

**SANTOS LTD**  
**Appendix 4E**  
**Preliminary Final Report under ASX Listing Rule 4.3A**  
**For the period ended 31 December 2006**

ABN 80 007 550 923
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Previous corresponding period 31 December 2005
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**Results for announcement to the market**

				\$A million
Revenue from ordinary activities*	Up	12.3%	to	2,798.1
Profit from ordinary activities after tax attributable to members	Down	15.6%	to	643.4
Net profit for the period attributable to members	Down	15.6%	to	643.4
<b>Dividends</b>		Amount per security		Franked amount per security at 30% tax
Interim Dividends				
Ordinary securities		20.0¢		20.0¢
Preference securities		\$2.5275		\$2.5275
Final Dividends				
Ordinary securities		20.0¢		20.0¢
Preference securities		\$2.7272		\$2.7272
<b>Record date for determining entitlements to the dividends:</b>				5 March 2007

\* Revenue includes revenue from continuing and discontinued operations.

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

**The 2006 Consolidated Financial Report, Commentary on Results and Media Release dated 22 February 2007 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).**

## **Santos Ltd**

### **Financial Commentary to Appendix 4E**

**The following comments should be read in conjunction with the Consolidated Financial Report for the Year ended 31 December 2006**

#### **1. Consolidated Income Statement**

##### **Product Sales (\$2,769.1 million up by \$306.3 million +12.4%)**

Total sales revenue for the 12 months to 31 December 2006 was a record \$2,769.1 million, up 12% on the previous record of \$2,462.8 million achieved in 2005. The record revenue reflected higher production, principally resulting from new projects commissioned in the year, including the Casino gas project, the Darwin LNG project and the Maleo gas project, and a full year of production from the John Brookes field; and higher commodity prices for all liquid products.

Sales of crude oil of \$1,202.0 million were \$95.2 million higher primarily due to a 21% increase in average realised AUD oil prices offset in part by a 1.5 mmbob (10%) decrease in sales volumes. Lower sales volumes were primarily due to lower production from the Mutineer-Exeter field and the timing of shipments from offshore Australia. The average realised oil price for 2006 was AUD89.35 compared to AUD73.83 for 2005. The favourable impact of higher average USD oil prices was partially offset by a higher realised AUD/USD exchange rate in 2006 of 0.7578 compared to 0.7417 in 2005.

Naphtha revenues of \$397.3 million increased by \$51.4 million due to a 14% increase in average realised AUD prices. Sales volumes were in line with the previous year.

Liquefied petroleum gas ("LPG") revenues increased by \$22.4 million to \$206.8 million due to a 15% increase in average realised AUD prices. Sales volumes were marginally lower than 2005.

Sales gas, ethane and LNG revenues of \$963.0 million increased by \$137.3 million primarily due to a 4.6 mmbob increase in sales volumes. The higher sales volume was largely due to higher production due to project starts at Casino, Darwin LNG and Maleo, and a full year of production from John Brookes and Fairview. Gas prices in 2006 averaged \$3.78/GJ up 4% from \$3.62/GJ in 2005. The increase in average prices reflects higher domestic gas prices, the effect of the initial revaluation of embedded derivatives in gas contracts (\$18.8 million), and LNG prices (for which there was no production in 2005).

#### **Continuing Operations**

##### **Product Sales**

The Company has announced its intention to dispose of its USA operations as part of its broader strategy of increasing the Company's investment in South-East Asia. For the purposes of financial reporting, the Company's USA operations have been classified as discontinued operations. After deducting USA product sales revenues in 2006 of \$61.2 million, revenue from continuing operations totalled \$2,707.9 million.

##### **Other Revenue**

Other revenue of \$29.0 million was in line with 2005.

##### **Other Income (\$25.0 million down by \$ 64.4 million)**

Other income of \$25.0 million includes \$21.8 million of insurance recoveries in respect of Banjar Panji. 2005 included net gains on the sale of interests in Golden Beach, Jahal and Kuda Tasi, the balance of the Moomba LRP business interruption and property damage insurance claims and Mutineer-Exeter sole risk buy-back premiums.

**Cost of Sales (\$1,302.2 million up by \$132.7 million +11.4%)**

- **Production Costs**

- Field production costs of \$382.9 million were \$23.2 million higher than in 2005. Volume effects added \$27.7 million to production costs and can be attributed to:
  - new sources of production (\$22.1 million), reflecting the commencement of production from Casino, Darwin LNG, and Maleo, and Mutineer-Exeter, Minerva and John Brookes operating for the full year; and
  - the net effect of acquisitions and disposals (\$5.6 million);

Cost decreases reduced production costs by \$4.5 million. These decreases primarily resulted from lower Cooper Basin insurance and well repair costs, and lower offshore Australia third party operator costs.

- Product stocks increased by \$6.5 million during 2006. This was predominantly due to the timing of crude and gas liquids liftings, and LNG stock being held for the first time following the commencement of production from the Darwin LNG project.

- **Pipeline Tariffs**

- Pipeline tariffs of \$50.8 million are \$15.8 million higher in 2006 due to the higher production from Casino, Fairview, and John Brookes, and higher Cooper Basin oil production.

- **Royalties, Excise and PRRT**

- PRRT of \$30.0 million is \$22.5 million lower as higher transferable exploration deductions have more than offset the higher Stag sales revenue.

- **Gas Purchases**

- Gas purchases of \$69.1 million are \$31.8 million lower due to East Spar gas sales contracts now being met by production from John Brookes. In 2005 gas purchases were required to cover the production gap between the shut-in of East Spar and the start-up of John Brookes.

- **Depreciation & Depletion (\$666.9 million up by \$142.4 million +27.2%)**

- **Depletion**

Depletion of \$400.3 million is \$103.5 million higher than in 2005. Reserves revisions, increases in future development costs and restoration provisions, and 2005 net impairment reversals increased depletion by \$114.7 million, primarily for the Cooper Basin and offshore Australia operations. Lower production volumes, primarily in the Cooper Basin, Mutineer Exeter and in the USA partly offset by the commencement of production from Casino, Darwin LNG and Maleo, 2005 acquisitions and John Brookes operating for the full year, reduced depletion by \$11.2 million.

- **Depreciation**

Depreciation of \$266.6 million is \$38.9 million higher than in 2005. The commencement of production from Casino, Darwin LNG and Maleo; a full year of production for John Brookes and higher Bayu-Undan liquids production, offset in part by lower East Spar depreciation due to its shut-in in 2005, added \$20.7 million to depreciation. Increases in restoration provisions, reserve revisions and impairment reversals added \$12.2 million to 2005 depreciation and spending on field plant and equipment added \$6.0 million.

**Exploration and Evaluation Expensed (\$268.8 million up by \$126.7 million +89.2%)**

Exploration and evaluation expenditure expensed in 2006 was \$268.8 million (2005: \$142.1 million). The amount expensed relates to studies, seismic and unsuccessful wells principally in Egypt, Indonesia, offshore Australia and the Cooper Basin. Remediation and related costs of \$88.5 million in respect of the Banjar Panji-1 exploration well incident have been expensed. Costs incurred in the evaluation of new ventures and exploration opportunities that have either not met Santos' internal investment criteria or not resulted in a successful bid have also been written off.

**Impairment – Net Loss/(Reversal) (\$11.2 million up by \$143.0 million)**

The review of the net future cash flows of cash generating units has resulted in \$17.2 million of impairment losses, partly offset by \$6.0 million of impairment reversals. In 2005 \$131.8 million (net) of prior years' impairment losses were reversed principally as a consequence of higher expected future oil prices.

**Selling and Corporate Administration Expenses (\$65.2 million down by \$8.0 million +10.9%)**

Selling and Corporate Administration expenses of \$65.2 million are \$8 million lower principally due to lower insurance costs.

**Financial Expenses (\$135.5 million up by \$56.4 million +71.3%)**

Interest expense has increased due to an increase in average net debt, largely due to acquisitions in 2005 and higher capital expenditure, and the higher average interest rate. The weighted average interest rate for the Group (allowing for interest rate swap contracts) as at 31 December 2006 was 6.86% compared to 5.89% in 2005.

**Income tax (\$321.1 million down by \$50.3 million -13.5%)**

Income tax has decreased by \$50.3 million in 2006 due to the lower profit before tax. The effective tax rate is 32% slightly lower than the 2006 effective tax rate of 33%.

