELOPMENT CONTINUES

In 2006 Santos achieved several milestones in the ongoing development of the Mutineer-Exeter oil fields.

The phase three drilling program was successfully completed with two new development wells brought online increasing production rates from 35,000 bopd to over 50,000 bopd.

The program successfully executed the longest offshore directional well drilled by Santos at a total measured depth of 4,822 metres.

An extensive high-definition 3D seismic survey over the Mutineer-Exeter fields was acquired and processed during 2006 and is now being used to optimise the 2007 appraisal and development program.

SMALL RIGS, BIG RESULTS

Santos' innovative approach to oil field development can also be seen in the Cooper Basin Oil Project in 2006, with three state-of-the-art truck-mounted rigs delivering a 20% improvement in drilling performance together with more sustainable drilling operations.

With the introduction of these new rigs, Santos has implemented a number of improvements to the traditional lease size, layout and construction methodology that minimises the environmental footprint.

Santos is the only company in Australia with the acreage, infrastructure, equipment and know-how to be able to undertake this ambitious 1,000-well program over five years.

The Maleo gas project offshore East Java – Santos' first offshore operated gas field outside Australia – started production in September 2006.

During 2006, Santos drilled 108 wells under the Cooper Basin Oil Project. A 79% success rate saw 47 wells brought on-stream with an average duration from discovery to production of about 60 days.

JERUK DISAPPOINTS

Extensive reservoir analysis of the Jeruk oil discovery, offshore East Java, established that the upside recoverable oil resource for the field was most likely to be less than 50 mmbbl.

Opportunities to commercialise Jeruk are being examined in discussions with the Indonesian Government. However, plans for additional appraisal drilling were placed on hold in 2006 pending the review of development scenarios and the resolution of commercial and technical issues which may potentially impact the viability of any development.

OYONG BACK ON TRACK

The Oyong oil and gas project, also offshore East Java, is expected to achieve first oil production by mid-2007. The start-up date was delayed due to the need to re-tender the contract for the production barge.

With an 80% Indonesian content in the Floating Storage and Offtake vessel contract, the Oyong project is a good example of Santos' sustainability policy and commitment to local communities.

The second phase of the Oyong project, which will supply gas to electricity generators in East Java via a new pipeline, is expected to come on-stream in late 2008.

Gas supply hubs underpinned innovative contracts

In 2006, Santos participated in several innovative commercialisation activities which leveraged the Company's network of gas supply hubs in eastern Australia.

The interaction between the Wallumbilla and the Cooper Basin hubs, in south-east Queensland and South Australia respectively, is now delivering the greater production versatility and the optimisation of costs that were the objectives of Santos' hub strategy.

This strategy is delivering a number of commercial benefits including:

- the sale of coal seam gas (CSG) under Cooper Basin contracts which has underwritten further development of Fairview reserves by bringing forward the production of gas for which markets were not immediately available in south-east Queensland;
- meeting Cooper Basin sales commitments with CSG, which contains no ethane, facilitates the separate sale of higher-value Cooper Basin ethane;
- the expansion of an existing gas swap agreement between Santos and Origin Energy from 18 PJ to 40 PJ per annum, and extension of the agreement by six months until mid 2012;
- the sale of 34 PJ of gas over nine years to Zinifex for power generation at the Century zinc mine; and
- the potential to further extend Santos' gas supplies to South Australia and New South Wales.

GROWING ROLE FOR CSG

CSG is playing an increasing role in Australia's energy supply mix and now represents 25% of the 2P gas reserves in eastern Australia.

With low barriers to entry and established transmission infrastructure in the region, the CSG market is highly competitive with many new and emerging participants. Given its low-cost, high-productivity production facilities at Fairview and Scotia, Santos is well positioned to supply CSG to this burgeoning market.

GAS PRICE TRENDS UP IN WA

In Western Australia, Santos signed several new gas contracts in 2006 as prices moved sharply higher, reflecting robust and increasing demand for gas.

Santos contracted with Newmont Australia for the supply of 16 PJ of gas over three years from the John Brookes field. The contract, which will supply gas to Newmont's Jundee gold mine and Parkeston power station, is expected to generate more than $90 million in revenue during its term.

The John Brookes field will also supply up to 37 PJ of gas over 10 years to Wesfarmers' new LNG plant at Kwinana, south of Perth, which is scheduled to come online in early 2008.

The favourable demand and gas price trends in Western Australia provide an attractive opportunity to commercialise an additional 300–500 PJ of gas resource from the Reindeer gas field, located north-east of John Brookes, in which Santos has a 45% interest.

CLIMATE CHANGE INFLUENCES

Political and market responses to climate change created commercial opportunities for Santos in 2006.

Santos sold Gas Electricity Certificates (credits earned by the Company's Ballera power plant) to Energex to enable the power retailer to meet its obligations to the Queensland Government to source 13% of its electricity from gas-fired generation or purchase Gas Electricity Certificates in lieu of financial penalties.

The pursuit of lower-carbon-intensity fuel has enhanced the competitiveness of natural gas over coal, and is expected to stimulate more gas-fired power generation in eastern Australia with a resulting positive impact on gas prices.

In 2006, the New South Wales Greenhouse Abatement Certificate Scheme, under which electricity retailers are required to meet mandatory targets for reducing or offsetting greenhouse gas emissions, was extended until at least 2021. This scheme increases the competitiveness of gas-fired electricity generation and improves the outlook for gas in one of Santos' core markets.

SANTOS DIRECT SALES TOP $30 MILLION

Sales by Santos' retail gas marketing arm, Santos Direct, passed $30 million for the first time with sales on the Victorian spot market and to large industrial users. In 2006, Santos acquired a gas retail licence in South Australia and applied for a licence in New South Wales.

Two new gas sales contracts were completed in 2006 to supply gas from the John Brookes field to Newmont and Wesfarmers.

LNG and carbon opportunities a priority

LNG commercialisation opportunities will be an important focus for Santos in 2007 as the Company seeks to convert contingent gas resources into new developments.

The Hides gas field in Papua New Guinea's Southern Highlands, in which Santos has a 25% interest, is the largest known gas resource in the region and would be expected to be the cornerstone of any LNG project.

Initial studies indicate there are potential sites for a LNG development on PNG's southern coast and that sufficient reserves exist to support a single LNG train.

Santos is very supportive of the efforts by the operator of the Hides field, ExxonMobil, to commercialise these gas reserves, targeting production in 2012–2013.

In Australian waters, Santos continued exploration and appraisal work on the Evans Shoal South, Caldita and Barossa gas fields in the Timor/Bonaparte region to prove up the resource required to support a second LNG train at the Wickham Point plant in Darwin.

PURSUING CARBON CAPTURE TECHNOLOGIES

Santos is playing a leading role in the pursuit of the lower carbon emission energy technologies demanded by climate change.

In 2007, Santos expects to complete its evaluation of a proposed CO_2 capture and storage project based on the Company's Fairview CSG operations in southern Queensland.

The proposed $435 million Fairview Power Project, which would be funded in part by a $75 million grant from the Australian Government's Low Emissions Technology Demonstration Fund, would be one of the largest CO_2 geosequestration projects in the world.

The project would involve construction of a 100 megawatt power station fuelled by Fairview's CSG. Exhaust gases containing CO_2 would be captured, compressed and transported by pipeline to be injected deep underground into the Fairview coal seams.

In a move that enhances the sustainability benefits of the project, water produced with the coal seam gas would be used in the power station. The electricity generated would be sold into the national grid via a new 100-kilometre transmission line to Roma.

A final investment decision on the Fairview Power Project, which is a joint venture with General Electric Energy, is expected by the end of 2007.

EMISSIONS TRADING

Santos recognises that a well-designed emissions trading scheme will be a key component of a portfolio of initiatives to reduce Australia's greenhouse gas emissions.

Emissions trading provides a mechanism by which the market determines the least cost means of emissions abatement, and the Company supports the earliest possible introduction of such a scheme on a national basis.

Natural gas is a transition fuel between coal-fired electricity and a clean-fuel future. If Australia is to achieve emissions abatement over the long term, natural gas must play a much greater role in electricity generation.

INCREASED STAKE IN KIPPER

Santos acquired Woodside Petroleum's 21% stake in the Kipper gas field, located off the Gippsland coast in Victoria, to take its interest to 35%. A production licence for the field, which is estimated to contain 620 billion cubic feet of recoverable gas and 30 million barrels of condensate and LPG, was approved by the Victorian Government.

Kipper gas and liquids will be processed at the nearby Longford facility with production expected to commence in 2010.

MINORITIES ACQUIRED

Santos acquired the outstanding minority interests, other than Origin Energy, in the Fairview field in 2006. The three minority interests represented, in aggregate, 5% of Fairview, and the acquisition takes Santos' working interest to 79.5%.

In addition, Santos acquired a small interest in the adjacent Origin Energy operated Spring Gully CSG field, as well as the remaining 15% minority interests in the Roma gas fields, taking Santos' ownership to 100%.

US HOLDINGS TO BE DIVESTED

Following a strategic review in 2006, Santos announced its intention to sell all of its United States holdings.

While Santos has a long history of involvement in the US upstream oil and gas sector, the Company believes that it will be better placed to meet its strategic objectives by redeploying capital into its other business activities in Australia, Asia and the Middle East.

Santos became a LNG producer for the first time in 2006 with initial cargoes from the Darwin LNG plant shipped to customers in Japan.

Good progress was made in managing sustainability

EXAMPLES OF SANTOS SYSTEMS AND POLICIES

BUSINESS CONDUCT

- Bribery and corruption
- Conflict of interest
- Financial management and accounting
- Political affiliation
- Receiving gifts
- Reporting misconduct
- Risk management
- Securities dealing
- Shareholder communication and market disclosure

ENVIRONMENT AND SOCIAL

- Community
- Environment
- Greenhouse
- Health and wellbeing
- Human rights*
- Safety
- Training and development

WORKPLACE AND EMPLOYMENT

- Conditions of employment
- Confidentiality
- Employee benefits
- Equal opportunity
- Internet and electronic communication
- Issue resolution
- Leave
- Performance management
- Privacy
- Recruitment
- Use of company resources

** Draft policy under review.*

As a successful energy company, Santos must be able to uphold its reputation as a trusted and competent explorer, developer and operator, continuing to make economic progress while operating in an environmentally responsible manner and fulfilling its social obligations.

Over the past year, significant progress has been made towards the important goal of having a fully-integrated approach to managing the Company for long-term sustainability. As a result, Santos recorded improved performance for many of its sustainability indicators, including environment, greenhouse and employee commitment.

FRAMEWORK FOR CONTINUOUS IMPROVEMENT IN SUSTAINABILITY

Santos' commitment to sustainability is managed through the functionally-based organisational structure (see page 31) which reflects the various activities that occur throughout the business cycle of the Company.

There are eight functional areas, with three focusing on the oil and gas 'conveyor belt' of exploration, development and operations, and five – strategic projects, gas marketing and commercialisation, finance, legal, and corporate and people – helping to drive this conveyor belt.

These functions provide the structure, company policies and technical systems to ensure the Company achieves a high performance across the four sustainability domains:

- **environment** – the natural resources in the areas where Santos operates and how efficiently they are used;
- **community** – Santos' relationship with and contribution to the communities it is associated with and the strength of those communities;
- **our people** – the skills, capabilities and effectiveness of the people in Santos' workforce; and
- **economy** – the economic impacts of Santos' activities.

Santos' sustainability framework is driven by a traditional improvement cycle of assessment, gap analysis, action planning, measurement and reporting. This provides a consistent approach to the consideration of the principles of sustainability in decision-making and operational practices.

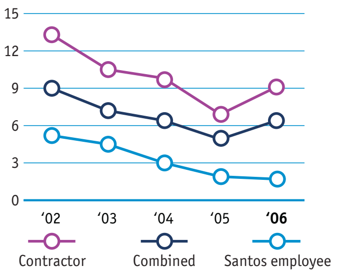
The sustainability framework has been developed in parallel with a continuous improvement framework and during 2007 Santos will progressively align them further.

The continuous improvement framework was piloted with the Operations and Shared Business Services teams during 2006 and will be rolled out throughout Santos in 2007.


Annamarie van Riet, Corporate Affairs Officer, is one of Santos' employees volunteering to restore a section of Adelaide's Torrens Riverbank.

TOTAL RECORDABLE CASE FREQUENCY RATE

recordable injuries per million hours worked



Santos' employee injury frequency rate continued to fall for the fifth successive year but the contractor injury frequency rate increased, resulting in the total recordable case frequency rate increasing to 6.4 in 2006.

Annual audits of EHSMS implementation show a number of Santos sites have reached or are approaching the continuous improvement zone, reflecting a fully functioning and improving system in place.

SYSTEMS AND POLICIES GUIDE CONDUCT

To promote high standards of corporate governance and ethical business conduct, Santos has a clear set of values, policies and procedures to guide the actions of the Company and employees in all the areas of the business.

This includes an integrated code of conduct which prescribes that, in addition to compliance with all applicable legal requirements, all employees are expected to adopt appropriate standards of professional and business conduct in their dealings on behalf of Santos.

The table on page 24 summarises the areas covered by these systems and policies.

One of Santos' systems is a comprehensive Environment, Health and Safety Management System (EHSMS) used to define performance expectations and accountabilities, and to monitor and continually improve performance.

The EHSMS is a dynamic system which is continually being improved to ensure it is current and aligned with the changing nature of Santos' business.

More detail about this and the other systems Santos has in place can be found in the Corporate Governance section which begins on page 36.

In 2006, Santos launched a Reporting Misconduct program where employees can confidentially report non-compliance with laws and regulations and Company policy and procedures without fear of reprisal or discrimination.

The Reporting Misconduct program reflects corporate best practice and is an additional last resort mechanism to report non-compliance.

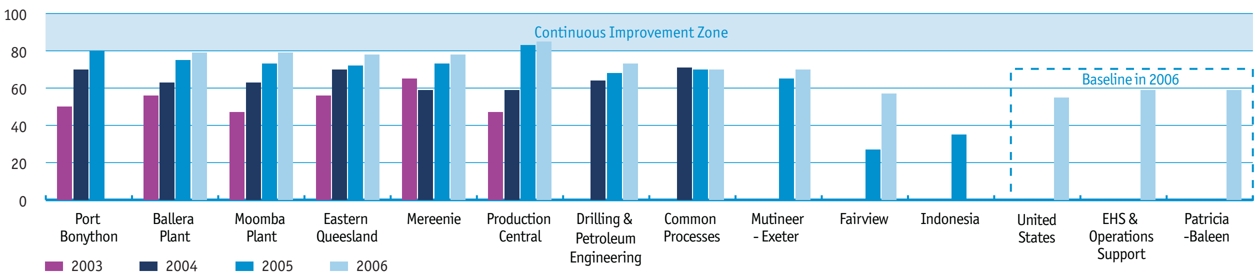
SAFETY FOCUS CONTINUES

Santos' safety vision is that 'we all go home from work without injury or illness'. After achieving its best ever safety performance in 2005, with a total recordable case frequency rate of 4.9, Santos had a mixed performance in 2006.

The employee injury frequency rate continued to fall for the fifth successive year but the contractor injury frequency rate increased, resulting in the total recordable case frequency rate increasing to 6.4 in 2006.

EHSMS MANAGEMENT STANDARD ASSESSMENTS

% implementation



This result is related to a significant increase in the number of new field-based contractors. Santos is taking action to address this specific issue.

Notwithstanding this, an encouraging trend has been the reduction of the severity of injuries to employees and contractors. Santos achieved a 15% reduction in injury severity in 2006 which contributed to a total reduction of 60% since 2004.

Areas of particular focus during 2006 were keeping hands safe (a significant challenge in a manual labour environment), driving and working in hot climates.

Santos has developed new health and safety lead indicators which will help fine-tune programs to drive further improvement in health and safety performance. An example is proactive reporting ratios which encourage the reporting and management of hazards and extraction of lessons learnt from near misses.

BUILDING AN ACHIEVEMENT-ORIENTATED CULTURE

Santos has continued to implement the strategy developed in 2004 to create an organisational culture defined by shared goals, values and principles founded on people systems, leadership and behaviour.

Employee survey results in 2006 confirmed that the practice of leaders directly discussing Company vision, strategy and values has been instrumental in improving employee understanding of and alignment with Company direction.

Significant foundation work has been undertaken over the past three years to develop people systems that are progressive and support business direction. Central to this has been the development of performance management and remuneration systems.

The Company's performance management system has been revised to clarify individuals' performance objectives and now provides a clear line of sight with Santos' strategic objectives. The link between performance and rewards has also been strengthened through changes to the short-term incentive program.

DEVELOPING CAPABILITY TO ENSURE SUCCESS

At Santos, capabilities are defined as the set of organisational behaviours that are required for success at work. The Santos Capability Framework has been developed based on extensive independent global research on leadership development and success, employee potential, and oil and gas industry experience.

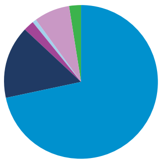
Implementation of the framework will commence during 2007 through leadership assessments, tailored development for individuals and teams, and the embedding of the framework in all recruitment, selection and employee development activities.

Another way Santos invests in the future capability of the Company is through its Graduate Program. This is a structured three-year program that provides graduate employees with exposure to a range of work assignments on a rotational basis.

In 2006, 55 geoscience and engineering graduates participated in this program which provides

LOCATION OF EMPLOYEES 2006

%



The majority of Santos' employees are located in South Australia due to the significant Cooper Basin operations and the Adelaide-based corporate and business services that support Santos' assets in Australia and overseas. At 31 December 2006, Santos had 1,679 employees, a 10% increase on the previous year due to the ramp-up of the Cooper Basin Oil Project and Fairview operations. Some 387 people are employed under award-based agreements and in 2006 there was no time lost due to industrial stoppage.

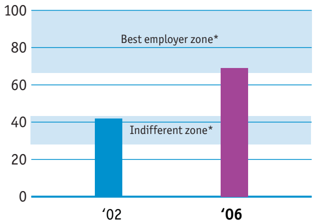
EMPLOYEE GENDER BY FUNCTION 2006

%

	Male	Female
Geoscience and New Ventures	76	24
Gas Marketing and Commercialisation	68	32
Development Projects and Technical Services	78	22
Operations	93	7
Strategic Projects	76	24
Finance	68	32
Office of General Counsel	38	62
Corporate and People	57	43
Office of Managing Director	56	44
Indonesia Business	58	42
United States Business	61	39
Total	**80**	**20**

Santos' gender profile reflects the predominantly male workforce in trades, engineering and science. The Company is involved in programs to improve gender balance; for example, the Geoscience Pathways project which encourages school students to consider careers in this discipline.

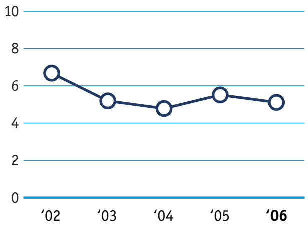
EMPLOYEE COMMITMENT
% favourable



*Adapted from the Hewitt Best Employer study.

Employee commitment has increased significantly over four years, as measured by employee surveys.

VOLUNTARY EMPLOYEE TURNOVER
%



Voluntary employee turnover is relatively stable in a climate where worldwide demand for skilled resources is rapidly increasing.

accelerated career development. The program incorporates on-the-job technical training and specialist development activities.

A further 28 penultimate-year students participated in Santos' 12-week Vacation Employment Program which helps the Company assess students for possible graduate positions in the following year. Santos has had this program in place for 17 years.

In 2006, Santos spent $3.8 million (an average of $2,300 per person) on training and development programs.

The apprenticeship program was reinvigorated in 2005 and in 2006 had eight participants.

EMPLOYEE COMMITMENT GROWS

Employee commitment is characterised by what employees say about the Company, their intention to stay with Santos and their preparedness to give discretionary effort. In other words, how people feel, think and act.

Over the past four years Santos has tracked employee commitment. The results from an employee survey in 2006, in which 74.5% of all employees participated, showed that:

- overall employee commitment has increased by over 50% compared to the 2002 survey;
- every survey item has shown improvement from 2004 to 2006; and
- significant improvement is evident in the areas that Santos has focused on since the last survey in 2004; namely, communicating vision and strategy, employee involvement, values and openness to change.

HEALTHY WORK-LIFE BALANCE

In 2006, Santos introduced a number of measures to improve employees' ability to manage a healthy balance between their personal lives and their work.

The Parental Leave Policy was updated to provide 12 weeks of paid maternity leave to employees with a newborn or adopted child.

The Company also revised its Employee Assistance Plan which provides employees with free confidential professional counselling about personal or work problems.

Santos offers a range of employee benefits in addition to performance rewards such as flexible superannuation arrangements, salary sacrificing, bank discounts, discounted medical fund membership, professional memberships, study assistance, fitness club facilities or memberships and social clubs.

STRONG PARTICIPATION IN HEALTH PROGRAMS

Santos conducted a major employee health campaign in 2006 to launch its new Health and Wellbeing Standard.

The standard is part of Santos' EHSMS and is designed to create an environment which encourages employees and contractors to maintain a healthy lifestyle and manage the risk associated with those people who are not fit for work.

More than 1,300 employees attended one of the 21 health and wellbeing expos held across Santos' sites and offices and there has been a noticeable increase in gym memberships provided by Santos.

There was strong participation by Santos employees in other initiatives including confidential health checks, education programs on men's and women's health (470 participants), sleep (440 participants) and healthy eating (450 participants), and physical fitness programs, including providing gyms and fitness programs such as 'Walk the Moomba pipeline' (400 participants) and 'Biggest Loser' (150 participants).

OIL SPILLS DECREASE

Santos' oil spill prevention strategy continued to be a major focus in 2006 and for the third year in a row the Company reduced the volume of spills during the year.

Santos is focused on reducing the number of oil spills as well as the total volume of oil released.

EXPANDING RESPONSE TO CLIMATE CHANGE

Since the publication of its Greenhouse Policy in 2004, Santos' scope of activities to manage greenhouse emissions has expanded from compliance reporting and energy efficiency to broader concepts of research and development, target setting, emissions forecasting and identifying lower greenhouse-emitting energy sources.

To steward various aspects of the Greenhouse Policy, Santos has established a framework for greenhouse management and created three cross-functional teams with different functional leads:

- **governance, policy and reporting** – aiming to position Santos as an energy industry leader in the effective response to climate change;
- **energy efficiency** – targeting a reduction in energy use per unit of product produced; and
- **carbon business** – focusing on generating value from Santos' carbon assets and building competencies in carbon services where there is competitive advantage, so offsetting the commercial risk of greenhouse emissions.

Natural gas is the lowest greenhouse gas-emitting fossil fuel, providing a transition fuel to future cleaner energy sources. Santos is also pursuing greenhouse gas abatement projects such as energy efficiency and carbon capture and storage.

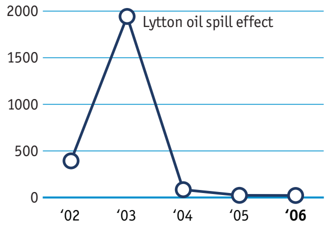
Santos participates in a number of voluntary greenhouse reporting programs including disclosure of emissions to the Australian Greenhouse Office Challenge Plus program, Carbon Disclosure Project and Dow Jones Sustainability Index.

OFFSHORE BIODIVERSITY RESEARCH PARTNERSHIPS

Santos has worked closely with regulatory authorities and Deakin University researchers since 2002 to better understand the distribution and behaviour of the whales during seismic surveys off south-eastern Australia. In 2006, the Company also contributed significant funds towards the purchase by Deakin University of a specialist vessel to observe whale behaviour.

OIL SPILL VOLUMES

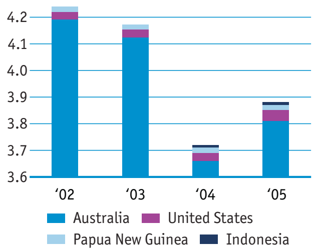
m^3



Santos reduced the volume of oil spills for the third consecutive year.

GREENHOUSE GAS EMISSIONS

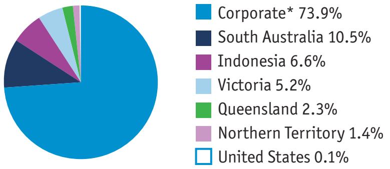
million tonnes CO_2 equivalent (net Santos production)



Santos reports its total greenhouse emissions and emissions intensity mid-year as a ratio of greenhouse emissions per unit of production, and is on track to meet its target of 20% intensity reduction in the period 2002–08.

SPONSORSHIP BY AREA 2006

%

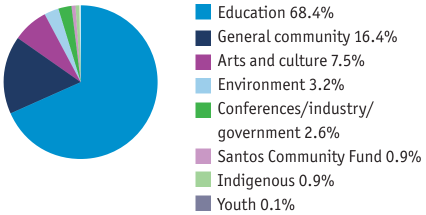


** Sponsorships that are not geographically focused.*

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

SPONSORSHIP BY ACTIVITY 2006

%



Santos' sponsorship program provides support to education (e.g., Australian School of Petroleum at the University of Adelaide), environment (e.g., Our Patch program, Snowy River Walking Trail), art and culture (e.g., Adelaide Symphony Orchestra, Darwin Festival) and a range of youth development activities (e.g., Science Week at the South Australian Museum).

Santos is also partnering with the University of Sydney to better understand the effects of drilling on deep-sea biodiversity, undertake experiments to study the physiological impacts on marine fauna and determine whether subsea production structures can create reefs.

WIDESPREAD COMMUNITY PROGRAMS

Santos has formed relationships with the many communities in which it has operations and recognises that it has a responsibility to contribute to the social fabric of those communities.

This is achieved in part through a well-established sponsorship and donations program and in 2006 Santos contributed over $3.8 million to more than 160 events and organisations in South Australia, the Northern Territory, Queensland, Victoria, Indonesia and the United States and some examples follow.

In 2006, Santos teamed up with Adelaide organisation ITShare to recycle and redistribute more than 500 laptop computers that were no longer required by the Company. ITShare is a not-for-profit organisation that helps socially disadvantaged people to enjoy the benefits of computer technology.

An important part of Santos' sponsorship program is the Santos Community Fund, which provides financial and in-kind support to organisations that benefit the community in the areas of health, the environment and building social capacity.

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

Effective consultation and engagement with local people has been the centrepiece of Santos' community development programs in Indonesia, which aim to assist those communities improve their quality of life through initiatives that boost health, education and incomes.

Santos' programs are based on high quality research – including baseline studies, social mapping and needs assessment – community and government consultation, and third-party partnerships.

In 2006, Santos supported education scholarships; agricultural, vocational and teacher training; maternal child health; home industries; fishing fleets; water and sanitation; health centres, and cultural events in 36 villages – up from four in 2002.

INDIGENOUS RELATIONS

Santos seeks to work cooperatively with Indigenous communities in the geographic areas the Company operates in and shares responsibility for managing and protecting areas of cultural significance to Indigenous people.

Santos works with regulatory agencies and local Indigenous communities to develop appropriate compensation and cultural heritage plans in the areas in which we operate. At present, Santos has agreements in place with nine Indigenous groups.

Elements of these agreements include provision for the employment of nominated members of the

Indigenous communities as cultural heritage officers on Santos' exploration and development projects.

These individuals receive training in Santos' environment, health and safety policies and procedures as well as four-wheel-drive, remote area GPS navigation and computer skills.

INCLUSION IN INDICES

Santos has been listed on the Australian SAM Sustainability Index (AusSSI) since the index was established in February 2005. It tracks the performance of about 70 Australian companies considered to be leaders in their sector.

The Company is also listed on the Reputex Social Responsibility Index which comprises those companies from the ASX 300 Index that have achieved a Reputex corporate social responsibility rating of 'A' (satisfactory) or higher.

2006 SUSTAINABILITY REPORT

More information about Santos' progress against sustainability targets is available in the 2006 Sustainability Report.

The report can be downloaded from the Santos website at www.santos.com/sustainability or a printed copy can be ordered from Santos' Share Register by telephoning 08 8218 5111.

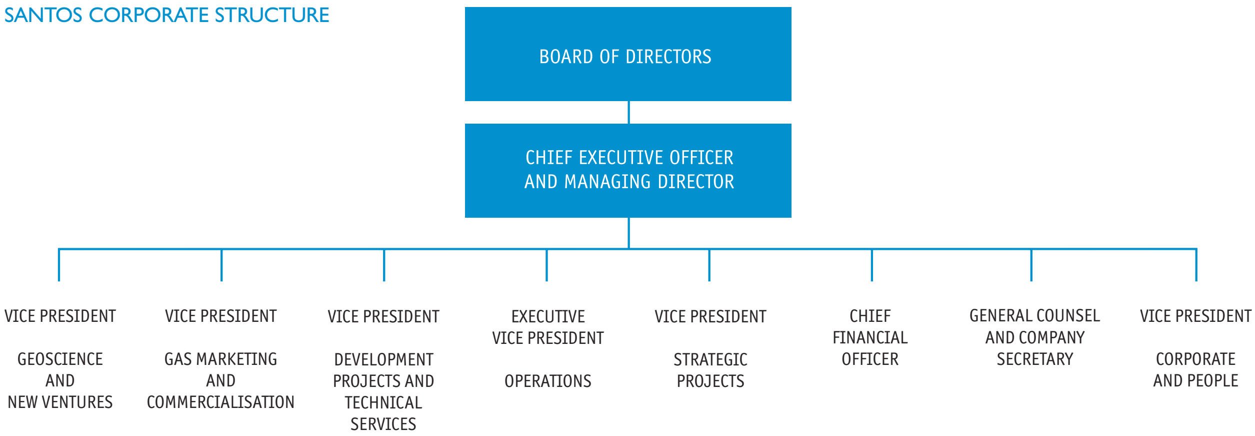
Shareholders can also elect to receive future Sustainability Reports by contacting the Share Register.

SUMMARY OF SOCIOECONOMIC CONTRIBUTION

	2006	2005	2004	2003
Number of employees	**1,679**	1,521	1,526	1,700
Number of shareholders	**83,566**	78,157	78,976	84,327
Wages and salaries ($million)	**230.7**	216.6	214.0	191.8
Materials, goods and services ($million)	**754.2**	544.7	433.8	305.6
Royalties and taxes ($million)	**427.5**	209.3	169.6	118.7
Sponsorship ($million)	**3.8**	3.5	4.0	3.2

Santos continued to provide a significant socioeconomic contribution to the communities in which it operates through suppliers and contracts, employee salaries and community sponsorship activities.

SANTOS CORPORATE STRUCTURE



Santos is structured on a functional basis which is aligned with its growth strategy and reflects the asset life cycle of an exploration and production company.

Board of Directors

KENNETH ALFRED DEAN

BCom (Hons), FCPA, MAICD

Age 54. Independent non-executive Director since 23 February 2005. Director of Santos Finance Ltd, Chairman of the Audit Committee and member of the Finance Committee. Chief Financial Officer of Alumina Ltd, non-executive Director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies. Fellow of the Australian Society of Certified Practising Accountants and member of the Australian Institute of Company Directors. During the last three years, Mr Dean served as a Director of Woodside Petroleum Ltd. Former Chief Executive Officer of Shell Financial Services and member of the La Trobe University Council.

JOHN CHARLES ELLICE-FLINT

BSc (Hons)

Age 56. Managing Director since 19 December 2000, member of the Safety, Health and Environment Committee of the Board, Director of Santos Finance Ltd and also Chairman of other Santos Ltd subsidiary companies. Thirty-five years' experience in the international oil and gas industry including twenty-eight years with Unocal, including as Senior Vice President: Global Exploration and Technology and Vice President: Corporate Planning and Economics. Member and Chair of the South Australian Museum Board. Member of APPEA Council and Member of the Energy Governors of the World Economic Forum.

STEPHEN GERLACH

LLB

Age 61. Independent non-executive Director since 5 September 1989 and Chairman since 4 May 2001. Chairman of Santos Finance Ltd and of the Finance Committee and Nomination Committee and member of the Safety, Health and Environment Committee and Remuneration Committee of the Board. Chairman of Futuris Corporation Ltd and Challenger Listed Investments Ltd. Former Managing Partner of the Adelaide legal firm, Finlaysons. A Trustee of the Australian Cancer Research Foundation, Chairman of Foodbank SA and a Director of Foodbank Australia. During the last three years, Mr Gerlach served as a Director of Southcorp Ltd, Boston Pacific Vineyard Management Ltd and Elders Australia Ltd.

KENNETH CHARLES BORDA (Not pictured)

LLB, BA

Age 54. Independent non-executive Director since 14 February 2007 and member of the Audit Committee and Finance Committee of the Board. Most recent position CEO – Middle East and North Africa of Deutsche Bank. Formerly Regional CEO Asia Pacific and CEO Australia and New Zealand, Deutsche Bank. Board member of Fullerton Funds Management, the asset management arm of Temasek, Singapore. Previously a Board member of SFE Corporation for over five years until its acquisition by the Australian Stock Exchange Limited in July 2006.

PROF. JUDITH SLOAN

BA (Hons), MA, MSc

Age 52. Independent non-executive Director since 5 September 1994. Chairperson of the Remuneration Committee and member of the Audit Committee and Nomination Committee of the Board. Chairman of Primelife Corporation Limited. Commissioner of the Australian Fair Pay Commission and part-time Commissioner of the Productivity Commission. Former Professor of Labour Studies at the Flinders University of South Australia and Director of the National Institute of Labour Studies. During the last three years, Professor Sloan served as Chairperson of SGIC Holdings Ltd, as Deputy Chair of the Australian Broadcasting Corporation and as a Director of Mayne Group Ltd.

RICHARD MICHAEL HARDING

MSc

Age 57. Independent non-executive Director since 1 March 2004. Chairman of the Safety, Health and Environment Committee and member of the Audit Committee, Nomination Committee and Remuneration Committee of the Board. Deputy Chairman of Arc Energy Ltd and Director of Clough Limited. Former President and General Manager of BP Developments Australia Limited and former Vice-Chairman and Council member of the Australian Petroleum Production and Exploration Association. Chairman of the Ministry of Defence Project Governance Board – Land Systems Division (Army).

ROY ALEXANDER FRANKLIN OBE

BSc

Age 53. Independent non-executive Director since 28 September 2006 and member of the Safety, Health and Environment Committee of the Board. Non-executive Chairman of Batemen Litwin NV and Director of Novera Energy Limited. Former Chief Executive Officer of Paladin Resources plc and former Group Managing Director of Clyde Petroleum plc. Former Chairman of BRINDEX (the trade association for UK independent oil and gas companies) and a former member of PILOT (the joint industry/government task force set up to maximise hydrocarbon recovery from the UK North Sea).

Santos Leadership Team

TREVOR BROWN

Vice President Geoscience and New Ventures

BSc (Hons)

Trevor Brown leads a team of highly qualified geoscientists to implement a challenging exploration strategy, with responsibility for all exploration, appraisal and new venture activities in the Company. Trevor was most recently Santos' Manager Growth Projects, having joined the Company in 2001 from US independent oil company Unocal where he was part of a very active exploration group. He has over 20 years of experience in the oil and gas industry, including 11 years in Indonesia managing onshore and offshore exploration programs.

JON YOUNG

Executive Vice President Operations

BSc, BEng Chemical

Jon Young is responsible for all of Santos' production operations, including delineation and development of onshore Australian operations, facilities engineering, maintenance and environment, health and safety. Jon joined Santos in February 2000 as General Manager of the former South Australia Business Unit, then from February 2002 was General Manager of the Central Australia Business Unit. Prior to joining Santos, Jon had a varied and international 17-year career with Mobil Corporation. His most recent role with Mobil was Chief Executive Officer, Indo Mobil Ltd, based in New Delhi, India.

JOHN ANDERSON

Vice President Strategic Projects

LLB, BEc, GDCL

John Anderson is responsible for the emerging core areas of Timor/Bonaparte and Papua New Guinea, business development and identified projects of specific importance such as carbon business, tight gas and price review. John joined Santos in 1996 as Corporate Counsel for the former Queensland Northern Territory Business Unit after 10 years as a solicitor with Freehills. He has held a range of roles at Santos including Manager Legal and Business Services, Manager Commercial for the former Central Business Unit and most recently Group Executive Business Development. John was appointed Vice President in April 2006.

RICK WILKINSON

Vice President Gas Marketing and Commercialisation

BSc (Hons)

Rick Wilkinson is responsible for gas and liquids marketing, commercialising discovered resources and developing new gas business. Rick was formerly General Manager Southern Australia Business Unit. Before joining Santos in 1997, he was Group Manager Energy Retail for the Victorian Gas and Fuel Corporation, responsible for energy trading, customer relations, marketing and sales. He has also held various engineering, strategy and management positions with Schlumberger, McKinsey & Co and Pilkington Glass.

