

Santos

Advantage

Sustainability Report **2007**



Inside:

Scorecard of our sustainability performance **7**

Drilling innovations reduce water use **15**

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Call for a low emission technology strategy **37**

Cover photo:
one of the 2,800 plants
in the Santos Centre,
Adelaide.

Designed with a long-term horizon, Santos' new head office is an innovative blend of people-friendly workspaces and leading edge technology. It incorporates the company's strong commitment to sustainability and the health and wellbeing of Santos' employees.

See page 33 for more information.



The Knowledge Base

*****Five-star rating from the Green Building Council of Australia.



10

Exploration

Our reputation for sustainability gives Santos an **advantage** by fostering positive long-term relationships with communities and business partners so we can access superior opportunities.



18

Operations

Our strategy of sustainable operational excellence aims to improve safety and environmental performance, reduce costs by applying efficiencies and new technologies, and optimise production. This **advantage** creates maximum value from Santos' oil and gas assets.



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Development

Extensive consultation and planning with stakeholders give Santos an **advantage** by ensuring development projects start production on time and on budget. Using sustainable design minimises our impact on the environment and local communities.

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Company profile and history, and an overview of Santos' vision, strategy and values.

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Corporate directory

Santos

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

Company profile

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

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

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

Santos has more than 1,750 employees and produced 59.1 million barrels of oil equivalent (mmbob) in 2007.

Santos has the largest Australian exploration and production portfolio by area of any company – 192,000 square kilometres – and is pursuing new venture opportunities in Asia.

History

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

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

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

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



Premium WilCraft jack-up rig being transported to the Carnarvon Basin, offshore Western Australia, for exploration drilling.



Vision

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

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

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

Strategy

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

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

Values

We are a team that:

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

The sustainability advantage

Managing Director,
John Eilice-Flint.



Having a viable sustainability framework which is part of everyday life in all parts of the company gives Santos a perceptible **advantage**, enabling us to seize opportunities and meet challenges with clarity and confidence.

Future success doesn't come from preparing for what you think may happen, but rather from having the tools in place to deal with whatever does happen.

By continuing to measure our sustainability performance across all aspects of our business, we have the right mechanism in place to identify areas for improvement and recognise high performance.

I am pleased to report that our sustainability performance improved this year with many achievements both on the ground and in the implementation of policies and systems. In particular I would like to highlight our very successful health and wellbeing program, the move into our new Santos Centre which exemplifies sustainable building design, the publication of our Human Rights Policy and the successful seismic acquisition in Vietnam and India – new regions for Santos.

However, it wasn't a year without disappointments. An oil spill from the Moonie to Brisbane pipeline caused disruption and inconvenience to local residents. While this was regrettable, I would like to thank the Santos response teams for their prompt, professional response and ongoing efforts in the remediation of this site and the assistance they have provided to the local community.

Our vision is to become a leading energy company in South East Asia by the end of the decade with a share price that continues to grow and a reputation for sustainability in our operations.

We are committed to integrating the principles of sustainability into our day-to-day business, measuring our progress towards this goal and transparently reporting this progress.

We value our stakeholders' opinions and so invite you to tell us what you think of this report via www.santos.com/sustainability2007.



John Ellice-Flint
Managing Director

13 March 2008

Sustainability achievements 2007

Environment

- Australian Petroleum Production and Exploration Association Environment Award recognised Santos' five-year research partnership into the relationship between whales and seismic activity.
- Santos joined eight other leading companies, known as the Australian Business & Climate Group, to publish a report calling for an urgent strategy on low emission technology to help reduce greenhouse gas emissions.

Community

- Led by Santos employees and contractors, and joined by Santos and the Cooper Basin community, more than \$100,000 was raised for the Royal Flying Doctor Service.
- Santos funded revegetation projects through its sponsorship program, including the Timboon embankment restoration in Victoria and the Our Patch program on the River Torrens, Adelaide.

Our people

- Employee participation in the company's ongoing health check program increased by 19%. In 2007 this highly successful program focused on nutrition, health and weight loss.
- Santos won four of the six categories at the Self Insurers of South Australia safety awards and two awards at the Safe Work SA awards, including Employer of the Year.

Economic

- The South Australian Government repealed legislation restricting any one shareholder from having more than 15% of Santos' shares, enhancing the company's ability to pursue its growth strategy.
- Announcement of the proposed \$7 billion Gladstone LNG project – a transformational project for Santos – signalled further development of Queensland coal seam gas fields.