**Loss from discontinued operations (\$27.5 million up by \$26.0 million)**

The loss from discontinued operations of \$27.5 million represents the results of the USA business and reflects lower production and exploration expensed.

**Net Profit for the period (\$643.4 million down by \$118.7 million -15.6%)**

Net profit after income tax has decreased by \$118.7 million to \$643.4 million. Earnings per share for 2006 decreased by 17.4% to 102.8 cents.

**Dividends**

During the year Santos Ltd paid fully franked dividends of \$238.1 million on ordinary shares and \$30.4 million on redeemable convertible preference shares for a total of \$268.5 million (2005: \$243.0 million).

The Directors have declared a final dividend for 2006 of 20 cents per ordinary share, fully franked (2005: 20 cents, fully franked) and a preferential, non cumulative fully franked dividend of \$2.7272 per redeemable convertible preference share payable on 2 April 2007.

## **2. Consolidated Balance Sheet**

### **Overview**

The Group's net assets increased by \$391.6 million (13.2%) during 2006 to \$3,355.5 million principally as a result of the profit earned.

### **Assets**

Current assets of \$1,060.5 million were \$148.3 million higher than in 2005 predominantly due to the reclassification of the USA's exploration and evaluation assets, and oil and gas assets (total of \$142.8 million) to assets available for sale.

Non-current assets were \$5,842.4 million compared to \$5,283.9 million at the end of 2005, an increase of \$558.5 million. Capital expenditure in 2006 for exploration, delineation and development, capitalised increases in restoration provisions and acquisitions of oil and gas assets amounted to \$1,854.5 million, of which \$347.4 million was expensed in 2006 as unsuccessful exploration.

These increases were offset in part by depreciation and depletion charges of \$692.2 million, foreign currency translation of oil and gas assets of \$76.5 million and the reclassification of the USA's exploration and evaluation assets and oil and gas assets to assets available for sale of \$142.8 million.

### **Current Liabilities**

Current liabilities of \$981.9 million were \$314.7 million higher mainly due to \$130.4 million of long-term notes maturing in 2007, an increase in current tax liabilities of \$28.8 million and an increase in trade and other payables of \$49.5 million, and a \$56.5 million increase in the restoration provision predominantly due to \$88.8 million provided for potential remediation and related costs in relation the Banjar Panji-1 well incident.

### **Net Debt**

Net debt of \$1,449.7 million was \$149.2 million lower than at the end of 2005, as sufficient operating cash flows were generated after funding exploration, development, net acquisitions and dividends, to repay a portion of short-term debt.

The group's net debt / net debt plus equity ratio has decreased from 35.0% in 2005 to 30.2% at the end of 2006.

### **Equity**

Retained earnings increased by \$369.8 million to \$1,300.0 million at year end. This increase primarily reflects the 2006 net profit after tax of \$643.4 million less dividends paid during the year of \$268.5 million.

Issued capital at 31 December 2006 was \$2,254.4 million, an increase of \$42.4 million and comprised:

- 598.5 million fully paid ordinary shares (2005: 594.3 million),
- 0.1 million ordinary shares paid to 1 cent (2005: 0.1 million), and
- 6.0 million redeemable convertible preference shares (2005: 6.0 million).

### **3. Consolidated Cash Flow Statement**

#### **Operating Cash Flows (\$1,550.3 million inflow, increase of \$92.4 million +6.3%)**

Higher operating cash flows are a result of increased sales volumes, higher product prices and decreased payments for royalties excise and PRRT, partly offset by higher payments to suppliers and increased tax payments.

#### **Investing Cash Flows (\$1,261.1 million outflow, lower by \$260.5 million -17.1%)**

Capital expenditure payments increased by \$91.0 million from \$1,054.3 million in 2005 to \$1,145.3 million in 2006 largely as a result of the timing of the work programme and related payments.

The consolidated entity acquired a controlling interest in CJSC South Petroleum Company for \$5.2 million in 2006. 2005 acquisitions totalled \$556.1 million.

In 2006 the consolidated entity received proceeds from the sale of non-current assets of \$66.3 million (2005: \$109.7 million) principally comprising the sale of the group's interests in Niobrara, Raymondville and West Mercedes fields, and 50% of the group's interest in Lay Creek, all in the USA.

#### **Financing Cash Flows (\$312.0 million outflow, lower by \$483.2 million)**

The group paid \$231.7 million of fully franked dividends during the year (2005: \$200.2 million) and made net repayments of \$86.0 million (2005: \$343.3 million net draw downs) to reduce the group's borrowings. Proceeds from issues of ordinary shares totalled \$5.7 million (2005: \$27.6 million).

Santos Ltd  
ABN 80 007 550 923

# Santos

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**SANTOS LTD**  
**(INCORPORATED IN SOUTH AUSTRALIA ON 18 MARCH 1954)**  
**AND CONTROLLED ENTITIES**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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**SANTOS LTD AND CONTROLLED ENTITIES**  
**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Total product sales		2,769.1	2,462.8	1,188.4	721.2
Less sales from discontinued operations		(61.2)	(119.9)	-	-
<b>Continuing operations</b>					
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)
<b>Gross profit</b>		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
<b>Operating profit before net financing costs</b>		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)
<b>Net financing costs</b>		(123.5)	(70.8)	(132.7)	(56.8)
<b>Profit/(loss) before tax</b>		992.0	1,135.0	(12.9)	620.9
Income tax expense	6	(321.1)	(371.4)	(97.6)	(102.2)
<b>Profit/(loss) after tax from continuing operations</b>		670.9	763.6	(110.5)	518.7
<b>Discontinued operations</b>					
Loss after tax from discontinued operations	7	(27.5)	(1.5)	-	-
<b>Net profit/(loss) for the period</b>		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
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of Santos Ltd (¢)</b>	23				
Basic earnings per share		107.4	124.7		
Diluted earnings per share		103.1	117.9		
<b>Earnings per share for profit attributable to the ordinary equity holders of Santos Ltd (¢)</b>	23				
Basic earnings per share		102.8	124.4		
Diluted earnings per share		98.9	117.7		
<b>Dividends per share (\$)</b>					
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.



## SANTOS LTD AND CONTROLLED ENTITIES

## BALANCE SHEETS

AS AT 31 DECEMBER 2006

	Note	CONSOLIDATED		SANTOS LTD	
		2006	2005	2006	2005
		\$million	\$million	\$million	\$million
<b>Current assets</b>					
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	-	-	-
<b>Total current assets</b>		<b>1,060.5</b>	<b>912.2</b>	<b>1,628.6</b>	<b>1,509.0</b>
<b>Non-current assets</b>					
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
<b>Total non-current assets</b>		<b>5,842.4</b>	<b>5,283.9</b>	<b>4,696.4</b>	<b>4,797.6</b>
<b>Total assets</b>		<b>6,902.9</b>	<b>6,196.1</b>	<b>6,325.0</b>	<b>6,306.6</b>
<b>Current liabilities</b>					
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	-	-	-
<b>Total current liabilities</b>		<b>981.9</b>	<b>667.2</b>	<b>3,418.9</b>	<b>3,064.4</b>
<b>Non-current liabilities</b>					
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	-	-
<b>Total non-current liabilities</b>		<b>2,565.5</b>	<b>2,565.0</b>	<b>247.6</b>	<b>241.4</b>
<b>Total liabilities</b>		<b>3,547.4</b>	<b>3,232.2</b>	<b>3,666.5</b>	<b>3,305.8</b>
<b>Net assets</b>		<b>3,355.5</b>	<b>2,963.9</b>	<b>2,658.5</b>	<b>3,000.8</b>
<b>Equity</b>					
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	-	-	-	-
<b>Total equity</b>		<b>3,355.5</b>	<b>2,963.9</b>	<b>2,658.5</b>	<b>3,000.8</b>