PETER WASOW

Chief Financial Officer

BCom, GradDipMgmt, FCPA

Peter Wasow is responsible for corporate development, corporate strategy and planning, investor relations, accounting, corporate finance, taxation and audit. Peter joined Santos in May 2002 following a 23-year career with BHP Billiton. His roles included Vice President Finance and Administration for BHP Petroleum in Houston, Texas. His most recent role was Vice President Finance, in the BHP corporate office, Melbourne.

MARK MACFARLANE

Vice President Development Projects and Technical Services

BEng (Hons) Mechanical

Mark Macfarlane is responsible for the development portfolio of the Company, including operated and non-operated projects, subsurface engineering, drilling and technical services. Mark joined Santos in 1997 after a nine-year career with Esso in Australia and Malaysia. He has worked in a variety of leadership roles at Santos, including reservoir management, production and corporate planning, gas and oil exploitation and optimisation and was most recently Manager Production. Mark was appointed Vice President in April 2006.

MARTYN EAMES

Vice President Corporate and People

BSc (Hons)

Martyn Eames is responsible for the leadership of the corporate groups including shared business services, human resources, corporate affairs, environment, health, safety and sustainability, government and Indigenous affairs and media relations. Martyn joined Santos in December 2004 and was formerly Vice President Strategy and Business Planning with BP Angola. His career spans more than 25 years with BP, working various upstream roles in Angola, Canada, Australia, Papua New Guinea, Norway, the UK and the United States.

JOHN ELLICE-FLINT

Managing Director and Chief Executive Officer

BSc (Hons)

John Ellice-Flint is responsible for the overall performance and strategic direction of the Company. John leads major strategic initiatives, develops top level external relationships, leads and manages the Santos Leadership Team and takes responsibility for the management succession process. John joined Santos as Managing Director in December 2000. He has 35 years' experience in the international oil and gas industry including 28 years with Unocal, including as Senior Vice President: Global Exploration and Technology and Vice President: Corporate Planning and Economics.

JAMES BAULDERSTONE

General Counsel and Company Secretary

LLB (Hons), BSc (Hons)

James Baulderstone is responsible for the Office of General Counsel, comprising the Company's operational and corporate legal function, Secretariat and Share Registry. James joined Santos in January 2007 and was previously Corporate Counsel at Bluescope Steel and Chief Legal Officer at Mayne Group Limited. James has extensive legal and commercial experience in leading teams negotiating complex corporate transactions across many diverse jurisdictions including the US, Germany, UK, Malaysia, China and India.

Corporate governance

SANTOS' APPROACH TO CORPORATE GOVERNANCE

The Board and Management of Santos believe that, for the Company to achieve and maintain its objective of being within the top quartile of exploration and production companies globally, it is necessary for the Company to meet the highest standards of personnel safety and environmental performance, governance and business conduct across its operations in Australia and internationally. Fundamental to this is the Board's commitment to continually enhance the Company's culture, vision and values, to ensure Santos continues to meet its strategic objectives whilst maintaining the highest standards.

To achieve this, the Board works under a set of well-established corporate governance policies and charters that reinforce the responsibilities of all Directors and in addition meet the requirements of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange (ASX). These policies are publicly available on the Company's website, www.santos.com.

The Board is aware of, and has regard to, developments in Australia and overseas in relation to corporate governance 'best practice'. The Board regularly reviews and updates Santos' corporate governance policies and charters to ensure that they remain in accordance with best practice.

The Board believes that the Company's policies and practices have complied in all substantial respects with corporate governance best practice in Australia, including the ASX Corporate Governance Council Principles of Good Corporate Governance introduced in March 2003.

This Statement is divided into four sections:

- Composition of the Board;
- Board responsibilities;
- Governance policies applicable to the Board; and
- Governance policies of general application throughout Santos.

PART 1: COMPOSITION OF THE BOARD

RELEVANT POLICIES AND CHARTERS

See www.santos.com

- Board Guidelines
- Company's Constitution

The composition of the Board is determined in accordance with the Company's Constitution and the Board Guidelines[1] which, among other things, require that:

- the Board is comprised of a minimum of five, and a maximum of ten Directors (exclusive of the CEO);
- the Board should be comprised of a substantial majority of independent, non-executive Directors;
- there should be a separation of the roles of Chairman and Chief Executive Officer of the Company; and
- the Chairman of the Board should be an independent, non-executive Director.

The Board has adopted the definition of independence set out in the ASX Principles of Good Corporate Governance and Best Practice Recommendations, and as defined in the 2002 guidelines of the Investment and Financial Services Association Limited.

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

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

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

The Board has determined that there should not be any arbitrary length of tenure that should be considered to materially interfere with a Director's ability to act in the best interests of the Company, as it believes this assessment must be made on a case-by-case basis with reference to the length of service of all members of the Board.

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focussing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to promptly disclose their interests in contracts and other directorships and offices held.

Currently, the Board comprises six non-executive Directors, all of whom are deemed independent under the principles set out above, and one executive Director.

The names and details of the experience, qualifications, special responsibilities, and term of office of each Director of the Company are set out on pages 32 to 33 of this Annual Report.

APPOINTMENT OF NEW DIRECTORS, TERM OF OFFICE AND RE-ELECTION

The Board Guidelines include the following principles:

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

Prospective candidates for the Board are reviewed by the Nomination Committee. Appropriate regard is had to the business experience, skills and expertise of the candidates and that required by the Board, to ensure its overall composition enables the Board to meet its responsibilities. The Nomination Committee makes appropriate recommendations to the Board regarding possible appointments of new Directors.

Prior to appointment, each Director is provided with a letter of appointment which encloses a copy of the Company's Constitution, Board Guidelines, Committee Charters, relevant

1 *Except where otherwise indicated, references to the "Board Guidelines" are to the formal guidelines in force during the past financial year and as at 15 March 2007.*

policies and functional overviews of the Company's strategic objectives and operations. Additionally, the expectations of the Board in respect to a proposed appointee to the Board and the workings of the Board and its committees are conveyed in interviews with the Chairman. Induction procedures include access to appropriate executives in relation to details of the business of the Company.

Under the Company's Constitution, approximately one third of Directors retire by rotation each year. Directors appointed during the year are also required to submit themselves for election by shareholders at the Company's next Annual General Meeting.

REVIEW OF BOARD AND EXECUTIVE PERFORMANCE

A Board review is conducted on a biennial basis and individual Director reviews occur annually. The biennial review of the Board and of its committees was conducted by an independent consultant in 2005 and the next review is scheduled for 2007.

During 2006, individual Director reviews were held. This process was facilitated by the Chairman and involved individual meetings with each Director.

Performance evaluation of key executives is also undertaken on a quarterly and annual basis by the CEO, the results of which are used by the Remuneration Committee of the Board in determining future remuneration and generally for review by the Board in relation to management succession planning.

PART 2: BOARD RESPONSIBILITIES

RELEVANT POLICIES AND CHARTERS

See www.santos.com

- Board Guidelines
- Audit Committee Charter
- Nomination Committee Charter
- Remuneration Committee Charter
- Finance Committee Charter
- Safety, Health and Environment Committee Charter

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

Specifically, the Board is responsible for:

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

Each Director ensures they are able to devote sufficient time to discharge their duties and to prepare for Board and committee meetings and associated activities. The Board has also established a number of Board committees to assist with the effective discharge of its duties. The number of meetings of the Board and of each of its committees and the names of attendees at those meetings are set out on page 50 of this Annual Report.

The Board delegates management of the Company's resources to the Company's executive management team, under the leadership of the Chief Executive Officer and Managing Director (CEO), to deliver the strategic direction and goals approved by the Board. This is formally documented in the Company's Delegation of Authority which details the responsibilities delegated by the Board to executive Management for:

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

BOARD PROCEDURES

The Board Guidelines prescribe that the Board is to meet at least eight times a year, including a strategy meeting of two days' duration. Ten Board meetings are generally scheduled per year, two more than required under the Board Guidelines. In 2006, a total of 14 meetings were held. Board members are expected to attend any additional meetings as required.

Board meetings are structured in two separate sessions, without management present for one of those sessions unless specifically invited to address a particular issue. The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and CEO, with periodic input from the Board. Board papers are distributed to Directors in advance of scheduled meetings.

To assist in the effective execution of its responsibilities, the Board Guidelines include procedures for providing Directors with all relevant information and familiarity with the Company's major centres of operation. Further, Board meetings take place both at the Company's head office and from time to time at key operating sites, to assist the Board in its understanding of operational issues; the Company has implemented an ongoing regular education program in relation to the Company's business, opportunities and risks. These arrangements ensure each Director is able to inform and familiarise themselves with the Company's operations and does not rely exclusively on information provided to them by management.

Executive management attend Board and committee meetings, at which they report to Directors within their respective areas of responsibility. This assists the Board in maintaining its understanding of the Company's business and assessing the executive management team. Where appropriate, advisors to the Company attend meetings of the Board and of its committees.

BOARD COMMITTEES

The Board has established the following committees to assist with the effective discharge of its duties:

- Audit Committee;
- Safety, Health and Environment Committee;
- Finance Committee;
- Nomination Committee; and
- Remuneration Committee.

All committees are chaired by, and composed only of, non-executive, independent Directors, except the Safety, Health and Environment Committee, which includes the CEO as a member. Each committee operates under a specific charter, which is reviewed periodically by the Board and is available from the Corporate Governance section on the Company's website.

The Chairman of each committee provides, and addresses, a written report together with the minutes and recommendations of the committee at the next Board meeting. The Chairman of each committee also, on an annual basis, presents an overview report to the Board of the committee's activities for the preceding 12-month period.

AUDIT COMMITTEE

Members

Mr K A Dean (Chairman)
Professor J Sloan
Mr R M Harding
Mr K C Borda

The external auditors, CEO, Chief Financial Officer (CFO), Manager Risk and Audit, General Counsel and Company Secretary, and Group Controller attend committee meetings by invitation.

Composition

The Committee is required to consist of:

- no less than three members;
- only independent, non-executive Directors who are financially literate;
- at least one member must have past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background; and
- at least one member must have an understanding of the exploration and production industry.

The Chairman of the Board is precluded from being the Chairman of the Audit Committee.

Role

The role of the Audit Committee is documented in a charter, approved by the Board. This charter was revised in December 2005 in line with contemporary best practice.

The primary objective of the Audit Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities related to financial accounting practices, external financial reporting, financial reporting risk management and internal control, the internal and external audit function, and compliance with laws and regulations relating to these areas of responsibility.

Specifically, the role of the Audit Committee includes:

- reviewing the effectiveness of the Company's risk management and internal compliance and control systems relating to financial reporting;
- evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board;
- reviewing the process adopted by the CEO and CFO when certifying to the Board as to the truth and fairness of the Company's financial reports and that the financial reports are based on a sound system of risk management and internal compliance and control;
- examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices;
- meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures;
- reviewing the performance of the internal and external auditors and providing them with confidential access to the Board;
- receiving from the external auditors a formal written statement delineating all relationships between the auditors and the Company and confirming compliance with all professional and regulatory requirements relating to auditor independence;
- referring matters of concern to the Board, as appropriate, and considering issues which may impact on the financial reports of the Company; and
- recommending proposed dividends to the Board for final adoption.

INDEPENDENCE OF AUDITORS AND NON-AUDIT SERVICES

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor that is based on the principle that work that may detract from the external auditor's independence and impartiality, or be perceived as doing so, should not be carried out by the external auditor. The Audit Committee Charter clearly identifies those services that the external auditor may not provide, those that may be supplied and those that require specific approval of the Chairman of the Audit Committee, in consultation with other members of the Committee.

It also provides that:

- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years and there will be a period of at least two successive years before that partner can again be involved in the Company's audit; and
- the internal audit function, if outsourced, will be provided by a firm other than the external audit firm.

The Audit Committee provides the Board with a statement clarifying that the provision of non-audit services by the external auditors is compatible with the general standard of independence for auditors.

The nature and amount of non-audit services provided by the external auditors are detailed on page 52 of the Directors' Statutory Report, together with the Directors' reasons for being satisfied that the provision of those services did not compromise the auditor independence requirements of the *Corporations Act*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 137 of this Annual Report.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

Members

Mr R M Harding (Chairman)
Mr R A Franklin
Mr S Gerlach
Mr J C Ellice-Flint

Mr M A O'Leary retired as a member on 15 December 2006.

Composition

The Committee consists of at least three non-executive Directors and the Managing Director.

Role

The role of the Safety, Health and Environment Committee is documented in a charter, approved by the Board.

The role of the Safety, Health and Environment Committee includes:

- oversight of the Environment, Health and Safety Management System, including greenhouse gas, sustainability and cultural heritage matters; and
- review of the regular internal and external environmental and safety audits.

NOMINATION COMMITTEE

Members

Mr S Gerlach (Chairman)
Professor J Sloan
Mr R M Harding

Mr M A O'Leary retired as a member on 15 December 2006.

Composition

The Committee consists of at least three independent, non-executive Directors.

Role

The role, responsibilities and membership requirements of the Nomination Committee are documented in the Board Guidelines and in a separate charter, approved by the Board.

Under the Board Guidelines, it is the responsibility of the Nomination Committee to devise the criteria for, and review membership of, and nominations to, the Board. The primary criteria adopted in selection of suitable Board candidates is their capacity to contribute to the ongoing development of the Company having regard to the location and nature of the Company's significant business interests and to the candidates' qualifications and experience by reference to the attributes of existing Board members.

When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination Committee has responsibility for proposing candidates for consideration by the Board and, where appropriate, engages the services of external consultants.

REMUNERATION COMMITTEE

Members

Professor J Sloan (Chairperson)
Mr S Gerlach
Mr R M Harding

Mr P C Barnett retired as a member on 28 February 2006.

Composition

The Committee is required to consist of no less than three non-executive Directors, including the Chairman of the Board.

Role

The role of the Remuneration Committee is documented in a charter, approved by the Board.

The Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including:

- the compensation arrangements for the CEO and senior management;
- the Company's superannuation arrangements;
- employee share and option plans;
- executive and senior management performance review, succession planning, and, within the aggregate amount approved by shareholders, the fees for non-executive Directors.

The Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

FINANCE COMMITTEE

Members

Mr S Gerlach (Chairman)
Mr K A Dean
Mr K C Borda

Mr P C Barnett retired as a member on 28 February 2006.

Mr M A O'Leary retired as a member on 15 December 2006.

Composition

The Committee consists of only independent, non-executive Directors.

Role

The role of the Finance Committee is documented in a charter, approved by the Board.

The role of the Finance Committee includes:

- responsibility for considering and making recommendations to the Board on the Company's capital management strategy and the Company's funding requirements and specific funding proposals;
- formulating and monitoring compliance with treasury policies and practices; and
- the management of credit, liquidity and commodity market risks.

PART 3: GOVERNANCE POLICIES APPLICABLE TO THE BOARD

RELEVANT POLICIES AND CHARTERS

See www.santos.com

- Board Guidelines
- Risk Management Policy

COMPANY SECRETARY

The Company Secretary reports directly to the Board and is responsible for the administration of the business and responsibilities of the Board and its various committees (excluding the Audit Committee which is the responsibility of the Manager Risk and Audit, who reports to the Chairman of the Audit Committee).

The Company Secretary acts as the Secretary to each of the Finance Committee, Nomination Committee, Remuneration Committee and Safety, Health and Environment Committee and is responsible to those committees and the Board for ensuring compliance with their respective charters and guidelines.

The Company Secretary advises the Board and its committees on governance matters and liaises with management to ensure the resolutions of the Board and its committees are discharged. The independent Directors of the Board also have individual access to the Company Secretary, who is empowered to engage the services of independent advisors at the request of the Board, a committee or independent Director.

The Company Secretary can only be appointed and removed by the Board, ensuring that the requirements of the Board and its committees are met independently of management.

The Company's General Counsel, James Leslie Baulderstone (BSc (Hons), LLB (Hons)), aged 40 years, was appointed as the Company Secretary on 14 February 2007. Mr Wesley Glanville (BA, LLB, GDLP, MAICD), aged 44, fulfilled the role of Company Secretary during the 2006 reporting period. Mr Glanville ceased acting as Company Secretary on 19 February 2007.

INDEMNITY, ACCESS TO INFORMATION AND INDEPENDENT PROFESSIONAL ADVICE

Information in respect to indemnity and insurance arrangements for Directors and senior executives appears in the Directors' Statutory Report on page 52 of this Annual Report.

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

Pursuant to a deed executed by the Company and each Director, a Director also has the right to have access to all documents which have been presented to meetings of the Board or to any committee of the Board or otherwise made available to the Director whilst in office. This right continues for a term of seven years after ceasing to be a Director or such longer period as is necessary to determine relevant legal proceedings that commenced during that term.

RISK MANAGEMENT

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Company's risk management and internal compliance and control systems. These systems require management to be responsible for identifying and managing risks to the Company's businesses.

A description of the Company's risk management system is available from the corporate governance section of the Company's website.

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

As part of the risk management system, the CEO and CFO are required to advise the Board annually in writing whether:

- the Consolidated Financial Report is founded on a sound system of risk management and internal compliance and control systems, which implements the policies adopted by the Board; and
- the Company's risk management and internal control systems, to the extent that they relate to financial reporting, are operating efficiently and effectively in all material respects.

The Board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the maintenance of:

- Board committees and Board reporting – all significant areas of Company operations are subject to regular reporting to the Board and Board committees. Regular reports on the performance of each functional area are prepared, including: operations; gas marketing and commercialisation; liquids marketing; corporate and people; legal and secretariat; geoscience, exploration and new ventures; development and technical services; finance; safety; government; investor relations and environmental matters;
- detailed and regular budgetary, financial and management reporting;
- established organisational structures, procedures, manuals and policies;
- audits (including internal and external financial, environmental and safety audits);
- comprehensive insurance programs; and
- the retention of specialised staff and external advisors.

Examples of management of specific risks are as follows:

Type of Risk	Method of management
Environmental and safety risk	Environmental and safety risk is managed through: • a comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001; • safety, health and environment committees at Board and management levels; • the retention of specialist environmental, health and safety staff and advisors; • regular internal and external environmental, health and safety audits; and • imposing environmental care and health and safety accountability as line management responsibilities.

Type of Risk	Method of management
Exploration risk	Exploration risk is managed through internal control systems which include: • formalised risk assessment procedures at the functional level; • corporate review in both prospect and hindsight; • Board approval of exploration budgets; and • regular reporting on progress to the Board. External reviews are also undertaken as necessary.
Investment risk	The Company has clearly defined procedures for capital allocation and expenditure. These include: • a portfolio management system; • annual budgets; • detailed appraisal and review procedures; • project management processes; • levels of authority; and • due diligence requirements where assets are being acquired.
Financial reporting and treasury	• A comprehensive budgeting system exists with an annual budget approved by the Board. • Monthly actual results are reported against budget and quarterly forecasts for the year are prepared and reported to the Board. • Treasury operations are subject to a comprehensive system of internal control, and speculative transactions are prohibited. • Further details relating to financial instruments and commodity price risk management are included in Note 37 to the financial statements.
Operational risk reporting	• All significant areas of Company operations are subject to regular reporting to the Board. • The Board receives regular reports on the performance of each functional area, including: operations; gas marketing and commercialisation; liquids marketing; corporate and people; legal and secretariat; geoscience, exploration and new ventures; development projects and technical services; finance; safety; government; investor relations; and greenhouse gas, sustainability, cultural heritage and environmental matters.

DIRECTOR FEES AND EXECUTIVE REMUNERATION

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced personnel. Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process.

The structure and details of the remuneration paid to Directors, the CEO and other senior executives during the period are set out in the Remuneration Report commencing on page 54 of this report and note 30 to the financial statements on page 117 of this report.

PART 4: GOVERNANCE POLICIES OF GENERAL APPLICATION THROUGHOUT SANTOS

RELEVANT POLICIES AND CHARTERS

See www.santos.com

- Code of Conduct
- Guidelines for Dealing in Securities
- Continuous Disclosure Policy

ETHICAL STANDARDS AND CODE OF CONDUCT

To promote high standards of corporate governance and business conduct, the Company has provided its employees with a clear set of rules, values and guidelines to follow when carrying out their work as a Santos employee and representative. In addition to the Board Guidelines, the Company has in place an integrated Code of Conduct which prescribes that, in addition to compliance with all applicable legal requirements, the Board expects all Directors, executives and employees of the Company to adopt appropriate standards of professional and business conduct in their dealings on behalf of the Company. The Board, in conjunction with Management, is responsible for ensuring compliance by all employees with those standards.

In particular, the integrated Code of Conduct requires that Directors and employees:

- avoid conflicts of interest, and ensure that all business transactions are conducted solely in the best interests of the Company;

- are aware of, and comply with laws and regulations relevant to the Company's operations including environmental and trade laws both in Australia and abroad;
- protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval;
- do not disclose or use in any improper manner confidential information about the Company, its customers or affairs;
- respect the privacy of others and comply with the Company's Privacy Policy; and
- report misconduct through prescribed reporting channels, including as a last resort, the independent Company 'hotline'.

The standards of conduct expected of Santos staff, including those directed at the broader stakeholder constituency of shareholders, employees, customers and the community, are also recorded in separate guidelines and policies relating to dealing in securities (discussed below), the environment, occupational health and safety and human resources. Further, a Code of Conduct, based on that developed by the Group of 100 (an association of senior finance executives from Australia's business enterprises) applies to the CFO and all other officers and employees within the finance function of the Company who have the opportunity to influence the integrity, direction and operation of the Company and its financial performance.

Where applicable, the guidelines and policies are incorporated by reference in individual contracts of employment or expressly set out in those contracts, including provisions relating to: conflicts of interest; confidentiality and restrictions against use and dissemination of information; use of Company assets; perquisites, tender processes, benefits and contact with suppliers; employment opportunity practices; privacy; training and further education support; and smoking, alcohol and drugs.

GUIDELINES FOR DEALING IN SECURITIES

The Company has developed specific written guidelines that prohibit Directors and executives (and their respective associates) from acquiring, selling or otherwise trading in the Company's shares if they possess material price-sensitive information which is not in the public domain.

Pursuant to these guidelines, no person may deal in securities while they are in the possession of price-sensitive information. In other circumstances, Directors must inform and receive acknowledgment from the Chairman or his representative (and executives from the Company Secretary or a person appointed by the Board) of an intention prior to any dealings in securities either by themselves or by their associates, and must promptly notify details following the dealing.

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

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

Under the guidelines, prohibitions on dealing in securities apply not only to the acquisition and disposal of shares, but also to the acquiring, taking, assigning and releasing of options traded in the options market. Directors and executives may not deal in securities on considerations of a short-term nature.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company is committed to giving all shareholders timely and equal access to information concerning the Company.

The Company has developed policies and procedures in accordance with its commitment to fulfilling its obligations to shareholders and the broader market for continuous disclosure. These policies establish procedures to ensure that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NASDAQ. Directors and management must notify a designated Disclosure Officer, being the CEO, CFO, Vice President Corporate and People, Company Secretary or Group Executive Investor Relations, as soon as they become aware of information that should be considered for release to the market.

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

The Board is aware of its obligations and will seek shareholder approval as required by the Company's Constitution, the *Corporations Act* and the ASX Listing Rules.

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

Major announcements made by Santos during 2006

20 Jan	Drilling report on Nyari-1 exploration well
25 Jan	LNG and oil focus in $225 million exploration program
25 Jan	2005 Fourth Quarter Activities Report: 2005 revenue up 64% to record $2.46 billion
1 Feb	First production from Casino gas field
3 Feb	Update on PNG Gas Project
10 Feb	New drilling rig being assembled at Toowoomba
23 Feb	2005 Full Year Results: Santos' 2005 profit doubles
23 Feb	Santos increases reserves
23 Feb	Capital expenditure outlook
17 Mar	Extension of CEO contract
26 Apr	Santos continues building its position in South East Asia with Vietnam farm-in
27 Apr	2006 First Quarter Activities Report: Santos increases first quarter production and revenue
4 May	2006 Annual General Meeting: Board remains confident in Santos' future success
9 May	Santos acquires additional interest in Gippsland gas field
18 May	Progress report on Jeruk-3 appraisal well
9 Jun	Progress report on Jeruk-3 appraisal well
27 Jun	Banjar Panji-1 well incident
30 Jun	Clarification about Banjar Panji-1 well incident
30 Jun	Drilling report on Dua-4X exploration well
12 Jul	Santos in discussions about possible Delhi acquisition
14 Jul	Progress report on Jeruk-3 appraisal well and resource downgrade
17 Jul	Santos announces $474 million Delhi acquisition bid
21 Jul	Banjar Panji announcement from Lapindo Brantas
24 Jul	Gas encountered at Evans Shoal South
27 Jul	2006 Second Quarter Activities Report: record first half for Santos
28 Jul	Update on Delhi transaction
2 Aug	Progress report on Jeruk-3 appraisal well
16 Aug	Successful gas delineation well at Gnu-1
17 Aug	Drilling report on Dua-4X appraisal well
22 Aug	Drilling report on Galloway-1 exploration well
24 Aug	2006 Interim Results: record Santos first half result
5 Sep	Drilling report on Wortel-1 exploration well, Sampang PSC
21 Sep	Further oil and gas discovered on Dua structure
22 Sep	Gulf of Mexico exploration venture with KNOC and Samsung
26 Sep	Santos to supply Wesfarmers domestic LNG plant
28 Sep	Roy Franklin appointed to Santos Board
3 Oct	First production from Maleo gas field
5 Oct	Santos announces $606 million cash offer for QGC
9 Oct	Drilling report on Wortel-2 exploration well
11 Oct	Santos challenges QGC to provide valuation
11 Oct	Santos CSG bidders statement
12 Oct	Progress report on Dua-5X appraisal well
19 Oct	Banjar Panji announcement from Lapindo Brantas
24 Oct	Santos CSG bidders statement
26 Oct	2006 Third Quarter Activities Report: record quarterly production for Santos
30 Oct	Santos continues to build its position in Vietnam
6 Nov	Update on Santos offer for QGC
9 Nov	Statement on QGC reserves announcement
12 Nov	'QGC shareholders in the dark': Santos Chairman
14 Nov	Queensland Gas 'major back-flip' on independent expert position
17 Nov	Blackbird oil discovery
20 Nov	Santos update on QGC offer
23 Nov	East Java gas pipeline incident
24 Nov	Jeruk reserves update
29 Nov	Drilling report on Barossa-1 exploration well
8 Dec	Banjar Panji-1 incident briefing document
11 Dec	Santos CSG supplementary bidder's statement
11 Dec	United States interests to be divested
15 Dec	Retirement of Director, Michael O'Leary
15 Dec	Successful testing of the Blackbird oil discovery

Dates shown are when announcements were made to the exchanges where Santos' shares are listed: the Australian Securities Exchange (ASX) and NASDAQ. As part of Santos' continuous disclosure, the Company informs the market of information that may affect the Company's share price. All material announcements disclosed to the ASX are published on Santos' website, www.santos.com.

The Santos website provides an email alert facility where people can register to be notified, free of charge, of Santos' News Announcements via email, as well as an RSS feed which allows people to view these announcements using RSS reader software.

Santos Group interests

As at 28 February 2007

Licence Area	% Interest
SOUTH AUSTRALIA	
(PPL = Petroleum Production Licence; PL = Pipeline Licence; PEL = Petroleum Exploration Licence)	
Cooper Basin* (Fixed Factor Area)	
(PPLs 6-20, 21-61, 63-75, 78-117, 119, 120, 124, 126-130, 132-135, 137-141, 143-146, 148-151, 153-155, 157, 159-166, 169-181, 183-186, 188-190, 192, 193, 195, 196, 198 & 199)	66.6
Patchawarra East Joint Operating Area*	
(PPLs 26, 76, 77, 118, 121-123, 125, 131, 136, 142, 147, 152, 156, 158, 167, 182, 187, 191, 194, 197, 200 & 201)	72.3
Derrilyn Unit* (PPL 206 & 208)	65.0
PEL 114*	100.0
PL2*	66.6
QUEENSLAND	
(PL = Petroleum Lease; PPL = Pipeline Licence)	
South-West Queensland*	
ATP 259P	
Naccowlah (PLs 23-26, 35, 36, 62, 76-79, 82, 87, 105, 107, 109, 133, 149, 175, 181, 182 & 189)	55.5
Total 66 (PLs 34, 37, 63, 68, 75, 84, 88, 110, 129, 130, 134, 140, 142-144, 150, 168, 178, 186, 193, 241, PPL8 & PPL14)	70.0
Wareena (PLs 113, 114, 141, 145, 148, 153, 157, 158, 187 & 188)	61.2
Innamincka (PLs 58, 80, 136, 137, 156 & 159)	70.0
Alkina	72.0
Aquitaine A (PLs 86, 131, 146, 177 & 208)	52.5
Aquitaine B (PLs 59-61, 81, 83, 85, 97, 106, 108, 111, 112, 132, 135, 139, 147, 151, 152, 155, 205 & 207)	55.0
Aquitaine C (PLs 138 & 154)	47.8
50/40/10 (PL 55)	60.0
SWQ Unit (PPLs 13, 16-18, 31, 34, 35, 36-40, 46-48, 62, 64-72, 78-82, 84, 86, 94-96, 98, 100, 101, 105 & 113 and in South Australia PLs 5 & 9)	60.1
ATP 267P (Nockatunga)(PLs 33, 50 & 51)	59.1
ATP 299P (Tintaburra) (PLs 29, 38, 39, 52, 57, 95, 169 & 170, PPLs 109, 110, 111 & 112)	89.0
ATP 543 S	50.0
ATP 543 N	100.0
ATP 765 Farmin (Under Appln)	63.0
ATP 766 Farmin (Under Appln)	63.0
Surat Basin	
ATP 212P (Major) (PLs 30, 56 & 74)	15.0
ATP 336P (Roma) (PLs 3-13, 93 & PPL2)*	100.0
ATP 336P (Waldegrave) (PLs 10-12, 28, 69 & 89)*	53.8
ATP 470P (Redcap) (PL 71)	10.0
ATP 470P (Formosa Downs)	5.5
ATP 471P (Bainbilla) (PL 119 & PPL 58)	16.7
ATP 471P (Myall) (PL 192 & PPL 87)	51.0
Boxleigh (PL15 Sublease)*	100.0
PL 1 (Moonie)*	100.0
PL 1 (2) (Cabawin Exclusion)*	100.0
PL 1 (FO) (Cabawin Farm-out)*	50.0
PL 2 (A & B) (Kooroon)*	52.5
PL 2 (Alton)*	100.0
PL 2C (Alton Farm-out)*	63.5
PL 5 (Drillsearch)*	25.0
PL 5 (Mascotte)*	59.0
PL 11 (Snake Creek East)*	75.0
PL 12 (Trinidad)*	100.0
PL 17 Upper Stratum Farmin*	100.0
PPL 119 (Downlands East Exclusion)	28.8
ATP 470P (Formosa Downs)	5.5
ATP 526 (PLs 90-92, 99-100 & 232-236, PPLs 76 & 92) (Fairview)*	71.7
ATP 653P (Fairview)*	71.7
ATP 655P (Fairview)*	100.0
ATP 745P (Fairview)*	71.7
PLs 21, 22, 27 & 64 (Balonne)	12.5
PL 213 (Churchie West)	16.7
ATP 842 (under application)	100.0
ATP 592P, (PLs 195, 203) ATP 804P	2.0
Bowen Basin	
ATP 337P (Denison)* (PLs 41-45, 54, 67, 173, 183, 218, PPL10 & PPL11)	50.0
ATP 337P (Mahalo)*	30.0
PL176 (Scotia)*	100.0
ATP 553P (Denison)*	50.0
ATP 685P (Cockatoo Creek)	50.0
ATP 850 (under application)	100.0
Facilities	
Wungoona Processing Facilities*	50.0
Moonie to Brisbane Pipeline*	100.0
Jackson to Moonie Pipeline (PPL 6)*	82.8
Comet Ridge to Wallumbilla Pipeline (PPL 118)*	100.0
VICTORIA	
Otway Basin (Onshore)	
PEP 160	30.0
Otway Basin (Offshore)	
VIC/P44 (Casino)*	50.0
VIC/P51*	55.0
VIC/RL7 (La Bella)	10.0
VIC/L22 (Minerva)	30.0
Gippsland Basin (Onshore)	
VIC/P39 (V)*	37.5
Gippsland Basin (Offshore)	
VIC/RL3 (Sole)*	100.0
VIC/L21 (Patricia-Baleen)*	100.0
VIC/L24	50.0
VIC/L25 (Kipper)	50.0
VIC/P55*	100.0
OFFSHORE SOUTH AUSTRALIA	
Duntroon Basin*	
EPP 32	100.0
OFFSHORE TASMANIA	
Sorell Basin*	
T/32P	37.5
T/33P	55.0
T/35P	37.5
T/36P	50.0
T/40P	100.0
NORTHERN TERRITORY	
Amadeus Basin	
OL 3 (Palm Valley)	48.0
OLs 4 and 5 (Mereenie)*	65.0
RL2 (Dingo)*	65.7
PL2 Mereenie Pipeline*	65.0
OFFSHORE NORTHERN AUSTRALIA	
Carnarvon Basin	
EP 61	28.6
EP 62	28.6

** Santos-operated.*

Licence Area	% Interest
EP 357	35.7
L1H (Barrow Island)	28.6
L10	28.6
L12 (Crest)	35.7
L13 (Crest)	35.7
TL/2 (Airlie)	15.0
TL/3 (Banta-Triller)	28.6
TL/7 (Thevenard)	35.7
TP/2	28.6
TP/7 (1-3)	43.7
TP/7 (4)	18.7
TR/4 (Australind)	35.7
WA-1-P	22.6
WA-7-L	28.6
WA-8-L (Talisman)	37.4
WA-13-L (East Spar)	45.0
WA-15-L (Stag)	66.7
WA-20-L (Legendre)	22.6
WA-26-L (Mutineer)*	33.4
WA-27-L (Exeter)*	33.4
WA-29-L (John Brookes)	45.0
WA-33-R (Maitland)	18.7
WA-191-P (Mutineer-Exeter)*	33.4
WA-208-P*	31.3
WA-209-P (Reindeer)	45.0
WA-214-P (John Brookes)	45.0
WA-246-P	15.0
WA-264-P*	50.0
Browse Basin*	
WA-274-P	50.0
WA-281-P	47.9
Bonaparte Basin*	
NT/P67	100.0
NT/RL1 (Petrel)	95.0
WA-6-R (Petrel West)	95.0
WA-18-P (Tern)	100.0
Houtman Basin	
WA-328-P	33.0
WA-339-P*	100.0
Timor Sea	
AC/L1 (Jabiru)	10.3
AC/L2 (Challis)	10.3
AC/L3 (Cassini)	10.3
NT/P48 (Evans Shoal)	40.0
NT/P61	40.0

Licence Area	% Interest
NT/P69	40.0
Timor Gap	
JPDA 03-12	19.3
Bayu-Undan Gas Field	10.6
Elang	21.4

PAPUA NEW GUINEA

PDL 1 (Hides)	31.0
PDL 3*	15.9
PRL 5*	50.3
PRL 9*	42.6
SE Gobe Unit (Unitisation of PDLs 3 & 4)	9.4

INDONESIA

East Java Basin	
Brantas	18.0
Madura Offshore (Maleo)*	67.5
Nth Bali I*	30.0
Sampang (Oyong)*	40.5
Kutei Basin	
Donggala*	50.0
Papalang	20.0
Popodi	20.0
West Natuna Basin	
Kakap	9.0
West Papua Basin	
Warim	20.0

EGYPT

Ras Abu Darag	50.0
South East July*	100.0
North Zeit Bay	50.0
North Qarun	25.0

UNITED STATES OF AMERICA

	% average working interest
East Texas	
Black Horse*	100.0
Jefferson Co	18.8
Knight	30.0
South Texas	
Bar Harbor	25.0
BP Green*	50.0
Coquat	25.0
Cougar*	50.0

Licence Area	% Interest
Duncan Slough*	71.6
E. Edinburgh	20.8
Elsa	20.8
Hall Ranch*	58.3
Hordes Creek	46.7
Jaguar*	45.0
Kenedy Deep	55.0
Lafite/Allen Dome*	90.2
Markham	38.9
Mountainside	27.5
Nordheim SW	66.0
Tidehaven*	37.5
Thunder*	60.0
South Louisiana	
Howards Creek	25.0
Colorado	
Lay Creek	25.0

KYRGYZSTAN

Closed Joint Stock Company South Petroleum Company (SPC)

The Santos Group holds a legal and beneficial interest in 70% of the entire issued capital of SPC which is the legal and beneficial holder of the following prospecting licences:

Tuzluk, Soh, West Soh, Nuashkent, Nanai and Arkit.