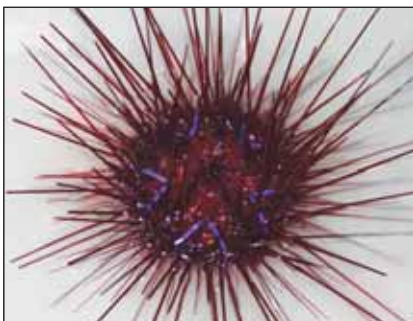
The world of Santos



Seismic acquisition program undertaken in Kyrgyzstan.



Further expansion into Asia with Santos' first exploration acreage awarded in India and Bangladesh.



Research collaboration in WA discovered the world's first carnivorous sea urchin.



Key to maps

- ▲ Exploration
- Production
- Processing and load-out facility



Funding of health clinics, schools and roads in Giligenting Island.



Santos supports volunteer Ballera Emergency Responders who train for and attend to Santos and community incidents in south-west Queensland.



Henry and Kipper gas projects sanctioned, part of Santos' next wave of development projects.

Sustainability measurement and performance

Santos' framework for sustainability provides a comprehensive information collection and gap analysis management tool for each of the 24 sustainability indicators outlined in the performance scorecard.

Santos' 24 sustainability indicators are based on the Global Reporting Initiative (GRI) G3 reporting guidelines and the

International Petroleum Industry Environmental Conservation Association (IPIECA) and American Petroleum Institute (API) reporting guidance (see index on page 39).

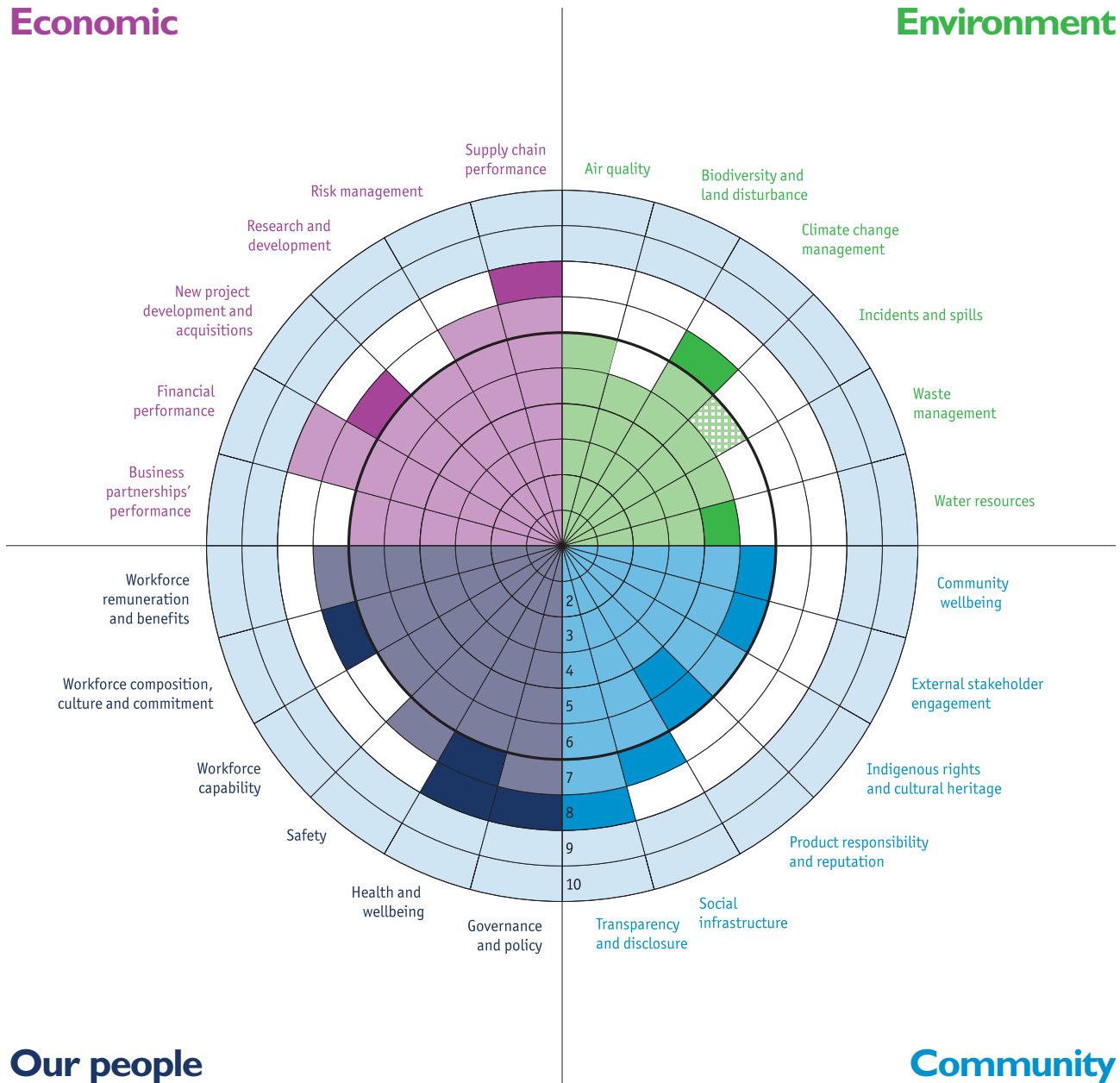
To assess performance for each of these indicators Santos has implemented a 10-point rating scale, which measures the quality of systems and performance.