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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	CONSOLIDATED 2006 \$million	2005 \$million	SANTOS LTD 2006 \$million	2005 \$million
<b>Cash flows from operating activities</b>					
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)
<b>Net cash provided by operating activities</b>	27	<b>1,550.3</b>	<b>1,457.9</b>	<b>600.9</b>	<b>270.4</b>
<b>Cash flows from investing activities</b>					
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
<b>Net cash used in investing activities</b>		<b>(1,261.1)</b>	<b>(1,521.6)</b>	<b>(549.3)</b>	<b>(1,273.8)</b>
<b>Cash flows from financing activities</b>					
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	-	-
<b>Net cash (used in)/provided by financing activities</b>		<b>(312.0)</b>	<b>171.2</b>	<b>(63.8)</b>	<b>1,031.1</b>
<b>Net (decrease)/increase in cash</b>		<b>(22.8)</b>	<b>107.5</b>	<b>(12.2)</b>	<b>27.7</b>
<b>Cash and cash equivalents at the beginning of the year</b>					
Effects of exchange rate changes on the balances of cash held in foreign currencies		229.2	126.1	65.5	39.3
		(6.4)	(4.4)	(0.5)	(1.5)
<b>Cash and cash equivalents at the end of the year</b>	8	<b>200.0</b>	<b>229.2</b>	<b>52.8</b>	<b>65.5</b>

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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**STATEMENTS OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	<b>CONSOLIDATED</b> <b>2006</b> <b>\$million</b>	<b>2005</b> <b>\$million</b>	<b>SANTOS LTD</b> <b>2006</b> <b>\$million</b>	<b>2005</b> <b>\$million</b>
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)
<b>Net (expense)/income recognised directly in equity</b>		<b>(25.7)</b>	<b>16.7</b>	<b>(5.7)</b>	<b>6.5</b>
<b>Profit/(loss) for the period</b>		<b>643.4</b>	<b>762.1</b>	<b>(110.5)</b>	<b>518.7</b>
<b>Total recognised income and expense for the period</b>		<b>617.7</b>	<b>778.8</b>	<b>(116.2)</b>	<b>525.2</b>
Attributable to:					
Equity holders of Santos Ltd	22	617.7	778.8	(116.2)	525.2
Minority interest		-	-	-	-
		<b>617.7</b>	<b>778.8</b>	<b>(116.2)</b>	<b>525.2</b>

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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**1. Significant Accounting Policies (continued)**

**(b) Basis of preparation (continued)**

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

The accounting policies have been consistently applied by the 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.

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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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 re-measurement 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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 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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**1. Significant Accounting Policies (continued)**

**(g) Acquisition of assets (continued)**

***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 exist:

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



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**1. Significant Accounting Policies (continued)**

**(i) Oil and gas assets**

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

***Assets in development***

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

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

***Producing assets***

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

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

***Ongoing exploration and evaluation activities***

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

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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(k) Depreciation and depletion (continued)**

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 subsurface development expenditure ("Sub-surface assets") over the life of the estimated Proven plus Probable ("2P") reserves in a cash generating unit, together with future subsurface costs necessary to develop the hydrocarbon reserves in the respective cash generating units.

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

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

**(l) 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

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**1. Significant Accounting Policies (continued)**

**(m) Inventories (continued)**

- (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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(p) Impairment (continued)**

***Calculation of recoverable amount***

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

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

***Reversals of impairment***

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

Impairment losses recognised 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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 12 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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(r) Employee benefits (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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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.

***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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(aa) Goods and services tax (continued)**

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.

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(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 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(ad) Significant accounting judgements, estimates and assumptions (continued)**

***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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>2. Revenue and Other Income</b>				
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
	<u>2,707.9</u>	<u>2,342.9</u>	<u>1,188.4</u>	<u>721.2</u>
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
	<u>29.0</u>	<u>29.0</u>	<u>31.3</u>	<u>19.4</u>
Total revenue	<u>2,736.9</u>	<u>2,371.9</u>	<u>1,219.7</u>	<u>740.6</u>
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
	<u>25.0</u>	<u>89.4</u>	<u>6.1</u>	<u>43.9</u>
<b>3. Expenses</b>				
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
	<u>382.9</u>	<u>359.7</u>	<u>147.7</u>	<u>110.0</u>
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	-	-
	<u>189.8</u>	<u>194.3</u>	<u>65.2</u>	<u>59.0</u>
	<u>572.7</u>	<u>554.0</u>	<u>212.9</u>	<u>169.0</u>
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	<u>1,302.2</u>	<u>1,169.5</u>	<u>703.3</u>	<u>413.5</u>
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
	<u>65.2</u>	<u>73.2</u>	<u>47.4</u>	<u>48.8</u>
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)
	<u>344.2</u>	<u>86.0</u>	<u>402.7</u>	<u>(306.7)</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>3. Expenses (Continued)</b>				
<b>Profit before tax from continuing operations includes the following items:</b>				
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
	<u>668.1</u>	<u>525.5</u>	<u>418.4</u>	<u>188.0</u>
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
<b>Amounts that are unusual because of their nature, size, or incidence:</b>				
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	<u>88.5</u>	-	-	-

#### **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 mud flow, the disposal of the mud and the relocation of infrastructure.

According to Lapindo, efforts to contain and manage the mud flow 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**3. Expenses (continued)**

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 on-going 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 mud flow 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.

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>4. Earnings</b>				
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
<b>5. Net Financing Costs</b>				
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

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>6. Income Tax Expense</b>				
<b>Recognised in the income statement</b>				
<b>Current tax expense</b>				
Current year	372.1	320.7	179.5	58.4
Adjustments for prior years	5.1	5.5	(0.4)	14.2
	<u>377.2</u>	<u>326.2</u>	<u>179.1</u>	<u>72.6</u>
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	(40.6)	36.6	(81.5)	29.6
Benefit of tax losses recognised	(15.3)	8.6	-	-
	<u>(55.9)</u>	<u>45.2</u>	<u>(81.5)</u>	<u>29.6</u>
Total income tax expense	<u>321.3</u>	<u>371.4</u>	<u>97.6</u>	<u>102.2</u>
<b>Numerical reconciliation between tax expense and pre-tax net profit/(loss)</b>				
Profit 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	<u>964.7</u>	<u>1,133.5</u>	<u>(12.9)</u>	<u>620.9</u>
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)	-	-
Dividends from controlled entities	-	-	-	-
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)	<u>321.3</u>	<u>371.4</u>	<u>97.6</u>	<u>102.2</u>
Aggregate income tax expense is attributable to:				
Continuing operations	321.1	371.4	97.6	102.2
Discontinued operations	0.2	-	-	-
	<u>321.3</u>	<u>371.4</u>	<u>97.6</u>	<u>102.2</u>
<b>Deferred tax recognised directly in equity</b>				
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)
	<u>24.1</u>	<u>(6.2)</u>	<u>(3.0)</u>	<u>1.7</u>



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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:

	<b>2006</b>	2005
	<b>\$million</b>	\$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	<u>100.1</u>	<u>120.6</u>
Cash cost of sales	(12.2)	(17.5)
Depreciation and depletion	(23.0)	(34.5)
Cost of sales	<u>(35.2)</u>	<u>(52.0)</u>
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	<u>(127.4)</u>	<u>(122.1)</u>
Gross loss	<u>(27.3)</u>	<u>(1.5)</u>
Loss recognised on remeasurement to fair value	-	-
Loss before tax from discontinued operations	<u>(27.3)</u>	<u>(1.5)</u>
Tax expense:		
Related to pre-tax loss	(0.2)	-
Related to measurement to fair value	-	-
Loss for the year from discontinued operations	<u><u>(27.5)</u></u>	<u><u>(1.5)</u></u>

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	<u>210.8</u>

*Liabilities*

Trade and other payables	(14.8)
Provisions	<u>(2.0)</u>
Liabilities directly associated with assets classified as held for sale	<u>(16.8)</u>
Net assets attributable to discontinued operations	<u><u>194.0</u></u>

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	<u>-</u>
Net cash inflow	<u><u>42.9</u></u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>8. Cash and Cash Equivalents</b>				
Cash at bank and in hand	136.6	229.2	49.5	65.5
Call deposits	22.1	-	3.3	-
	<u>158.7</u>	<u>229.2</u>	<u>52.8</u>	<u>65.5</u>
Cash at bank and in hand attributable to discontinued operations (refer note 7)	41.3	-	-	-
Cash and cash equivalents in the cash flow statements	<u>200.0</u>	<u>229.2</u>	<u>52.8</u>	<u>65.5</u>
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.				
<b>Restricted cash balances</b>				
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.				
<b>9. Trade and Other Receivables</b>				
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
	<u>487.5</u>	<u>511.8</u>	<u>1,499.5</u>	<u>1,376.2</u>
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.				
<b>10. Inventories</b>				
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	<u>167.4</u>	<u>144.0</u>	<u>75.0</u>	<u>67.3</u>
Drilling and maintenance stocks included above that are stated at net realisable value	<u>34.1</u>	<u>21.0</u>	<u>18.3</u>	<u>11.6</u>