Joint Stock Company Textonic (Textonic)

The Santos Group is beneficially entitled to 33% of the entire issued share capital of Textonic which is the legal and beneficial owner of the following prospecting licences:

Sulukta, Batken, Katran, Akbura, Charvak, East Mailisu, Ashvaz, Aksai, North Mailisu, West Mailisu and other licences:

256 (Dudumel Area); 257 (Djany-Talap Area); 258 (Uchken Area); 259 (Alabuga Area); 260 (Ozgorush Area); 261 (Maistan Area); 262 (Baibichetau Area); 263 (Chunkur Area).

VIETNAM

12E	37.5
12W	37.5
101-100/04	55.0

INDIA

NEC-DWN-2004/1*	100.0
NEC-DWN-2004/2*	100.0

** Santos-operated.*

10-year summary 1997–2006

As at 31 December	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Santos average realised oil price (A$/bbl)	27.42	20.95	27.57	46.54	45.53	44.74	43.59	51.83	73.83	**89.35**
Financial performance ($million)										
Product sales revenue	778.5	769.4	944.5	1,497.1	1,459.7	1,478.4	1,465.0	1,500.9	2,462.8	**2,769.1**
Total revenue[1]	817.4	806.9	958.5	1,515.0	1,480.8	1,498.0	1,478.7	1,515.2	2,475.9	**2,784.6**
Foreign currency gains/(losses)[2]	3.6	2.0	0.3	2.7	0.2	(0.7)	(7.9)	2.6	(3.8)	**0.8**
Profit from ordinary activities before tax[2]	322.3	267.3	339.6	725.9	627.6	493.3	430.9	518.8	1,133.5	**964.7**
Income tax relating to ordinary activities[2]	116.1	91.0	30.5	239.1	181.7	171.2	103.9	164.1	371.4	**321.3**
Net profit after income tax attributable to the shareholders of Santos Ltd[2]	206.2	176.3	309.1	486.8	445.9	322.1	327.0	354.7	762.1	**643.4**
Financial position ($million)										
Total assets[2]	4,036.2	4,236.1	4,338.7	4,659.8	5,048.7	5,320.8	5,218.3	4,836.6	6,191.3	**6,902.9**
Net debt[2]	1,114.2	1,280.0	1,301.1	866.6	1,060.8	1,162.9	897.6	1,133.3	1,598.9	**1,449.7**
Total equity[2]	1,919.0	1,939.2	2,056.7	2,310.9	2,726.6	2,863.9	3,087.9	2,357.8	2,964.0	**3,355.5**
Reserves and production (mmboe)										
Proven plus Probable reserves (2P)	1,009	966	941	921	724	732	636	643	774	**819**
Production	41.1	45.6	49.2	56.0	55.7	57.3	54.2	47.1	56.0	**61.0**
Exploration[3]										
Wells drilled (number)	112	81	34	42	26	18	19	16	22	**25**
Expenditure ($million)	190.1	180.7	78.1	100.1	93.4	133.1	136.4	125.6	187.0	**258.5**
Other capital expenditure ($million)										
Delineation and development[3]	179.7	158.1	116.8	187.1	308.1	308.8	519.0	672.7	666.1	**865.5**
Buildings, plant and equipment	205.4	165.7	102.5	153.5	258.7	319.0	94.9	131.1	106.0	**182.1**

Share information

Share issues

As as 31 December	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
		Employee Share Plan 1 for 8 rights issue	Employee Share Plan	Employee Share Plan/ Executive Share Plan	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Restricted Shares	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Share Buy-back/ Schemes of Arrangement	Employee Share Plan/ Executive Share Plan/ Exercise of Options	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Preference Share Buy-back/ Issue of FUELS/ Convertible Preference Shares	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan
Number of issued ordinary shares at year end (million)	607.3	607.8	608.2	610.4	579.3	583.1	584.7	585.7	594.4	**598.5**
Weighted average number of ordinary shares (million)	583.7	605.6	606.1	608.3	612.0	580.9	583.4	584.9	587.9	**596.2**
Dividends paid per ordinary share (¢)										
- ordinary	25.0	25.0	25.0	30.0	30.0	30.0	30.0	30.0	36.0	**40.0**
- special	-	-	-	-	10.0	-	-	-	-	**-**
Dividends ($million)										
- ordinary	142.5	151.4	151.5	182.0	184.8	174.2	175.0	175.5	212.4	**238.1**
- special	-	-	-	-	61.2	-	-	-	-	**-**
Number of issued preference shares at year end (million)	-	-	-	-	3.5	3.5	3.5	6.0	6.0	**6.0**
Dividends paid per preference share ($)										
- ordinary	-	-	-	-	-	5.40	6.57	6.59	5.10	**5.06**
- special	-	-	-	-	-	-	-	5.00	-	**-**
Dividends ($million)										
- ordinary	-	-	-	-	-	18.9	23.0	23.0	30.6	**30.4**
- special	-	-	-	-	-	-	-	14.3	-	**-**
Earnings per share (¢)[2]	35.3	29.1	51.0	80.0	72.9	51.9	52.1	54.2	124.4	**102.8**
Return on total revenue (%)[1, 2]	25.2	21.8	32.2	32.1	30.1	21.5	22.1	23.4	30.8	**23.1**
Return on average ordinary equity (%)[2]	11.8	9.1	15.5	22.3	19.0	13.1	12.3	19.9	35.1	**23.8**
Return on average capital employed (%)[2]	8.5	7.0	11.4	16.5	13.9	8.9	8.8	11.7	19.8	**15.1**
Net debt/(net debt + equity) (%)[2]	36.7	39.8	38.7	27.3	28.0	28.9	22.5	32.5	35.0	**30.2**
Net interest cover (times)[2]	5.4	4.4	5.2	9.1	9.7	8.1	8.5	9.1	14.9	**10.1**
General										
Number of employees (excluding contractors)	1,615	1,650	1,645	1,631	1,713	1,737	1,700	1,526	1,521	**1,679**
Number of shareholders	65,459	81,286	81,416	76,457	86,472	85,888	84,327	78,976	78,157	**83,566**
Market capitalisation ($million)	3,826	2,654	2,516	3,670	3,589	3,509	4,017	4,965	7,280	**5,907**
Netback	-	-	-	-	-	18.9	18.4	19.8	29.5	**33.1**

1 From 2005, 'Total operating revenue' has been reclassified to 'Total revenue' and prior year amounts have been restated.
2 From 2004, amounts reflect AIFRS. Prior year amounts reflect previous Australian Generally Accepted Accounting Principles and have not been restated.
3 From 2001, appraisal and near-field exploration wells have been reclassified from exploration to delineation expenditure. Prior year amounts have not been restated.

Financial Report

CONTENTS

Directors' Statutory Report

The Directors present their report together with the financial report of Santos Ltd (Santos or Company) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 December 2006, and the audit report thereon. Information in the Annual Report referred to by page number in this report, including the Remuneration Report, or contained in a Note to the financial statements referred to in this report is to be read as part of this report.

1. DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

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

Surname	Other Names	Shareholdings in Santos Ltd Ordinary Shares	Shareholdings in Santos Ltd Franked Unsecured Equity Listed Securities
Borda	Kenneth Charles	Nil	Nil
Dean	Kenneth Alfred	3,000	Nil
Ellice-Flint (Managing Director)	John Charles	4,000,000	Nil
Franklin	Roy Alexander	Nil	Nil
Gerlach (Chairman)	Stephen	44,880	Nil
Harding	Richard Michael	Nil	Nil
Sloan	Judith	5,000	195

The above named Directors held office during and since the end of the financial year, except for Mr R A Franklin, who was appointed a Director on 28 September 2006. Mr P C Barnett held office as a Director of the Company until his retirement on 28 February 2006. Mr C J Recny held office as a Director of the Company until his death on 4 June 2006. Mr M A O'Leary held office as a Director of the Company until his retirement on 15 December 2006.

Mr K C Borda was appointed as a Director on 14 February 2007.

All shareholdings are of fully paid ordinary shares.

No Director holds shares in any related body corporate, other than in trust for the Company.

At the date of this report, Mr J C Ellice-Flint holds 2,500,000 options under the Santos Executive Share Option Plan and subject to the further terms described in Note 29 to the financial statements.

Details of the qualifications, experience and special responsibilities of each Director and the Company Secretary are set out on pages 32 to 33 and 35 of the Annual Report.

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		Safety, Health & Environment Committee**		Remuneration Committee		Finance Committee		Nomination Committee	
		No. of Mtgs Held*	No. of Mtgs Attended	No. of Mtgs Held*	No. of Mtgs Attended	No. of Mtgs Held*	No. of Mtgs Attended	No. of Mtgs Held*	No. of Mtgs Attended	No. of Mtgs Held*	No. of Mtgs Attended	No. of Mtgs Held*	No. of Mtgs Attended
Barnett	Peter Charles ***	1	1	-	-	-	-	1	1	1	1	-	-
Dean	Kenneth Alfred	14	14	5	5	-	-	-	-	4	4	-	-
Ellice-Flint	John Charles	14	14	-	-	4	4	-	-	-	-	-	-
Franklin	Roy Alexander	4	2	-	-	-	-	-	-	-	-	-	-
Gerlach	Stephen	14	14	-	-	4	4	4	4	4	4	2	2
Harding	Richard Michael	14	14	5	5	4	3	3	2	-	-	2	2
O'Leary	Michael Anthony****	14	14	-	-	4	4	-	-	3	1	2	2
Recny	Christopher John*****	5	3	-	-	-	-	-	-	-	-	-	-
Sloan	Judith	14	14	5	5	-	-	4	4	-	-	2	2

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

** *In addition to formal meetings, the Committee participated in a site visit to Tarbat.*

*** *Retired as a Director of the Company on 28 February 2006.*

**** *Retired as a Director of the Company on 15 December 2006.*

***** *Died on 4 June 2006.*

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

Particulars of the Company's corporate governance practices appear on pages 36 to 42 of the Annual Report.

2. PRINCIPAL ACTIVITIES

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

3. REVIEW AND RESULTS OF OPERATIONS

A detailed review of the operations and of the results of those operations of the consolidated entity during the financial year are contained on pages 2 to 7 of the Annual Report. Further details regarding the results and operations appear in the individual reports at pages 8 to 9, 12, 13 to 20, 22, 24, 26 to 31 of the Annual Report.

In summary, the consolidated net profit after income tax attributable to the shareholders was $643.4 million, a 15.6% decrease from the previous period comparative result of $762.1 million. Sales revenue was a record $2,769.1 million, up 12.4% from 2005.

In particular, revenues for the Australian segment was $2,675.5 million, a 15.3% increase from the 2005 result of $2,319.9 million. International operations recorded revenue decline of 28.6% from 2005 to $122.6 million in 2006.

Total production was up by 8.9% to 61.0 million barrels of oil equivalent (mmboe), reflecting a full year of production from 2005 acquisitions and John Brookes and commencement of production from Casino and Bayu Undan LNG.

4. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- The commencement of gas production from the Casino field, offshore Victoria in February 2006 and from the Maleo field, offshore East Java, Indonesia during September 2006.
- The despatch of the first LNG cargoes from the Darwin LNG plant during February 2006.
- An incident at the onshore Banjar Panji-1 well, near Surabaya in Indonesia.
- Appraisal drilling at the Jeruk oil discovery in Indonesia which reduced the most likely contingent resource for the Jeruk field to less than 50 million barrels of oil.
- A new country entry into Vietnam, and subsequent exploration and appraisal success at the Blackbird and Dua oil fields.
- The proposed sale of Santos' United States assets.
- A gas discovery at the Evans Shoal South exploration well, offshore Northern Australia.
- Commencement of the Cooper Basin Oil Project, a 1,000 well oil exploitation program in the Cooper Basin.

5. DIVIDENDS

On 22 February 2007, the Directors:

(i) resolved to pay a fully franked final dividend of $0.20 per fully paid ordinary share on 2 April 2007 to shareholders registered in the books of the Company at the close of business on 5 March 2007. This final dividend amounts to approximately $119.7 million; and

(ii) declared that in accordance with the Terms of Issue, a fully franked dividend of $2.7272 per Franked Unsecured Equity Listed Securities be paid on 2 April 2007 to holders registered in the books of the Company at the close of business on 5 March 2007, amounting to $16.4 million.

A fully franked final dividend of $118.9 million (20 cents per share) was paid on 31 March 2006 on the 2005 results. Indication of this dividend payment was disclosed in the 2005 Annual Report. In addition, a fully franked interim dividend of $119.2 million (20 cents per fully paid ordinary share) was paid to members on 2 October 2006.

In accordance with the Terms of Issue, a fully franked final dividend of $2.5300 per Franked Unsecured Equity Listed Securities ($15.2 million) was paid on 31 March 2006. Indication of this dividend payment was disclosed in the 2005 Annual Report. A fully franked interim dividend of $2.5275 per Franked Unsecured Equity Listed Securities ($15.2 million) was paid on 2 October 2006.

6. ENVIRONMENTAL REGULATION

The consolidated entity's Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation, including under applicable petroleum legislation and in respect to its South Australian operations, authorisations (numbers EPA 888, 1259, 2164, 2569, 14145, 14427 and 45060001) issued under the *Environment Protection Act 1993*, its Queensland operations, authorisations (numbers 150029, 150286, 150287, 150351, 150359, 150238, 150276, 150288, 150330, 150331, 150332, 150333, 150334, 150368, 150381, 170543 and 170544) issued under the *Environmental Protection Act 1994* and its Victorian operations, licence (number 54626) issued under the *Environment Protection Act 1970*. Applicable legislation and requisite environmental licences are specified in the entity's EHS Compliance Database, which forms part of the consolidated entity's overall Environmental Management System. Compliance performance is monitored on a regular basis and in various forms, including environmental audits conducted by regulatory authorities and by the Company, either through internal or external resources.

During the financial year, no fines were imposed, no prosecutions were instituted and no notice of non-compliance with the above referenced regulations was received from a regulatory body.

7. EVENTS SUBSEQUENT TO BALANCE DATE

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

Dividends declared after 31 December 2006 are set out in Item 5 of this Directors' Report and Note 22 to the financial statements.

8. LIKELY DEVELOPMENTS

Certain likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are referred to at pages 3 to 7 of the Annual Report.

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 at pages 8 to 9, 12, 13 to 20, 22, 24, 26 to 31 of the Annual Report.

9. DIRECTORS' AND RELEVANT GROUP EXECUTIVES' REMUNERATION

The remuneration policies and practices of the Company, (including the compensation arrangements for executive Directors and senior management), the Company's superannuation arrangements, the fees for non-executive members of the Board (within the aggregate amount approved by shareholders), the Company's employee share and option plans and executive and senior management performance review and succession planning are matters referred to and considered by the Remuneration Committee of the Board, which has access to independent advice and comparative studies on the appropriateness of remuneration arrangements. Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and Relevant Group Executives are set out in the Remuneration Report commencing on page 54 of the Annual Report.

10. INDEMNIFICATION

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

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain executives of the consolidated entity, being indemnities to the full extent permitted by law. Since the date of the previous report to the Directors Mr R A Franklin, upon his appointment to the Board on 28 September 2006, entered into a Deed of Indemnity on the same terms as those entered into by other Directors. There is no monetary limit to the extent of the indemnity under those Deeds and no liability has arisen thereunder during or since the financial year.

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 2006 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 2007. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been Directors or officers of the Company and controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

11. NON-AUDIT SERVICES

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

Other assurance services $67,000

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

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

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 137 of the Annual Report.

12. SHARES UNDER OPTION

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

Date options granted	Expiry date	Issue price of shares	Number under option
18 June 2002	17 June 2007	$6.20	150,000
12 December 2003	22 December 2007	$6.38	27,095
12 December 2003	22 December 2008	$6.38	100,000
15 June 2004	14 June 2008	$6.95	116,181
15 June 2004	1 July 2009	$6.95	200,000
22 May 2005	22 May 2015	$8.46	957,850
22 October 2006	24 October 2016	$10.48	897,700
4 May 2006	3 May 2016	$11.36	500,000
4 May 2006	3 May 2016	$11.36	1,000,000
4 May 2006	3 May 2016	$11.36	1,000,000
			4,948,826

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

13. SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Santos were issued during the year ended 31 December 2006 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since that date 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
19 October 2001	$6.52	500,000
12 December 2003	$6.38	45,085
15 June 2004	$6.95	13,967
22 May 2005	$8.46	27,650
		586,702

14. ROUNDING

Australian Securities and Investments Commission Class Order 98/100 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 22 February 2007 in accordance with a resolution of the Directors.

DIRECTOR

22 FEBRUARY 2007

DIRECTOR

Remuneration Report

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act* for the Company and the consolidated entity for the year ended 31 December 2006. This Remuneration Report forms part of the Directors' Report.

The Company's overall objective is to deliver top quartile strategic operating and shareholder value performance in the short and longer terms when compared with its peers in the international petroleum exploration and production industry. In order to achieve these objectives the Company needs to have the best, brightest and most experienced people available to it. Delivery of the Company's remuneration strategy is a key objective in delivering that performance.

The Company's remuneration strategy is therefore designed to attract, retain and motivate appropriately qualified and experienced Directors, executives and staff capable of discharging their respective responsibilities to enable the Company to achieve its business strategy.

NON-EXECUTIVE DIRECTORS

The fees paid to non-executive Directors are set at a level which:

- is consistent with prevailing market conditions;
- ensures the Company is able to attract and retain Directors of the required qualifications, background and experience needed to ensure an effective and value-adding Board; and
- reflects the responsibilities of, and the time commitment required from, each non-executive Director to discharge his or her duties.

CEO AND SENIOR EXECUTIVES

Executive remuneration comprises both a fixed component and an at-risk component. The at-risk component is intended to remunerate executives for increasing shareholder value, for achieving financial targets and business strategies and to align their remuneration with the financial interests of shareholders. The Company's executive remuneration strategy is designed to attract and retain high-calibre executives.

Details of the Company's remuneration strategy for 2006 are set out in this Report as follows:

TABLE 1: OVERVIEW OF ELEMENTS OF REMUNERATION

	Elements of remuneration	**Directors**		**Relevant Group Executives**	**Discussion in Remuneration Report**
		Non-Executive	**Executive**		
Fixed remuneration	Fees	✓	✗	✗	Sections 1A, 1B
	Salary	✗	✓	✓	Sections 2A, 2C, 2E
	Superannuation	✓	✓	✓	Sections 1A, 1B, 2C, 2D, 2E
	Expense allowance	✗	✗	✗	-
	Other benefits	✗	✓	✓	Section 2E
At-risk remuneration	Short-term incentive	✗	✓	✓	Sections 2A, 2B, 2C, 2E
	Long-term incentive	✗	✓	✓	Sections 2A, 2B, 2C, 2E
Post-employment	Notice periods and termination payments	✗	✓	✓	Section 2E

This Remuneration Report has been adopted in accordance with a resolution of the Directors of Santos Ltd.

1 NON-EXECUTIVE DIRECTORS' FEES

1a. BOARD POLICY ON FEES

Shareholder approved aggregate

Non-executive Directors' fees, including committee fees, are set by the Board within the maximum aggregate amount of $1,500,000 per annum approved by shareholders. This amount was approved at the Annual General Meeting held on 7 May 2004.

The fees paid to non-executive Directors within this aggregate amount are set at levels which reflect both the responsibilities of, and the time commitments required from, each Director to discharge his or her duties. Non-executive Directors' remuneration is not linked to the performance of the Company in order to maintain their independence and impartiality. The annual Directors' fees set by the Board as payable to Directors during the 2006 year were revised with effect from 1 July 2006. Those fees are now set at the following levels:

TABLE 2: DIRECTORS' FEES

	Board		Committee	
	Chair[1]	**Member**	**Chair**[2]	**Member**
Fees	$390,000	$130,000	$10,000–$28,000	$4,000-$14,000

1 The Chairman of the Board does not receive any additional fees for serving on any Board committee.
2 The Chairman of the Board chairs the Nomination Committee.

Remuneration Committee considerations

In setting fee levels, the Remuneration Committee, which makes recommendations to the Board, takes into account:

- independent professional advice;
- fees paid to non-executive Directors by comparable companies;
- the general time commitment required from non-executive Directors and the risks associated with discharging the duties attaching to the role of Director;
- the level of personal responsibility undertaken by a Director; and
- the general commercial expertise, experiences and qualifications of the Directors.

The Remuneration Committee and the Board will continue to review the approach to non-executive Director fees to ensure it remains competitive and in line with general industry practice and best practice principles of corporate governance.

Details of the membership of the Remuneration Committee and its responsibilities are set out in the Corporate Governance Statement on page 39 of the Annual Report.

Superannuation and fees for special services

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

In accordance with the Constitution, non-executive Directors are also permitted to be paid additional fees for special duties or exertions. Such fees are not included in the aggregate remuneration cap approved by shareholders. No such fees were paid during the year.

Directors are also entitled to be reimbursed for all business-related expenses, including travel on company business, as may be incurred in the discharge of their duties.

Retirement benefits

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

Non-executive Directors appointed prior to 1 January 2004 are contractually entitled to receive a retirement benefit but the amount of the benefit was "frozen" as at 30 June 2004. The benefit is payable upon ceasing to hold office as a Director. The retirement payment is made pursuant to an agreement entered into with each non-executive Director on terms approved by shareholders at the 1989 Annual General Meeting. Accrued retirement benefits are set out in Table 3 below. These benefits have been fully provided for by the Company.

1b. REMUNERATION

Details of non-executive Directors' remuneration for the year ended 31 December 2006 are set out in the following table. All values are in A$.

TABLE 3: DETAILS OF NON-EXECUTIVE FEES AND ENTITLEMENTS FOR 2006

	Directors' fees	**Committee fees**	**Superannuation contributions**[1]	**Other**	**Total**
S Gerlach[4] (Chairman)	360,000	-	12,412	-	372,412
P C Barnett[2]	17,781	3,879	1,949	-	23,609
K A Dean	120,000	29,750	12,372	-	162,122
R A Franklin	33,568	-	-	-	33,568
R M Harding	120,000	35,000	12,122	-	167,122
M A O'Leary[3]	114,568	20,768	-	-	135,336
C J Recny[5]	27,500	-	2,475	-	29,975
J Sloan[4]	120,000	31,500	12,372	-	163,872
Total	**879,849**	**120,897**	**53,702**	**-**	**1,054,448**

1 *Superannuation contributions made on behalf of non-executive Directors, with the exception of Mr R A Franklin and Mr M A O'Leary, to satisfy the Company's obligations under applicable Superannuation Guarantee legislation. Under Superannuation Guarantee legislation, superannuation contributions are not required to be made on behalf of Mr R A Franklin as he is not a resident of Australia, and superannuation contributions are not required to be made on behalf of Mr M A O'Leary as he has passed the age of 70.*

2 *Mr P C Barnett ceased as a Director on 28 February 2006. Upon ceasing to hold office, Mr Barnett was paid a retirement benefit of $303,853 pursuant to the agreement entered into with the Company prior to 1 January 2004. No part of this amount has been included in Mr Barnett's remuneration for the year, as the benefit had been fully provided for in previous reporting periods.*

3 *Mr M A O'Leary ceased as a Director on 15 December 2006. Upon ceasing to hold office, Mr O'Leary was paid a retirement benefit of $268,420 pursuant to the agreement entered into with the Company prior to 1 January 2004. No part of this amount has been included in Mr O'Leary's remuneration for the year, as the benefit had been fully provided for in previous reporting periods.*

4 *Mr S Gerlach and Professor J Sloan are, when they cease to hold office as Directors, entitled to receive a retirement benefit pursuant to agreements entered into with the Company prior to 1 January 2004. These benefits are calculated with reference to completed years of service as at 30 June 2004. Mr Gerlach had completed 10 years of service (and more than three as Chairman) and Professor Sloan had completed nine years of service at that time. Their respective accrued benefits are $1,130,725 and $346,752. No part of these amounts have been included in Mr Gerlach or Professor Sloan's remuneration for the year, as these benefits had been fully provided for in previous reporting periods.*

5 *Mr C J Recny held office as a Director until his death on 4 June 2006.*

2 CEO AND SENIOR EXECUTIVE REMUNERATION

2a. BOARD POLICY ON REMUNERATION

The Remuneration Committee of the Board has recommended, and the Board has adopted, a policy that remuneration of the CEO, Company Secretary and other senior executives will:

(a) reflect the responsibilities of senior executives and other employees;

(b) be reasonable and competitive in the resources and energy industry within which the Company operates in order to attract, motivate and retain high-performing employees;

(c) ensure a significant portion of senior executive remuneration is at risk against individual and company performance and shareholder value creation;

(d) ensure that superior performance is rewarded, thereby reinforcing the short, medium and long-term objectives of the Company as set out in the strategic business plans endorsed by the Board; and

(e) encourage senior executives to manage from the perspective of shareholders.

In order to link a substantial proportion of the Chief Executive Officer and Managing Director (CEO) (Mr John Ellice-Flint) and senior executive remuneration to Company performance, the remuneration packages include both fixed and at-risk components.

The Board views the at-risk component as an essential driver of the Company's high performance culture.

Table 4 below sets out the relative proportions of the CEO's and senior executives' total remuneration packages that are performance-based. At each job and seniority level, the Board aims to achieve a balance between fixed and at-risk or performance-related components of remuneration.

TABLE 4: OVERVIEW OF REMUNERATION PACKAGE

	% of total remuneration (annualised)		
	Fixed remuneration	**Performance-based remuneration**	
	TFR	**STI**[1]	**LTI**[2]
CEO	46%	27%	27%
Executive Vice President Operations	52%	27%	21%
Chief Financial Officer	52%	27%	21%
Other Relevant Group Executives	57%	20%	23%
Other executives	66%	14%	20%

1 *The percentages in the table indicate STI paid for target performance.*

2 *The percentages in the table represent the relative size of the initial LTI grant which is dependent on each executive's seniority. Once granted, vesting of Share Acquisition Rights or options made under the Company's LTI program is dependent on Company performance and may range from 0% to 100% (as explained in Section 2C).*

2b. COMPANY PERFORMANCE AND REMUNERATION

Pay and performance relationship

Santos' senior executive remuneration strategy is directly linked to the performance of the Company across a range of measures including the creation of shareholder wealth. Santos' executive remuneration policy emphasises pay for performance, with a remuneration mix that is on average more performance-leveraged than many competitors.

The at-risk element of pay is comprised of two components:

- Short-term incentives provide for a bonus payment if performance based on a mix of company and individual criteria meet or exceed targets set at the beginning of each financial year.
- Long-term incentives provide for the vesting of equity-based rewards if performance over a three-year period delivers above-average shareholder returns relative to other companies.

Long-term performance is assessed using relative Total Shareholder Return (TSR). TSR incorporates share price growth, dividends and other capital adjustments and is widely considered one of the best indicators of shareholder wealth.

Vesting of 50% of the 2006 LTI award is based on relative TSR against ASX 100 companies, and vesting of the other 50% is based on relative TSR against a group of large Australian and international exploration and production companies, which for 2006 comprised:

- Anadarko Petroleum Ltd
- Apache Corp
- Australian Worldwide Exploration Ltd
- Cairn Energy PLC
- Chesapeake Energy Corp
- EOG Resources Inc
- Forest Oil Corp
- Hardman Resources Ltd
- Kerr McGee Corp
- Murphy Oil Corp
- Newfield Exploration Co
- Nexen Inc
- Noble Energy Inc
- Oil Search Ltd
- Pioneer Natural Resources Co
- Pogo Producing Co
- Premier Oil PLC
- Talisman Energy Inc
- Woodside Petroleum Ltd
- XTO Energy Inc.

Indicators of Company performance

The table below shows results against various measures of company performance in the five year period from 2002 to 2006. These measures are examples of measures used to determine the overall level of bonuses paid.

TABLE 5: COMPANY PERFORMANCE MEASURES 2002–2006

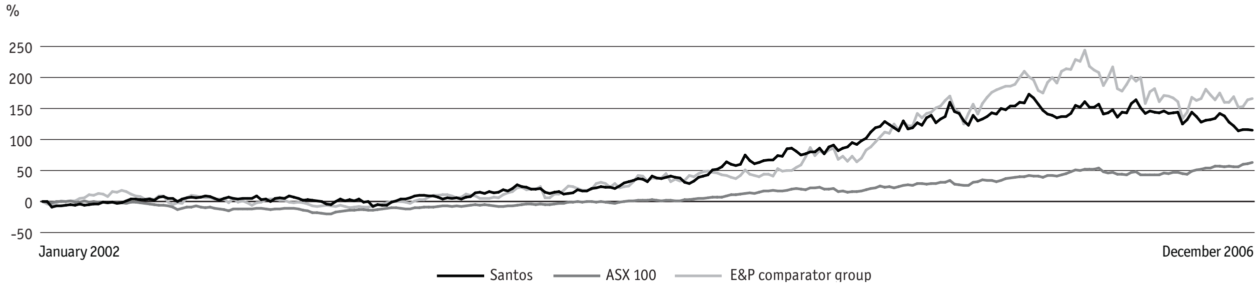
Year	2002	2003	2004	2005	2006
Safety (total recordable case frequency rate)	9.0	7.2	6.4	4.9	6.4
Environment (cubic metres of uncontained spills)	393	1,943	84	23.1	21.6
Production (mmboe)	57.3	54.2	47.1	56.0	61.0
Netback (A$/boe)	18.9	18.4	19.8	29.5	33.1
Reserve replacement cost – 1P (A$/boe)	8.7	8.6	16.8	12.9	14.5
Reserve replacement rate – 1P (%)	119	148	121	218	143
ROACE (%)	8.9	8.8	11.7	19.8	15.1
EBITDAX (A$/share)	1.9	1.8	2.0	3.1	3.6

Further discussion of the Company's overall performance is contained on pages 8 to 31.

Long-term Company performance

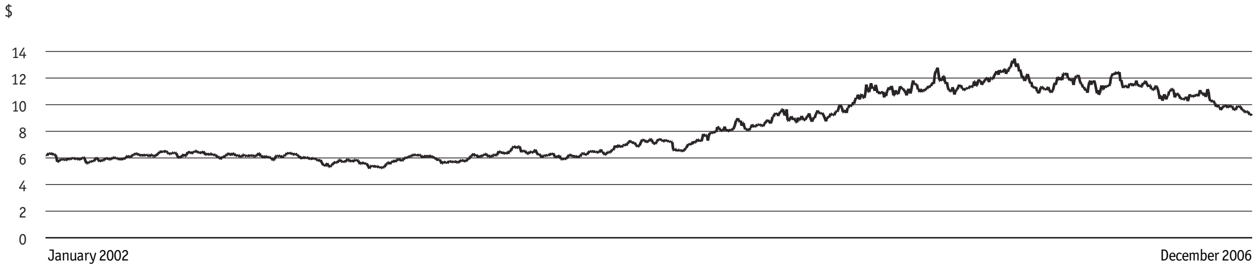
As an indication of the Company's long-term performance, the graph below illustrates the Company's TSR in the five year period from 2002 to 2006, together with the average TSRs of the two comparator groups used in the Company's long-term incentive program, as described above.

TSR OF SANTOS, ASX100 AND AUSTRALIAN AND INTERNATIONAL COMPANIES 2002–2006



The second graph shows the Company's share price between January 2002 and December 2006.

SANTOS SHARE PRICE 2002–2006



During the 2002 to 2006 period, the Company's share price grew strongly. The Company's TSR outperformed the average TSR of the ASX 100 for the period, but lagged behind the average TSR of the Australian and international companies used as one of the comparator groups in the Company's long-term incentive program.

During this period, vesting of the grants made to executives under the Company's long-term incentive program, which forms part of at-risk remuneration, has been commensurate with the Company's long-term performance relative to comparator companies. Fifty per cent of the grant based on the Company's relative TSR for the 2003 to 2005 period vested, and the remaining 50% lapsed. No portion of the grant based on the Company's relative TSR for the 2004 to 2006 period vested.

Dividends paid by the Company from 2002 to 2006, showing a consistently strong level of return to shareholders, are as follows:

(Dividends per ordinary share)

2002	$0.30
2003	$0.30
2004	$0.30
2005	$0.36
2006	$0.40

Capital management

In conjunction with its $600 million offering of Redeemable Convertible Preference Shares (or FUELS), on 30 September 2004 the Company redeemed and bought back the entire 3,500,000 Reset Convertible Preference Shares on issue at that date. 2,865,821 were redeemed at face value and reinvested in FUELS, 489,774 shares were bought back for $105 each and cancelled, and 144,405 were redeemed at face value.

2c. ELEMENTS OF REMUNERATION

This section deals with the elements of remuneration for the CEO and the "Relevant Group Executives" listed below. The Relevant Group Executives include the five highest remunerated executives of the Company and the Group as well as other Key Management Personnel.

TABLE 6: CEO AND RELEVANT GROUP EXECUTIVES

CEO / Senior executives

Current executives	**Position**
J C Ellice-Flint	CEO
J H Anderson	Vice President Strategic Projects (commenced on 3 April 2006)
T J Brown	Vice President Geoscience and New Ventures (commenced 4 February 2006)
M E Eames	Vice President Corporate and People
M S Macfarlane	Vice President Development Projects and Technical Services (commenced 18 April 2006)
P C Wasow	Chief Financial Officer
R J Wilkinson	Vice President Gas Marketing and Commercialisation
J T Young	Executive Vice President Operations
Former executives	
J E Gouadain[1]	Vice President Geoscience and New Ventures
B J Wood[2]	Vice President Strategic Projects

1 Mr J E Gouadain ceased employment with the Company on 30 March 2006.
2 Mr B J Wood ceased employment with the Company on 15 June 2006.

As indicated in Section 2B, remuneration for the CEO and Relevant Group Executives is made up of the following components:

1. Total Fixed Remuneration (comprising salary, superannuation and benefits); and
2. At-risk remuneration, comprising:
   - Short-Term Incentives (STI) – based on annual individual and Company performance; and
   - Long-Term Incentives (LTI) – based on the Company's performance relative to other companies over a three-year period.

Total Fixed Remuneration (TFR)

The terms of employment for the CEO and Relevant Group Executives contain a fixed remuneration component. The TFR component is expressed as a dollar amount that the executive may take in a form agreed with the Company. This amount of remuneration is not dependent upon performance, but is quantified by reference to the median remuneration paid to executives in comparable roles in the Australian market, as well as the individual's qualifications and experience.

Short-Term Incentive (STI)

The STI program links specific performance targets with the opportunity for eligible executives to earn cash incentives based on a percentage of fixed remuneration.

SUMMARY OF THE STI

What is the STI?	The STI is an annual bonus paid to reward performance based on a mix of both Company and individual performance targets.
Who participates in the STI?	The CEO, Relevant Group Executives, other executives and all non-award employees.
Why does the Board consider the STI an appropriate incentive?	The STI is designed to put a proportion of each executive's annual remuneration at risk against meeting targets linked to the Company's annual business objectives, thereby driving both individual and Company performance.
What are the maximum amounts that can be earned as a STI?	The maximum amounts that can be earned as a STI are 150% of base salary for the CEO, and 50% or 75% of TFR for Relevant Group Executives. Such amounts are only payable for exceptional performance.