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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>11. Other Assets</b>				
<b>Current</b>				
Interest rate swap contracts	17.3	27.2	-	-
Fair value of embedded derivatives	18.8	-	1.3	-
	<u>36.1</u>	<u>27.2</u>	<u>1.3</u>	<u>-</u>
<b>Non-current</b>				
Other	11.9	6.6	7.9	4.8

**12. Exploration and Evaluation Assets**

	<b>CONSOLIDATED</b>			<b>SANTOS LTD</b>		
	<b>Sub- surface assets \$million</b>	<b>Plant and equipment \$million</b>	<b>Total \$million</b>	<b>Sub- surface assets \$million</b>	<b>Plant and equipment \$million</b>	<b>Total \$million</b>
Balance at 31 December 2005	333.4	5.7	339.1	17.1	0.6	17.7
<b>Balance at 31 December 2006</b>	<u>359.7</u>	<u>0.6</u>	<u>360.3</u>	<u>20.6</u>	<u>0.1</u>	<u>20.7</u>
<b>Reconciliation of movements</b>						
Balance at 1 January 2005	271.8	0.2	272.0	14.6	0.4	15.0
Acquisition of controlled entities	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	<u>333.4</u>	<u>5.7</u>	<u>339.1</u>	<u>17.1</u>	<u>0.6</u>	<u>17.7</u>
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)	-	-	-
<b>Balance at 31 December 2006</b>	<u>359.7</u>	<u>0.6</u>	<u>360.3</u>	<u>20.6</u>	<u>0.1</u>	<u>20.7</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**13. Oil and Gas Assets**

2006	CONSOLIDATED			SANTOS LTD		
	Sub-surface assets \$million	Plant and equipment \$million	Total \$million	Sub-surface assets \$million	Plant and equipment \$million	Total \$million
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)
<b>Balance at 31 December 2006</b>	<b>2,856.5</b>	<b>2,376.2</b>	<b>5,232.7</b>	<b>855.7</b>	<b>863.2</b>	<b>1,718.9</b>
<b>Reconciliation of movements</b>						
<b>Assets in development</b>						
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	-	-	-
<b>Producing assets</b>						
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
<b>Total oil and gas assets</b>	<b>2,856.5</b>	<b>2,376.2</b>	<b>5,232.7</b>	<b>855.7</b>	<b>863.2</b>	<b>1,718.9</b>
<b>Comprising:</b>						
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
	<b>2,856.5</b>	<b>2,376.2</b>	<b>5,232.7</b>	<b>855.7</b>	<b>863.2</b>	<b>1,718.9</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**13. Oil and Gas Assets (continued)**

<b>2005</b>	<b>CONSOLIDATED</b>			<b>SANTOS LTD</b>		
	Sub- surface assets \$million	Plant and equipment \$million	Total \$million	Sub- surface assets \$million	Plant and equipment \$million	Total \$million
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
<b>Reconciliation of movements</b>						
<b>Assets in development</b>						
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
<b>Producing assets</b>						
Balance at 1 January 2005	1,670.7	1,515.7	3,186.4	489.8	605.1	1,094.9
Acquisitions of controlled entities	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
<b>Total oil and gas assets</b>	<b>2,588.8</b>	<b>2,203.7</b>	<b>4,792.5</b>	<b>930.4</b>	<b>797.0</b>	<b>1,727.4</b>
<b>Comprising:</b>						
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

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**14. Other Land, Buildings, Plant and Equipment**

	<b>CONSOLIDATED</b>			<b>SANTOS LTD</b>		
	<b>Land and buildings \$million</b>	<b>Plant and equipment \$million</b>	<b>Total \$million</b>	<b>Land and buildings \$million</b>	<b>Plant and equipment \$million</b>	<b>Total \$million</b>
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)
<b>Balance at 31 December 2005</b>	<b>48.0</b>	<b>25.5</b>	<b>73.5</b>	<b>20.9</b>	<b>31.5</b>	<b>52.4</b>
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)
<b>Balance at 31 December 2006</b>	<b>61.6</b>	<b>55.6</b>	<b>117.2</b>	<b>19.7</b>	<b>75.1</b>	<b>94.8</b>
<b>Reconciliation of movements</b>						
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	-	-	-
<b>Balance at 31 December 2005</b>	<b>48.0</b>	<b>25.5</b>	<b>73.5</b>	<b>20.9</b>	<b>31.5</b>	<b>52.4</b>
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)
<b>Balance at 31 December 2006</b>	<b>61.6</b>	<b>55.6</b>	<b>117.2</b>	<b>19.7</b>	<b>75.1</b>	<b>94.8</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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.

CGU	2006			2005		
	Sub-surface assets \$million	Plant and equipment \$million	Total \$million	Sub-surface assets \$million	Plant and equipment \$million	Total \$million
<b>CONSOLIDATED</b>						
<b>Continuing Operations</b>						
Barrow	-	-	-	(14.1)	(16.8)	(30.9)
Elang Kakatua	6.2	0.3	6.5	(11.1)	(0.7)	(11.8)
Mereenie	-	-	-	(9.6)	(8.4)	(18.0)
Moonie	-	-	-	(5.3)	(5.3)	(10.6)
Patricia Baleen	4.4	-	4.4	-	-	-
Thevenard	-	-	-	(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)
	<u>12.9</u>	<u>(1.7)</u>	<u>11.2</u>	<u>(69.2)</u>	<u>(62.6)</u>	<u>(131.8)</u>
Impairment losses			17.3			13.3
Impairment reversals			(6.1)			(145.1)
Net impairment loss/(reversal)			<u>11.2</u>			<u>(131.8)</u>
<b>SANTOS LTD</b>						
Patricia Baleen	2.2	-	2.2	-	-	-
SWQ Oil	-	-	-	(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)
	<u>2.2</u>	<u>0.7</u>	<u>2.9</u>	<u>(52.1)</u>	<u>1.6</u>	<u>(50.5)</u>
Impairment losses			2.9			4.7
Impairment reversals			-			(55.2)
Net impairment loss/(reversal)			<u>2.9</u>			<u>(50.5)</u>

CGU	Description
Barrow	Oil field
Elang Kakatua	Oil field
Mereenie	Oil and gas field
Moonie	Oil field
Patricia Baleen	Gas field and production facility
SWQ Oil	Oil field & pipelines
Thevenard	Oil field

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**15. Impairment of Cash Generating Units (continued)**

The consolidated entity has continued to carry forward capitalised exploration and evaluation expenditure of \$55 million in respect of the Jeruk oil discovery in the Sampang PSC in East Java, Indonesia, and has recognised an associated receivable of \$6 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**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Equity securities available for sale	45.2	14.8	20.3	11.8
Investments in controlled entities	-	-	2,833.8	2,983.5
	<u>45.2</u>	<u>14.8</u>	<u>2,854.1</u>	<u>2,995.3</u>

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:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Consolidated</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
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	<u>(75.1)</u>	<u>(57.4)</u>	<u>517.5</u>	<u>512.9</u>	<u>442.4</u>	<u>455.5</u>



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**17. Deferred Tax Assets and Liabilities (continued)**

	Assets		Liabilities		Net	
	2006 \$million	2005 \$million	2006 \$million	2005 \$million	2006 \$million	2005 \$million
<b>Santos Ltd</b>						
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 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		SANTOS LTD	
	2006 \$million	2005 \$million	2006 \$million	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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>18. Trade and Other Payables</b>				
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
	<u>441.8</u>	<u>392.2</u>	<u>562.9</u>	<u>379.7</u>
<b>19. Interest-Bearing Loans and Borrowings</b>				
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.				
<b>Current liabilities</b>				
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	-	-	-
	<u>159.7</u>	<u>11.1</u>	<u>2,583.6</u>	<u>2,450.9</u>
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.				
<b>Non-current liabilities</b>				
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	-	-
	<u>1,490.0</u>	<u>1,817.0</u>	<u>-</u>	<u>-</u>

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**19. Interest-Bearing Loans and Borrowings (continued)**

**Details of major credit facilities**

**(a) Bank loans - secured**

A reserve-based lending facility for US\$65.0 million (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***

<b>Year of maturity</b>	<b>Currency</b>	<b>2006 A\$million</b>	<b>2005 A\$million</b>
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).