How is the STI paid?	The CEO must take 50% of any STI awarded to him in the form of shares in the Company. These shares are, in general, subject to restrictions on sale, transfer and hedging for a period of two years from the date of their acquisition. The remaining 50% of any STI awarded is paid to the CEO in cash. All other participants receive their STI in cash.
What proportions of an executive's STI are based on Company performance and individual performance respectively?	For the CEO, 100% of the STI is based upon a number of agreed objectives which include Company performance as well as strategic growth initiatives which form part of the Company's strategic plan. For Relevant Group Executives, 70% of the STI is based on Company performance, and the remaining 30% is based on individual performance. For other executives, 50% of the STI is based on Company performance, and the other 50% is based on individual performance. The Board believes that linking part of the Company's executives' STI to achievement of the Company's objectives for the performance period is important to the promotion of collaborative behaviour and actions directed towards the overall benefit of the Company.
What are the performance conditions?	The CEO's STI is based on growth of profitability, exploitable reserves and share price increase and other objectives set by the Board. For other participants, Company performance is assessed on a range of metrics covering reserves growth, reserve replacement cost, production, margin, new growth options, shareholder value creation, people, environment, health, safety and continuous improvement. Individual performance is assessed against targets set within each executive's area of responsibility. The Board believes it is important to assess the Company's performance against a broad range of metrics in order to avoid over-emphasising certain areas to the detriment of others. Further, the Board believes these metrics should include lagging indicators to assess the Company's past performance as well as forward-looking indicators to ensure the Company is positioning itself well for the future.
Who assesses performance?	The Remuneration Committee assesses performance against the conditions in respect of the CEO and makes a recommendation to the Board. The CEO assesses performance against the conditions in respect of Relevant Group Executives following the close of the financial year and having regard to the relevant financial year's results, makes a recommendation to the Remuneration Committee, which approves the award of short-term incentives to the Relevant Group Executives.
How is Company performance assessed?	Each metric is assessed against target and assigned a score on a five-point scale. The average of the scores of each metric is used to quantify a bonus pool expressed as a percentage of the sum of maximum bonuses of all eligible employees. The bonus pool may be adjusted after taking into consideration other factors not reflected in the metrics but deemed relevant to Company performance. The Board believes that this method of assessing performance is rigorous and transparent and results in a balanced assessment of the Company's performance.
Were the performance conditions met during the year?	The metrics indicated that the Company had met and exceeded targets to a level commensurate with a bonus pool equivalent to 70% of the sum of maximum bonuses of eligible employees.
What percentage of maximum STI was paid during the year for the Relevant Group Executives of the Company and the Group?	In respect of the CEO and each of the Relevant Group Executives (other than Mr Gouadain and Mr Wood, who had no entitlement upon ceasing employment), the STI performance conditions, which included individual as well as Company performance, were satisfied to 60% to 82% of the maximum potential annual bonus. The actual amounts paid to those executives are set out in Table 10. The remainder of the maximum potential annual bonus was forfeited.

LONG-TERM INCENTIVE (LTI)

The Company's LTI arrangements are designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value – which comprises both share price and returns to shareholders.

SUMMARY OF THE LTI

Who is entitled to participate?	Executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles.
What form does the LTI take?	Share Acquisition Rights (SARs) or options, at the executive's election, pursuant to the Santos Employee Share Purchase Plan (SESPP) and the Santos Executive Share Option Plan (SESOP) respectively.
What is a SAR?	A conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.
What is an option?	An entitlement to acquire a fully paid ordinary share in the Company at a predetermined price, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.
How is the amount of the grant determined?	The amount of the grant is quantified by reference to the median size of grant given to executives in comparable roles in the Australian market. The relative proportions of LTI as a part of total remuneration are given in Table 4 on page 57 for each level of executive.
What is the performance condition?	Relative TSR, which incorporates share price growth, dividends and other capital adjustments, measures the total return to shareholders relative to companies in the chosen comparator groups.
What is the performance period?	In accordance with the terms approved by shareholders at the 2006 AGM, the 2,500,000 options granted to the CEO with effect from 4 May 2006 vest as follows: - 500,000 options vest no earlier than 26 August 2007; - 1,000,000 options vest no earlier than 26 August 2008; - 1,000,000 options vest no earlier than 26 August 2009. As set out in the Notice of the 2006 AGM, these options were intended to be approved at the 2005 AGM but were held over as a result of the overall remuneration review undertaken by the Board in late 2005. For all other participants, rolling grants are made with a performance period of three financial years. The 2006 grant's performance period is from 1 January 2006 to 31 December 2008 and vests no earlier than 1 January 2009.
How is TSR tested?	At the end of the performance period, over the performance period, against two comparator groups.
What are the comparator groups for the performance condition?	50% of each grant – the ASX 100 at the beginning of the relevant performance period. 50% of each grant – Australian and international exploration and production companies with market capitalisation of at least 15% of Santos market capitalisation, and no more than five times Santos' market capitalisation. The comparator group for the 2006 LTI grants is set out in section 2B above. These are seen as reasonable comparators of Santos' performance against the market generally (ASX 100) and its peers (E&P companies) and TSR is considered an appropriate measure of shareholder value.
What is the vesting schedule?	Refer to Table 7 on page 63.
Why is TSR appropriate?	The Board believes this is a fair measure of returns to shareholders, such that a proportion of each executive's remuneration is linked to the growth in shareholder value and therefore executives receive a benefit where there is a corresponding direct benefit to shareholders.

Why does the Board think that the vesting schedule is appropriate?	The Board believes that for the LTI to deliver a reward to executives, the Company's TSR must be better than that of at least half the companies in one or both comparator groups.
Is retesting of performance conditions permitted?	In relation to the CEO's options, the performance conditions may be retested quarterly during the 12-month period commencing on the earliest exercise date for a tranche, as set out above. If the performance conditions are not satisfied at the end of that 12-month retesting period, the options in that tranche will lapse. In relation to other executives, there is no retesting of the performance conditions relating to the executive's options or SARs.
What does an executive pay on grant and exercise of the SARs or options?	No amount is payable on grant or vesting of the SARs. Options are granted at no cost to the executive; however, an exercise price is payable on exercise of the options. The exercise price is the volume weighted average price of the Company's shares over the five business days (or 10 days in the case of the CEO) up to and including the award date. This difference is reflected in the different numbers of SARs and options granted.
What happens on cessation of employment?	SARs which have not already vested and options which are not exercisable will, in general, lapse and be forfeited. If cessation is due to death, redundancy or where the Board approves, a proportionate number of SARs may vest or options may be exercised, at the Board's discretion, or otherwise based on pro rata performance. Consistent with the CEO's arrangements in 2000, the Board has exercised its discretion to determine that all options held by the CEO will vest and become exercisable where the Company terminates the employment of the CEO (other than for cause) in accordance with his Service Agreement.
Can the SARs or options be forfeited?	Yes. If the performance conditions are not satisfied, unvested SARs or options will lapse. If an executive acts fraudulently, dishonestly or is, in the Board's opinion, in breach of his or her obligations to the Company, unvested SARs or options will lapse.
What happens in the event of a capital reconstruction or bonus issue etc?	The rules of the SESPP and SESOP provide for the adjustment of the number of shares to which the SARs or options relate to take account of capital reconstructions and bonus issues. In the event of a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.
Are there trading restrictions on the underlying shares?	Shares allocated on vesting of a SAR are subject to a restriction on dealing for up to a maximum of 10 years after the original date of grant.

TABLE 7: VESTING SCHEDULE FOR SARS AND OPTIONS

Performance – Santos TSR ranking against TSR ranking of each company in the comparator group	**% of SARs that vest or options which become exercisable**
TSR < 50th percentile of comparator group	0%
TSR = 50th percentile of comparator group	50%
TSR between 51st & 74th percentile of comparator group	Progressive vesting from 52% to 98% pro-rata vesting (2% increase for each percentile improvement)
TSR ≥ 75th percentile of comparator group	100%

SARs or options granted as remuneration

The following tables set out details of the movement in SARs and options held by the CEO and Relevant Group Executives during the reporting period.

TABLE 8: SARS AND OPTIONS GRANTED DURING THE YEAR AND MOVEMENT IN SARS AND OPTIONS HELD BY EXECUTIVES

	Balance at 1 January 2006	Granted[(1)(a)]	Maximum value of grant[(1)(b)]	Exercised[(2)]	Lapsed / Forfeited[(3)]	Balance at 31 December 2006	Vested and exercisable at 31 December 2006	Vested but not yet exercisable at 31 December 2006
CEO and Relevant Group Executives								
J C Ellice-Flint								
SARs	-	-	-	-	-	-	-	-
Options	-	2,500,000	1,406,205	-	-	2,500,000	-	-
J H Anderson								
SARs	8,600	-	-	(4,300)	(4,300)	-	-	-
Options	70,344	63,700	16,137	-	-	134,044	12,744	-
T J Brown								
SARs	-	-	-	-	-	-	-	-
Options	333,369	65,900	16,695	(200,000)	(14,500)	184,769	60,000	-
M E Eames								
SARs	19,600	19,900	18,971	-	-	39,500	-	-
Options	50,000	-	-	-	-	50,000	-	-
M S Macfarlane								
SARs	28,800	-	-	(4,800)	(4,800)	19,200	-	-
Options	-	63,700	16,137	-	-	63,700	-	-
P C Wasow								
SARs	70,800	23,000	21,927	(11,800)	(11,800)	70,200	-	-
Options	-	-	-	-	-	-	-	-
R J Wilkinson								
SARs	53,100	16,200	15,444	(8,850)	(8,850)	51,600	-	-
Options	-	-	-	-	-	-	-	-
J T Young								
SARs	78,000	-	-	(13,000)	(13,000)	52,000	-	-
Options	-	93,200	23,611	-	-	93,200	-	-

	Balance at 1 January 2006	Granted[1][a]	Maximum value of grant[1][b]	Exercised[2]	Lapsed / Forfeited[3]	Balance at 31 December 2006	Vested and exercisable at 31 December 2006	Vested but not yet exercisable at 31 December 2006
CEO and Relevant Group Executives								
Former Executives								
J E Gouadain								
SARs	60,000	-	-	(10,000)	(50,000)	-	-	-
Options	200,000	-	-	(200,000)	-	-	-	-
B J Wood								
SARs	-	-	-	-	-	-	-	-
Options	210,985	-	-	(72,735)	(138,250)	-	-	-
Total								
SARS	**318,900**	**59,100**	**56,342**	**(52,750)**	**(92,750)**	**232,500**	**-**	**-**
Options	**864,698**	**2,786,500**	**1,478,785**	**(472,735)**	**(152,750)**	**3,025,713**	**72,744**	**-**

1 *The aggregate value of SARs and options granted during the year (at the date of their grant) is $1,535,127. In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at the date of their grant has been determined in accordance with AASB 2 "Related Party Disclosures" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in Note 29 to the financial statements.*

(a) *The grants made to the CEO and Relevant Group Executives constituted 100% of the grants made to them during the year. As the LTIs vest only on satisfaction of performance conditions which are to be tested in future financial periods, none of the LTIs granted in 2006 vested or were forfeited during the year. The terms of the LTIs are discussed above. The CEO's LTIs will vest in accordance with the summary set out on page 62, and the Relevant Group Executive's LTI will vest no earlier than 1 January 2009.*

(b) *Of the 2,500,000 options granted to the CEO, 500,000 of the options were calculated as having a value of $1.77 per option, 1,000,000 of the options were calculated as having a value of $1.94 per option, and 1,000,000 of the options were calculated as having a value of $2.05 per option. The values per LTI granted to the Relevant Group Executives were calculated at $2.86 per SAR and $0.76 per option. Information regarding the pricing model used to calculate these values is set out in Note 29 to the financial statements. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.*

2 *The value of an option on the date of exercise and the value of a SAR on the date of vesting is the market price of a share in the Company on that date. Accordingly, the aggregate value of options exercised during the financial year was $5,295,723 and the aggregate value of SARs vested during the financial year was $581,305. Further details regarding options and SARs exercised during the year are set out in Table 9.*

3 *During the year, 67,250 SARs lapsed which were related to an LTI grant which partially met applicable performance conditions, resulting in half the grant vesting and the other half lapsing. The right to 40,000 SARs held by J E Gouadain were forfeited on his resignation on 30 March 2006 and the right to 110,600 options held by B J Wood were forfeited on his resignation on 15 June 2006. The value of a SAR or option on the day it lapses or is forfeited is nil.*

TABLE 9: OPTIONS EXERCISED AND SARS VESTED AND LAPSED DURING 2006

	Options				SARs[2]	
	Date exercised or lapsed	Exercised or lapsed	Exercise Price $	Market price at date of exercise $	Vested	Lapsed
CEO & Relevant Group Executives						
J C Ellice-Flint	-	-	-	-	-	-
J H Anderson	-	-	-	-	4,300	4,300
T J Brown						
Exercised	16 October 2006	200,000	6.52	10.47	-	-
Lapsed	7 March 2006	14,500	-	-	-	-
M E Eames	-	-	-	-	-	-
M S Macfarlane	-	-	-	-	4,800	4,800
P C Wasow	-	-	-	-	11,800	11,800
R J Wilkinson	-	-	-	-	8,850	8,850
J T Young	-	-	-	-	13,000	13,000
Former executives						
B J Wood	15 June 2006	45,085	6.38	11.16	-	-
	15 June 2006	27,650	8.46	11.16	-	-
J E Gouadain	12 April 2006[1]	200,000	6.52	11.95	10,000	10,000

1 By consent of the Board in accordance with the rules of the Company's share option plan, options were exercised by J E Gouadain after he ceased employment with the Company on 30 March 2006.

2 All SARs vested on 7 March 2006 and the market value at that date was $11.02.

2d. SERVICE AGREEMENTS

The remuneration and other terms of employment for the CEO and the Relevant Group Executives are formalised in Service Agreements. Under the terms of the Service Agreements, the CEO and Relevant Group Executives continue to be employed until their employment is terminated.

Notice periods and payments on termination

The Service Agreements provide for termination payments to be made in certain circumstances.

CEO

In particular, the CEO's contract provides that the Company may terminate his employment on giving 24 months' notice. The contract was varied with effect from 1 January 2006 so that this notice period is reduced to 12 months from 1 January 2008. The Company may require the CEO to continue to work for up to three months of the notice period.

The Company must make a payment to the CEO equivalent to his base salary for the full notice period. In general, any unvested options granted to the CEO under the SESOP will vest and become exercisable where the Company terminates the CEO's employment, and any restrictions on shares acquired using the CEO's STI award will be lifted.

The Company may terminate the CEO's employment at any time for cause, and no payment in lieu of notice or early vesting of incentive awards will be made in these circumstances.

The CEO must give the Company three months' notice of his intention to resign.

Relevant Group Executives

The Company may terminate the employment of Relevant Group Executives on giving 12 months' notice, except with respect to Mr J T Young, who is entitled to three months' notice. The Company may make a payment in lieu of notice. Relevant Group Executives must give the Company at least six months' notice of resignation, with the exception of Mr J T Young, who must give the Company at least three months' notice of resignation.

In certain circumstances, such as a substantial diminution of responsibility, the Company may be deemed to have terminated the employment of the CEO and the Relevant Group Executives and will be liable to make compensation payments.

In addition, under his Service Agreement, the CEO is entitled to the accelerated payment of certain short-term and long-term incentives on the occurrence of certain specified events, including a change of control.

Other executives

The potential liability of the Company in relation to the termination of employment of other Group executives is dependent upon the circumstances of the termination, together with the Company's policies and arrangements. Accordingly, it is not possible to quantify the potential future impact of these agreements on the Company's financial position. However, the Company's policy in relation to these potential obligations is to make provision on an annual basis when a present obligation arises.

Superannuation arrangements for CEO

The CEO's Service Agreement provides for the Company to contribute an actuarially determined amount into the Company's superannuation fund to provide for Mr Ellice-Flint's superannuation benefits. These arrangements were agreed at the time the CEO originally joined the Company in 2000 to replace the pension entitlements to which he would have become entitled with his previous employer. While the Company obtained shareholder approval at the 2006 AGM to make interest free loans to the CEO in lieu of these superannuation contributions, changes to the taxation of superannuation announced in the May Federal budget have removed any need to change the existing superannuation arrangements.

The arrangements under the Service Agreement provide for Mr Ellice-Flint to be paid a defined benefit upon his retirement from the Company, calculated as a multiple of his final salary. As at 31 December 2006, Mr Ellice-Flint was entitled to a superannuation payment equivalent to 2.76 times his final salary upon his retirement. In February 2007 this increases to 3.22 times final salary and this defined benefit increases at a rate of approximately 0.5 times final salary on each subsequent anniversary. The Company will continue to make actuarially determined superannuation contributions on behalf of Mr Ellice-Flint as provided for under his Service Agreement.

2e. REMUNERATION PAID AND OTHER SPECIFIC DISCLOSURES

Details of the remuneration paid to the CEO and each of the Relevant Group Executives during 2006 are set out in the following table. All values are in A$.

TABLE 10: EXECUTIVE REMUNERATION DISCLOSURES FOR 2006 FINANCIAL YEAR

	Short-term employee benefits			Post employment	Termination	Other long-term benefits	Share-based payments[2]		Total	Total of fixed components of remuneration	Total of at-risk components of remuneration
	Salary $	STI $	Other[1] $	Superannuation $	$	$	SARs $	Options $	$	$	$
CEO and Relevant Group Executives of the Company and the Group											
J C Ellice-Flint	1,500,000	1,380,000	6,656	886,683[3]	-	-	-	1,406,205	5,179,544[6]	2,393,339	2,786,205
J H Anderson	360,915	143,800	6,656	37,896	-	-	-	16,137	565,404	405,467	159,937
T J Brown	417,952	135,900	6,656	18,067[4]	-	-	-	16,695	595,270	442,675	152,595
M E Eames	452,865	191,300	6,656	42,385	-	-	18,971	-	712,177	501,906	210,271
M S Macfarlane	376,849	143,800	6,656	28,750	-	-	-	16,137	572,192	412,255	159,937
P C Wasow	581,163	331,500	6,656	9,240	-	-	21,927	-	950,486	597,059	353,427
R J Wilkinson	441,649	165,000	6,656	74,363	-	-	15,444	-	703,112	522,668	180,444
J T Young	606,379	391,400	6,656	12,412	-	-	-	23,611	1,040,458	625,447	415,011
Former executives											
J E Gouadain	112,761	-	1,664	3,311	14,469	-	-	-	132,205	132,205	-
B J Wood	169,995	-	3,051	10,416[5]	22,689	-	-	-	206,151	206,151	-
Total	**5,020,528**	**2,882,700**	**57,963**	**1,123,523**	**37,158**	**-**	**56,342**	**1,478,785**	**10,656,999**	**6,239,172**	**4,417,827**

1 Includes the cost of car parking provided in the Company's head office in Adelaide for the CEO and Relevant Group Executives.

2 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at the date of their grant has been determined in accordance with AASB 124 "Related Party Disclosures" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in Note 29 to the financial statements.

3 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contribution made during 2006 by the Company in respect of the current and future entitlements of the CEO was $735,000.

4 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contribution made during 2006 by the Company in respect of the current and future entitlements of Mr T J Brown was $12,412.

5 This amount reflects the accounting value ascribed to the superannuation benefit reflecting the services provided during the period. The actual contribution made during 2006 by the Company in respect of the current and future entitlements of Mr B J Wood was $14,238.

6 This amount includes the proportion of the notional value of the CEO's equity compensation granted during the year, which, if applicable performance conditions are not met, has a nil value.

TABLE 11: COMPENSATION OPTIONS AND RIGHTS GRANTED AND VESTED DURING THE YEAR (CONSOLIDATED)

	Granted		Terms and conditions for each grant							Vested	
	Number									Number	
Name	Options	Rights	Grant date	Fair value per option at grant date $	Fair value per right at grant date $	Exercise price per option $	Options expiry date	Options first exercise date	Options last exercise date	Options	Rights
2006											
Directors											
J C Ellice-Flint	500,000	-	4 May 2006	1.77	-	11.36	3 May 2016	26 August 2007	3 May 2016	-	-
	1,000,000	-	4 May 2006	1.94	-	11.36	3 May 2016	26 August 2008	3 May 2016	-	-
	1,000,000	-	4 May 2006	2.05	-	11.36	3 May 2016	26 August 2009	3 May 2016	-	-
Executives											
J H Anderson	63,700	-	24 October 2006	0.76	-	10.48	24 October 2016	1 January 2009	24 October 2016	-	4,300
T J Brown	65,900	-	24 October 2006	0.76	-	10.48	24 October 2016	1 January 2009	24 October 2016	14,500	-
M E Eames	-	19,900	24 October 2006	-	2.86	-	-	-	-	-	-
J E Gouadain[1]	-	-	-	-	-	-	-	-	-	-	10,000
M S Macfarlane	63,700	-	24 October 2006	0.76	-	10.48	24 October 2016	1 January 2009	24 October 2016	-	4,800
P C Wasow	-	23,000	24 October 2006	-	2.86	-	-	-	-	-	11,800
R J Wilkinson	-	16,200	24 October 2006	-	2.86	-	-	-	-	-	8,850
B J Wood[2]	-	-	-	-	-	-	-	-	-	-	-
J T Young	93,200	-	24 October 2006	0.76	-	10.48	24 October 2016	1 January 2009	24 October 2016	-	13,000
Total	**2,786,500**	**59,100**								**14,500**	**52,750**

1 *Mr J E Gouadain resigned on 30 March 2006.*
2 *Mr B J Wood resigned on 15 June 2006.*

TABLE 12: SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS AND VESTING OF SARS (CONSOLIDATED)

	Exercise of compensation options			Vesting of SARs		
Name	**Shares issued Number**	**Paid per share $**	**Unpaid per share $**	**Shares issued Number**	**Paid per share $**	**Unpaid per share $**
2006						
Directors						
J C Ellice-Flint	-	-	-	-	-	-
Executives						
J H Anderson	-	-	-	4,300	-	-
T J Brown	200,000	6.52	-	-	-	-
M E Eames	-	-	-	-	-	-
J E Gouadain[1]	200,000	6.52	-	10,000	-	-
M S Macfarlane	-	-	-	4,800	-	-
P C Wasow	-	-	-	11,800	-	-
R J Wilkinson	-	-	-	8,850	-	-
B J Wood[2]	45,085	6.38	-	-	-	-
	27,650	8.46	-	-	-	-
J T Young	-	-	-	13,000	-	-
Total	**472,735**			**52,750**		

1 Mr J E Gouadain resigned on 30 March 2006.
2 Mr B J Wood resigned on 15 June 2006.

Income Statements

For the year ended 31 December 2006

	Note	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Total product sales		**2,769.1**	2,462.8	**1,188.4**	721.2
Less sales from discontinued operations		**(61.2)**	(119.9)	**–**	–
Continuing operations					
Product sales	2	**2,707.9**	2,342.9	**1,188.4**	721.2
Cost of sales	3	**(1,302.2)**	(1,169.5)	**(703.3)**	(413.5)
Gross profit		**1,405.7**	1,173.4	**485.1**	307.7
Other revenue	2	**29.0**	29.0	**31.3**	19.4
Other income	2	**25.0**	89.4	**6.1**	43.9
Other expenses	3	**(344.2)**	(86.0)	**(402.7)**	306.7
Operating profit before net financing costs		**1,115.5**	1,205.8	**119.8**	677.7
Financial income	5	**12.0**	8.3	**36.9**	52.1
Financial expenses	5	**(135.5)**	(79.1)	**(169.6)**	(108.9)
Net financing costs		**(123.5)**	(70.8)	**(132.7)**	(56.8)
Profit/(loss) before tax		**992.0**	1,135.0	**(12.9)**	620.9
Income tax expense	6	**(321.1)**	(371.4)	**(97.6)**	(102.2)
Profit/(loss) after tax from continuing operations		**670.9**	763.6	**(110.5)**	518.7
Discontinued operations					
Loss after tax from discontinued operations	7	**(27.5)**	(1.5)	**–**	–
Net profit/(loss) for the period		**643.4**	762.1	**(110.5)**	518.7
Attributable to:					
Minority interest		**–**	–	**–**	–
Equity holders of Santos Ltd		**643.4**	762.1	**(110.5)**	518.7
		643.4	762.1	**(110.5)**	518.7
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of Santos Ltd (¢)					
Basic earnings per share	23	**107.4**	124.7		
Diluted earnings per share	23	**103.1**	117.9		
Earnings per share for profit attributable to the ordinary equity holders of Santos Ltd (¢)					
Basic earnings per share	23	**102.8**	124.4		
Diluted earnings per share	23	**98.9**	117.7		
Dividends per share ($)					
Ordinary shares	22	**0.40**	0.36		
Redeemable preference shares	22	**5.0575**	5.1035		

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

Balance Sheets

As at 31 December 2006

		Consolidated		Santos Ltd	
		2006	2005	**2006**	2005
	Note	**$million**	$million	**$million**	$million
Current assets					
Cash and cash equivalents	8	**158.7**	229.2	**52.8**	65.5
Trade and other receivables	9	**487.5**	511.8	**1,499.5**	1,376.2
Inventories	10	**167.4**	144.0	**75.0**	67.3
Other current assets	11	**36.1**	27.2	**1.3**	–
		849.7	912.2	**1,628.6**	1,509.0
Assets classified as held for sale	7	**210.8**	–	**–**	–
Total current assets		**1,060.5**	912.2	**1,628.6**	1,509.0
Non-current assets					
Exploration and evaluation assets	12	**360.3**	339.1	**20.7**	17.7
Oil and gas assets	13	**5,232.7**	4,792.5	**1,718.9**	1,727.4
Other land, buildings, plant and equipment	14	**117.2**	73.5	**94.8**	52.4
Other investments	16	**45.2**	14.8	**2,854.1**	2,995.3
Deferred tax assets	17	**75.1**	57.4	**–**	–
Other non-current assets	11	**11.9**	6.6	**7.9**	4.8
Total non-current assets		**5,842.4**	5,283.9	**4,696.4**	4,797.6
Total assets		**6,902.9**	6,196.1	**6,325.0**	6,306.6
Current liabilities					
Trade and other payables	18	**441.8**	392.2	**562.9**	379.7
Deferred income		**6.4**	4.9	**1.7**	1.1
Interest-bearing loans and borrowings	19	**159.7**	11.1	**2,583.6**	2,450.9
Current tax liabilities		**213.5**	184.7	**207.8**	176.6
Provisions	20	**134.8**	72.4	**62.9**	54.8
Other current liabilities	21	**8.9**	1.9	**–**	1.3
		965.1	667.2	**3,418.9**	3,064.4
Liabilities directly associated with assets classified as held for sale	7	**16.8**	–	**–**	–
Total current liabilities		**981.9**	667.2	**3,418.9**	3,064.4
Non-current liabilities					
Deferred income		**11.3**	13.8	**–**	–
Interest-bearing loans and borrowings	19	**1,490.0**	1,817.0	**–**	–
Deferred tax liabilities	17	**517.5**	512.9	**65.3**	165.6
Provisions	20	**539.1**	215.0	**182.3**	75.8
Other non-current liabilities	21	**7.6**	6.3	**–**	–
Total non-current liabilities		**2,565.5**	2,565.0	**247.6**	241.4
Total liabilities		**3,547.4**	3,232.2	**3,666.5**	3,305.8
Net assets		**3,355.5**	2,963.9	**2,658.5**	3,000.8
Equity					
Issued capital	22	**2,254.4**	2,212.0	**2,254.4**	2,212.0
Reserves	22	**(198.9)**	(178.3)	**3.8**	4.4
Retained earnings	22	**1,300.0**	930.2	**400.3**	784.4
Equity attributable to equity holders of Santos Ltd		**3,355.5**	2,963.9	**2,658.5**	3,000.8
Equity attributable to minority interest	22	**–**	–	**–**	–
Total equity		**3,355.5**	2,963.9	**2,658.5**	3,000.8

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

Cash Flow Statements

For the year ended 31 December 2006

		Consolidated		Santos Ltd	
		2006	2005	**2006**	2005
	Note	**$million**	$million	**$million**	$million
Cash flows from operating activities					
Receipts from customers		**2,860.6**	2,474.7	**1,267.4**	729.9
Dividends received		**–**	0.1	**–**	0.1
Interest received		**12.6**	8.6	**36.9**	52.1
Overriding royalties received		**14.7**	12.8	**23.3**	19.7
Insurance proceeds received		**95.4**	55.9	**36.0**	35.8
Pipeline tariffs and other receipts		**29.2**	53.8	**49.4**	16.8
Payments to suppliers and employees		**(915.7)**	(696.3)	**(393.6)**	(259.5)
Royalty, excise and PRRT (payments)/refunds		**(94.2)**	(209.3)	**21.0**	(110.8)
Borrowing costs paid		**(119.0)**	(86.3)	**(156.6)**	(99.9)
Income taxes paid		**(333.3)**	(156.1)	**(282.9)**	(113.8)
Net cash provided by operating activities	27	**1,550.3**	1,457.9	**600.9**	270.4
Cash flows from investing activities					
Payments for:					
Exploration and evaluation expenditure		**(377.0)**	(243.7)	**(47.9)**	(106.8)
Oil and gas assets expenditure		**(721.2)**	(787.4)	**(267.9)**	(212.6)
Other land, buildings, plant and equipment		**(54.9)**	(23.2)	**(49.5)**	(24.6)
Acquisitions of oil and gas assets		**(113.6)**	(9.3)	**(14.8)**	(451.9)
Acquisitions of controlled entities		**(5.2)**	(556.1)	**–**	(108.1)
Acquisitions of other investments		**–**	(5.0)	**–**	(5.0)
Restoration expenditure		**(35.0)**	(9.7)	**(4.2)**	(0.3)
Share subscriptions in controlled entities		**–**	–	**(176.0)**	(426.5)
Other investing activities		**(20.5)**	3.1	**(5.1)**	0.7
Proceeds from disposal of non-current assets		**66.3**	80.7	**16.1**	32.3
Proceeds from disposal of other investments		**–**	29.0	**–**	29.0
Net cash used in investing activities		**(1,261.1)**	(1,521.6)	**(549.3)**	(1,273.8)
Cash flows from financing activities					
Dividends paid		**(231.7)**	(200.2)	**(231.7)**	(200.2)
Proceeds from issues of ordinary shares		**5.7**	27.6	**5.7**	27.6
Repayments of borrowings		**(139.8)**	(249.6)	**–**	(1.0)
Drawdown of borrowings		**53.8**	592.9	**–**	–
Net receipts from controlled entities		**–**	–	**215.1**	1,393.5
Net payments to controlled entities		**–**	–	**(52.9)**	(188.8)
Other financing activities		**–**	0.5	**–**	–
Net cash (used in)/provided by financing activities		**(312.0)**	171.2	**(63.8)**	1,031.1
Net (decrease)/increase in cash and cash equivalents		**(22.8)**	107.5	**(12.2)**	27.7
Cash and cash equivalents at the beginning of the year		**229.2**	126.1	**65.5**	39.3
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(6.4)**	(4.4)	**(0.5)**	(1.5)
Cash and cash equivalents at the end of the year	8	**200.0**	229.2	**52.8**	65.5

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

Statements of Recognised Income and Expense

For the year ended 31 December 2006

	Note	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Adjustment on initial adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, net of tax, to:					
Retained profits		**–**	(2.4)	**–**	–
Hedging reserve		**–**	(7.8)	**–**	(7.8)
Fair value reserve		**–**	1.1	**–**	(0.1)
Foreign exchange translation differences		**(81.6)**	57.1	**–**	–
Net (loss)/gain on hedge of net investment in foreign subsidiaries		**52.0**	(46.1)	**–**	–
Cash flow hedges:					
Gains taken to equity		**–**	7.8	**–**	7.8
Change in fair value of equity securities available for sale, net of tax		**7.6**	4.9	**(2.0)**	4.5
Share-based payment transactions	29	**2.6**	2.4	**2.6**	2.4
Actuarial loss on defined benefit plan, net of tax	28	**(6.3)**	(0.3)	**(6.3)**	(0.3)
Net (expense)/income recognised directly in equity		**(25.7)**	16.7	**(5.7)**	6.5
Profit/(loss) for the period		**643.4**	762.1	**(110.5)**	518.7
Total recognised income and expense for the period		**617.7**	778.8	**(116.2)**	525.2
Attributable to:					
Equity holders of Santos Ltd	22	**617.7**	778.8	**(116.2)**	525.2
Minority interest		**–**	–	**–**	–
		617.7	778.8	**(116.2)**	525.2

Other movements in equity arising from transactions with owners as owners are set out in note 22.

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

1. SIGNIFICANT ACCOUNTING POLICIES

Santos Ltd ("the Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The consolidated financial report of the Company for the year ended 31 December 2006 comprises the Company and its controlled entities ("the consolidated entity").

The financial report was authorised for issue in accordance with a resolution of the Directors on 22 February 2007.

(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* and Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ("IFRSs").

The Company's financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 *Financial Instruments: Disclosure and Presentation* as the Australian equivalent Accounting Standard, AASB 132 *Financial Instruments: Disclosure and Presentation* does not require such disclosures to be presented by the Company where its separate financial statements are presented together with the consolidated financial statements.

(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 and available-for-sale investments, which are measured at fair value.

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

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial Instruments: Disclosure* replaces the presentation requirements of financial instruments in AASB 132 *Financial Instruments: Disclosure and Presentation*, and is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* makes consequential amendments to a number of accounting standards following the release of AASB 7, and is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 101 *Presentation of Financial Statements* has been revised to align more closely with the International Accounting Standard IAS 1 *Presentation of Financial Statements*, and is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt the above standards from 1 January 2007. The initial application of the standards is not expected to have an impact on the financial results of the Company and the consolidated entity as the standards and the amendment are concerned only with disclosures.

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 consolidated entity.

(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. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition.

Investments in subsidiaries are carried at their cost of acquisition 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 consolidated entity'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.

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 consolidated entity's interests in its significant joint ventures is included in note 26.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated entity in unincorporated joint ventures are brought to account by recognising in the financial statements the consolidated entity'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).

(D) FOREIGN CURRENCY

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that 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 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.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve.

Net investment in foreign operations

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 consolidated entity uses derivative financial instruments to hedge its exposure to changes in foreign exchange rates, commodity prices and interest rates arising in the normal course of business. The principal derivatives that may be used are forward foreign exchange contracts, foreign currency swaps, 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 consolidated entity does not trade in derivative financial instruments for speculative purposes.

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

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

(F) HEDGING

Fair value hedge

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

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (i.e. when interest income or expense is recognised).

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

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in a foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement.

(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 any other consideration given. 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

All business combinations are accounted for by applying the purchase method.

The purchase method of accounting 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.

(H) EXPLORATION AND EVALUATION EXPENDITURE

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

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

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

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

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(I) OIL AND GAS ASSETS

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

Assets in development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets in the development phase are separately accounted for as tangible assets and include past exploration and evaluation costs, development drilling and other sub-surface 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 13.

(J) LAND, BUILDINGS, PLANT AND EQUIPMENT

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

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

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

(K) DEPRECIATION AND DEPLETION

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

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

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

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

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

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

The heating value measurement used for the conversion of volumes of

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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) INVESTMENTS

Financial instruments held by the consolidated entity 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 on the balance sheet date.

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

(M) INVENTORIES

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

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

(ii) petroleum products, which comprise extracted crude oil, liquefied petroleum gas, condensate and naphtha stored in tanks and pipeline systems and processed sales gas and ethane stored in sub-surface 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. Trade receivables are non-interest bearing and settlement terms are generally within 30 days.

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

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

(O) CASH AND CASH EQUIVALENTS

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

(P) IMPAIRMENT

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

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

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

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

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

Calculation of recoverable amount

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reversals of impairment

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

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

(Q) PROVISIONS

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restoration

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

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

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.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(R) EMPLOYEE BENEFITS

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within twelve months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long-term service benefits

Long service leave is provided in respect of all employees, based on the present value of the estimated future cash outflow to be made resulting from employees' services up to balance date. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the consolidated entity's obligations.

Defined contribution plans

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

Defined benefit plan

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

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

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

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

When the calculation results in plan assets exceeding liabilities to the consolidated entity, 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).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Program is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive becomes unconditionally entitled to the SARs. The fair value of the SARs granted is measured using the Monte Carlo Simulation Method, taking into account the terms and market conditions upon which the SARs were granted. The amount recognised as an expense is only adjusted when the SARs do not vest due to non-market related conditions.

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

(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) CAPITALISATION OF 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.

Borrowing costs incurred after commencement of commercial operations are expensed.

(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.

(V) TRADE AND OTHER PAYABLES

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

(W) SHARE CAPITAL

Ordinary share capital

Ordinary share capital is classified as equity.

Preference share capital

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

Dividends

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

Transaction costs

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

(X) REVENUE

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

Sales revenue

Sales revenue is recognised on the basis of the consolidated entity'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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pipeline tariffs and processing tolls

Tariffs and tolls charged to other entities for use of pipelines and facilities owned by the consolidated entity 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 consolidated entity, or where the consolidated entity acts as an agent or broker with compensation on a commission or fee basis.

(Y) OTHER INCOME

Other income is recognised in the income statement at the fair value of the consideration received or receivable, net of GST, 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.

(Z) EXPENSES

Government royalties, petroleum resource rent tax and similar taxes

Government royalties, petroleum resource rent tax ("PRRT") and similar taxes are recognised as an operating expense on an accruals basis when the related sales are recognised or related production takes place. The amount is recognised in accordance with government legislative requirements.

Some oil and gas industry participants are of the view that PRRT and similar taxes are more appropriately accounted for as an income tax by applying AASB 112 *Income Taxes*. The Company notes that there has been no definitive guidance from any of the relevant accounting standards setting bodies and that there remains divergent practices resulting in uncertainty as to what constitutes an income tax. Accordingly, the Company will continue to account for PRRT under the accruals basis described above until such time as this uncertainty is resolved.