***Term bank loans***

<b>Year of maturity</b>	<b>Currency</b>	<b>2006 A\$million</b>	<b>2005 A\$million</b>
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%).

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**19. Interest-Bearing Loans and Borrowings (continued)**

**(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 at 31 December 2006**

<b>Year of issue</b>	<b>Year of maturity</b>	<b>Effective Interest rate</b>	<b>2006 \$million</b>	<b>2005 \$million</b>
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 at 31 December 2006**

<b>Year of issue</b>	<b>Year of maturity</b>	<b>Effective interest rate</b>	<b>2006 US\$million</b>	<b>2005 US\$million</b>	<b>2006 A\$million</b>	<b>2005 A\$million</b>
2000	2007 to 2015	8.37%	303.4	308.4	384.0	421.0
2002	2009 to 2022	6.11%	298.9	301.5	378.2	411.6
			602.3	609.9	762.2	832.6

**20. Provisions**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>Current</b>				
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
<b>Non-current</b>				
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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**20. Provisions (continued)**

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

	<b>Total restoration \$million</b>	<b>Total Non- executive Directors' retirement benefits \$million</b>	<b>Total \$million</b>
<b>Consolidated</b>			
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)
<b>Balance at 31 December 2006</b>	<b>589.8</b>	<b>1.7</b>	<b>591.5</b>
<b>Santos Ltd</b>			
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
<b>Balance at 31 December 2006</b>	<b>162.6</b>	<b>1.7</b>	<b>164.3</b>

**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.

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>21. Other Liabilities</b>				
<b>Current</b>				
Interest rate swap contracts	6.7	0.1	-	-
Other	2.2	1.8	-	1.3
	<b>8.9</b>	<b>1.9</b>	<b>-</b>	<b>1.3</b>
<b>Non-current</b>				
Other	7.6	6.3	-	-

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. Capital and Reserves**

**Reconciliation of movement in capital and reserves attributable to equity holders of Santos Ltd**

<b>Consolidated</b>	<b>Share capital \$million</b>	<b>Translation reserve \$million</b>	<b>Fair Value reserve \$million</b>	<b>Retained earnings \$million</b>	<b>Total equity \$million</b>
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)
<b>Balance at 31 December 2005</b>	<b>2,212.0</b>	<b>(184.3)</b>	<b>6.0</b>	<b>930.2</b>	<b>2,963.9</b>
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)
<b>Balance at 31 December 2006</b>	<b>2,254.4</b>	<b>(213.9)</b>	<b>13.6</b>	<b>1,301.4</b>	<b>3,355.5</b>
Add: Minority interest	-	-	-	-	-
<b>Total equity</b>	<b>2,254.4</b>	<b>(213.9)</b>	<b>13.6</b>	<b>1,301.4</b>	<b>3,355.5</b>

  

<b>Santos Ltd</b>	<b>Share capital \$million</b>	<b>Translation reserve \$million</b>	<b>Fair Value reserve \$million</b>	<b>Retained earnings \$million</b>	<b>Total equity \$million</b>
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)
<b>Balance at 31 December 2005</b>	<b>2,212.0</b>	<b>-</b>	<b>4.4</b>	<b>784.4</b>	<b>3,000.8</b>
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)
<b>Balance at 31 December 2006</b>	<b>2,254.4</b>	<b>-</b>	<b>2.4</b>	<b>401.7</b>	<b>2,658.5</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. Capital and Reserves (continued)**

Share capital	CONSOLIDATED		SANTOS LTD	
	2006 \$million	2005 \$million	2006 \$million	2005 \$million
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
	<u>2,254.4</u>	<u>2,212.0</u>	<u>2,254.4</u>	<u>2,212.0</u>

Movement in fully paid ordinary shares	Note	2006	2005	2006	2005
		Number of shares	Number of shares	\$million	\$million
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		<u>598,524,106</u>	<u>594,301,771</u>	<u>1,670.0</u>	<u>1,627.6</u>

Movement in redeemable convertible preference shares	2006	2005	2006	2005
	Number of shares	Number of shares	\$million	\$million
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	<u>6,000,000</u>	<u>6,000,000</u>	<u>584.4</u>	<u>584.4</u>

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**22. Capital and Reserves (continued)**

**(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.

***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.



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**22. Capital and Reserves (continued)**

***Dividends***

Dividends recognised during the year by the Company are:

	<b>Dollars per share</b>	<b>Total \$million</b>	<b>Franked/ unfranked</b>	<b>Payment date</b>
<b>2006</b>				
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
		<u>268.5</u>		
<b>2005</b>				
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
		<u>243.0</u>		

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.

Final 2006 redeemable preference	\$2.7272	16.4	Franked	2 Apr 2007
Final 2006 ordinary	\$0.20	119.7	Franked	2 Apr 2007
		<u>136.1</u>		

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.

<b>SANTOS LTD</b>	
<b>2006</b>	<b>2005</b>
<b>\$million</b>	<b>\$million</b>

***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

<u>738.3</u>	<u>570.8</u>
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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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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.

	<b>CONSOLIDATED</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>
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

	<b>2006</b>	<b>2005</b>
	<b>Number of shares</b>	
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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**23. Earnings per Share (continued)**

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 earning per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options or SARs lapsed. The weighted average number included is 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.

	<b>CONSOLIDATED</b>	
	<b>2006</b>	2005
	<b>cents</b>	cents
<b>Earnings per share for continuing and discontinued operations</b>		
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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. Consolidated Entities**