Had PRRT and similar taxes been accounted for as an income tax under AASB 112, a deferred tax liability would have been recognised for $108.9 million (2005: deferred tax asset $44.9 million). Profit before tax would have increased by $30.0 million (2005: $52.5 million), the income tax expense attributed to these taxes would have been $173.5 million (2005: $86.2 million expense), and profit after tax would have decreased by $143.5 million (2005: $85.4 million decrease).

Operating lease payments

Operating lease payments, where the lessor effectively retains substantially all the risks and rewards incidental to ownership of the leased items, are recognised in the income statement on a straight-line basis over the term of the lease.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, the unwinding of the effect of discounting on provisions, and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(AA) GOODS AND SERVICES TAX

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

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

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

(AB) 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Santos Ltd is the head entity in the tax-consolidated group. Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated among the members of the tax-consolidated group using a "stand-alone taxpayer" approach in accordance with UIG 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 to 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.

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

A discontinued operation is a component of the consolidated entity that has been disposed of, or is classified as held for sale, and that represents a major line of business or geographical area of operations, 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.

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 available for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

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

(AD) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates of reserve quantities

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

Exploration and evaluation

The consolidated entity'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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 12.

Provision for restoration

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

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

Impairment of oil and gas assets

The consolidated entity 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 assumptions used in the estimation of recoverable amount and the carrying amount of oil and gas assets are discussed in notes 13 and 15.

Petroleum resource rent tax

The consolidated entity's accounting policy for petroleum resource rent tax ("PRRT") is discussed in note 1(Z). Whether or not PRRT is an income tax within the scope of AASB 112 *Income Taxes* is a matter of judgement concerning the nature of PRRT and whether the PRRT taxable amount is sufficiently related to profit in the usual sense. This issue is discussed further in note 1(Z).

Banjar Panji-1 incident

The consolidated entity has raised a provision for potential remediation and related costs that may arise from the Banjar Panji-1 incident. The amounts recognised and the basis of the estimate are discussed in note 3.

2. REVENUE AND OTHER INCOME	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Product sales:				
Gas, ethane and liquefied gas	**915.9**	727.3	**381.6**	333.4
Crude oil	**1,196.9**	1,100.3	**650.1**	237.4
Condensate and naphtha	**388.3**	330.9	**81.8**	84.8
Liquefied petroleum gas	**206.8**	184.4	**74.9**	65.6
	2,707.9	2,342.9	**1,188.4**	721.2
Other revenue:				
Dividends from other entities	**–**	0.1	**–**	0.1
Overriding royalties	**15.5**	13.0	**24.2**	19.8
Pipeline tariffs and tolls	**3.2**	5.0	**(0.3)**	(4.6)
Trading revenue	**5.6**	5.3	**4.9**	2.6
Other	**4.7**	5.6	**2.5**	1.5
	29.0	29.0	**31.3**	19.4
Total revenue	**2,736.9**	2,371.9	**1,219.7**	740.6
Other income:				
Insurance recovery	**21.8**	34.4	**–**	23.7
Sole-risk buy-back premium	**–**	15.8	**–**	–
Net gain on sale of non-current assets	**3.2**	22.9	**6.1**	5.1
Net gain on sale of controlled entities	**–**	16.3	**–**	15.1
	25.0	89.4	**6.1**	43.9

3. EXPENSES	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Cost of sales:				
Cash cost of production				
Production costs:				
Production expenses	**329.9**	313.8	**112.4**	95.0
Production facilities operating leases	**53.0**	45.9	**35.3**	15.0
	382.9	359.7	**147.7**	110.0
Other operating costs:				
Pipeline tariffs and tolls	**50.8**	35.0	**24.4**	9.9
Royalty and excise	**109.0**	106.8	**40.8**	49.1
PRRT	**30.0**	52.5	**–**	–
	189.8	194.3	**65.2**	59.0
	572.7	554.0	**212.9**	169.0
Depreciation and depletion	**666.9**	524.5	**418.1**	187.8
Third party gas purchases	**69.1**	100.9	**67.0**	66.9
(Increase)/decrease in product stock	**(6.5)**	(9.9)	**5.3**	(10.2)
Total cost of sales	**1,302.2**	1,169.5	**703.3**	413.5
Other expenses:				
Selling, general and administrative expenses:				
Operating expenses	**64.0**	72.2	**47.1**	48.6
Depreciation	**1.2**	1.0	**0.3**	0.2
	65.2	73.2	**47.4**	48.8
Foreign exchange (gains)/losses	**(0.8)**	3.8	**0.5**	–
Hedge ineffectiveness (gains)/losses	**(0.2)**	(1.3)	**–**	1.9
Exploration and evaluation expensed	**268.8**	142.1	**19.9**	31.5
Net impairment loss/(reversal) of oil and gas assets (refer note 15)	**11.2**	(131.8)	**2.9**	(50.5)
Impairment loss on receivables due from controlled entities	**–**	–	**6.3**	–
Net impairment loss/(reversal) of investment in controlled entities	**–**	–	**325.7**	(338.4)
	344.2	86.0	**402.7**	(306.7)

3. EXPENSES (CONTINUED)	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Profit before tax from continuing operations includes the following items:				
Depreciation and depletion:				
Depletion of exploration and development expenditure	**400.3**	296.8	**296.7**	104.6
Depreciation of plant and equipment	**265.1**	226.2	**120.4**	82.1
Depreciation of buildings	**2.7**	2.5	**1.3**	1.3
	668.1	525.5	**418.4**	188.0
Employee benefits expense (includes share-based payments expense)	**174.7**	143.5	**171.6**	139.3
Write-down of inventories	**0.4**	4.0	**0.2**	2.4
Operating lease rentals:				
Minimum lease payments	**73.2**	55.0	**48.5**	24.2
Contingent rentals	**0.6**	0.6	**0.2**	0.2
Amounts that are unusual because of their nature, size, or incidence:				
Included in exploration and evaluation expensed is the following amount related to the Banjar Panji-1 well incident:				
Amount provided for potential remediation and related costs	**88.5**	–	**–**	–

Banjar Panji-1 well incident

The Banjar Panji-1 onshore exploration well is located near Surabaya, East Java, within the area of the Brantas Production Sharing Contract ("PSC"). In late May 2006 non-toxic mud started flowing to the surface through vents about 200 metres from the drill hole. The cause of the incident is yet to be determined and is the subject of an Indonesian police investigation. Mud and water however continue to flow from the vents, affecting the site of the drilling operations as well as approximately 450 hectares of land and a number of villages in the area.

The Company, through its subsidiary Santos Brantas Pty Ltd ("STOB"), has a non-operated 18% interest in the Brantas PSC, which is operated by 50% participant Lapindo Brantas Inc ("Lapindo"). The other party to the PSC is an Indonesian company, PT Medco E & P Brantas ("Medco").

The flow of mud and water has resulted in significant property damage, the interruption of local infrastructure and the need to relocate a significant number of local villagers.

On 8 September 2006, the President of Indonesia appointed a national taskforce ("National Mitigation Team") to take integrated operational measures to mitigate the mudflow. This includes efforts to stop the mudflow and address social, regional and environmental issues including the relocation of families within and around the affected area, the drilling of relief wells to attempt to stem the mudflow, the disposal of the mud and the relocation of infrastructure.

According to Lapindo, efforts to contain and manage the mudflow are continuing and the development of plans for the establishment of long-term environmentally sustainable solutions concerning mud disposal and rehabilitation of the affected areas are currently underway. STOB remains committed to supporting Lapindo and the National Mitigation Team in their efforts to manage the incident and assist the community.

STOB has not admitted any liability in relation to the incident under the PSC or the Operating Agreement or at all.

On 18 October 2006, Lapindo announced to the Jakarta Stock Exchange that its estimate of the costs for drilling relief wells and short-term mud management in relation to the incident to be US$180 million. In those circumstances the Company announced to the market on 19 October 2006 that it considered that this provision would need to be revised to approximately $43.7 million on the basis of the information provided by the Operator.

The Company has considered the adequacy of the 19 October 2006 estimate and, while not accepting any liability in relation to the incident or its ongoing management or any remediation of the area, believes it further prudent to revise its provision to $88.5 million, which incorporates mud management and other costs (including general costs associated with managing the incident as well as relief operations).

This provision, which is the Board's prudent estimate of the costs that may arise relating to the incident, reflects an assumption (based upon an assessment of information currently available) that a resolution will ultimately be agreed between the Government, Lapindo Brantas Inc, the non-operating PSC parties (Santos Brantas Pty Ltd and PT Medco E & P Brantas) and all other relevant parties as to the costs related to long-term mud management options, proposed costs of infrastructure relocation and any third party claims. With the mudflow continuing, the complexity of the incident and the dynamic nature of the ongoing work, there is significant uncertainty surrounding these issues. The resolution of these uncertainties may ultimately be on a different basis than presently assumed which could result in the costs borne by STOB being significantly different than the current estimate.

3. EXPENSES (CONTINUED)

STOB has continued, subject to a full reservation of its legal rights, to pay cash calls by Lapindo in relation to Brantas PSC operations, in the amount of US$16.3 million since the date of the incident to 31 December 2006.

Medco has alleged that Lapindo acted negligently in relation to the operation of the Banjar Panji-1 well. STOB is aware that Medco has commenced and is proceeding with arbitration under the Operating Agreement, which is being defended by Lapindo. STOB is not a party to the arbitration and has reserved all rights in relation to the incident and its management.

The Company's accounting policy in respect of insurance claims is to recognise insurance proceeds only when the insurers have granted indemnity or there is a high probability that indemnity will be granted. In accordance with this policy, the Company has recognised an amount of A$21.8 million as insurance proceeds, leading to net costs of A$66.7 million (after-tax A$66.7 million). The insurance proceeds include STOB's share of the US$25.0 million well control insurance held by the Joint Venture, of which a small initial amount has already been received (by the Joint Venture). The balance relates to the Company's own well control insurance. The Company has therefore recognised an amount that reflects a progress claim under the Company's own policy, while it continues to work towards a resolution with its insurers.

Given the uncertainties relating to the incident and its resolution, the Company will continue to review the adequacy of its provision as further information comes to light.

	Consolidated		Santos Ltd	
4. EARNINGS	**2006 $million**	2005 $million	**2006 $million**	2005 $million
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") is calculated as follows:				
Continuing operations:				
Profit/(loss) before tax	**992.0**	1,135.0	**(12.9)**	620.9
Add back:				
Net financing costs	**123.5**	70.8	**132.7**	56.8
Earnings before interest and tax ("EBIT")	**1,115.5**	1,205.8	**119.8**	677.7
Add back:				
Depreciation and depletion	**668.1**	525.5	**418.4**	188.0
Exploration and evaluation expensed	**268.8**	142.1	**19.9**	31.5
Net impairment loss/(reversal) of oil and gas assets	**11.2**	(131.8)	**2.9**	(50.5)
Impairment loss on receivables due from controlled entities	**–**	–	**6.3**	–
Net impairment loss/(reversal) of investment in controlled entities	**–**	–	**325.7**	(338.4)
	2,063.6	1,741.6	**893.0**	508.3
Discontinued operations	**80.4**	97.1	**–**	–
EBITDAX	**2,144.0**	1,838.7	**893.0**	508.3
5. NET FINANCING COSTS				
Interest income:				
Controlled entities	**–**	–	**34.2**	48.9
Other entities	**12.0**	8.3	**2.7**	3.2
Financial income	**12.0**	8.3	**36.9**	52.1
Interest expense:				
Controlled entities	**–**	–	**156.1**	99.5
Other entities	**120.3**	89.1	**0.9**	0.5
Less borrowing costs capitalised	**(14.5)**	(28.0)	**–**	–
	105.8	61.1	**157.0**	100.0
Unwind of the effect of discounting on provisions (refer note 1(Q))	**25.4**	14.3	**8.3**	5.2
Interest expense on defined benefit obligation	**4.3**	3.7	**4.3**	3.7
Financial expenses	**135.5**	79.1	**169.6**	108.9
Net financing costs	**123.5**	70.8	**132.7**	56.8

6. INCOME TAX EXPENSE	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Recognised in the income statement				
Current tax expense				
Current year	**372.1**	320.7	**179.5**	58.4
Adjustments for prior years	**5.1**	5.5	**(0.4)**	14.2
	377.2	326.2	**179.1**	72.6
Deferred tax expense				
Origination and reversal of temporary differences	**(40.6)**	36.6	**(81.5)**	29.6
Benefit of tax losses recognised	**(15.3)**	8.6	**–**	–
	(55.9)	45.2	**(81.5)**	29.6
Total income tax expense	**321.3**	371.4	**97.6**	102.2
Numerical reconciliation between tax expense and pre-tax net profit/(loss)				
Profit/(loss) before tax from continuing operations	**992.0**	1,135.0	**(12.9)**	620.9
Loss before tax from discontinuing operations	**(27.3)**	(1.5)	**–**	–
Profit/(loss) before tax	**964.7**	1,133.5	**(12.9)**	620.9
Prima facie income tax at 30% (2005: 30%)	**289.4**	340.1	**(3.9)**	186.2
Increase/(decrease) in income tax expense due to:				
Non-deductible depletion and depreciation	**6.1**	3.4	**2.2**	6.6
Abandonment of exploration	**–**	1.2	**1.9**	(0.6)
Net impairment loss/(reversal) of investments in controlled entities	**–**	–	**97.6**	(101.5)
Foreign losses not recognised	**41.3**	18.9	**–**	–
Gain on sale of oil and gas assets	**–**	(7.1)	**–**	–
Tax losses recognised	**(15.3)**	–	**–**	–
Under/(over) provided in prior years	**5.1**	5.5	**(0.4)**	14.2
Other	**(5.3)**	9.4	**0.2**	(2.7)
Income tax expense on pre-tax net profit/(loss)	**321.3**	371.4	**97.6**	102.2
Aggregate income tax expense is attributable to:				
Continuing operations	**321.1**	371.4	**97.6**	102.2
Discontinued operations	**0.2**	–	**–**	–
	321.3	371.4	**97.6**	102.2
Deferred tax recognised directly in equity				
Hedges of investments in foreign operations	**25.4**	(15.7)	**–**	–
Change in available-for-sale financial assets	**3.8**	2.6	**(0.3)**	1.9
Foreign exchange translation differences	**(2.4)**	7.1	**–**	–
Actuarial loss on defined benefit plan	**(2.7)**	(0.2)	**(2.7)**	(0.2)
	24.1	(6.2)	**(3.0)**	1.7

7. DISCONTINUED OPERATIONS

On 5 December 2006, the Company announced that a decision had been made to sell all of its exploration and production activities in the United States, part of the international reporting segment (refer note 33). This decision was made as part of a broader strategy of increasing the Company's investment in South East Asia in order to identify new core areas for exploration where there is a clear strategic or technical advantage and an ability to build material acreage position. It is anticipated that a sale agreement will be in place by March 2007.

The results of the discontinued operation for the year are presented below:

	2006 $million	2005 $million
Sales revenue	**61.2**	119.9
Net gain on sale of non-current assets	**31.1**	0.2
Other income	**7.8**	0.5
Revenue and other income	**100.1**	120.6
Cash cost of sales	**(12.2)**	(17.5)
Depreciation and depletion	**(23.0)**	(34.5)
Cost of sales	**(35.2)**	(52.0)
Exploration expensed	**(79.0)**	(62.1)
Net impairment loss	**(5.1)**	(0.5)
Selling and administration costs	**(7.5)**	(6.0)
Selling and administration depreciation	**(1.1)**	(1.0)
Net financing costs	**0.5**	(0.5)
Expenses	**(127.4)**	(122.1)
Gross loss	**(27.3)**	(1.5)
Loss recognised on remeasurement to fair value	**–**	–
Loss before tax from discontinued operations	**(27.3)**	(1.5)
Tax expense:		
Related to pre-tax loss	**(0.2)**	–
Related to measurement to fair value	**–**	–
Loss for the year from discontinued operations	**(27.5)**	(1.5)

The major classes of assets and liabilities are as follows:

Assets	
Cash and cash equivalents	**41.3**
Trade and other receivables	**9.1**
Inventories	**17.6**
Exploration and evaluation assets	**21.1**
Oil and gas assets	**121.7**
Assets classified as held for sale	**210.8**
Liabilities	
Trade and other payables	**(14.8)**
Provisions	**(2.0)**
Liabilities directly associated with assets classified as held for sale	**(16.8)**
Net assets attributable to discontinued operations	**194.0**

The net cash flows are as follows:

Operating activities	**49.9**
Investing activities:	
Payments for oil and gas activities	**(63.6)**
Proceeds from sale of assets	**56.6**
Financing activities	**–**
Net cash inflow	**42.9**

	Consolidated		Santos Ltd	
	2006	2005	**2006**	2005
8. CASH AND CASH EQUIVALENTS	**$million**	$million	**$million**	$million
Cash at bank and in hand	**136.6**	229.2	**49.5**	65.5
Call deposits	**22.1**	–	**3.3**	–
	158.7	229.2	**52.8**	65.5
Cash at bank and in hand attributable to discontinued operations (refer note 7)	**41.3**	–	**–**	–
Cash and cash equivalents in the cash flow statements	**200.0**	229.2	**52.8**	65.5

Bank balances and call deposits earn interest at floating rates based upon market rates.

The carrying amounts of cash and cash equivalents represent fair value.

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2006 of US$4.9 million (2005: US$21.8 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.

9. TRADE AND OTHER RECEIVABLES				
Trade receivables	**370.2**	294.9	**172.1**	134.8
Receivables due from controlled entities:				
Non-interest-bearing	**–**	–	**601.7**	402.1
Interest-bearing	**–**	–	**662.1**	549.8
Tax related balances owing by controlled entities	**–**	–	**46.6**	138.9
Prepayments	**2.1**	2.8	**–**	2.5
Insurance proceeds receivable	**20.6**	95.4	**–**	36.0
Other	**94.6**	118.7	**17.0**	112.1
	487.5	511.8	**1,499.5**	1,376.2

Receivables due from controlled entities are shown net of impairment losses of $6.3 million (2005: $nil).

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.

10. INVENTORIES				
Petroleum products	**113.5**	99.1	**55.4**	55.7
Drilling and maintenance stocks	**53.9**	44.9	**19.6**	11.6
Total inventories at the lower of cost and net realisable value	**167.4**	144.0	**75.0**	67.3
Drilling and maintenance stocks included above that are stated at net realisable value	**34.1**	21.0	**18.3**	11.6

11. OTHER ASSETS				
Current				
Interest rate swap contracts	**17.3**	27.2	**–**	–
Fair value of embedded derivatives	**18.8**	–	**1.3**	–
	36.1	27.2	**1.3**	–
Non-current				
Other	**11.9**	6.6	**7.9**	4.8

12. EXPLORATION AND EVALUATION ASSETS	Consolidated Sub-surface assets $million	Consolidated Plant and equipment $million	Consolidated Total $million	Santos Ltd Sub-surface assets $million	Santos Ltd Plant and equipment $million	Santos Ltd Total $million
Balance at 31 December 2005	333.4	5.7	339.1	17.1	0.6	17.7
Balance at 31 December 2006	**359.7**	**0.6**	**360.3**	**20.6**	**0.1**	**20.7**
Reconciliation of movements						
Balance at 1 January 2005	271.8	0.2	272.0	14.6	0.4	15.0
Acquisitions	24.9	4.7	29.6	1.2	–	1.2
Additions	168.2	0.6	168.8	19.2	–	19.2
Exploration and evaluation expensed	(153.5)	–	(153.5)	(19.1)	–	(19.1)
Net impairment reversals	6.3	–	6.3	1.2	0.2	1.4
Foreign currency translation	15.7	0.2	15.9	–	–	–
Balance at 31 December 2005	333.4	5.7	339.1	17.1	0.6	17.7
Balance at 1 January 2006	**333.4**	**5.7**	**339.1**	**17.1**	**0.6**	**17.7**
Acquisition of controlled entities	**10.3**	**–**	**10.3**	**–**	**–**	**–**
Acquisition of exploration and evaluation assets	**46.2**	**–**	**46.2**	**–**	**–**	**–**
Additions	**230.4**	**–**	**230.4**	**17.8**	**–**	**17.8**
Exploration and evaluation expensed	**(97.2)**	**–**	**(97.2)**	**(14.3)**	**–**	**(14.3)**
Disposals	**(8.7)**	**(5.1)**	**(13.8)**	**–**	**(0.5)**	**(0.5)**
Transfer to oil and gas assets	**(114.9)**	**–**	**(114.9)**	**–**	**–**	**–**
Assets included in discontinued operations (refer note 7)	**(21.1)**	**–**	**(21.1)**	**–**	**–**	**–**
Foreign currency translation	**(18.7)**	**–**	**(18.7)**	**–**	**–**	**–**
Balance at 31 December 2006	**359.7**	**0.6**	**360.3**	**20.6**	**0.1**	**20.7**

13. OIL AND GAS ASSETS	Consolidated Sub-surface assets $million	Consolidated Plant and equipment $million	Consolidated Total $million	Santos Ltd Sub-surface assets $million	Santos Ltd Plant and equipment $million	Santos Ltd Total $million
2006						
Cost at 31 December 2006	**6,430.9**	**4,863.6**	**11,294.5**	**2,337.1**	**2,103.5**	**4,440.6**
Less accumulated depreciation, depletion and impairment	**(3,574.4)**	**(2,487.4)**	**(6,061.8)**	**(1,481.4)**	**(1,240.3)**	**(2,721.7)**
Balance at 31 December 2006	**2,856.5**	**2,376.2**	**5,232.7**	**855.7**	**863.2**	**1,718.9**
Reconciliation of movements						
Assets in development						
Balance at 1 January 2006	**126.5**	**346.6**	**473.1**	**28.3**	**95.8**	**124.1**
Additions	**50.8**	**10.1**	**60.9**	**–**	**–**	**–**
Transfer from exploration and evaluation assets	**109.4**	**–**	**109.4**	**–**	**–**	**–**
Transfer to producing assets	**(67.0)**	**(353.8)**	**(420.8)**	**(28.3)**	**(95.8)**	**(124.1)**
Exploration and evaluation expensed	**(9.7)**	**–**	**(9.7)**	**–**	**–**	**–**
Foreign currency translation	**(5.4)**	**–**	**(5.4)**	**–**	**–**	**–**
Balance at 31 December 2006	**204.6**	**2.9**	**207.5**	**–**	**–**	**–**
Producing assets						
Balance at 1 January 2006	**2,462.3**	**1,857.1**	**4,319.4**	**902.1**	**701.2**	**1,603.3**
Acquisition of oil and gas assets	**84.5**	**–**	**84.5**	**11.4**	**3.6**	**15.0**
Additions	**876.2**	**450.3**	**1,326.5**	**218.7**	**184.4**	**403.1**
Transfer from assets in development	**67.0**	**353.8**	**420.8**	**28.3**	**95.8**	**124.1**
Transfer from exploration and evaluation	**5.5**	**–**	**5.5**	**–**	**–**	**–**
Disposals	**(18.4)**	**–**	**(18.4)**	**(0.4)**	**(13.6)**	**(14.0)**
Depreciation and depletion expense	**(423.3)**	**(253.5)**	**(676.8)**	**(296.6)**	**(107.5)**	**(404.1)**
Exploration and evaluation expensed	**(240.5)**	**–**	**(240.5)**	**(5.6)**	**–**	**(5.6)**
Net impairment (losses)/reversals	**(18.2)**	**1.9**	**(16.3)**	**(2.2)**	**(0.7)**	**(2.9)**
Assets included in discontinued operations (refer note 7)	**(116.0)**	**(5.7)**	**(121.7)**	**–**	**–**	**–**
Foreign currency translation	**(27.2)**	**(30.6)**	**(57.8)**	**–**	**–**	**–**
Balance at 31 December 2006	**2,651.9**	**2,373.3**	**5,025.2**	**855.7**	**863.2**	**1,718.9**
Total oil and gas assets	**2,856.5**	**2,376.2**	**5,232.7**	**855.7**	**863.2**	**1,718.9**
Comprising:						
Exploration and evaluation expenditure pending commercialisation	**57.9**	**–**	**57.9**	**–**	**–**	**–**
Other capitalised expenditure	**2,798.6**	**2,376.2**	**5,174.8**	**855.7**	**863.2**	**1,718.9**
	2,856.5	**2,376.2**	**5,232.7**	**855.7**	**863.2**	**1,718.9**

13. OIL AND GAS ASSETS (CONTINUED)	Consolidated Sub-surface assets $million	Consolidated Plant and equipment $million	Consolidated Total $million	Santos Ltd Sub-surface assets $million	Santos Ltd Plant and equipment $million	Santos Ltd Total $million
2005						
Cost at 31 December 2005	6,104.6	4,467.3	10,571.9	2,113.1	1,938.8	4,051.9
Less accumulated depreciation, depletion and impairment	(3,515.8)	(2,263.6)	(5,779.4)	(1,182.7)	(1,141.8)	(2,324.5)
Balance at 31 December 2005	2,588.8	2,203.7	4,792.5	930.4	797.0	1,727.4
Reconciliation of movements						
Assets in development						
Balance at 1 January 2005	208.7	341.3	550.0	25.8	17.5	43.3
Additions	70.0	134.6	204.6	5.0	78.3	83.3
Transfer to producing assets	(152.3)	(142.0)	(294.3)	–	–	–
Exploration expensed	(2.5)	–	(2.5)	(2.5)	–	(2.5)
Foreign currency translation	2.6	12.7	15.3	–	–	–
Balance at 31 December 2005	126.5	346.6	473.1	28.3	95.8	124.1
Producing assets						
Balance at 1 January 2005	1,670.7	1,515.7	3,186.4	489.8	605.1	1,094.9
Acquisitions	597.4	95.1	692.5	360.2	101.4	461.6
Additions	336.3	242.0	578.3	115.7	64.7	180.4
Transfer from assets in development	152.3	142.0	294.3	–	–	–
Disposals	–	(0.4)	(0.4)	–	–	–
Depreciation and depletion expense	(330.4)	(213.2)	(543.6)	(104.6)	(68.2)	(172.8)
Exploration expensed	(48.2)	–	(48.2)	(9.9)	–	(9.9)
Net impairment reversals/(losses)	62.4	62.6	125.0	50.9	(1.8)	49.1
Foreign currency translation	21.8	13.3	35.1	–	–	–
Balance at 31 December 2005	2,462.3	1,857.1	4,319.4	902.1	701.2	1,603.3
Total oil and gas assets	2,588.8	2,203.7	4,792.5	930.4	797.0	1,727.4
Comprising:						
Exploration and evaluation expenditure pending commercialisation	30.1	–	30.1	–	–	–
Other capitalised expenditure	2,558.7	2,203.7	4,762.4	930.4	797.0	1,727.4
	2,588.8	2,203.7	4,792.5	930.4	797.0	1,727.4

14. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	Consolidated Land and buildings $million	Consolidated Plant and equipment $million	Consolidated Total $million	Santos Ltd Land and buildings $million	Santos Ltd Plant and equipment $million	Santos Ltd Total $million
Cost at 31 December 2005	104.4	57.2	161.6	57.5	79.6	137.1
Less accumulated depreciation	(56.4)	(31.7)	(88.1)	(36.6)	(48.1)	(84.7)
Balance at 31 December 2005	48.0	25.5	73.5	20.9	31.5	52.4
Cost at 31 December 2006	**122.1**	**98.7**	**220.8**	**58.6**	**135.0**	**193.6**
Less accumulated depreciation	**(60.5)**	**(43.1)**	**(103.6)**	**(38.9)**	**(59.9)**	**(98.8)**
Balance at 31 December 2006	**61.6**	**55.6**	**117.2**	**19.7**	**75.1**	**94.8**
Reconciliation of movements						
Balance at 1 January 2005	47.5	19.4	66.9	21.5	20.5	42.0
Additions	3.0	20.6	23.6	0.7	24.9	25.6
Depreciation	(2.5)	(14.9)	(17.4)	(1.3)	(13.9)	(15.2)
Foreign currency translation	–	0.4	0.4	–	–	–
Balance at 31 December 2005	48.0	25.5	73.5	20.9	31.5	52.4
Balance at 1 January 2006	**48.0**	**25.5**	**73.5**	**20.9**	**31.5**	**52.4**
Acquisition of controlled entities	**–**	**0.1**	**0.1**	**–**	**–**	**–**
Additions	**17.7**	**41.4**	**59.1**	**1.1**	**55.7**	**56.8**
Disposals	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**	**(0.1)**
Depreciation	**(4.1)**	**(11.3)**	**(15.4)**	**(2.3)**	**(12.0)**	**(14.3)**
Balance at 31 December 2006	**61.6**	**55.6**	**117.2**	**19.7**	**75.1**	**94.8**

15. IMPAIRMENT OF CASH GENERATING UNITS

At 31 December 2006 the consolidated entity 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 amount of some cash generating units were formally reassessed resulting in an impairment loss of $16.3 million (includes $5.1 million in discontinued operations).

Estimates of recoverable amounts are based on the assets 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 6.3% and 9.1% (2005: 8.7% and 15.0%) depending on the nature of the risks specific to each 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.

			2006			2005	
CGU	**Description**	**Sub-surface assets $million**	**Plant and equipment $million**	**Total $million**	Sub-surface assets $million	Plant and equipment $million	Total $million
Consolidated							
Continuing Operations							
Barrow	Oil field	**–**	**–**	**–**	(14.1)	(16.8)	(30.9)
Elang Kakatua	Oil field	**6.2**	**0.3**	**6.5**	(11.1)	(0.7)	(11.8)
Mereenie	Oil and gas field	**–**	**–**	**–**	(9.6)	(8.4)	(18.0)
Moonie	Oil field	**–**	**–**	**–**	(5.3)	(5.3)	(10.6)
Patricia Baleen	Gas field and production facility	**4.4**	**–**	**4.4**	–	–	–
Thevenard	Oil field	**–**	**–**	**–**	(12.5)	(42.3)	(54.8)
Other – impairment losses		**2.2**	**0.8**	**3.0**	2.2	11.1	13.3
Other – impairment reversals		**(3.3)**	**(2.8)**	**(6.1)**	(17.6)	(0.2)	(17.8)
Australia		**9.5**	**(1.7)**	**7.8**	(68.0)	(62.6)	(130.6)
International – other		**3.4**	**–**	**3.4**	(1.2)	–	(1.2)
		12.9	**(1.7)**	**11.2**	(69.2)	(62.6)	(131.8)
Impairment losses				**17.3**			13.3
Impairment reversals				**(6.1)**			(145.1)
Net impairment loss/(reversal)				**11.2**			(131.8)
Santos Ltd							
Patricia Baleen	Gas field and production facility	**2.2**	**–**	**2.2**	–	–	–
SWQ Oil	Oil field and pipelines	**–**	**–**	**–**	(51.1)	–	(51.1)
Other – impairment losses		**–**	**0.7**	**0.7**	2.6	2.1	4.7
Other – impairment reversals		**–**	**–**	**–**	(3.6)	(0.5)	(4.1)
		2.2	**0.7**	**2.9**	(52.1)	1.6	(50.5)
Impairment losses				**2.9**			4.7
Impairment reversals				**–**			(55.2)
Net impairment loss/(reversal)				**2.9**			(50.5)

The consolidated entity has continued to carry forward capitalised exploration and evaluation expenditure of $55.0 million in respect of the Jeruk oil discovery in the Sampang PSC in East Java, Indonesia, and has recognised an associated receivable of $6.0 million from the Indonesian partner for their share of past costs due to the consolidated entity. Opportunities to commercialise Jeruk continue to be pursued; however, plans for additional appraisal drilling have been placed on hold pending the review of development scenarios and the resolution of commercial and technical issues that may impact the viability of any development.

At 31 December 2006 the recoverable amount of Jeruk was formally estimated by applying probabilistic assessments to potential future cash flows. This analysis indicated that the recoverable amount of Jeruk supports the carrying amount at 31 December 2006.

16. OTHER INVESTMENTS	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Equity securities available for sale	**45.2**	14.8	**20.3**	11.8
Investments in controlled entities	**–**	–	**2,833.8**	2,983.5
	45.2	14.8	**2,854.1**	2,995.3

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

17. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2006 $million	Assets 2005 $million	Liabilities 2006 $million	Liabilities 2005 $million	Net 2006 $million	Net 2005 $million
Consolidated						
Exploration, evaluation, oil and gas assets, other land, buildings, plant and equipment	**–**	–	**358.8**	398.0	**358.8**	398.0
Other investments	**–**	(2.6)	**1.6**	–	**1.6**	(2.6)
Trade debtors	**(7.9)**	–	**–**	3.3	**(7.9)**	3.3
Sundry debtors	**–**	–	**–**	19.1	**–**	19.1
Inventories	**–**	–	**15.0**	17.2	**15.0**	17.2
Prepayments	**–**	–	**2.0**	1.8	**2.0**	1.8
Other assets	**–**	–	**9.7**	8.1	**9.7**	8.1
Equity-raising costs	**(1.3)**	(2.0)	**–**	–	**(1.3)**	(2.0)
Trade creditors	**(7.8)**	(5.2)	**–**	–	**(7.8)**	(5.2)
Interest-bearing loans and borrowings	**–**	–	**91.1**	68.3	**91.1**	68.3
Employee benefits	**(18.3)**	(16.3)	**–**	–	**(18.3)**	(16.3)
Defined benefit obligation	**(5.5)**	(3.4)	**–**	–	**(5.5)**	(3.4)
Provisions	**(9.1)**	(1.5)	**–**	–	**(9.1)**	(1.5)
Other items	**–**	–	**34.3**	1.1	**34.3**	1.1
Tax value of carry-forward losses recognised	**(20.2)**	(30.4)	**–**	–	**(20.2)**	(30.4)
Tax (assets)/liabilities	**(70.1)**	(61.4)	**512.5**	516.9	**442.4**	455.5
Set-off of tax	**(5.0)**	4.0	**5.0**	(4.0)	**–**	–
Net tax (assets)/liabilities	**(75.1)**	(57.4)	**517.5**	512.9	**442.4**	455.5

17. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)	Assets 2006 $million	Assets 2005 $million	Liabilities 2006 $million	Liabilities 2005 $million	Net 2006 $million	Net 2005 $million
Santos Ltd						
Exploration, evaluation, oil and gas assets, other land, buildings, plant and equipment	**–**	–	**111.7**	155.6	**111.7**	155.6
Other investments	**–**	–	**1.6**	1.9	**1.6**	1.9
Trade debtors	**(8.5)**	–	**–**	2.4	**(8.5)**	2.4
Sundry debtors	**–**	–	**–**	18.3	**–**	18.3
Inventories	**–**	–	**9.7**	10.8	**9.7**	10.8
Prepayments	**–**	–	**–**	0.3	**–**	0.3
Other assets	**–**	–	**0.9**	–	**0.9**	–
Equity-raising costs	**(1.3)**	(2.0)	**–**	–	**(1.3)**	(2.0)
Non-trade payables and accrued expenses	**–**	(2.7)	**–**	–	**–**	(2.7)
Employee benefits	**(17.5)**	(15.6)	**–**	–	**(17.5)**	(15.6)
Defined benefit obligation	**(5.5)**	(3.4)	**–**	–	**(5.5)**	(3.4)
Provisions	**(6.2)**	–	**–**	–	**(6.2)**	–
Other liabilities	**(2.8)**	–	**–**	–	**(2.8)**	–
Other items	**–**	–	**0.2**	–	**0.2**	–
Tax value of carry-forward losses	**(17.0)**	–	**–**	–	**(17.0)**	–
Tax (assets)/liabilities	**(58.8)**	(23.7)	**124.1**	189.3	**65.3**	165.6
Set-off of tax	**58.8**	23.7	**(58.8)**	(23.7)	**–**	–
Net tax liabilities	**–**	–	**65.3**	165.6	**65.3**	165.6

At 31 December 2006, a deferred tax liability of $1,000.2 million (2005: $465.0 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Deductible temporary differences	**40.3**	30.4	**–**	–
Tax losses	**124.5**	86.3	**38.8**	39.1
	164.8	116.7	**38.8**	39.1

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the consolidated entity can utilise the benefits from. Unrecognised deductible temporary differences and tax losses of $83.9 million (2005: $45.7 million) will expire between 2007 and 2025. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

18. TRADE AND OTHER PAYABLES

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Trade payables	**341.4**	260.2	**136.2**	89.7
Non-trade payables and accrued expenses	**100.4**	132.0	**55.0**	54.9
Amounts owing to controlled entities	**–**	–	**371.7**	235.1
	441.8	392.2	**562.9**	379.7

19. INTEREST-BEARING LOANS AND BORROWINGS	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 37.				
Current liabilities				
Amounts owing to controlled entities	**–**	–	**2,583.6**	2,450.9
Bank loans – secured	**9.0**	–	**–**	–
Bank loans – unsecured	**20.3**	11.1	**–**	–
Long-term notes	**130.4**	–	**–**	–
	159.7	11.1	**2,583.6**	2,450.9
The interest-bearing amounts owing to controlled entities are for loans made in the ordinary course of business on normal market terms and conditions for an indefinite period.				
Non-current liabilities				
Bank loans – secured	**52.5**	–	**–**	–
Bank loans – unsecured	**212.4**	250.4	**–**	–
Commercial paper	**129.6**	265.5	**–**	–
Medium-term notes	**463.7**	468.5	**–**	–
Long-term notes	**631.8**	832.6	**–**	–
	1,490.0	1,817.0	**–**	–

The consolidated entity 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 6.86% as at 31 December 2006 (2005: 5.89%). All facilities are unsecured and arranged through a controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd.

Details of major credit facilities

(A) BANK LOANS – SECURED

A reserve-based lending facility for US$65.0 million (A$82.2 million) (2005: $nil) 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 consolidated entity's interests in the Maleo and Kakap assets in Indonesia with a carrying amount at 31 December 2006 of A$142.5 million. The average rate for the year was 9.37%, and A$61.5 million was outstanding at the balance sheet date. The facility is available until 2012, and the current amount drawn down is expected to be fully repaid by 2010.

(B) BANK LOANS – UNSECURED

The consolidated entity has access to the following committed revolving bank facilities:

Revolving facilities

Year of maturity	Currency	2006 A$million	2005 A$million
2006	Multi-currency	**–**	200.0
2007	Multi-currency	**200.0**	–
2008	Multi-currency	**300.0**	300.0
2009	Multi-currency	**200.0**	200.0
		700.0	700.0

Revolving bank facilities bear interest at the relevant interbank reference rate plus 0.25% to 0.43%. The amount drawn at 31 December 2006 is $nil (2005: $nil).

19. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(B) BANK LOANS – UNSECURED (CONTINUED)

Term bank loans

Year of maturity	Currency	2006 A$million	2005 A$million
2006	USD	**–**	11.1
2007	USD	**20.3**	21.4
2008	USD	**19.1**	20.6
2009	USD	**23.7**	25.6
2010	USD	**24.4**	26.5
2011	USD	**25.3**	27.4
2012	USD	**21.9**	23.5
2013	USD	**18.2**	19.7
2014	USD	**19.2**	20.7
2015	USD	**19.6**	21.1
2016	USD	**20.0**	21.5
2017	USD	**21.0**	22.4
		232.7	261.5

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 2006 is US$183.9 million (A$232.7 million) (2005: US$191.5 million (A$261.5 million)) at a weighted average annual effective interest rate of 6.22% (2005: 5.02%).

(C) COMMERCIAL PAPER

The consolidated entity has an $800.0 million (2005: $800.0 million) Australian commercial paper program supported by the revolving bank facilities referred to in (B) above. At 31 December 2006, $129.6 million (2005: $265.5 million) of commercial paper is on issue and the weighted average annual effective interest rate is 6.61% (2005: 5.83%).

(D) MEDIUM-TERM NOTES

The consolidated entity has a $1,000.0 million (2005: $1,000.0 million) Australian medium-term note program.

Medium-term notes on issue

Year of issue	Year of maturity	Effective interest rate	2006 A$million	2005 A$million
1998	2008	6.61%	**19.7**	20.0
2005	2011	7.00%*	**349.2**	349.1
2005	2015	6.35%	**94.8**	99.4
			463.7	468.5

* *Floating rate of interest.*

(E) LONG-TERM NOTES

Long-term notes on issue

Year of issue	Year of maturity	Effective interest rate	2006 US$million	2005 US$million	2006 A$million	2005 A$million
2000	2007 – 2015	8.37%	**303.4**	308.4	**384.0**	421.0
2002	2009 – 2022	6.11%	**298.9**	301.5	**378.2**	411.6
			602.3	609.9	**762.2**	832.6

20. PROVISIONS	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Current				
Liability for annual leave	**21.6**	18.6	**20.8**	17.9
Liability for long service leave	**34.5**	31.1	**33.8**	30.3
Restoration	**77.0**	20.5	**6.6**	4.4
Non-executive Directors' retirement benefits	**1.7**	2.2	**1.7**	2.2
	134.8	72.4	**62.9**	54.8
Non-current				
Liability for defined benefit obligations (refer note 28)	**26.3**	16.1	**26.3**	16.1
Restoration	**512.8**	198.9	**156.0**	59.7
	539.1	215.0	**182.3**	75.8

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

	Total restoration $million	Total Non-executive Directors' retirement benefits $million	Total $million
Consolidated			
Balance at 1 January 2006	**219.4**	**2.2**	**221.6**
Provisions made during the year	**231.3**	**–**	**231.3**
Provisions used during the year	**(35.0)**	**(0.5)**	**(35.5)**
Unwind of discount	**25.4**	**–**	**25.4**
Change in discount rate	**150.7**	**–**	**150.7**
Provisions included in discontinued operations (refer note 7)	**(2.0)**	**–**	**(2.0)**
Balance at 31 December 2006	**589.8**	**1.7**	**591.5**
Santos Ltd			
Balance at 1 January 2006	**64.1**	**2.2**	**66.3**
Provisions made during the year	**56.8**	**–**	**56.8**
Provisions used during the year	**(4.2)**	**(0.5)**	**(4.7)**
Unwind of discount	**8.3**	**–**	**8.3**
Change in discount rate	**37.6**	**–**	**37.6**
Balance at 31 December 2006	**162.6**	**1.7**	**164.3**

Restoration

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

Non-executive Directors' retirement benefits

Agreements exist with the Non-executive Directors appointed prior to 1 January 2004 providing for the payment of a sum on retirement from office as a Director in accordance with shareholder approval at the 1989 Annual General Meeting. Such benefits ceased to accrue with effect from 30 June 2004. These benefits have been fully provided for by the Company.

During the year, a retirement payment was made to Mr G McGregor who retired as a Director in September 2005 and to Mr P Barnett who retired in February 2006.

21. OTHER LIABILITIES	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Current				
Interest rate swap contracts	**6.7**	0.1	**–**	–
Other	**2.2**	1.8	**–**	1.3
	8.9	1.9	**–**	1.3
Non-current				
Other	**7.6**	6.3	**–**	–

22. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of Santos Ltd

	Share capital $million	Translation reserve $million	Fair value reserve $million	Retained earnings $million	Total equity $million
Consolidated					
Balance at 1 January 2005	2,141.6	(195.3)	–	411.4	2,357.7
Movement per recognised income and expense statement	–	11.0	6.0	761.8	778.8
Share options exercised by employees	25.6	–	–	–	25.6
Shares issued	44.8	–	–	–	44.8
Dividends to shareholders	–	–	–	(243.0)	(243.0)
Balance at 31 December 2005	2,212.0	(184.3)	6.0	930.2	2,963.9
Balance at 1 January 2006	**2,212.0**	**(184.3)**	**6.0**	**930.2**	**2,963.9**
Movement per recognised income and expense statement	**–**	**(29.6)**	**7.6**	**639.7**	**617.7**
Share options exercised by employees	**3.9**	**–**	**–**	**–**	**3.9**
Shares issued	**38.5**	**–**	**–**	**–**	**38.5**
Dividends to shareholders	**–**	**–**	**–**	**(268.5)**	**(268.5)**
Balance at 31 December 2006	**2,254.4**	**(213.9)**	**13.6**	**1,301.4**	**3,355.5**
Add: Minority interest	**–**	**–**	**–**	**–**	**–**
Total equity	**2,254.4**	**(213.9)**	**13.6**	**1,301.4**	**3,355.5**
Santos Ltd					
Balance at 1 January 2005	2,141.6	–	–	506.6	2,648.2
Movement per recognised income and expense statement	–	–	4.4	520.8	525.2
Share options exercised by employees	25.6	–	–	–	25.6
Shares issued	44.8	–	–	–	44.8
Dividends to shareholders	–	–	–	(243.0)	(243.0)
Balance at 31 December 2005	2,212.0	–	4.4	784.4	3,000.8
Balance at 1 January 2006	**2,212.0**	**–**	**4.4**	**784.4**	**3,000.8**
Movement per recognised income and expense statement	**–**	**–**	**(2.0)**	**(114.2)**	**(116.2)**
Share options exercised by employees	**3.9**	**–**	**–**	**–**	**3.9**
Shares issued	**38.5**	**–**	**–**	**–**	**38.5**
Dividends to shareholders	**–**	**–**	**–**	**(268.5)**	**(268.5)**
Balance at 31 December 2006	**2,254.4**	**–**	**2.4**	**401.7**	**2,658.5**

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Share capital				
598,524,106 (2005: 594,301,771) ordinary shares, fully paid	**1,670.0**	1,627.6	**1,670.0**	1,627.6
88,000 (2005: 88,000) ordinary shares, paid to one cent	**–**	–	**–**	–
6,000,000 (2005: 6,000,000) redeemable convertible preference shares	**584.4**	584.4	**584.4**	584.4
	2,254.4	2,212.0	**2,254.4**	2,212.0

22. CAPITAL AND RESERVES (CONTINUED)	Note	2006 Number of shares	2005 Number of shares	2006 $million	2005 $million
Movement in fully paid ordinary shares					
Balance at the beginning of the year		**594,301,771**	585,520,675	**1,627.6**	1,557.2
Santos Employee Share Acquisition Plan	29(A)	**114,356**	106,744	**1.2**	1.2
Santos Employee Share Purchase Plan	29(A)	**62,900**	49,800	**0.6**	0.5
Shares issued on exercise of options	29(B)	**586,702**	4,261,134	**3.9**	25.6
Shares issued on vesting of Share Acquisition Rights	29(B)	**127,850**	–	**–**	–
Santos Executive Share Plan	29(C)	**–**	93,000	**–**	0.3
Dividend Reinvestment Plan	A	**3,330,527**	4,270,418	**36.7**	42.8
Balance at the end of the year		**598,524,106**	594,301,771	**1,670.0**	1,627.6
Movement in redeemable convertible preference shares					
Balance at the beginning of the year		**6,000,000**	6,000,000	**584.4**	584.4
Shares issued		**–**	–	**–**	–
Share issue cost		**–**	–	**–**	–
Balance at the end of the year		**6,000,000**	6,000,000	**584.4**	584.4

The market price of the Company's ordinary shares on 31 December 2006 was $9.87 (2005: $12.25). Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the reset convertible preference shares.

(A) DIVIDEND REINVESTMENT PLAN

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the business day after the Dividend Record Date. At this time, the Board has determined that no discount will apply.

(B) REDEEMABLE CONVERTIBLE PREFERENCE SHARES

On 30 September 2004, the Company issued 6,000,000 redeemable convertible preference shares at $100 each, which resulted in an amount of $600,000,000 being credited to the Company's capital account before deducting the costs of issue.

Redeemable convertible preference shareholders receive a floating preferential, non-cumulative dividend which incorporates the value of franking credits (i.e. it is on a grossed up basis), set at the Bank Bill Swap Rate for 180-day bills plus a margin. Dividends on redeemable convertible preference shares are in priority to any dividend declared on ordinary class shares. Redeemable convertible preference shareholders are not entitled to vote at any general meetings, except in the following circumstances:

(i) on a proposal:

(1) to reduce the share capital of the Company;

(2) that affects rights attached to the redeemable convertible preference shares;

(3) to wind up the Company; or

(4) for the disposal of the whole of the property, business and undertaking of the Company;

(ii) on a resolution to approve the terms of a buy-back agreement;

(iii) during a period in which a dividend or part of a dividend on the redeemable convertible preference shares is in arrears; or

(iv) during the winding up of the Company.

In the event of the winding up of the Company, redeemable convertible preference shares will rank for repayment of capital behind all creditors of the Company, but ahead of the ordinary class shares.

The redeemable convertible preference shares may, at the sole discretion of the Company, be converted into ordinary class shares and/or exchanged.

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.

22. CAPITAL AND RESERVES (CONTINUED)

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Hedging reserve

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

Dividends

Dividends recognised during the year by the Company are:

	Dollars per share	Total $million	Franked/ unfranked	Payment date
2006				
Interim 2006 redeemable preference	**$2.5275**	**15.2**	**Franked**	**2 Oct 2006**
Final 2005 redeemable preference	**$2.5300**	**15.2**	**Franked**	**31 Mar 2006**
Interim 2006 ordinary	**$0.20**	**119.2**	**Franked**	**2 Oct 2006**
Final 2005 ordinary	**$0.20**	**118.9**	**Franked**	**31 Mar 2006**
		268.5		
2005				
Interim 2005 redeemable preference	$2.6538	15.9	Franked	30 Sep 2005
Final 2004 redeemable preference	$2.4497	14.7	Franked	31 Mar 2005
Interim 2005 ordinary	$0.18	106.6	Franked	30 Sep 2005
Final 2004 ordinary	$0.18	105.8	Franked	31 Mar 2005
		243.0		

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

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

	Dollars per share	Total $million	Franked/ unfranked	Payment date
Final 2006 redeemable preference	$2.7272	16.4	Franked	2 Apr 2007
Final 2006 ordinary	$0.20	119.7	Franked	2 Apr 2007
		136.1		

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 31 December 2006 and will be recognised in subsequent financial reports.

	Santos Ltd 2006 $million	Santos Ltd 2005 $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 2006	**738.3**	570.8

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

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $58.3 million (2005: $57.5 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 2006 $million	2005 $million
Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows:		
Net profit attributable to ordinary equity holders of Santos Ltd from continuing operations	**670.9**	763.6
Net loss attributable to ordinary equity holders of Santos Ltd from discontinued operations	**(27.5)**	(1.5)
Net profit attributable to ordinary equity holders of Santos Ltd	**643.4**	762.1
Dividends paid on redeemable convertible preference shares	**(30.4)**	(30.6)
Earnings used in the calculation of basic earnings per share	**613.0**	731.5
Dividends paid on redeemable convertible preference shares	**30.4**	30.6
Earnings used in the calculation of diluted earnings per share	**643.4**	762.1

	2006 Number of shares	2005 Number of shares
The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
Basic earnings per share	**596,176,555**	587,935,245
Partly paid shares	**63,763**	79,299
Executive share options	**654,780**	1,337,318
Share acquisition rights	**675,123**	524,650
Redeemable convertible preference shares	**52,942,374**	57,450,099
Diluted earnings per share	**650,512,595**	647,326,611

Partly paid shares outstanding issued under the Santos Executive Share Plan; options outstanding issued under the Santos Executive Share Option Plan; Share Acquisition Rights ("SARs") issued to eligible executives, and redeemable convertible preference shares have been classified as potential ordinary shares and included in the calculation of diluted earnings per share. 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.

During the year, 586,702 (2005: 4,261,134) options, 127,850 (2005: nil) SARs and nil (2005: 93,000) partly paid shares were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 391,882 (2005: 707,164).

280,500 (2005: nil) options and 212,350 (2005: 53,100) SARs lapsed during the year. The diluted earnings per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options or SARs lapsed. The weighted average number included is 139,619 (2005: 47,135).

To calculate earnings per share amounts for the discontinued operation, the loss figure used in the numerator, and the weighted average number of ordinary shares for both basic and diluted amounts are per the above tables.

	Consolidated 2006 cents	2005 cents
Earnings per share for continuing and discontinued operations		
Basic earnings per share:		
From continuing operations	**107.4**	124.7
From discontinued operations	**(4.6)**	(0.3)
	102.8	124.4
Diluted earnings per share:		
From continuing operations	**103.1**	117.9
From discontinued operations	**(4.2)**	(0.2)
	98.9	117.7

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
Canso Resources Pty Ltd	AUST
Coveyork Pty Ltd	AUST
Doce Pty Ltd	AUST
Fairview Pipeline Pty Ltd[3]	AUST
Fairview Power Pty Ltd[3]	AUST
Farmout Drillers Pty Ltd	AUST
Kipper GS Pty Ltd	AUST
Controlled entity of Kipper GS Pty Ltd	
Crusader (Victoria) 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 *(previously Sundog Investments Pty Ltd[3])*	AUST
Santos Darwin LNG Pty Ltd[2]	AUST
Santos Direct Pty Ltd	AUST
Santos Facilities Pty Ltd	AUST
Santos Finance 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[4]	KYR
Lavana Limited	PNG
Sanro Insurance Pte Ltd	SING
Santos Americas and Europe Corporation	USA
Controlled entities of Santos Americas and Europe Corporation	
Santos USA Corp	USA
Santos TPY Corp *(previously Tipperary Corporation)*	USA
Controlled entities of Santos TPY Corp	
Burro Pipeline Inc	USA
Santos Queensland Corp *(previously Tipperary Qld Inc)*	USA
Santos TOG Corp *(previously Tipperary Oil & Gas Corporation)*	USA
Controlled entities of Santos TOG Corp	
Santos TPY CSG Corp *(previously Tipperary CSG Inc)*	USA
Santos TOGA Pty Ltd *(previously Tipperary Oil & Gas (Australia) Pty Ltd)*	AUST
Controlled entity of Santos TOGA Pty Ltd	
Santos TPC Pty Ltd *(previously Tipperary Pastoral Company Pty Ltd)*	AUST
Santos (Bawean) Pty Ltd	AUST
Santos (BBF) Pty Ltd	AUST
Controlled entities of Santos (BBF) Pty Ltd	
Santos (SPV) Pty Ltd	AUST
Controlled entities of Santos (SPV) Pty Ltd	
Novus Nominees Pty Ltd	AUST
Santos Brantas Pty Ltd	AUST
Santos (Madura Offshore) Pty Ltd	AUST
Santos UK (Kakap 2) Limited	UK
Santos (Donggala) Pty Ltd	AUST
Santos Egypt Pty Ltd	AUST
Santos Hides Ltd	PNG
Santos International Operations Pty Ltd	AUST
Santos 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[3]	AUST
Santos (JPDA 06-104) Pty Ltd[3]	AUST
Santos (JPDA 91-12) Pty Ltd	AUST
Santos (NGA) Pty Ltd[5]	AUST
Santos (NARNL Cooper) Pty Ltd	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)	MAL
Santos Petroleum Pty Ltd[2]	AUST
Santos QNT Pty Ltd[2]	AUST
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd[2]	AUST
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd[2]	AUST
Santos Petroleum Operations Pty Ltd	AUST
TMOC Exploration Proprietary Limited	AUST
Santos QNT (No. 2) Pty Ltd[2]	AUST
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Associated Petroleum Pty Ltd[5]	AUST
Moonie Oil Pty Ltd	AUST
Petromin Pty Ltd	AUST
Santos (299) Pty Ltd[5]	AUST
Santos Exploration Pty Ltd	AUST
Santos Gnuco Pty Ltd[5]	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

1. *Beneficial interests in all controlled entities are 100%, except CJSC South Petroleum Company which is 70%.*
2. *Company is party to a Deed of Cross Guarantee. Refer note 36.*
3. *Company incorporated during the year.*
4. *Company acquired during the year. Refer note 25.*
5. *Company approved for liquidation.*
6. *Peko Offshore Pty Ltd was liquidated during the year.*

Country of incorporation

AUST – Australia
KYR – Kyrgyz Republic
MAL – Malaysia
PNG – Papua New Guinea
SING – 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 entity was acquired and its 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
CJSC South Petroleum Company	13 November 2006	70	10.5	(0.2)

CJSC South Petroleum Company is engaged in exploration for oil in the Kyrgyz Republic and has no operating revenues. If the acquisition had occurred on 1 January 2006, there would have been no impact on consolidated entity revenue and net profit would have decreased to $642.7 million.

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

	Carrying amounts $million	Fair value adjustments $million	Recognised values $million
Trade and other receivables	0.1	–	0.1
Exploration and evaluation assets	–	10.3	10.3
Other land, buildings, plant and equipment	0.1	–	0.1
Net identifiable assets and liabilities	0.2	10.3	10.5
Total consideration			10.5
Deferred consideration			(5.3)
Net cash outflow			5.2

The consideration for the acquisition comprises an initial payment of US$4.0 million (A$5.2 million), and deferred consideration of US$4.1 million (A$5.3 million), being the net present value of the commitment to fund the minority interest's share of phase 1 of the exploration program over three years.

The consolidated entity has the right to withdraw from the exploration program either within 60 days of completion of phase 1, or within 60 days after the completion of the drilling of the second exploration well in the phase 2 exploration program. If the consolidated entity commits to fund the minority interest's share of phase 2 of the exploration program (US$13.8 million), shares in Santos Ltd with a market value of US$1,000,000 will be issued to DWM Petroleum AG, the original owner of CJSC South Petroleum Company.

26. INTERESTS IN JOINT VENTURES

(A) The following are the significant joint ventures in which the consolidated entity 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	10.6
Bayu Undan LNG	Bayu Undan	Gas production	10.6
Casino	Casino	Gas production	50.0
Fairview	Fairview	Gas production	76.1
Madura PSC	Madura PSC	Gas production	67.5
Mereenie	Mereenie	Oil and gas production	65.0
John Brookes	John Brookes/East Spar	Gas production	45.0
Mutineer-Exeter	Mutineer-Exeter	Oil production	33.4
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			
Jeruk	Sampang PSC	Oil development	40.5
Kipper	Kipper	Contingent gas resource	50.0
Oyong	Sampang PSC	Oil and gas development	40.5
Exploration and evaluation assets			
Evans Shoal	–	Contingent gas resource	40.0
Hides	–	Contingent gas resource	31.0
Reindeer	–	Contingent gas resource	45.0

26. INTERESTS IN JOINT VENTURES (CONTINUED)	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
(B) The consolidated entity's interest in assets employed in joint ventures are included in the balance sheets under the following asset categories:				
Current assets				
Cash and cash equivalents	**56.7**	113.2	**40.6**	33.0
Trade and other receivables	**67.2**	34.9	**6.3**	12.0
Inventories	**19.0**	22.2	**16.2**	11.8
Assets classified as held for sale	**210.8**	–	**–**	–
Total current assets	**353.7**	170.3	**63.1**	56.8
Non-current assets				
Exploration and evaluation assets	**329.0**	130.9	**5.3**	7.2
Oil and gas assets	**3,705.7**	4,105.1	**1,603.8**	1,727.4
Other	**3.8**	1.5	**–**	–
Total non-current assets	**4,038.5**	4,237.5	**1,609.1**	1,734.6
Total assets	**4,392.2**	4,407.8	**1,672.2**	1,791.4
(C) The consolidated entity's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:				
Capital expenditure commitments	**264.0**	214.3	**101.5**	90.8
Minimum exploration commitments	**149.2**	169.5	**18.5**	48.8

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Profit/(loss) after income tax	**643.4**	762.1	**(110.5)**	518.7
Add/(deduct) non-cash items:				
Depreciation and depletion	**692.2**	561.0	**418.4**	188.0
Net impairment loss/(reversal) of investment in controlled entities	**–**	–	**325.7**	(338.4)
Impairment loss on receivables due from controlled entities	**–**	–	**6.3**	–
Exploration and evaluation expensed	**347.8**	204.2	**19.9**	31.5
Net impairment loss/(reversal) of oil and gas assets	**16.3**	(131.3)	**2.9**	(50.5)
Foreign exchange debt hedging (losses)/gains	**(0.3)**	(1.8)	**–**	0.5
Share-based payments expense	**1.2**	2.4	**1.2**	2.4
Borrowing costs capitalised	**(14.5)**	(28.0)	**–**	–
Unwind of the effect of discounting on provisions	**25.4**	14.3	**8.3**	5.2
Fair value of embedded derivatives	**(18.8)**	–	**(1.3)**	–
Defined benefit plan expense	**4.3**	2.9	**4.3**	2.9
Foreign currency fluctuations	**(18.6)**	(81.9)	**0.5**	5.1
Net gain on sale of non-current assets	**(41.1)**	(23.1)	**(6.1)**	(5.1)
Net gain on sale of controlled entities	**–**	(16.3)	**–**	(15.1)
Net cash provided by operating activities before changes in assets or liabilities	**1,637.3**	1,264.5	**669.6**	345.2
Add/(deduct) change in operating assets or liabilities net of acquisitions of businesses:				
Decrease/(increase) in trade and other receivables	**23.2**	(151.2)	**75.0**	(107.7)
Increase in inventories	**(40.4)**	(17.6)	**(7.7)**	(8.5)
(Increase)/decrease in other assets	**(12.9)**	10.5	**15.4**	5.2
Net (increase)/decrease in deferred tax assets and deferred tax liabilities	**(42.5)**	41.5	**(97.7)**	30.7
Increase/(decrease) in current tax liabilities	**30.2**	173.5	**(87.6)**	(42.1)
(Decrease)/increase in trade and other payables	**(78.7)**	137.9	**13.2**	54.0
Increase/(decrease) in provisions	**34.1**	(1.2)	**20.7**	(6.4)
Net cash provided by operating activities	**1,550.3**	1,457.9	**600.9**	270.4

28. EMPLOYEE BENEFITS

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
(A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS				
Defined benefit members of the Santos Superannuation Plan receive a lump sum benefit on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.				
Defined benefit plan				
Amount recognised in the balance sheet:				
Deficit in plan recognised in non-current provisions (refer note 20)	**26.3**	16.1	**26.3**	16.1
Other non-current assets (refer note 11)	**(7.9)**	(4.8)	**(7.9)**	(4.8)
	18.4	11.3	**18.4**	11.3
Movements in the liability for net defined benefit obligations recognised in the balance sheet				
Liability at start of year	**11.3**	12.5	**11.3**	12.5
Expense recognised in the income statement	**4.3**	2.9	**4.3**	2.9
Amount recognised in retained earnings	**9.0**	0.5	**9.0**	0.5
Employer contributions	**(6.2)**	(4.6)	**(6.2)**	(4.6)
Liability at end of year	**18.4**	11.3	**18.4**	11.3

Nature of liability

The consolidated entity has recognised a liability in the balance sheet in respect of its defined benefit superannuation arrangements. However, the Santos Superannuation Plan does not impose a legal liability on the Company or the consolidated entity to cover any deficit that exists in the Plan. If the Plan were wound up there would be no legal obligation on the Company or the consolidated entity to make good any shortfall. The Trust Deed of the Plan states that if the Plan winds up, the remaining assets are to be distributed by the Trustee of the Plan in an equitable manner as it sees fit.

The Company may at any time by notice to the Trustee terminate its contributions. The Company has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the Company to pay any further contributions, irrespective of the financial condition of the Plan.

Historical information for the current and previous periods*

	Consolidated 2006 $million	Consolidated 2005 $million	Consolidated 2004 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million	Santos Ltd 2004 $million
Present value of defined benefit obligations	**158.2**	129.5	126.5	**158.2**	129.5	126.5
Fair value of Plan assets	**(131.9)**	(113.4)	(108.7)	**(131.9)**	(113.4)	(108.7)
Deficit in Plan	**26.3**	16.1	17.8	**26.3**	16.1	17.8
Experience adjustments on Plan assets	**(6.3)**	(8.0)	(5.5)	**(6.3)**	(8.0)	(5.5)
Experience adjustments on Plan liabilities	**17.5**	(0.1)	(4.5)	**17.5**	(0.1)	(4.5)

* *Comparative information has been provided for only two of the previous four periods in accordance with the transition rules in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.*

28. EMPLOYEE BENEFITS (CONTINUED)	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
(A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (CONTINUED)				
Reconciliation of the present value of the net defined benefit obligations				
Opening net defined benefit obligations	**90.7**	88.6	**90.7**	88.6
Service cost	**5.4**	4.1	**5.4**	4.1
Interest cost	**4.3**	3.7	**4.3**	3.7
Contributions by Plan participants	**4.9**	4.1	**4.9**	4.1
Actuarial losses	**13.4**	6.1	**13.4**	6.1
Benefits paid	**(6.2)**	(8.1)	**(6.2)**	(8.1)
Taxes and premiums paid	**(2.2)**	(2.4)	**(2.2)**	(2.4)
Transfers in/(out)	**0.5**	(5.4)	**0.5**	(5.4)
Closing net defined benefit obligations	**110.8**	90.7	**110.8**	90.7
Reconciliation of the fair value of net Plan assets				
Opening fair value of net Plan assets	**79.4**	76.1	**79.4**	76.1
Expected return on Plan assets	**5.5**	4.9	**5.5**	4.9
Actuarial gains	**4.4**	5.6	**4.4**	5.6
Employer contributions	**6.1**	4.6	**6.1**	4.6
Contributions by Plan participants	**4.9**	4.1	**4.9**	4.1
Benefits paid	**(6.2)**	(8.1)	**(6.2)**	(8.1)
Taxes and premiums paid	**(2.2)**	(2.4)	**(2.2)**	(2.4)
Transfers in/(out)	**0.5**	(5.4)	**0.5**	(5.4)
Closing fair value of net Plan assets	**92.4**	79.4	**92.4**	79.4

Plan assets

The percentage invested in each asset class at the balance sheet date:

	Consolidated 2006 %	Consolidated 2005 %	Santos Ltd 2006 %	Santos Ltd 2005 %
Australian equity	**36**	35	**36**	35
International equity	**28**	29	**28**	29
Fixed income	**15**	15	**15**	15
Property	**8**	7	**8**	7
Cash	**13**	14	**13**	14

Fair value of Plan assets

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

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

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Actual return on Plan assets				
Actual return on Plan assets	**9.9**	10.5	**9.9**	10.5

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 also been deducted from the expected return.

28. EMPLOYEE BENEFITS (CONTINUED)

(A) LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (CONTINUED)

Principal actuarial assumptions at the balance sheet date (expressed as weighted average)

	2006 % pa	2005 % pa
Discount rate	**4.9**	4.5
Expected rate of return on Plan assets	**6.9**	6.9
Expected average salary increase rate over the life of the Plan	**6.9**	5.8

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

	Consolidated		Santos Ltd	
	2006 $million	2005 $million	**2006 $million**	2005 $million
Expense recognised in the income statements				
Service cost	**5.4**	4.1	**5.4**	4.1
Interest cost	**4.3**	3.7	**4.3**	3.7
Expected return on Plan assets	**(5.4)**	(4.9)	**(5.4)**	(4.9)
	4.3	2.9	**4.3**	2.9
The expense is recognised in the following line items in the income statements:				
Other expenses	**–**	(0.8)	**–**	(0.8)
Financial expenses	**4.3**	3.7	**4.3**	3.7
	4.3	2.9	**4.3**	2.9
Amount recognised in the statements of recognised income and expense				
Actuarial losses	**(9.0)**	(0.5)	**(9.0)**	(0.5)
Tax effect	**2.7**	0.2	**2.7**	0.2
Actuarial losses	**(6.3)**	(0.3)	**(6.3)**	(0.3)

Summary of the most recent financial position of the Plan

	31 Dec 2004 $million	31 Dec 2004 $million
Net market value of Plan assets	98.6	98.6
Accrued benefits	98.9	98.9
Net (deficit)/surplus	(0.3)	(0.3)

Expected contributions

The consolidated entity expects to contribute $6.4 million to the defined benefit superannuation plan in 2007.

Contribution recommendation

The current contribution recommendations as set out in the report of the most recent actuarial valuation of the Plan as at 31 December 2004, are 15.0% of salaries of defined benefit members and 9.0% of salaries of defined contribution members. The consolidated entity is currently contributing at these rates.

Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the Attained Age Normal method. The method adopted affects the timing of the cost to the consolidated entity.

Under the Attained Age Normal method, a "normal cost" is calculated which is the estimated employer contribution rate required to provide benefits in respect of future service after the review date. The "normal" cost is then adjusted to take into account any surplus (or deficiency) of assets over the value of liabilities in respect of service prior to the review date. Any surplus or deficiency can be used to reduce or increase the "normal" employer contribution rate over a suitable period of time.

Economic assumptions

The long-term economic assumptions adopted for the last actuarial review of the Plan as at 31 December 2004 were:

Expected rate of return on assets (discount rate)	7.9% in year 1; 7.0% pa thereafter
Expected salary increase rate	9.0%; 7.0%; 7.0%; 5.0% pa thereafter

28. EMPLOYEE BENEFITS (CONTINUED)

(B) DEFINED CONTRIBUTION PLANS

The consolidated entity makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $5.7 million (2005: $5.9 million).

29. SHARE-BASED PAYMENT PLANS

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS

The Company currently operates two general employee share plans:

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

Both of these plans have operated since 1997.

SESAP
Broadly, SESAP provides for permanent eligible employees with at least a minimum period of service determined by Directors as at the offer date (one year of completed service for issues so far) to be entitled to acquire shares under this Plan. Executives participating in the Executive Long-term Incentive Program in 2006, casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

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

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

Summary of share movements in the SESAP during 2006 (and comparative 2005 information):

Grant dates	Opening balance Number	Granted during the year Number	Granted during the year Fair value per share $	Distributions during the year Number	Distributions during the year Fair value aggregate $	Closing balance Number	Closing balance Fair value aggregate $
2006							
2 September 2003	**173,223**	**–**	**–**	**173,223**	**1,933,837**	**–**	**–**
22 November 2004	**137,006**	**–**	**–**	**10,004**	**116,798**	**127,002**	**1,253,510**
18 November 2005	**104,456**	**–**	**–**	**8,184**	**95,025**	**96,272**	**950,205**
17 November 2006	**–**	**114,356**	**10.88**	**736**	**7,481**	**113,620**	**1,121,429**
	414,685	**114,356**		**192,147**	**2,153,141**	**336,894**	**3,325,144**
2005							
2 September 2002	162,864	–	–	162,864	1,854,533	–	–
2 September 2003	200,754	–	–	27,531	287,283	173,223	2,121,982
22 November 2004	156,770	–	–	19,764	208,725	137,006	1,678,323
18 November 2005	–	106,744	11.24	2,288	26,921	104,456	1,279,586
	520,388	106,744		212,447	2,377,462	414,685	5,079,891

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.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

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

	Consolidated		Santos Ltd	
	2006	2005	**2006**	2005
	$million	$million	**$million**	$million
Employee expenses	**1.2**	1.2	**1.2**	1.2
Issued ordinary share capital	**1.2**	1.2	**1.2**	1.2

At 31 December 2006, the total number of shares acquired under the Plan since its commencement was 2,095,387.

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 Program during the year will not be eligible to participate in that offer unless the Board otherwise decides.

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

On 17 November 2006, the Company issued 62,900 ordinary shares to 101 eligible employees at a subscription price of $9.96 per share under the Plan, being the 5% discount on the Market Value of $10.48. The total market price of those shares on the issue date was $684,352, being the market price at the close of trade on the date of issue ($10.88). The total amount received from employees for those shares was $626,484.

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

	Opening balance	Granted during the year		Restrictions ceased during the year		Closing balance
Grant dates	Number	Number	Fair value per share $	Number	Date	Number
2006						
18 November 2005	**49,800**	**–**	**–**	**49,800**	**18 November 2006**	**–**
17 November 2006	**–**	**62,900**	**10.48**	**–**	**–**	**62,900**
	49,800	**62,900**		**49,800**		**62,900**
2005						
26 November 2004	32,400	–	–	32,400	26 November 2005	–
18 November 2005	–	49,800	11.24	–	–	49,800
	32,400	49,800		32,400		49,800

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 consolidated entity and the Company in relation to the general employee offer under the SESPP during the year were:

	Consolidated		Santos Ltd	
	2006	2005	**2006**	2005
	$million	$million	**$million**	$million
Issued ordinary share capital	**0.6**	0.5	**0.6**	0.5

At 31 December 2006, the total number of shares acquired under the general employee offer of the Plan since its commencement was 821,900.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAM

The Company's Executive Long-term Incentive Program provides for invitations to be extended to eligible executives selected by the Board. Participation will be limited to those executives who, in the opinion of the Board, are able to significantly influence the generation of shareholder wealth. Directors envisage the Program applying to up to 80 executives.

The Program 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; the SESPP has been used as a component of executive compensation since 2003.

SESPP

The shares allocated pursuant to the Plan 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 four 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.

No shares were issued under the executive long-term incentive component of the Plan during 2006 (2005: nil). At 31 December 2006, the total number of shares acquired under the executive long-term incentive component of the Plan since its commencement was 220,912.