Name	Country of incorporation	Name	Country of incorporation
<b>Santos Ltd (Parent Entity)</b>	AUST	Santos (Bawean) Pty Ltd	AUST
<b>Controlled entities<sup>1</sup>:</b>		Santos (BBF) Pty Ltd	AUST
Alliance Petroleum Australia Pty Ltd <sup>2</sup>	AUST	<i>Controlled entities of Santos (BBF) Pty Ltd</i>	
Basin Oil Pty Ltd	AUST	Santos (SPV) Pty Ltd	AUST
Boston L.H.F. Pty Ltd	AUST	<i>Controlled entities of Santos (SPV) Pty Ltd</i>	
Bridgefield Pty Ltd	AUST	Novus Nominees Pty Ltd	AUST
Bridge Oil Developments Pty Limited <sup>2</sup>	AUST	Santos Brantas Pty Ltd	AUST
Canso Resources Pty Ltd	AUST	Santos (Madura Offshore) Pty Ltd	AUST
Coveyork Pty Ltd	AUST	Santos UK (Kakap 2) Limited	UK
Doce Pty Ltd	AUST	Santos (Donggala) Pty Ltd	AUST
Fairview Pipeline Pty Ltd <sup>3</sup>	AUST	Santos Egypt Pty Ltd	AUST
Fairview Power Pty Ltd <sup>3</sup>	AUST	Santos Hides Ltd	PNG
Farmout Drillers Pty Ltd	AUST	Santos International Operations Pty Ltd	AUST
Kipper GS Pty Ltd	AUST	Santos Niugini Exploration Limited	PNG
<i>Controlled entity of Kipper GS Pty Ltd</i>		Santos (Nth Bali 1) Pty Ltd	AUST
Crusader (Victoria) Pty Ltd	AUST	Santos (Papalang) Pty Ltd	AUST
Moonie Pipeline Company Pty Ltd	AUST	Santos (Popodi) Pty Ltd	AUST
Reef Oil Pty Ltd <sup>2</sup>	AUST	Santos Vietnam Pty Ltd <sup>3</sup>	AUST
Santos Asia Pacific Pty Ltd	AUST	Santos (JPDA 06-104) Pty Ltd <sup>3</sup>	AUST
<i>Controlled entities of Santos Asia Pacific Pty Ltd</i>		Santos (JPDA 91-12) Pty Ltd	AUST
Santos (Sampang) Pty Ltd	AUST	Santos (NGA) Pty Ltd <sup>5</sup>	AUST
Santos (Warim) Pty Ltd	AUST	Santos (NARNL Cooper) Pty Ltd	AUST
Santos Australian Hydrocarbons Pty Ltd	AUST	Santos (N.T.) Pty Ltd	AUST
Santos (BOL) Pty Ltd <sup>2</sup>	AUST	<i>Controlled entity of Santos (N.T.) Pty Ltd</i>	
<i>Controlled entity of Santos (BOL) Pty Ltd</i>		Bonaparte Gas & Oil Pty Limited	AUST
Bridge Oil Exploration Pty Limited	AUST	Santos Offshore Pty Ltd <sup>2</sup>	AUST
Santos CSG Pty Ltd ( <i>previously Sundog Investments Pty Ltd</i> <sup>3</sup> )	AUST	Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
Santos Darwin LNG Pty Ltd <sup>2</sup>	AUST	Santos Petroleum Pty Ltd <sup>2</sup>	AUST
Santos Direct Pty Ltd	AUST	Santos QNT Pty Ltd <sup>2</sup>	AUST
Santos Facilities Pty Ltd	AUST	<i>Controlled entities of Santos QNT Pty Ltd</i>	
Santos Finance Ltd	AUST	Santos QNT (No. 1) Pty Ltd <sup>2</sup>	AUST
Santos Globe Pty Ltd	AUST	<i>Controlled entities of Santos QNT (No. 1) Pty Ltd</i>	
Santos International Holdings Pty Ltd	AUST	Santos Petroleum Management Pty Ltd <sup>2</sup>	AUST
<i>Controlled entities of Santos International Holdings Pty Ltd</i>		Santos Petroleum Operations Pty Ltd	AUST
Barracuda Limited	PNG	TMOE Exploration Proprietary Limited	AUST
CJSC South Petroleum Company <sup>4</sup>	KYR	Santos QNT (No. 2) Pty Ltd <sup>2</sup>	AUST
Lavana Limited	PNG	<i>Controlled entities of Santos QNT (No. 2) Pty Ltd</i>	
Sanro Insurance Pte Ltd	SING	Associated Petroleum Pty Ltd <sup>5</sup>	AUST
Santos Americas and Europe Corporation	USA	Moonie Oil Pty Ltd	AUST
<i>Controlled entities of Santos Americas and Europe Corporation</i>		Petromin Pty Ltd	AUST
Santos USA Corp	USA	Santos (299) Pty Ltd <sup>5</sup>	AUST
Santos TPY Corp ( <i>previously Tipperary Corporation</i> )	USA	Santos Exploration Pty Ltd	AUST
<i>Controlled entities of Santos TPY Corp</i>		Santos Gnuco Pty Ltd <sup>5</sup>	AUST
Burro Pipeline Inc	USA	Transoil Pty Ltd	AUST
Santos Queensland Corp ( <i>previously Tipperary Qld Inc</i> )	USA	Santos Resources Pty Ltd	AUST
Santos TOG Corp ( <i>previously Tipperary Oil &amp; Gas Corporation</i> )	USA	Santos (TGR) Pty Ltd	AUST
<i>Controlled entities of Santos TOG Corp</i>		Santos Timor Sea Pipeline Pty Ltd	AUST
Santos TPY CSG Corp ( <i>previously Tipperary CSG Inc</i> )	USA	Sesap Pty Ltd	AUST
Santos TOGA Pty Ltd ( <i>previously Tipperary Oil &amp; Gas (Australia) Pty Ltd</i> )	AUST	Vamgas Pty Ltd <sup>2</sup>	AUST
<i>Controlled entity of Tipperary Oil &amp; Gas (Australia) Pty Ltd</i>			
Santos TPC Pty Ltd ( <i>previously Tipperary Pastoral Company Pty Ltd</i> )	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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. Consolidated Entities (continued)**

**Notes**

***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:

<b>Name of entity</b>	<b>Date of acquisition</b>	<b>Beneficial interest acquired</b>	<b>Purchase consideration</b>	<b>Contribution to consolidated profit since acquisition</b>
		<b>%</b>	<b>\$million</b>	<b>\$million</b>
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.

	<b>Carrying amounts</b>	<b>Fair value adjustments</b>	<b>Recognised values</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**26. Interests in Joint Ventures**

- (a) The following are the significant joint ventures in which the consolidated entity is a joint venturer:

<b>Joint venture</b>	<b>Cash generating unit</b>	<b>Principal activities</b>	<b>% Interest</b>
<b>Oil and gas assets -</b>			
<b>Producing assets</b>			
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
<b>Oil and gas assets -</b>			
<b>Assets in development</b>			
Jeruk	Sampang PSC	Oil development	40.5
Kipper	Kipper	Contingent gas resource	50.0
Oyong	Sampang PSC	Oil and gas development	40.5
<b>Exploration and evaluation assets</b>			
Evans Shoal	-	Contingent gas resource	40.0
Hides	-	Contingent gas resource	31.0
Reindeer	-	Contingent gas resource	45.0

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>26. Interests in Joint Ventures (continued)</b>				
(b) The consolidated entity's interest in assets employed in joint ventures are included in the balance sheet under the following asset categories:				
<b>Current assets</b>				
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	-	-	-
<b>Total current assets</b>	<b>353.7</b>	<b>170.3</b>	<b>63.1</b>	<b>56.8</b>
<b>Non-current assets</b>				
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	-	-
<b>Total non-current assets</b>	<b>4,038.5</b>	<b>4,237.5</b>	<b>1,609.1</b>	<b>1,734.6</b>
<b>Total assets</b>	<b>4,392.2</b>	<b>4,407.8</b>	<b>1,672.2</b>	<b>1,791.4</b>
(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

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>27. Reconciliation of Cash Flows from Operating Activities</b>				
<b>Profit/(loss) after income tax</b>	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)
<b>Net cash provided by operating activities before changes in assets or liabilities</b>	<b>1,637.3</b>	<b>1,264.5</b>	<b>669.6</b>	<b>345.2</b>
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)
<b>Net cash provided by operating activities</b>	<b>1,550.3</b>	<b>1,457.9</b>	<b>600.9</b>	<b>270.4</b>



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>28. Employee Benefits</b>				
<b>(a) Liability for defined benefit obligations</b>				
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.				
<b>Defined benefit plan</b>				
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 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 \***

	<b>CONSOLIDATED</b>			<b>SANTOS LTD</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
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".

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>28. Employee Benefits (continued)</b>				
<b>(a) Liability for net defined benefit obligations (continued)</b>				
<b>Reconciliation of the present value of the net defined benefit obligations</b>				
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
<b>Reconciliation of the fair value of net Plan assets</b>				
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
<b>Plan assets</b>				
The percentage invested in each asset class at the balance sheet date:				
	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
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
<b>Fair value of Plan assets</b>				
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.				
	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>Actual return on Plan assets</b>				
Actual return on Plan assets	9.9	10.5	9.9	10.5

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Employee Benefits (continued)**

**(a) Liability for defined benefit obligations (continued)**

**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.

**Principal actuarial assumptions at the balance sheet date (expressed as weighted average)**

	<b>2006</b> <b>% pa</b>	<b>2005</b> <b>% pa</b>
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.

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>Expense recognised in the income statements</b>				
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)
	<b>4.3</b>	<b>2.9</b>	<b>4.3</b>	<b>2.9</b>

**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
	<b>4.3</b>	<b>2.9</b>	<b>4.3</b>	<b>2.9</b>

**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	<b>(6.3)</b>	<b>(0.3)</b>	<b>(6.3)</b>	<b>(0.3)</b>

**Summary of the most recent financial position of the Plan**

	<b>31 Dec</b> <b>2004</b> <b>\$million</b>	<b>31 Dec</b> <b>2004</b> <b>\$million</b>
Net market value of plan assets	98.6	98.6
Accrued benefits	98.9	98.9
Net (deficit)/surplus	<b>(0.3)</b>	<b>(0.3)</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Employee Benefits (continued)**

**(a) Liability for defined benefit obligations (continued)**

***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

**(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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. Share-based Payment Plans (continued)**

**(a) Current General Employee Share Plans (continued)**

**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	GRANTED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		CLOSING BALANCE	
	Number	Number	Fair value per share \$	Number	Fair value aggregate \$	Number	Fair value aggregate \$
<b>2006</b>							
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
	<u>414,685</u>	<u>114,356</u>		<u>192,147</u>	<u>2,153,141</u>	<u>336,894</u>	<u>3,325,144</u>
<b>2005</b>							
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
	<u>520,388</u>	<u>106,744</u>		<u>212,447</u>	<u>2,377,462</u>	<u>414,685</u>	<u>5,079,891</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**29. Share-based Payment Plans (continued)**

**(a) Current General Employee Share Plans (continued)**

***SESAP (continued)***

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

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

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

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>\$million</b>	\$million	<b>\$million</b>	\$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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. Share-based Payment Plans (continued)**

**(a) Current General Employee Share Plans (continued)**

**SESPP (continued)**

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

Grant dates	OPENING BALANCE	GRANTED DURING THE YEAR	Fair value per share \$	RESTRICTION CEASED DURING THE YEAR	Date	CLOSING BALANCE
	Number	Number		Number		Number
<b>2006</b>						
18 November 2005	49,800	-	-	49,800	18 November 2006	-
17 November 2006	-	62,900	10.48	-	-	62,900
	<u>49,800</u>	<u>62,900</u>		<u>49,800</u>		<u>62,900</u>
<b>2005</b>						
26 November 2004	32,400	-	-	32,400	26 November 2005	-
18 November 2005	-	49,800	11.24	-	-	49,800
	<u>32,400</u>	<u>49,800</u>		<u>32,400</u>		<u>49,800</u>

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.

**(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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

***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:

<b>Tranche</b>	<b>Number of options</b>	<b>Earliest Exercise Date</b>
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.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

***SARs and options (continued)***

***CEO Options (continued)***

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.

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 (ie 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 (ie 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:

<b>Company Performance</b>	<b>% of options which become exercisable (each to apply to 50% of a tranche)</b>
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% vesting

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

***SARs and options (continued)***

***CEO Options (continued)***

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.

Option Grant	<b>2006 CEO options</b>		
	<b>Tranche 1</b>	<b>Tranche 2</b>	<b>Tranche 3</b>
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:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Employee expenses	1.4	-	1.4	-

***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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

***SARs and options (continued)***

***Eligible senior executives (continued)***

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:

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

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>\$million</b>	\$million	<b>\$million</b>	\$million
Issued ordinary share capital	3.9	25.6	3.9	25.6

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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.

	Weighted average exercise price	2006							Weighted average exercise price	2005  Number of options
		A	B	C	Number of options		Total			
					D	Type 1	Type 2			
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	<u>42,250</u>	<u>287,600</u>	<u>628,000</u>	<u>897,700</u>	<u>143,276</u>	<u>450,000</u>	<u>2,448,826</u>	\$7.47	<u>2,418,328</u>
Exercisable at the end of the period	\$6.67	<u>42,250</u>	-	-	-	<u>143,276</u>	<u>250,000</u>	<u>435,526</u>	\$6.48	<u>952,328</u>

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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

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.

Option Grant	2006		2005	
	D	A	B	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		SANTOS LTD	
	2006	2005	2006	2005
	\$million	\$million	\$million	\$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 ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

	Number of SARs					2005
	A	B	2006 C	D	Total	
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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. Share-based Payment Plans (continued)**

**(b) Executive Long-term Incentive Program (continued)**

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	A	2005	C
	D		B	
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		SANTOS LTD	
	2006	2005	2006	2005
	\$million	\$million	\$million	\$million
Employee expenses	0.7	1.9	0.7	1.9

**(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 5 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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.

**Directors**

<b>Name</b>	<b>Position</b>
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.

**(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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

**Non-executive Directors (continued)**

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.



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

*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.

*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 2 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

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).

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

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 12 months notice, except with respect to Mr J T Young who is entitled to 3 months notice. The Company may make a payment in lieu of notice. Senior executives must give the Company at least 6 months notice of resignation, with the exception of Mr J T Young who must give the Company at least 3 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 12 months from 1 January 2008. The Company may require the Managing Director to continue to work for up to 3 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 3 months' notice of intention to resign.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

2006 Name	Short-term employee benefits				Total	Post employ- ment Super- annuation <sup>3</sup>	Share-based payments <sup>4</sup>			Other long- term benefits	Termin- ation	Total	Perform- ance related %
	Fees/ Salary <sup>1</sup>	Committee fees	STI	Other <sup>2</sup>			SARs	Options	Total				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>													
Barnett, Peter Charles <sup>5</sup>	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 <sup>5</sup>	114,568	20,768	-	-	135,336	-	-	-	-	-	-	135,336	-
Recny, Christopher John <sup>5</sup>	27,500	-	-	-	27,500	2,475	-	-	-	-	-	29,975	-
Sloan, Judith	120,000	31,500	-	-	151,500	12,372	-	-	-	-	-	163,872	-
<b>Executives</b>													
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 <sup>6</sup>	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 <sup>7</sup>	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
<b>Total</b>	<b>5,933,945</b>	<b>120,897</b>	<b>2,882,700</b>	<b>57,963</b>	<b>8,995,505</b>	<b>1,177,225</b>	<b>56,342</b>	<b>1,478,785</b>	<b>1,535,127</b>	<b>-</b>	<b>37,158</b>	<b>11,745,015</b>	

<sup>1</sup> Each of the non-executive Directors receives fees and no salary.

<sup>2</sup> Includes the cost of car parking provided in the Company's head office in Adelaide for the CEO and executives.

<sup>3</sup> 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 represents either cash contributions or actuarial assessment of the benefit provided where relevant.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

Name	Short-term employee benefits				Total	Post employment Super-annuation <sup>3</sup>	Share-based payments <sup>4,5,6</sup>			Other long-term benefits	Termination	Total	Performance related
	Fees/Salary <sup>1</sup>	Committee fees	STI	Other <sup>2</sup>			SARs	Options	Total				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>													
Barnett, Peter Charles	110,000	24,000	-	-	134,000	11,862	-	-	-	-	-	145,862	-
Dean, Kenneth Alfred <sup>7</sup>	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 <sup>8</sup>	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 <sup>7</sup>	93,650	-	-	-	93,650	8,428	-	-	-	-	-	102,078	-
Sloan, Judith	110,000	24,000	-	-	134,000	11,822	-	-	-	-	-	145,822	-
<b>Executives</b>													
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 <sup>9</sup>	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
<b>Total</b>	<b>5,180,962</b>	<b>96,153</b>	<b>3,073,400</b>	<b>46,688</b>	<b>8,397,203</b>	<b>545,802</b>	<b>1,391,698</b>	<b>203,492</b>	<b>1,595,190</b>	<b>-</b>	<b>41,547</b>	<b>10,579,742</b>	

<sup>1</sup> Each of the non-executive Directors receives fees and no salary.

<sup>2</sup> Includes the cost of car parking provided in the Company's head office in Adelaide.

<sup>3</sup> Superannuation contributions made on behalf of non-executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee legislation.

<sup>4</sup> 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.

<sup>5</sup> The Managing Director was granted options at the time his employment with the Company commenced. In respect of senior executives, a range of 20% - 23% of each executive's remuneration for the financial year consists of grants of SARs or options.

<sup>6</sup> 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.

<sup>7</sup> Mr K A Dean and Mr C J Recny joined the Board on 23 February 2005.

<sup>8</sup> Mr G W McGregor retired from the Board on 30 September 2005.

<sup>9</sup> 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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 <sup>1,2,3</sup>	Options exercised / rights vested <sup>4</sup>	Amount paid per option exercised/ right vested	Other Changes <sup>5</sup>	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
<b>Options</b>										
<b>Directors</b>										
Ellice-Flint, John Charles	-	2,500,000	-	-	-	2,500,000	-	-	-	-
<b>Executives</b>										
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 <sup>6</sup>	210,985	-	(45,085)	\$6.38	(138,250)	-	11,100	-	-	-
			(27,650)	\$8.46						
Young, Jonathon Terence	-	93,200	-	-	-	93,200	-	-	-	-
	<u>864,698</u>	<u>2,786,500</u>	<u>(472,735)</u>		<u>(152,750)</u>	<u>3,025,713</u>	<u>25,600</u>	<u>73,613</u>	<u>73,613</u>	<u>-</u>
<b>Rights</b>										
<b>Executives</b>										
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 <sup>7</sup>	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	-	-	-
	<u>318,900</u>	<u>59,100</u>	<u>(52,750)</u>		<u>(92,750)</u>	<u>232,500</u>	<u>52,750</u>	<u>-</u>	<u>-</u>	<u>-</u>

<sup>1</sup> 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 28 August 2009.

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<sup>2</sup> *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.*

<sup>3</sup> *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.*

<sup>4</sup> *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.*

<sup>5</sup> *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.*

<sup>6</sup> *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.*

<sup>7</sup> *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).