SARs and options

CEO options

As approved at the Annual General Meeting held on 4 May 2006, 2,500,000 options were granted to Mr J C Ellice-Flint pursuant to the Santos Executive Share Option Plan as part of his long-term incentive arrangements on the terms set out in the notice of the meeting.

There were no options outstanding for Mr Ellice-Flint at the beginning of the period and no options were forfeited or exercised. At the end of the period, Mr Ellice-Flint held 2,500,000 options which were not exercisable.

The options were granted at no cost to Mr Ellice-Flint, but will, if capable of being exercised, require the payment of the exercise price set out below.

The options carry no voting or dividend rights until the performance conditions are satisfied and the options are exercised.

Mr Ellice-Flint is the only Director who is entitled to participate in the Plan.

Each option is a conditional entitlement which entitles Mr Ellice-Flint to acquire a fully paid ordinary share in the capital of the Company upon paying the exercise price, subject to the satisfaction of performance conditions.

The grant to Mr Ellice-Flint has been made in three tranches as follows:

Tranche	Number of options	Earliest exercise date
1	500,000	26 August 2007
2	1,000,000	26 August 2008
3	1,000,000	26 August 2009

The exercise price of the options is $11.36 which is the weighted average of the share price over the ten-day period up to and including 9 March 2006.

The performance conditions applying to the options compare the Total Shareholder Return ("TSR") performance of the Company with the TSR performance of two comparator groups. Broadly, TSR is the growth in share price, plus dividends reinvested. The TSR is measured over a performance period which begins 27 August 2005 and ends:

- in relation to Tranche 1 – on 26 August 2007;
- in relation to Tranche 2 – on 26 August 2008; and
- in relation to Tranche 3 – on 26 August 2009.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

The performance conditions may be retested quarterly during the twelve-month period commencing on the earliest exercise date for a tranche, as set out above. If the performance conditions are not satisfied at the end of that twelve-month retesting period, the options in that tranche will lapse.

Upon satisfaction of the performance hurdle (up to the expiration of the retesting period), options become exercisable. The exercise period for each tranche of options ends on the tenth anniversary of the grant date. Any options that have not been exercised by this date will lapse. Shares allocated on the exercise of options will not be subject to any restrictions on dealing.

If Mr Ellice-Flint ceases to be a Santos group employee before the options become exercisable by reason of death, disability, bona fide redundancy or other reason with the approval of the Board, the Board has determined that the options become exercisable.
If Mr Ellice-Flint ceases employment for any other reason, all unvested options will lapse.

50% of the options in each tranche (i.e. 250,000 options in tranche 1 and 500,000 options in each of tranches 2 and 3) will be tested against a comparator group of the companies comprising the ASX 100 at the beginning of the performance period previously referred to.

The other 50% of the options in each tranche (i.e. 250,000 options in tranche 1 and 500,000 options in each of tranches 2 and 3) vest based on a different test which relates the Company's TSR performance against a comparator group comprising all exploration and production companies in the ASX Energy Index with market capitalisation above $400 million, plus international exploration and production companies.

The threshold performance ranking of each tranche of options in respect of a performance period will be the 50th percentile of each of the two comparator groups. Options in a tranche will in respect of a performance period vest as shown below:

Company performance	% of options which become exercisable (each to apply to 50% of a tranche)
TSR < 50th percentile of comparator group	0%
TSR = 50th percentile of comparator group	50%
TSR between 51st and 74th percentile of comparator group	52% to 98% pro-rata vesting (for each percentile improvement, an additional 2% vest)
TSR ≥ 75th percentile of comparator group	100%

The fair value of services received in return for share options granted are 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.

	2006 CEO options		
Option Grant	**Tranche 1**	**Tranche 2**	**Tranche 3**
Fair value at grant date	$1.77	$1.94	$2.05
Share price	$11.48	$11.48	$11.48
Exercise price	$11.36	$11.36	$11.36
Expected volatility (weighted average)	23%	23%	23%
Option life (weighted average)	10 years	10 years	10 years
Expected dividends	3.3%	3.3%	3.3%
Risk free interest rate (based on Australian national government bonds)	5.4%	5.4%	5.4%

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.

The amounts recognised in the income statements of the consolidated entity and the Company during the financial year in relation to the CEO share options granted were:

	Consolidated		Santos Ltd	
	2006 $million	2005 $million	**2006 $million**	2005 $million
Employee expenses	**1.4**	–	**1.4**	–

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

Eligible senior executives

During the year eligible senior executives are invited to acquire SARs or options, at the executive's election. Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.

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

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

The exercise price of the options is the volume weighted average price of the Company's shares over the five business days up to and including the award date. Options have a life of up to ten years.

The Board intends that long-term incentive ("LTI") awards be made to eligible senior executives on an annual basis using a three-year measurement period for the applicable performance hurdles. However, the Board reserves the right to suspend or modify the LTI program in light of circumstances appropriate to the Company from time to time.

SARs and options vest where the Company achieves a prescribed performance hurdle or exercise condition. To reach the performance hurdle, the Company's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) ("TSR Growth") over a three-year performance period is compared to the following comparator groups:

- as to 50% of each grant – the ASX 100 at the beginning of the relevant performance period; and
- as to the other 50% of each grant – the energy and petroleum companies in the ASX Energy Index with market capitalisation above $400 million, plus international energy and petroleum companies.

The following table sets out the vesting schedule for the SARs and options:

Performance – Santos TSR ranking against TSR ranking of each company in the comparator group	% of SARs that vest or options which become exercisable
TSR < 50th percentile of comparator group	0%
TSR = 50th percentile of comparator group	50%
TSR between 51st and 74th percentile of comparator group	Progressive vesting from 52% to 98% pro-rata vesting (2% increase for each percentile improvement)
TSR ≥ 75th percentile of comparator group	100%

SARs which have not vested and options which are not exercisable at the time of an eligible senior executive ceasing employment will, in general, lapse and be forfeited. If cessation is due to death, redundancy or where the Board consents, a proportionate number of SARs may vest or options may be exercised, at the Board's discretion, or otherwise based on pro-rata performance.

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 consolidated entity and the Company in relation to executive share options exercised during the financial year were:

	Consolidated		Santos Ltd	
	2006 $million	2005 $million	**2006 $million**	2005 $million
Issued ordinary share capital	**3.9**	25.6	**3.9**	25.6

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

During the financial year, the Company granted 897,700 options over unissued shares as set out below.

	2006								2005	
	Weighted average exercise price	**Number of options**							Weighted average exercise price	Number of options
		A	**B**	**C**	**D**	**Type 1**	**Type 2**	**Total**		
Outstanding at the beginning of the period	**$7.47**	**139,800**	**342,900**	**683,300**	**–**	**202,328**	**1,050,000**	**2,418,328**	$6.12	5,513,462
Granted during the period	**$10.48**	**–**	**–**	**–**	**897,700**	**–**	**–**	**897,700**	$8.46	1,166,000
Forfeited during the period	**–**	**(69,900)**	**(55,300)**	**(55,300)**	**–**	**–**	**(100,000)**	**(280,500)**	–	–
Exercised during the period	**$9.81**	**(27,650)**	**–**	**–**	**–**	**(59,052)**	**(500,000)**	**(586,702)**	$6.00	(4,261,134)
Outstanding at the end of the period	**$8.76**	**42,250**	**287,600**	**628,000**	**897,700**	**143,276**	**450,000**	**2,448,826**	$7.47	2,418,328
Exercisable at the end of the period	**$6.67**	**42,250**	**–**	**–**	**–**	**143,276**	**250,000**	**435,526**	$6.48	952,328

The options outstanding at 31 December 2006 have an exercise price in the range of $6.20 to $10.48, and a weighted average contractual life of nine years.

During the year 586,702 options were exercised (2005: 4,261,134). The weighted average share price at the dates of exercise was $9.81 (2005: $9.91).

The fair value of services received in return for share options granted are 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.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

Option grant	2006 D	2005 A	2005 B	2005 C
Fair value at grant date	**$0.76**	$0.59	$0.90	$1.15
Share price	**$10.27**	$8.48	$8.48	$8.48
Exercise price	**$10.48**	$8.461	$8.461	$8.461
Expected volatility (weighted average)	**22.0%**	21.0%	21.0%	21.0%
Option life (weighted average)	**10 years**	1 year	2 years	3 years
Expected dividends	**3.9%**	3.5%	3.5%	3.5%
Risk free interest rate (based on Australian government bonds)	**6.0%**	5.33%	5.06%	5.11%

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.

The amounts recognised in the income statements of the consolidated entity and the Company during the financial year in relation to executive share options granted were:

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Employee expenses	**0.5**	0.5	**0.5**	0.5

During the financial year, the Company granted 289,600 SARs as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of 10 years after the original grant date. No amount is payable on grant or vesting of the SARs.

	Number of SARs 2006 A	2006 B	2006 C	2006 D	2006 Total	2005
Outstanding at the beginning of the period	**268,800**	**252,400**	**288,300**	**–**	**809,500**	–
Granted during the period	**–**	**–**	**–**	**289,600**	**289,600**	862,600
Forfeited during the period	**(140,950)**	**(33,100)**	**(38,300)**	**–**	**(212,350)**	(53,100)
Vested during the period	**(127,850)**	**–**	**–**	**–**	**(127,850)**	–
Outstanding at the end of the period	**–**	**219,300**	**250,000**	**289,600**	**758,900**	809,500
Exercisable at the end of the period	**–**	**219,300**	**–**	**–**	**219,300**	268,800

The fair value of services received in return for SARs granted are 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.

SARs grant	2006 D	2005 A	2005 B	2005 C
Fair value at grant date	**$2.86**	$3.59	$4.17	$4.63
Share price	**$10.27**	$8.48	$8.48	$8.48
Exercise price	**–**	–	–	–
Expected volatility (weighted average)	**22.0%**	21.0%	21.0%	21.0%
Right life (weighted average)	**10 years**	1 year	2 years	3 years
Expected dividends	**3.9%**	3.5%	3.5%	3.5%
Risk free interest rate (based on national government bonds)	**6.0%**	5.33%	5.06%	5.11%

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.

The amounts recognised in the income statements of the consolidated entity and the Company in relation to SARs granted during the financial year were:

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Employee expenses	**0.7**	1.9	**0.7**	1.9

29. 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 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 2006 there were 88,000 Plan shares outstanding.

(D) RESTRICTED SHARES

On his appointment as Chief Executive Officer on 13 December 2000, 1,000,000 Restricted Shares were issued to Mr J C Ellice-Flint. The Restricted Shares were issued for nil consideration and held by a trustee subject to Mr J C Ellice-Flint completing five years service with the Company. As Mr J C Ellice-Flint satisfied the condition on 12 December 2005, legal title of the shares passed unrestricted to him on that date.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity and the Company, directly or indirectly, including the Directors of the Company.

The following were key management personnel of the consolidated entity and the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Name	Position
Directors	
Barnett, Peter Charles	Non-executive Director (retired 28 February 2006)
Dean, Kenneth Alfred	Non-executive Director
Ellice-Flint, John Charles	Managing Director
Franklin, Roy Alexander	Non-executive Director (appointed 28 September 2006)
Gerlach, Stephen	Chairman and Non-executive Director
Harding, Richard Michael	Non-executive Director
O'Leary, Michael Anthony	Non-executive Director (retired 15 December 2006)
Recny, Christopher John	Non-executive Director (deceased 4 June 2006)
Sloan, Judith	Non-executive Director
Executives	
Anderson, John Hugh	Vice President – Strategic Projects (appointed 3 April 2006)
Brown, Trevor John	Vice President – Geoscience and New Ventures (appointed 4 February 2006)
Eames, Martyn Edward James	Vice President – Corporate and People
Gouadain, Jacques Elie	Vice President – Geoscience and New Ventures(resigned 30 March 2006)
Macfarlane, Mark Stuart	Vice President – Development Projects and Technical Services (appointed 18 April 2006)
Wasow, Peter Christopher	Chief Financial Officer
Wilkinson, Richard John	Vice President – Gas Marketing and Commercialisation
Wood, Bruce James	Vice President – Strategic Projects (resigned 15 June 2006)
Young, Jonathon Terence	Executive Vice President – Operations

All Executives are employed by Santos Ltd.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

The Remuneration Committee of the Board is responsible for reviewing the compensation policies and practices of the Company including: the compensation arrangements for the Managing Director and senior management; the Company's superannuation arrangements; employee share and option plans; and the fees for Non-executive Directors.

Non-executive Directors
Non-executive Directors' fees, including committee fees, are set by the Board within the maximum aggregate amount of $1,500,000 per annum approved by shareholders. This amount was approved at the Annual General Meeting held on 7 May 2004.

The fees paid to Non-executive Directors within this aggregate amount are set at levels which reflect both the responsibilities of, and the time commitments required from, each Director to discharge their duties. Non-executive Directors' remuneration is not linked to the performance of the Company in order to maintain their independence and impartiality.

In setting fee levels, the Remuneration Committee, which makes recommendations to the Board, takes into account:

- independent professional advice;
- fees paid to Non-executive Directors by comparable companies;
- the general time commitment required from Non-executive Directors and the risks associated with discharging the duties attaching to the role of director;
- the level of personal responsibility undertaken by a Director; and
- the general commercial expertise, experiences and qualifications of the Directors.

Directors appointed after 1 January 2004 are not entitled to receive a benefit on retirement (other than statutory entitlements). Non-executive Directors appointed prior to 1 January 2004 are contractually entitled to receive a retirement benefit but the amount of the benefit was "frozen" as at 30 June 2004. The benefit is payable upon ceasing to hold office as a director. The retirement payment (inclusive of superannuation guarantee entitlements) is made pursuant to an agreement entered into with each Non-executive Director on terms approved by shareholders at the 1989 Annual General Meeting. These benefits have been fully provided for by the Company.

Managing Director and Senior Executives
Remuneration objectives and principles
The Company has adopted a policy that the remuneration of the Managing Director and senior executives will:

(a) appropriately reflect their responsibilities;

(b) be reasonable and competitive in the resources and energy industry within which the Company operates;

(c) ensure a significant portion of their remuneration is at risk against individual and company performance and shareholder value creation;

(d) ensure that superior performance is rewarded, thereby reinforcing the short, medium and long-term objectives of the Company as set out in the strategic business plans endorsed by the Board; and

(e) encourage them to manage from the perspective of shareholders.

Elements of remuneration
Remuneration for the Managing Director and senior executives is made up of the following components:

1. Total Fixed Remuneration (comprising salary, superannuation and benefits); and
2. At-risk remuneration, comprising:
   - Short-term Incentives ("STI") – based on annual individual and Company performance; and
   - Long-term Incentives ("LTI") – based on the Company's performance relative to other companies over a three-year period.

Total Fixed Remuneration ("TFR")
The terms of employment for the Managing Director and senior executives contain a fixed remuneration component. The TFR component is expressed as a dollar amount that the executive may take in a form agreed with the Company. This amount of remuneration is not dependent upon performance, but is quantified by reference to the median remuneration paid to executives in comparable roles in the Australian market, as well as the individual's qualifications and experience.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Short-term Incentive ("STI")
The STI program links specific performance targets with the opportunity for eligible executives to earn incentives based on a percentage of fixed remuneration.

The maximum amounts that can be earned as STI are 150% of base salary for the Managing Director, and 50% or 75% of TFR for senior executives. For the Managing Director, 100% of the STI is based upon a number of agreed objectives which include Company performance and other factors which relate to the performance by the Company during the year of strategic growth initiatives which form part of the Company's strategic plan. For senior executives, 70% of the STI is based on Company performance, and the remaining 30% is based on individual performance. For other executives, 50% of the STI is based on Company performance, and the other 50% is based on individual performance.

Company performance is assessed on a range of metrics covering reserves growth, reserve replacement cost, production, margin, new growth options, shareholder value creation, people, environment, health, safety and continuous improvement. Individual performance is assessed against targets set within each executive's area of responsibility.

Each metric is assessed against target and assigned a score on a five point scale. The average of the scores of each metric is used to quantify a bonus pool expressed as a percentage of the sum of maximum bonuses of all eligible employees. The bonus pool may be adjusted after taking into consideration other factors not reflected in the metrics but deemed relevant to Company performance.

The Managing Director must take 50% of any STI awarded to him in the form of shares in the Company. These shares are, in general, subject to restrictions on sale, transfer and hedging for a period of two years from the date of their acquisition. The remaining 50% of any STI awarded is paid to the Managing Director in cash. Other participants receive 100% of their STI in cash.

Long-term Incentive ("LTI")
The Company's LTI arrangements are designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value, which comprises both share price and returns to shareholders.

LTI is delivered in the form of equity participation through the Santos Executive Share Option Plan ("SESOP") and the Santos Employee Share Purchase Plan ("SESPP"). Participation is determined by the Board, on recommendation of the Remuneration Committee, and only applies to executives who are in a position to affect shareholder returns.

Options and rights to shares issued under these Plans to senior executives are linked to the longer-term performance of the Company and only vest or become exercisable following the satisfaction of performance hurdles that are designed to maximise shareholder wealth.

The amount of the award, and correspondingly the proportion of remuneration at risk, varies between executives according to their respective levels of seniority and responsibility.

The rules of the SESPP and SESOP were both approved by shareholders in 1997 and again in 2000.

Having regard to contemporary best practice, the LTI program is designed to drive superior executive performance and to reward only superior Company performance, linked to an appropriate performance benchmark. The benchmark assesses actual Company performance in terms of long-term comparative growth of the Company and resulting shareholder value.

Company performance is measured over a three-year period based on the Company's Total Shareholder Return ("TSR") relative to two comparator groups, one of which applies to 50% of an LTI grant, while the other group applies to the other 50%. One of the two groups comprises the ASX 100 at the beginning of the relevant performance period, while the other comprises Australian and international exploration and production companies, which for 2006 were:

- Anadarko Petroleum Ltd
- Apache Corp
- Australian Worldwide Exploration Ltd
- Cairn Energy PLC
- Chesapeake Energy Corp
- EOG Resources Inc
- Forest Oil Corp
- Hardman Resources Ltd
- Kerr McGee Corp
- Murphy Oil Corp
- Newfield Exploration Co
- Nexen Inc
- Noble Energy Inc
- Oil Search Ltd
- Pioneer Natural Resources Co
- Pogo Producing Co
- Premier Oil PLC
- Talisman Energy Inc
- Woodside Petroleum Ltd
- XTO Energy Inc

If performance is below the 50th percentile, no award is made. A proportionate award is made for performance between the 50th to 75th percentile and the maximum award is made for performance at or above the 75th percentile.

In relation to the current financial year, awards may be taken in the form of rights over shares pursuant to SESPP or, at the election of an executive, options pursuant to SESOP, details of which are described in note 29(B).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

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

The exercise price of the options is the volume weighted average price of the Company's shares over the five business days up to and including the award date.

The Board intends that LTI awards be made on an annual basis using a three-year measurement period for the applicable performance hurdles. However, the Board reserves the right to suspend or modify the LTI program in light of circumstances appropriate to the Company from time to time.

The maximum number of shares that may be issued under all of the Company's executive and employee share and option plans cannot exceed the limit of 5% of the issued capital, as approved by shareholders at the 2000 Annual General Meeting.

The Managing Director was granted 2,500,000 options with effect from 4 May 2006, which vest as follows:

- 500,000 options no earlier than 26 August 2007;
- 1,000,000 options no earlier than 26 August 2008;
- 1,000,000 options no earlier than 26 August 2009.

Superannuation arrangements of the Managing Director
The arrangements under his Service Agreement provide for Mr J C Ellice-Flint to be paid a defined benefit upon his retirement from the Company, calculated as a multiple of his final salary. As at 31 December 2006, Mr J C Ellice-Flint was entitled to a superannuation payment equivalent to 2.76 times his final salary upon his retirement. In February 2007 this increases to 3.22 times final salary and this defined benefit increases at a rate of approximately 0.5 times final salary on each subsequent anniversary. The Company will continue to make actuarially determined superannuation contributions on behalf of Mr J C Ellice-Flint as provided for under his Service Agreement.

Termination
The Company may terminate the employment of senior executives on giving twelve months notice, except with respect to Mr J T Young who is entitled to three months notice. The Company may make a payment in lieu of notice. Senior executives must give the Company at least six months notice of resignation, with the exception of Mr J T Young who must give the Company at least three months notice of resignation.

The Managing Director's contract provides that the Company may terminate his employment on giving 24 months notice. This notice period is reduced to twelve months from 1 January 2008. The Company may require the Managing Director to continue to work for up to three months of the notice period.

The Company must make a payment to the Managing Director equivalent to his Base Salary for the full notice period. In general, any unvested options granted to the Managing Director under the SESOP will vest and become exercisable where the Company terminates the Managing Director's employment, and any restrictions on shares acquired using the Managing Director's STI award will be lifted.

The Company may terminate the Managing Director's or senior executives' employment at any time for cause, and no payment in lieu of notice or early vesting of incentive awards will be made in these circumstances.

The Managing Director must give the Company three months notice of intention to resign.

In certain circumstances, such as a substantial diminution of responsibility, the Company may be deemed to have terminated the employment of the Managing Director or senior executives and will be liable to make compensation payments.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2006

	Short-term employee benefits					Post employment	Share-based payments[4]			Other long-term benefits	Termination	Total	Performance related
Name	Fees/ Salary[1] $	Committee fees $	STI $	Other[2] $	Total $	Superannuation[3] $	SARs $	Options $	Total $	$	$	$	%
Directors													
Barnett, Peter Charles[5]	17,781	3,879	–	–	21,660	1,949	–	–	–	–	–	23,609	–
Dean, Kenneth Alfred	120,000	29,750	–	–	149,750	12,372	–	–	–	–	–	162,122	–
Ellice-Flint, John Charles	1,500,000	–	1,380,000	6,656	2,886,656	886,683	–	1,406,205	1,406,205	–	–	5,179,544	54
Franklin, Roy Alexander	33,568	–	–	–	33,568	–	–	–	–	–	–	33,568	–
Gerlach, Stephen	360,000	–	–	–	360,000	12,412	–	–	–	–	–	372,412	–
Harding, Richard Michael	120,000	35,000	–	–	155,000	12,122	–	–	–	–	–	167,122	–
O'Leary, Michael Anthony[5]	114,568	20,768	–	–	135,336	–	–	–	–	–	–	135,336	–
Recny, Christopher John[5]	27,500	–	–	–	27,500	2,475	–	–	–	–	–	29,975	–
Sloan, Judith	120,000	31,500	–	–	151,500	12,372	–	–	–	–	–	163,872	–
Executives													
Anderson, John Hugh	360,915	–	143,800	6,656	511,371	37,896	–	16,137	16,137	–	–	565,404	28
Brown, Trevor John	417,952	–	135,900	6,656	560,508	18,067	–	16,695	16,695	–	–	595,270	26
Eames, Martyn Edward James	452,865	–	191,300	6,656	650,821	42,385	18,971	–	18,971	–	–	712,177	30
Gouadain, Jacques Elie[6]	112,761	–	–	1,664	114,425	3,311	–	–	–	–	14,469	132,205	–
Macfarlane, Mark Stuart	376,849	–	143,800	6,656	527,305	28,750	–	16,137	16,137	–	–	572,192	28
Wasow, Peter Christopher	581,163	–	331,500	6,656	919,319	9,240	21,927	–	21,927	–	–	950,486	37
Wilkinson, Richard John	441,649	–	165,000	6,656	613,305	74,363	15,444	–	15,444	–	–	703,112	26
Wood, Bruce James[7]	169,995	–	–	3,051	173,046	10,416	–	–	–	–	22,689	206,151	–
Young, Jonathon Terence	606,379	–	391,400	6,656	1,004,435	12,412	–	23,611	23,611	–	–	1,040,458	40
Total	5,933,945	120,897	2,882,700	57,963	8,995,505	1,177,225	56,342	1,478,785	1,535,127	–	37,158	11,745,015	

1 *Each of the Non-executive Directors receives fees and no salary.*

2 *Includes the cost of car parking provided in the Company's head office in Adelaide for the CEO and executives.*

3 *Superannuation contributions made on behalf of Non-executive Directors, with the exception of Mr R A Franklin, to satisfy the Company's obligations under applicable Superannuation Guarantee legislation. Under Superannuation Guarantee legislation, superannuation contributions are not required to be made on behalf of Mr R A Franklin as he is not a resident of Australia. Amounts represent either cash contributions or actuarial assessment of the benefit provided where relevant.*

4 *In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at the date of their grant has been determined in accordance with AASB 2 Share-based Payments applying the Monte Carlo Simulation Method. Details of the assumptions underlying the valuation are set out in note 29(B) to the financial statements.*

5 *Mr P C Barnett ceased as a Director on 28 February 2006 and Mr M A O'Leary ceased as a Director on 15 December 2006. Mr C J Recny held office as a Director until his death on 4 June 2006.*

6 *Mr J E Gouadain ceased employment with the Company on 30 March 2006 and the right to his 40,000 SARs, at the value of $176,000 lapsed.*

7 *Mr B J Wood ceased employment with the Company on 15 June 2006 and the right to his 110,600 options, at the value of $113,365 forfeited.*

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

2005

Name	Short-term employee benefits					Post employment	Share-based payments[4]			Other long-term benefits	Termination	Total	Performance related
	Fees/ Salary[1]	Committee fees	STI	Other[2]	Total	Superannuation[3]	SARs	Options	Total				
	$	$	$	$	$	$	$	$	$	$	$	$	%
Directors													
Barnett, Peter Charles	110,000	24,000	–	–	134,000	11,862	–	–	–	–	–	145,862	–
Dean, Kenneth Alfred[7]	93,650	8,153	–	–	101,803	10,166	–	–	–	–	–	111,969	–
Ellice-Flint, John Charles	1,300,000	–	1,657,500	5,915	2,963,415	270,878	–	–	–	–	–	3,234,293	51
Gerlach, Stephen	330,000	–	–	–	330,000	11,862	–	–	–	–	–	341,862	–
Harding, Richard Michael	110,000	12,000	–	–	122,000	10,980	–	–	–	–	–	132,980	–
McGregor, Graeme William[8]	82,500	18,000	–	–	100,500	8,807	–	–	–	–	–	109,307	–
O'Leary, Michael Anthony	110,000	10,000	–	–	120,000	10,800	–	–	–	–	–	130,800	–
Recny, Christopher John[7]	93,650	–	–	–	93,650	8,428	–	–	–	–	–	102,078	–
Sloan, Judith	110,000	24,000	–	–	134,000	11,822	–	–	–	–	–	145,822	–
Executives													
Eames, Martyn Edward James	375,565	–	176,400	5,915	557,880	39,434	90,748	57,500	148,248	–	–	745,562	44
Gouadain, Jacques Elie	435,387	–	190,000	5,915	631,302	34,585	247,800	–	247,800	–	–	913,687	48
Moore, Paul Derek[9]	316,009	–	–	5,283	321,292	36,748	219,303	–	219,303	–	41,547	618,890	35
Wasow, Peter Christopher	500,312	–	330,100	5,915	836,327	14,959	292,404	–	292,404	–	–	1,143,690	54
Wilkinson, Richard John	328,906	–	156,500	5,915	491,321	27,018	219,303	–	219,303	–	–	737,642	51
Wood, Bruce James	335,370	–	138,000	5,915	479,285	25,868	–	145,992	145,992	–	–	651,145	44
Young, Jonathon Terence	549,613	–	424,900	5,915	980,428	11,585	322,140	–	322,140	–	–	1,314,153	57
Total	5,180,962	96,153	3,073,400	46,688	8,397,203	545,802	1,391,698	203,492	1,595,190	–	41,547	10,579,742	

1 Each of the Non-executive Directors receives fees and no salary.

2 Includes the cost of car parking provided in the Company's head office in Adelaide.

3 Superannuation contributions made on behalf of Non-executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee legislation.

4 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at the date of their grant has been determined in accordance with AASB 2 Share-based Payments applying the Monte Carlo Simulation Method. Details of the assumptions underlying the valuation are set out in note 29(B) to the financial statements.

5 The Managing Director was granted options at the time his employment with the Company commenced. In respect of senior executives, a range of 20% to 23% of each executive's remuneration for the financial year consists of grants of SARs or options.

6 The total number of SARs and options granted in 2005 represent three separate grants at the same time. While one of the three was the normal grant for 2005, the other two were necessary as catch-ups for the grants that would ordinarily have taken place in 2003 and 2004. The reason these grants did not take place at the appropriate time was due to the suspension of the LTI program to enable a thorough review of its design, which was completed in late 2004.

7 Mr K A Dean and Mr C J Recny joined the Board on 23 February 2005.

8 Mr G W McGregor retired from the Board on 30 September 2005.

9 Mr P D Moore ceased employment with the Company on 21 November 2005 and his 53,100 SARs, at the value of $219,303, lapsed.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL

Options and rights holdings

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

2006

Name	Balance at beginning of the year	Granted[1,2,3]	Options exercised/ rights vested[4]	Amount paid per option exercised/ right vested	Other Changes[5]	Balance at end of the year	Vested during 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	–	–	–	–
Executives										
Anderson, John Hugh	70,344	63,700	–	–	–	134,044	–	12,744	12,744	–
Brown, Trevor John	333,369	65,900	(200,000)	$6.52	(14,500)	184,769	14,500	60,869	60,869	–
Eames, Martyn Edward James	50,000	–	–	–	–	50,000	–	–	–	–
Gouadain, Jacques Elie	200,000	–	(200,000)	$6.52	–	–	–	–	–	–
Macfarlane, Mark Stuart	–	63,700	–	–	–	63,700	–	–	–	–
Wasow, Peter Christopher	–	–	–	–	–	–	–	–	–	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–	–	–
Wood, Bruce James[6]	210,985	–	(45,085) (27,650)	$6.38 $8.46	(138,250)	–	11,100	–	–	–
Young, Jonathon Terence	–	93,200	–	–	–	93,200	–	–	–	–
Total	864,698	2,786,500	(472,735)		(152,750)	3,025,713	25,600	73,613	73,613	–
Rights										
Executives										
Anderson, John Hugh	8,600	–	(4,300)	–	(4,300)	–	4,300	–	–	–
Brown, Trevor John	–	–	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	19,600	19,900	–	–	–	39,500	–	–	–	–
Gouadain, Jacques Elie[7]	60,000	–	(10,000)	–	(50,000)	–	10,000	–	–	–
Macfarlane, Mark Stuart	28,800	–	(4,800)	–	(4,800)	19,200	4,800	–	–	–
Wasow, Peter Christopher	70,800	23,000	(11,800)	–	(11,800)	70,200	11,800	–	–	–
Wilkinson, Richard John	53,100	16,200	(8,850)	–	(8,850)	51,600	8,850	–	–	–
Wood, Bruce James	–	–	–	–	–	–	–	–	–	–
Young, Jonathon Terence	78,000	–	(13,000)	–	(13,000)	52,000	13,000	–	–	–
Total	318,900	59,100	(52,750)		(92,750)	232,500	52,750	–	–	–

1 *2,500,000 options were granted to Mr J C Ellice-Flint on 4 May 2006, which have an expiration date of 3 May 2016 and, an exercise price of $11.36. At the date of grant, 500,000 of the options granted have a fair value of $1.77 per option, 1,000,000 options have a fair value of $1.94 per option, and 1,000,000 options have a fair value of $2.05 per option. The options were granted at no cost to Mr J C Ellice-Flint. Providing performance conditions are met, 500,000 of the options are exercisable no earlier than 26 August 2007, 1,000,000 of the options are exercisable no earlier than 26 August 2008, and 1,000,000 of the options are exercisable no earlier than 26 August 2009.*

2 *Options granted to executives in the current year were granted on 24 October 2006, have an expiration date of 24 October 2016, an exercise price of $10.48, and a fair value of $0.76 at grant date. The options were provided at no cost to the recipients. Providing performance conditions are met, the options are exercisable no earlier than 1 January 2009.*

3 *SARs granted to executives in the current year were granted on 24 October 2006, have an expiration date of 24 October 2016, vest with the recipient for no consideration, and have a fair value of $2.86 at grant date. The SARs were provided at no cost to the recipients. Providing performance conditions are met, the SARs vest no earlier than 1 January 2009.*

4 *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.*

5 *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.*

6 *Mr B J Wood ceased employment with the Company on 15 June 2006 and the right to his 110,600 options at the value of $113,365 forfeited.*

7 *Mr J E Gouadain ceased employment with the Company on 30 March 2006 and the right to his 40,000 SARs at the value of $176,000 lapsed.*

Details regarding the service and performance conditions that must be met before the options or SARs vest with the recipient are included in note 29(B).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

2005

Name	Balance at beginning of the year	Granted[1,2]	Options exercised/ rights vested[3]	Amount paid per option exercised/ right vested	Other Changes[4]	Balance at end of the year	Vested during 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	3,000,000	–	(2,000,000)	$5.83	–	–	1,000,000	–	–	–
			(1,000,000)	$5.83						
Executives										
Eames, Martyn Edward James	–	50,000	–	–	–	50,000	–	–	–	–
Gouadain, Jacques Elie	200,000	–	–	–	–	200,000	–	200,000	200,000	–
Moore, Paul Derek	125,000	–	(100,000)	$6.20	–	–	–	–	–	–
			(25,000)	$6.52						
Wasow, Peter Christopher	150,000	–	(150,000)	$6.20	–	–	150,000	–	–	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–	–	–
Wood, Bruce James	95,085	165,900	(50,000)	$6.69	–	210,985	50,000	45,085	45,085	–
Young, Jonathon Terence	250,000	–	(250,000)	$6.69	–	–	250,000	–	–	–
Total	3,820,085	215,900	(3,575,000)		–	460,985	1,450,000	245,085	245,085	–
Rights										
Executives										
Eames, Martyn Edward James	–	19,600	–	–	–	19,600	–	–	–	–
Gouadain, Jacques Elie	–	60,000	–	–	–	60,000	–	–	–	–
Moore, Paul Derek[5]	–	53,100	–	–	(53,100)	–	–	–	–	–
Wasow, Peter Christopher	–	70,800	–	–	–	70,800	–	–	–	–
Wilkinson, Richard John	–	53,100	–	–	–	53,100	–	–	–	–
Wood, Bruce James	–	–	–	–	–	–	–	–	–	–
Young, Jonathon Terence	–	78,000	–	–	–	78,000	–	–	–	–
Total	–	334,600	–		(53,100)	281,500	–	–	–	–

1 *Options granted to executives in the current year were granted on 23 May 2005, have an expiration date of 22 May 2015 and an exercise price of $8.46. At the date of grant, 55,300 of the options granted have a fair value of $0.59 per option, 55,300 options have a fair value of $0.90 per option, and 105,300 options have a fair value of $1.15 per option. The options were provided at no cost to the recipients. Providing performance conditions are met, 55,300 options are exercisable no earlier than 1 January 2006, 55,300 options are exercisable no earlier than 1 January 2007, and 105,300 options are exercisable no earlier than 1 January 2008.*

2 *SARs granted to executives in the current year were granted on 23 May 2005, have an expiration date of 22 May 2015, and vest with the recipient for no consideration. At the date of grant, 105,000 of the SARs granted have a fair value of $3.59 per SAR, 105,000 SARs have a fair value of $4.17 per SAR, and 124,600 SARs have a fair value of $4.63 per SAR. The SARs were granted at no cost to the recipients. Providing performance conditions are met, 105,000 SARs vest no earlier than 1 January 2006, 105,000 SARs vest no earlier than 1 January 2007, and 124,600 SARs vest no earlier than 1 January 2008.*

3 *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.*

4 *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.*

5 *Mr P D Moore ceased employment with the Company on 21 November 2005 and his 53,100 SARs lapsed.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 29(B).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Share holdings

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

2006

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Received on vesting of rights	Redeemed	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
Ordinary shares – fully paid								
Directors								
Barnett, Peter Charles[2]	12,394	–	–	–	–	(12,394)	–	–
Dean, Kenneth Alfred	3,000	–	–	–	–	–	3,000	–
Ellice-Flint, John Charles	4,042,243	–	–	–	–	(4,303)	4,037,940	–
Franklin, Roy	–	–	–	–	–	–	–	–
Gerlach, Stephen	43,856	–	–	–	–	1,024	44,880	–
Harding, Richard Michael	–	–	–	–	–	–	–	–
O'Leary, Michael Anthony[2]	4,898	–	–	–	–	(4,898)	–	–
Recny, Christopher John[2]	–	–	–	–	–	–	–	–
Sloan, Judith	5,000	–	–	–	–	–	5,000	–
Executives								
Anderson, John Hugh	1,812	–	–	4,300	–	63	6,175	–
Brown, Trevor John	–	–	200,000	–	–	–	200,000	–
Eames, Martyn Edward James	–	–	–	–	–	–	–	–
Gouadain, Jacques Elie[3]	12,216	–	200,000	10,000	–	(222,216)	–	–
Macfarlane, Mark Stuart	3,204	–	–	4,800	–	(4,800)	3,204	–
Wasow, Peter Christopher	16,134	–	–	11,800	–	–	27,934	–
Wilkinson, Richard John	12,591	–	–	8,850	–	–	21,441	–
Wood, Bruce James[3]	57,290	–	72,735	–	–	(130,025)	–	–
Young, Jonathon Terence	267,183	–	–	13,000	–	–	280,183	–
Total	4,481,821	–	472,735	52,750	–	(377,549)	4,629,757	–
Redeemable convertible preference shares								
Ellice-Flint, John Charles	225	–	–	–	–	–	225	–
Sloan, Judith	195	–	–	–	–	–	195	–
Total	420	–	–	–	–	–	420	–

1 *Other changes include the removal of a Director's or employee's equity holding from the key management personnel disclosure where they cease to be a Director or cease employment with the Company.*

2 *Mr P C Barnett ceased as a Director on 28 February 2006 and Mr M A O'Leary ceased as a Director on 15 December 2006. Mr C J Recny held office as a Director until his death on 4 June 2006.*

3 *Mr J E Gouadain ceased employment with the Company on 30 March 2006 and Mr B J Wood ceased employment with the Company on 15 June 2006.*

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

2005

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Received on vesting of rights	Redeemed	Other changes	Balance at end of the year	Balance held nominally at end of the year
Ordinary shares – fully paid								
Directors								
Barnett, Peter Charles	12,394	–	–	–	–	–	12,394	–
Dean, Kenneth Alfred	–	–	–	–	–	3,000	3,000	–
Ellice-Flint, John Charles	1,037,210	–	3,000,000	–	–	5,033	4,042,243	–
Gerlach, Stephen	42,305	–	–	–	–	1,551	43,856	–
Harding, Richard Michael	–	–	–	–	–	–	–	–
O'Leary, Michael Anthony	4,725	–	–	–	–	173	4,898	–
Recny, Christopher John	–	–	–	–	–	–	–	–
Sloan, Judith	5,000	–	–	–	–	–	5,000	–
Executives								
Eames, Martyn Edward James	–	–	–	–	–	–	–	–
Gouadain, Jacques Elie	12,216	–	–	–	–	–	12,216	–
Moore, Paul Derek[1]	12,025	–	125,000	–	–	(137,025)	–	–
Wasow, Peter Christopher	16,134	–	150,000	–	–	(150,000)	16,134	–
Wilkinson, Richard John	12,591	–	–	–	–	–	12,591	–
Wood, Bruce James	6,439	–	50,000	–	–	851	57,290	–
Young, Jonathon Terence	17,183	–	250,000	–	–	–	267,183	–
Total	1,178,222	–	3,575,000	–	–	(276,417)	4,476,805	–
Redeemable convertible preference shares								
Directors								
Ellice-Flint, John Charles	225	–	–	–	–	–	225	–
Sloan, Judith	195	–	–	–	–	–	195	–
Total	420	–	–	–	–	–	420	–

1 Mr P D Moore ceased employment with the Company on 21 November 2005.

(D) LOANS TO KEY MANAGEMENT PERSONNEL

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

31. 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 5 as to interest received from/paid to controlled entities;
note 9 as to tax related balances and other amounts owing by controlled entities;
notes 18 and 19 as to amounts owing to controlled entities;
note 19 as to guarantees by Santos Ltd of the financing facilities of controlled entities;
note 20 as to Non-executive Directors' retirement benefits;
notes 16 and 24 as to investments in controlled entities;
note 26 as to interests in joint ventures; and
note 30 as to disclosures relating to key management personnel.