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. Key Management Personnel Disclosures (continued)**

**(c) Equity holdings of key management personnel**

***Options and rights holdings (continued)***

**2005**

Name	Balance at beginning of the year	Granted <sup>1,2</sup>	Options exercised / rights vested <sup>3</sup>	Amount paid per option exercised/ right vested	Other changes <sup>4</sup>	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
<b>Options</b>										
<b>Directors</b>										
Ellice-Flint, John Charles	3,000,000	-	(2,000,000)	\$5.83	-	-	1,000,000	-	-	-
			(1,000,000)	\$5.83						
<b>Executives</b>										
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	-	-	-
	<u>3,820,085</u>	<u>215,900</u>	<u>(3,575,000)</u>			<u>460,985</u>	<u>1,450,000</u>	<u>245,085</u>	<u>245,085</u>	<u>-</u>
<b>Rights</b>										
<b>Executives</b>										
Eames, Martyn Edward James	-	19,600	-	-	-	19,600	-	-	-	-
Gouadain, Jacques Elie	-	60,000	-	-	-	60,000	-	-	-	-
Moore, Paul Derek <sup>5</sup>	-	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	-	-	-	-
	<u>-</u>	<u>334,600</u>	<u>-</u>		<u>(53,100)</u>	<u>281,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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- <sup>4</sup> *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.*
- <sup>5</sup> *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).

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**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 <sup>1</sup>	Balance at end of the year	Balance held nominally at end of the year
<b>Ordinary shares –fully paid</b>								
<b>Directors</b>								
Barnett, Peter Charles <sup>2</sup>	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 <sup>2</sup>	4,898	-	-	-	-	(4,898)	-	-
Recny, Christopher John <sup>2</sup>	-	-	-	-	-	-	-	-
Sloan, Judith	5,000	-	-	-	-	-	5,000	-
<b>Executives</b>								
Anderson, John Hugh	1,812	-	-	4,300	-	63	6,175	-
Brown, Trevor John	-	-	200,000	-	-	-	200,000	-
Eames, Martyn Edward James	-	-	-	-	-	-	-	-
Gouadain, Jacques Elie <sup>3</sup>	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 <sup>3</sup>	57,290	-	72,735	-	-	(130,025)	-	-
Young, Jonathon Terence	267,183	-	-	13,000	-	-	280,183	-
	<u>4,481,821</u>	<u>-</u>	<u>472,735</u>	<u>52,750</u>	<u>-</u>	<u>(377,549)</u>	<u>4,629,757</u>	<u>-</u>
<b>Redeemable convertible preference shares</b>								
Ellice-Flint, John Charles	225	-	-	-	-	-	225	-
Sloan, Judith	195	-	-	-	-	-	195	-
	<u>420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420</u>	<u>-</u>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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**30. Key Management Personnel Disclosures (continued)**

**(c) Equity holdings of key management personnel (continued)**

**Share holdings (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
<b>Ordinary shares –fully paid</b>								
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	-
Franklin, Roy	-	-	-	-	-	-	-	-
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 <sup>1</sup>	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	-
	<u>1,178,222</u>	<u>-</u>	<u>3,575,000</u>	<u>-</u>	<u>-</u>	<u>(276,417)</u>	<u>4,476,805</u>	<u>-</u>
<b>Redeemable convertible preference shares</b>								
Directors								
Ellice-Flint, John Charles	225	-	-	-	-	-	225	-
Sloan, Judith	195	-	-	-	-	-	195	-
	<u>420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420</u>	<u>-</u>

<sup>1</sup> 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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.

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
<b>32. Remuneration of Auditors</b>				
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	-
	<b>833</b>	-	<b>562</b>	-
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:				
Taxation	12	-	-	-
Other services	38	-	-	-
	<b>50</b>	-	-	-
Amounts received or due and receivable by non Ernst & Young firms for:				
External audit services	73	1,168	49	360
Other services	-	12	-	6
	<b>73</b>	<b>1,180</b>	<b>49</b>	<b>366</b>

KPMG were the auditors of Santos Ltd in 2005.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**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				
<b>Primary Reporting</b>										
<b>Geographic segments</b>										
<b>Revenue</b>										
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
<b>Total revenue</b>					2,736.9	2,371.9	61.2	119.9	2,798.1	2,491.8
<b>Results</b>										
<b>Earnings before interest and tax ("EBIT")</b>	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)
<b>Profit before tax and net financing costs</b>					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)
<b>Profit before income tax expense</b>					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)
<b>Net profit after income tax</b>					670.9	763.6	(27.5)	(1.5)	643.4	762.1

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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				
<b>Primary reporting</b>										
<b>Geographic segments (continued)</b>										
<b>Non-cash expenses</b>										
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)
<b>Total non-cash expenses</b>					948.1	535.8	108.2	98.1	1,056.3	633.9
<b>Acquisition of non-current assets</b>										
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
<b>Total acquisition of non-current assets</b>					1,506.7	1,514.7	111.2	-	1,617.9	1,514.7
<b>Assets</b>										
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
<b>Consolidated total assets</b>					6,692.1	6,196.1	210.8	-	6,902.9	6,196.1
<b>Liabilities</b>										
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
<b>Consolidated total liabilities</b>					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.

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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>34. Commitments for Expenditure</b>				
The consolidated entity has the following commitments for expenditure:				
<b>(a) Capital commitments</b>				
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>(b) Minimum exploration commitments</b>				
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.				
<b>(c) Lease commitments</b>				
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



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**34. Commitments for Expenditure (continued)**

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.

<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>

**(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
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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:

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
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**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**35. Contingent Liabilities (continued)**

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.

***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 mud flow 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 Corporations Act 2001. The subsidiaries have also given a similar guarantee in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

Alliance Petroleum Australia Pty Ltd  
 Bridge Oil Developments Pty Limited  
 Reef Oil Pty Ltd  
 Santos (BOL) Pty Ltd  
 Santos Darwin LNG Pty Ltd  
 Santos 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:

	<b>CLOSED GROUP 2006 \$million</b>
<b>Consolidated Income Statement</b>	
Profit before tax	271.8
Income tax expense	(213.6)
<b>Profit after tax</b>	<b>58.2</b>
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)
<b>Retained earnings at the end of the period</b>	<b>1,161.9</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**36. Deed of Cross Guarantee (continued)**

	<b>CLOSED GROUP 2006 \$million</b>
<b>Consolidated Balance Sheet</b>	
<b>Current assets</b>	
Cash and cash equivalents	85.7
Trade and other receivables	726.5
Inventories	134.7
Other	17.8
<b>Total current assets</b>	<b>964.7</b>
<b>Non-current assets</b>	
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
<b>Total non-current assets</b>	<b>6,034.1</b>
<b>Total assets</b>	<b>6,998.8</b>
<b>Current liabilities</b>	
Trade and other payables	2,631.1
Deferred income	6.3
Current tax liabilities	208.1
Employee benefits	58.1
Other provisions	8.8
<b>Total current liabilities</b>	<b>2,912.4</b>
<b>Non-current liabilities</b>	
Deferred income	11.3
Deferred tax liabilities	186.1
Employee benefits	26.3
Other provisions	438.5
<b>Total non-current liabilities</b>	<b>662.2</b>
<b>Total liabilities</b>	<b>3,574.6</b>
<b>Net assets</b>	<b>3,424.2</b>
<b>Equity</b>	
Issued capital	2,254.4
Reserves	7.9
Retained earnings	1,161.9
<b>Total equity</b>	<b>3,424.2</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 sixteen 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**37. Financial Instruments (continued)**

**(b) Interest rate risk (continued)**

***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.

<b>Consolidated</b>	Note	Effective interest rate	Total \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million	2-5 years \$million	More than 5 years \$million
<b>2006</b>								
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
			<u>(1,480.4)</u>	<u>(869.9)</u>	<u>(53.2)</u>	<u>0.3</u>	<u>(464.0)</u>	<u>(93.6)</u>
<b>2005</b>								
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
			<u>(1,571.8)</u>	<u>(925.2)</u>	<u>-</u>	<u>(68.8)</u>	<u>(116.5)</u>	<u>(461.3)</u>

\* After incorporating the effect of interest rate swaps

\*\* Notional principal amounts.

***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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**37. Financial Instruments (continued)**

**(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 and 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

Adelaide

Director



## INDEPENDENT AUDIT REPORT

To the members of Santos Ltd

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the income statement, balance sheet, cash flow statement and statement 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

RJ Curtin  
Partner  
Adelaide

Date: 22<sup>nd</sup> February 2007