Other related party transactions
Mr J W McArdle, who retired as a Director on 14 July 2001, entered into a consultancy agreement with the Company pursuant to which he will provide consultancy services to the consolidated entity. The amount paid pursuant to this agreement during the financial year was $105,325 (2005: $85,000). This transaction occurred on terms no more favourable than would have been adopted if dealing at arm's length, does not have the potential to adversely affect decisions about the allocation of scarce resources and is trivial in nature.

32. REMUNERATION OF AUDITORS

	Consolidated		Santos Ltd	
	2006 $000	2005 $000	**2006 $000**	2005 $000
The auditor of Santos Ltd is Ernst & Young.				
Amounts received or due and receivable by Ernst & Young (Australia):				
An audit or review of the financial report of the entity and any other entity in the consolidated group	**816**	–	**545**	–
Other services:				
Assurance	**10**	–	**10**	–
Taxation	**3**	–	**3**	–
Other	**4**	–	**4**	–
	833	–	**562**	–
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:				
Taxation	**12**	–	**–**	–
Other services	**38**	–	**–**	–
	50	–	**–**	–
Amounts received or due and receivable by non-Ernst & Young firms for:				
External audit services	**73**	1,168	**49**	360
Other services	**–**	12	**–**	6
	73	1,180	**49**	366

KPMG were the auditors of Santos Ltd in 2005.

33. SEGMENT INFORMATION

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise dividend revenue, interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

GEOGRAPHIC SEGMENTS

The consolidated entity operates primarily in Australia but also has international operations in the United States (discontinued operation), Indonesia, Papua New Guinea, Vietnam, Kyrgyz Republic and Egypt.

	Continuing operations						Discontinued operations		Total operations	
	Australia		International		Total					
	2006 $million	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million
Primary reporting										
Geographic segments										
Revenue										
Revenue from Australian customers	**925.6**	816.6	**–**	–	**925.6**	816.6	**–**	–	**925.6**	816.6
Revenue from international customers	**1,749.9**	1,503.3	**61.4**	51.9	**1,811.3**	1,555.2	**61.2**	119.9	**1,872.5**	1,675.1
Total segment revenue	**2,675.5**	2,319.9	**61.4**	51.9	**2,736.9**	2,371.8	**61.2**	119.9	**2,798.1**	2,491.7
Other unallocated revenue					**–**	0.1	**–**	–	**–**	0.1
Total revenue					**2,736.9**	2,371.9	**61.2**	119.9	**2,798.1**	2,491.8
Results										
Earnings before interest and tax ("EBIT")	**1,305.5**	1,286.3	**(132.8)**	(53.3)	**1,172.7**	1,233.0	**(27.8)**	(1.0)	**1,144.9**	1,232.0
Unallocated corporate expenses					**(57.2)**	(27.2)	**–**	–	**(57.2)**	(27.2)
Profit/(loss) before tax and net financing costs					**1,115.5**	1,205.8	**(27.8)**	(1.0)	**1,087.7**	1,204.8
Unallocated net financing costs					**(123.5)**	(70.8)	**0.5**	(0.5)	**(123.0)**	(71.3)
Profit/(loss) before income tax expense					**992.0**	1,135.0	**(27.3)**	(1.5)	**964.7**	1,133.5
Income tax expense					**(321.1)**	(371.4)	**(0.2)**	–	**(321.3)**	(371.4)
Net profit/(loss) after income tax					**670.9**	763.6	**(27.5)**	(1.5)	**643.4**	762.1
Non-cash expenses										
Depreciation and depletion	**625.8**	493.3	**26.6**	16.4	**652.4**	509.7	**24.1**	35.5	**676.5**	545.2
Unallocated corporate depreciation and depletion					**15.7**	15.8	**–**	–	**15.7**	15.8
Total depreciation and depletion					**668.1**	525.5	**24.1**	35.5	**692.2**	561.0
Exploration and evaluation expensed	**91.0**	66.7	**177.8**	75.4	**268.8**	142.1	**79.0**	62.1	**347.8**	204.2
Net impairment loss/(reversal) of oil and gas assets	**7.8**	(130.6)	**3.4**	(1.2)	**11.2**	(131.8)	**5.1**	0.5	**16.3**	(131.3)
Total non-cash expenses					**948.1**	535.8	**108.2**	98.1	**1,056.3**	633.9

33. SEGMENT INFORMATION (CONTINUED)

	Continuing operations						Discontinued operations		Total operations	
	Australia		International		Total					
	2006 $million	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million	**2006 $million**	2005 $million
Primary reporting (continued)										
Geographic segments (continued)										
Acquisition of non-current assets										
Controlled entities	**–**	519.4	**5.2**	20.0	**5.2**	539.4	**–**	–	**5.2**	539.4
Oil and gas assets, property, plant and equipment	**1,167.5**	701.1	**274.9**	250.6	**1,442.4**	951.7	**111.2**	–	**1,553.6**	951.7
Unallocated corporate acquisition of oil and gas assets, property, plant and equipment					**59.1**	23.6	**–**	–	**59.1**	23.6
Total acquisition of non-current assets					**1,506.7**	1,514.7	**111.2**	–	**1,617.9**	1,514.7
Assets										
Segment assets	**5,722.0**	5,243.3	**540.7**	521.0	**6,262.7**	5,764.3	**210.8**	–	**6,473.5**	5,764.3
Unallocated corporate assets					**429.4**	431.8	**–**	–	**429.4**	431.8
Consolidated total assets					**6,692.1**	6,196.1	**210.8**	–	**6,902.9**	6,196.1
Liabilities										
Segment liabilities	**1,425.9**	924.7	**241.0**	143.1	**1,666.9**	1,067.8	**16.8**	–	**1,683.7**	1,067.8
Unallocated corporate liabilities					**1,863.7**	2,164.4	**–**	–	**1,863.7**	2,164.4
Consolidated total liabilities					**3,530.6**	3,232.2	**16.8**	–	**3,547.4**	3,232.2

Secondary reporting

Business segments

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

34. COMMITMENTS FOR EXPENDITURE	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
The consolidated entity 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	**211.4**	78.8	**107.4**	37.6
Later than one year but not later than five years	**116.8**	135.5	**54.4**	53.2
Later than five years	**3.9**	–	**1.9**	–
	332.1	214.3	**163.7**	90.8
Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 35 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	**133.0**	63.8	**21.9**	6.8
Later than one year but not later than five years	**74.1**	105.2	**14.1**	42.0
Later than five years	**–**	0.5	**–**	–
	207.1	169.5	**36.0**	48.8

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

(C) LEASE COMMITMENTS

	Consolidated 2006 $million	Consolidated 2005 $million	Santos Ltd 2006 $million	Santos Ltd 2005 $million
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	**99.8**	38.9	**45.8**	32.9
Later than one year but not later than five years	**266.0**	105.9	**112.1**	103.7
Later than five years	**75.0**	42.0	**39.7**	41.8
	440.8	186.8	**197.6**	178.4

The consolidated entity 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 date.

The consolidated entity also leases building office space and a warehouse under operating leases. The leases are generally for a period of ten years, with an option to renew the lease after that date. The lease payments typically increase by 5.0% per annum.

The consolidated entity has subleased its surplus office space. The lease and subleases on these properties expire on or before 31 January 2008. Sublease payments of $2.0 million are expected to be received prior to that date.

During the year ended 31 December 2006 the consolidated entity recognised $73.8 million (2005: $55.6 million) as an expense in the income statement in respect of operating leases.

34. COMMITMENTS FOR EXPENDITURE (CONTINUED)	Consolidated 2006 $million	2005 $million	Santos Ltd 2006 $million	2005 $million
(D) 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	**3.3**	1.7	**3.3**	1.7

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

35. 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 2006 $million	2005 $million	Santos Ltd 2006 $million	2005 $million
The consolidated entity:				
– Performance guarantees	**15.9**	18.1	**10.1**	9.5
– Litigation and proceedings	**3.0**	2.4	**2.4**	2.4
The consolidated entity's share of contingent liabilities of joint venture operations:				
– Performance guarantees	**5.6**	4.4	**2.8**	2.9
– Litigation and proceedings	**8.0**	5.8	**1.1**	1.1
	32.5	30.7	**16.4**	15.9

Legal advice in relation to the litigation and proceedings referred to above indicates that on the basis of available information, any liability in respect of these claims is unlikely to exceed $2.9 million on a consolidated basis.

A number of the Australian interests of the consolidated entity 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 consolidated entity's asset base. The decision of the High Court of Australia in the "Wik" case has the potential to introduce delay in the grant of mineral and petroleum tenements and consequently to impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

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

Santos Ltd has provided parent company guarantees in respect of:

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

- a Patricia Baleen equipment master rental agreement;
- a floating storage and offloading facilities agreement for the Sampang PSC;
- a mobile offshore production unit agreement for the Madura PSC; and

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

A subsidiary company has provided a letter of performance guarantee in respect of the performance obligations of its subsidiary company relating to a production sharing contract.

The total expenditure commitment under these transactions and which are the subject of a parent company guarantee is $217.6 million.

35. CONTINGENT LIABILITIES (CONTINUED)

Banjar Panji-1 well incident

While the Board has made provision in relation to this incident, the provision reflects an assumption (based upon an assessment of information currently available) that a resolution will ultimately be agreed between the Government, Lapindo Brantas Inc, the non-operating PSC parties (Santos Brantas Pty Ltd ("STOB") and PT Medco E&P Brantas) and all other relevant parties as to the costs related to long-term mud management options, proposed costs of infrastructure relocation and any third party claims. With the mudflow continuing, the complexity of the incident and the dynamic nature of the ongoing work, there is significant uncertainty surrounding these issues. Should the resolution of the uncertainties be on a different basis than presently assumed, the ultimate costs to be borne by STOB may be significantly different than the current estimate.

Details of the Banjar Panji-1 well incident are further disclosed in note 3.

36. 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") entered into a Deed of Cross Guarantee on 8 December 2006. 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 C*orporations 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 Offshore Pty Ltd
Santos Petroleum Management Pty Ltd
Santos Petroleum Pty Ltd
Santos QNT Pty Ltd
Santos QNT (No. 1) Pty Ltd
Santos QNT (No. 2) Pty Ltd
Vamgas Pty Ltd

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

	Closed Group 2006 $million
Consolidated income statement	
Profit before tax	**271.8**
Income tax expense	**(213.6)**
Profit after tax	**58.2**
Retained earnings at the beginning of the period	**1,377.3**
Dividends provided for or paid	**(268.5)**
Share-based payment transactions	**1.2**
Actuarial loss on defined benefit plan, net of tax	**(6.3)**
Retained earnings at the end of the period	**1,161.9**

36. DEED OF CROSS GUARANTEE (CONTINUED)

	Closed Group 2006 $million
Consolidated balance sheet	
Current assets	
Cash and cash equivalents	**85.7**
Trade and other receivables	**726.5**
Inventories	**134.7**
Other	**17.8**
Total current assets	**964.7**
Non-current assets	
Exploration and evaluation assets	**28.4**
Oil and gas assets	**3,825.1**
Other land, buildings, plant and equipment	**117.2**
Other investments	**2,038.2**
Deferred tax assets	**16.2**
Other	**9.0**
Total non-current assets	**6,034.1**
Total assets	**6,998.8**
Current liabilities	
Trade and other payables	**2,631.1**
Deferred income	**6.3**
Current tax liabilities	**208.1**
Employee benefits	**58.1**
Other provisions	**8.8**
Total current liabilities	**2,912.4**
Non-current liabilities	
Deferred income	**11.3**
Deferred tax liabilities	**186.1**
Employee benefits	**26.3**
Other provisions	**438.5**
Total non-current liabilities	**662.2**
Total liabilities	**3,574.6**
Net assets	**3,424.2**
Equity	
Issued capital	**2,254.4**
Reserves	**7.9**
Retained earnings	**1,161.9**
Total equity	**3,424.2**

37. FINANCIAL INSTRUMENTS

Exposure to foreign currency, interest rate, credit, and commodity price risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices.

(A) FOREIGN CURRENCY RISK

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

All US dollar denominated borrowings are designated as a hedge of US dollar denominated investment in foreign operations (2006: US$825.6 million; 2005: US$782.6 million). 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 2006.

(B) INTEREST RATE RISK

Hedging
The consolidated entity 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. The swaps have maturities ranging from one to 16 years, following the maturity of the related notes (see the following table) and have fixed swap rates ranging from 5.85% to 8.44%. At 31 December 2006, the consolidated entity had interest rate swaps with a notional contract amount of $615.4 million (2005: $654.5 million).

The consolidated entity classifies interest rate swaps as fair value hedges and states them at fair value.

The net fair value of swaps at 31 December 2006 was $10.6 million (2005: $27.1 million), comprising assets of $17.3 million and liabilities of $6.7 million. These amounts were recognised as fair value derivatives.

Effective interest rates and repricing analysis
In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated	Note	Effective interest rate	Total $million	6 months or less $million	6 to 12 months $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2006								
Cash and cash equivalents	8	**5.96%**	**158.7**	**158.7**	**–**	**–**	**–**	**–**
Bank loans	19	**6.90%**	**(294.2)**	**(294.2)**	**–**	**–**	**–**	**–**
Commercial paper	19	**6.61%**	**(129.6)**	**(129.6)**	**–**	**–**	**–**	**–**
Medium-term notes	19	**6.99%***	**(463.7)**	**–**	**–**	**(19.7)**	**(349.2)**	**(94.8)**
Long-term notes	19	**6.80%***	**(762.2)**	**–**	**(130.4)**	**–**	**(192.6)**	**(439.2)**
Interest rate swaps**	11, 21		**10.6**	**(604.8)**	**77.2**	**20.0**	**77.8**	**440.4**
			(1,480.4)	**(869.9)**	**(53.2)**	**0.3**	**(464.0)**	**(93.6)**
2005								
Cash and cash equivalents	8	5.02%	229.2	229.2	–	–	–	–
Bank loans	19	5.02%	(261.5)	(261.5)	–	–	–	–
Commercial paper	19	5.83%	(265.5)	(265.5)	–	–	–	–
Medium-term notes	19	6.22%*	(468.5)	–	–	–	(20.0)	(448.5)
Long-term notes	19	6.00%*	(832.6)	–	–	(152.1)	(200.5)	(480.0)
Interest rate swaps**	11, 21		27.1	(627.4)	–	83.3	104.0	467.2
			(1,571.8)	(925.2)	–	(68.8)	(116.5)	(461.3)

* *After incorporating the effect of interest rate swaps.*
** *Notional principal amounts.*

37. FINANCIAL INSTRUMENTS (CONTINUED)

(B) INTEREST RATE RISK (CONTINUED)

Sensitivity analysis
At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the consolidated entity's profit before tax by approximately $11.9 million (2005: $13.0 million). Interest rate swaps have been included in this calculation.

(C) COMMODITY PRICE RISK EXPOSURE

The consolidated entity is exposed to commodity price fluctuations through the sale of petroleum products denominated in US dollars. The consolidated entity enters into commodity crude oil price swap and option contracts and natural gas swap and option contracts to manage its commodity price risk.

At 31 December 2006 the consolidated entity has no open oil price swap contracts.

(D) CREDIT RISK

Credit risk represents the potential financial loss if counterparties fail to perform as contracted. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The consolidated entity controls credit risk on derivative financial instruments by setting exposure limits related to the creditworthiness of counterparties, all of which are selected banks or institutions with a Standard & Poor's rating of A or better.

The maximum exposure to credit risk is represented by the carrying amount of financial assets of the consolidated entity, excluding investments, which have been recognised on the balance sheet. At the balance sheet date there were no significant concentrations of credit risk.

(E) FAIR VALUES

The financial assets and liabilities of the consolidated entity and the Company are recognised on the balance sheets at their fair value in accordance with the accounting policies in note 1, except for long-term notes that do not form part of an interest rate swap, and bank borrowings, which are recognised at face value. The carrying value of these long-term notes is US$198.5 million and their fair value is estimated at US$200.6 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 2006.

The carrying value of the bank borrowings approximates fair value as it is a floating rate instrument.

38. ECONOMIC DEPENDENCY

There are in existence long-term contracts for the sale of gas, but otherwise the Directors believe there is no economic dependency.

Directors' Declaration

For the year ended 31 December 2006

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 2006 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 2006.

3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 36 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 22 day of February 2007.

On behalf of the Board:

DIRECTOR

DIRECTOR

ADELAIDE

Auditor's Independence Declaration to the Directors of Santos Ltd

In relation to our audit of the financial report of Santos Ltd for the financial year ended 31 December 2006, 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

ERNST & YOUNG

RJ CURTIN
PARTNER

ADELAIDE, SOUTH AUSTRALIA
22 FEBRUARY 2007

Independent Audit Report to the members of Santos Ltd

SCOPE

THE FINANCIAL REPORT AND DIRECTORS' RESPONSIBILITY

The financial report comprises the income statements, balance sheets, cash flow statements and statements of recognised income and expenses, accompanying notes to the financial statements, and the directors' declaration for Santos Ltd ("the Company") and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the Company and the entities it controlled during the year.

The Directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

AUDIT APPROACH

We conducted an independent audit of the financial report in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Directors and management of the Company.

INDEPENDENCE

We are independent of the Company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, signed on 22 February 2007. 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.

AUDIT OPINION

In our opinion,

the financial report of Santos Ltd is in accordance with:

a) 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 2006 and of their performance for the year ended on that date; and

  ii. complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

b) other mandatory financial reporting requirements in Australia.

Ernst & Young

ERNST & YOUNG

R J CURTIN
PARTNER

ADELAIDE, SOUTH AUSTRALIA
22 FEBRUARY 2007

Securities exchange and shareholder information

Listed on Australian Securities Exchange at 28 February 2007 were 598,275,554 fully paid ordinary shares and 6,000,000 redeemable convertible preference shares. Unlisted were 46,500 partly paid Plan 0 shares, 41,500 partly paid Plan 2 shares, 62,900 fully paid ordinary shares issued pursuant to the Santos Employee Share Purchase Plan ('SESPP') for General Employee Participation, 93,702 fully paid ordinary shares issued pursuant to SESPP for Senior Executive Long Term Incentive ('LTI') and 91,950 restricted fully paid ordinary shares issued pursuant to the vesting of LTI Share Acquisition Rights. There were: 82,862 holders of all classes of issued ordinary shares (including 6 holders of Plan 0 shares; 5 holders of Plan 2 shares; 117 holders of SESPP shares; and 21 holders of restricted shares) compared with 79,237 a year earlier; 14,970 holders of redeemable convertible preference shares; and 49 holders of the 4,661,226 options granted pursuant to the Santos Executive Share Option Plan and 47 holders of 539,600 Share Acquisition Rights.

The listed issued ordinary shares plus the ordinary shares issued pursuant to SESPP and the restricted ordinary shares issued pursuant to the vesting of LTI Share Acquisition Rights represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 53.30% of the total voting power in Santos (last year 55.73%) and the holdings of the 20 largest holders of redeemable convertible preference shares represent 38.39% of the issued redeemable convertible preference shares.

The 20 largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 28 February 2007 were:

Name	Number of fully paid ordinary shares	%
National Nominees Limited	64,978,233	10.86
ANZ Nominees Limited (Cash Income A/c)	60,095,054	10.04
Westpac Custodian Nominees Limited	58,807,101	9.83
J P Morgan Nominees Australia Limited	54,881,116	9.17
Citicorp Nominees Pty Limited	20,783,168	3.47
HSBC Custody Nominees (Australia) Limited – A/c 2	8,988,283	1.50
Cogent Nominees Pty Limited	8,533,879	1.43
HSBC Custody Nominees (Australia) Limited	8,476,617	1.42
UBS Nominees Pty Ltd (116C A/c)	6,100,000	1.02
RBC Dexia Investor Services Australia Nominees Pty Limited	5,328,134	0.89
Australian Foundation Investment Company Limited	3,189,289	0.53
HSBC Custody Nominees (Australia) Limited – GSI ECSA	2,811,252	0.47
Argo Investments Limited	2,630,000	0.44
Feta Nominees Pty Limited	2,614,825	0.44
Queensland Investment Corporation	2,026,650	0.34
Mr John Charles Ellice-Flint	2,000,000	0.33
Citicorp Nominees Pty Limited (CFSIL Cwlth Aust Shs 1 A/c)	1,900,000	0.32
Australian Reward Investment Alliance	1,895,764	0.32
AMP Life Limited	1,680,510	0.28
Woodross Nominees Pty Ltd	1,202,959	0.20
Total	**318,922,834**	**53.30**

ANALYSIS OF SHARES – RANGE OF SHARES HELD

	Fully paid ordinary shares (holders)	% of holders	% of shares held	Redeemable convertible preference shares (holders)	% of holders	% of shares held
1 – 1000	30,241	36.50	2.88	14,560	97.26	44.54
1,001 – 5,000	41,784	50.43	16.67	356	2.38	11.97
5,001 – 10,000	7,163	8.64	8.62	24	0.16	2.90
10,001 – 100,000	3,539	4.27	12.23	24	0.16	10.61
100,001 and over	135	0.16	59.60	6	0.04	29.98
Total	**82,862**	**100.0**	**100.0**	**14,970**	**100.0**	**100.0**
Less than a marketable parcel of $500	1,507			1		

The 20 largest shareholders of redeemable convertible preference shares in Santos as shown in the Company's Register of Members at 28 February 2007 were:

Name	Number of redeemable convertible preference shares	%
J P Morgan Nominees Australia Limited	959,142	15.99
Westpac Custodian Nominees Limited	200,618	3.34
ANZ Nominees Limited (Cash Income A/c)	192,654	3.21
Australian Foundation Investment Company Limited	175,000	2.92
Cogent Nominees Pty Limited (SMP Accounts)	171,691	2.86
RBC Dexia Investor Services Australia Nominees Pty Limited (GSENIP A/c)	100,492	1.67
Hastings Funds Management Limited (Hastings Yield Fund A/c)	70,000	1.17
UBS Wealth Management Australia Nominees Pty Ltd	66,649	1.11
M F Custodians Ltd	48,692	0.81
Citicorp Nominees Pty Limited (CFSIL Cwlth Spec 5 A/c)	44,898	0.75
Cambooya Pty Limited	40,800	0.68
RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/c)	38,661	0.64
Questor Financial Services Limited (TPS RF A/c)	36,811	0.61
Cogent Nominees Pty Limited	27,557	0.46
Brencorp No 11 Pty Limited	24,600	0.41
Citicorp Nominees Pty Limited	22,611	0.38
Australian Executor Trustees Limited (No 1 Account)	22,076	0.37
Goldman Sachs JBWere Capital Markets Ltd (Hybrid Portfolio A/c)	21,241	0.35
Argo Investments Limited	20,000	0.33
Hastings Fund Management Limited (Hit A/c)	20,000	0.33
Total	**2,304,193**	**38.39**

Substantial Shareholders, as at 28 February 2007, as disclosed by notices received by the Company:

Name	No. of voting shares held
Barclays Global Investors Australia Limited	49,543,607
Maple-Brown Abbott Ltd	30,165,594

For Directors' Shareholdings see Directors' Statutory Report as set out on page 49 of this Annual Report.

VOTING RIGHTS

Every member present in person or by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid ordinary share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

Holders of redeemable convertible preference shares ("Preference Shares") do not have voting rights at any general meeting of the Company except in the following circumstances:

(a) on a proposal:

   (1) to reduce the share capital of the Company;

   (2) that affects rights attached to the Preference Shares;

   (3) to wind up the Company; or

   (4) for the disposal of the whole of the property, business and undertaking of the Company;

(b) on a resolution to approve the terms of a buy-back agreement;

(c) during a period in which a dividend or part of a dividend on the Preference Shares is in arrears; or

(d) during the winding up of the Company.

Information for shareholders

NOTICE OF MEETING

The Annual General Meeting of Santos Ltd will be held in the Festival Theatre at Adelaide Festival Centre, King William Road, Adelaide, South Australia on Tuesday 1 May 2007 at 10.00 am.

FINAL DIVIDEND

The 2006 final ordinary dividend will be paid on 2 April 2007 to shareholders registered in the books of the Company at the close of business on 5 March 2007 in respect of fully paid shares held at record date.

SECURITIES EXCHANGE LISTING

Santos Ltd. Incorporated in Adelaide, South Australia, on 18 March 1954. Quoted on the official list of the Australian Securities Exchange (ordinary shares code STO; FUELS code STOPB).

AMERICAN DEPOSITORY RECEIPTS

Santos American Depository Receipts are issued by Citibank, N.A. and are listed on NASDAQ (code STOSY).

DIRECTORS

S Gerlach (Chairman), J C Ellice-Flint (Managing Director), K C Borda, K A Dean, R A Franklin, R M Harding, J Sloan.

SECRETARY

J L Baulderstone

CHANGE OF SHAREHOLDER DETAILS

Issuer Sponsored Shareholders wishing to update their details must notify the Share Registrar in writing. The relevant shareholder forms can be obtained from the Share Registrar or via the Investor Centre on the Santos website, www.santos.com.

Forms are available to advise the Company of changes relating to change of address, direct crediting of dividends, Tax File Number and Australian Business Number, Annual Report and Sustainability Report mailing preferences and Dividend Reinvestment Plan participation.

INVESTOR INFORMATION AND SERVICES

SANTOS WEBSITE

A wide range of information for investors is available from Santos' website, www.santos.com, including Annual Reports, Full Year and Interim Reports and Presentations, News Announcements, Quarterly Activities Reports and Current Well Information. Comprehensive archives of these materials dating back to 1997 are available on the Santos website.

Other investor information available on the Santos website includes:

- open briefings with Corporate File – an ASX-endorsed online briefing service;
- webcasts of investor briefings;
- an email alert facility where people can register to be notified, free of charge, of Santos' News Announcements via email; and
- an RSS feed of Santos' News Announcements, which allows people to view these announcements using RSS reader software.

The Santos website provides shareholder forms to help shareholders manage their holdings, as well as a full history of Santos' dividend payments and equity issues. Shareholders can also check their holdings and payment history in the secure View Shareholding section.

Santos' website also provides an online Conversion Calculator, which instantly computes equivalent values of the most common units of measurement in the oil and gas industry.

PUBLICATIONS

The Annual Report, First-Half Report and the Sustainability Report are the major sources of printed information about Santos. Printed copies are available from the Share Registrar or Investor Relations.

SHAREHOLDER ENQUIRIES

Enquiries about shareholdings should be directed to:

Share Registrar, Santos Ltd, GPO Box 2455,
Adelaide, South Australia 5001.
Telephone: 08 8218 5111.
Email: share.register@santos.com

Investor information, other than that relating to a shareholding, can be obtained from:

Investor Relations, Santos Ltd, GPO Box 2455,
Adelaide, South Australia 5001.
Telephone: 08 8116 5000.
Email: investor.relations@santos.com

Electronic enquiries can also be submitted through the Contact Us section of the Santos website, www.santos.com.

SHAREHOLDERS' CALENDAR

2006 Full Year Results announcement	22 February 2007
Ex-dividend date for 2006 full year dividend	27 February 2007
Record date for 2006 full year dividend	5 March 2007
Payment date for 2006 full year dividend	2 April 2007
Annual General Meeting	1 May 2007
Half year end	30 June 2007
2007 Interim Results announcement	23 August 2007
Full year end	31 December 2007

QUARTERLY REPORTING CALENDAR

2007 First Quarter Activities Report	24 April 2007
2007 Second Quarter Activities Report	26 July 2007
2007 Third Quarter Activities Report	25 October 2007
2007 Fourth Quarter Activities Report	24 January 2008

Glossary

AIFRS

Australian equivalents to International Financial Reporting Standards.

BARREL/BBL

The standard unit of measurement for all production and sales. One barrel = 159 litres or 35 imperial gallons.

bcf

Billion cubic feet, a billion defined as 10^9, on average 1 bcf of sales gas = 1.055 PJ.

boe

Barrels of oil equivalent. The factor used by Santos to convert volumes of different hydrocarbon production to barrels of oil equivalent.

bopd

Barrels of oil per day.

THE COMPANY OR SANTOS

Santos Ltd and its subsidiaries.

CONDENSATE

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

CONTINGENT RESOURCES

Those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers.

CRUDE OIL

A general term for unrefined liquid petroleum or hydrocarbons.

CULTURAL HERITAGE

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

DD&A

Depreciation, depletion and amortisation of building, plant and equipment, exploration and development expenditure.

DELINEATION WELL

Comprises two categories: near-field exploration wells and appraisal wells. Near-field exploration wells are wells located near existing fields/discoveries and have a higher expectation of success than wildcat exploration wells. These wells test independent structures or traps and have a higher risk of failure than appraisal or development wells. An appraisal well is a well drilled for the purpose of identifying extensions to known fields or discoveries.

DEVELOPMENT WELL

Wells designed to produce hydrocarbons from a gas or oil field within a proven productive reservoir defined by exploration or appraisal drilling.

EBIT

Earnings before interest and tax.

EBITDA

Earnings before interest and tax, depreciation, depletion and amortisation of building, plant and equipment, exploration and development expenditure and amortisation of goodwill.

EBITDAX

Earnings before interest, tax, depreciation, exploration and impairment.

EXPLORATION

Drilling, seismic or technical studies undertaken to identify and evaluate regions or prospects with the potential to contain hydrocarbons.

FINDING COST PER BARREL OF OIL EQUIVALENT

Exploration and delineation expenditure per annum divided by reserve additions net of acquisitions and divestments.

GEOSCIENCE

Scientific disciplines related to the study of the earth.

GREENHOUSE EFFECT

The trapping of heat by certain gases in the earth's atmosphere in the same way that the glass in a greenhouse prevents heat from escaping and warms its internal environment.

GREENHOUSE GAS

A gas that contributes to the greenhouse effect by absorbing infrared radiation.

HYDROCARBONS

Solid, liquid or gas compounds of the elements hydrogen and carbon.

IFRS

International Financial Reporting Standards.

LIQUIDS

A sales product in liquid form produced as a result of further processing by the onshore plant; for example, condensate and LPG.

LNG

Liquefied natural gas.

LPG

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

MARKET CAPITALISATION

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

mbbl

Thousand barrels.

MEAN RESOURCE POTENTIAL

The average of the range of recoverable resources.

mmbbl

Million barrels.

mmboe

Million barrels of oil equivalent.

mmscf/d

Million standard cubic feet per day.

NETBACK

Total product sales revenue less operating costs (namely production costs, tariffs/tolls, royalties, PRRT and gas purchases and movement in stock). Netback per boe is netback divided by total sales volumes.

OIL

A mixture of liquid hydrocarbons of different molecular weights.

PETROLEUM LIQUIDS

Crude oil, condensate, or its derivative naphtha, and the liquefied petroleum gases propane and butane.

PJ

Petajoules are the metric measurement unit for energy. A petajoule is equal to 1 joule x 10^{15}. The equivalent imperial measure to joules is British Thermal Units (BTU). One kilojoule = 0.9478 BTU.

PROVEN RESERVES (1P)

Proven reserves (1P) are those reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

PROVEN PLUS PROBABLE RESERVES (2P)

Proven plus Probable reserves (2P) are those reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable reserves.

PROVEN, PROBABLE PLUS POSSIBLE RESERVES (3P)

Proven, Probable plus Possible reserves (3P) are those reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

PSC

Production sharing contract.

RESERVE REPLACEMENT COST PER BARREL OF OIL EQUIVALENT

Exploration, delineation and development expenditure per annum divided by reserve additions net of acquisitions and divestments. Development includes all development and fixed asset expenditure net of stay-in-business and corporate capital expenditure.

RESERVE REPLACEMENT RATIO

Reserves added during the reporting period divided by the production over the same period, reported as a percentage.

RESOURCE POTENTIAL

Resource potential refers to those quantities of petroleum yet to be discovered. It may refer to single opportunities or a group of opportunities.

ROAE

Return on average equity.

ROACE

Return on average capital employed.

SEISMIC

Data used to gain an understanding of rock formations beneath the earth's surface using reflected sound waves.

tcf

Trillion cubic feet.

TJ

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

TOTAL RECORDABLE CASE FREQUENCY RATE (TRCFR)

A statistical measure of safety performance. Total recordable case frequency rate is calculated as the total number of recordable cases (medical treatment injuries and lost time injuries) per million hours worked. A lost time injury is a work-related injury or illness that results, or would result, in a permanent disability or time lost of one complete shift or day or more any time after the injury or illness. A medical treatment injury is a work-related injury or illness, other than a lost time injury, where the injury is serious enough to require more than minor first aid treatment. Santos classifies injuries that result in modified duties as medical treatment injuries.

WILDCAT EXPLORATION

Exploration wells testing new play concepts or structures distanced from current fields.

CONVERSION

crude oil 1 barrel = 1 boe

sales gas 1 petajoule = 171,937 boe

condensate/naphtha 1 barrel = 0.935 boe

LPG 1 tonne = 8.458 boe

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

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Mixed Sources
Product group from well-managed forests, and recycled wood or fibre
FSC
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