Santos commissioned RPS Ecos to review the 2007 sustainability scores. RPS Ecos determined that the scores were appropriate and consistent with Santos' methodology (see page 41 for further verification information).

Environment	
– Air quality	The types and levels of emissions to air and the management of those emissions (excluding greenhouse gases)
– Biodiversity and land disturbance	Amount of land impacted by Santos and the biodiversity, mineral and hydrocarbon resources associated with the land, and the effectiveness of land use
– Climate change management	Climate change policies, governance, risk and reporting
– Incidents and spills	Type, volume and impact of uncontrolled releases to the environment
– Waste management	Type and volume of waste to landfill, recycled and reused
– Water resources	Volume of water used, water disposal and the effectiveness of water use
Community	
– Community wellbeing	Quality of life in the communities in which Santos operates and Santos' contribution to these communities
– External stakeholder engagement	Engagement with and management of stakeholders
– Indigenous rights and cultural heritage	Native title and cultural heritage policies, governance and reporting
– Product responsibility and reputation	Stewardship of Santos' products and Santos' reputation
– Social infrastructure	Assessment of and contribution to the social infrastructure in the communities in which Santos operates
– Transparency and disclosure	Policies and procedures in place for the disclosure of information to stakeholders
Our people	
– Governance and policy	Santos' systems and policies to manage a socially responsible work environment in compliance with legislation
– Health and wellbeing	Physical and mental health of Santos employees
– Safety	Safety performance of Santos' employees and contractors
– Workforce capability	Attraction and development of employees' skills, knowledge and behaviours to enable achievement of business goals
– Workforce composition, culture and commitment	Alignment of business practices with shared values and principles to maximise the commitment and retention of our people
– Workforce remuneration and benefits	Reward policies to attract and retain talent and pay for performance
Economic	
– Business partnerships' performance	Affiliations of joint venture partners and their sustainability performance
– Financial performance	The contribution made by Santos directly and indirectly through its financial performance and outcomes
– New project development and acquisitions	New development projects and acquisitions and their sustainability performance
– Research and development	Santos' contribution to research and development
– Risk management	Identification, assessment and mitigation of all business risk within the company's tolerance, including the maintenance of appropriate insurance cover
– Supply chain performance	The composition and efficient operation of the supply chain used by Santos, including the use, impact and concentration of the supply chain in companies and communities

Economic

Environment



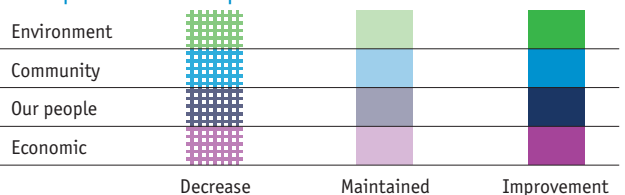
Our people

Community

Score Phase

1-2	No procedure in place, poor performance
3-4	Developing policy/systems
5-6	Implementation and compliance focus
7-8	High performance
9-10	Recognised leader

2007 performance compared to 2006



10% sustainability improvement achieved in 2007

Santos' continued focus on sustainability resulted in a 10% improvement to the company's sustainability scorecard in 2007. Measurable improvements included:

- a well-structured and inclusive health and wellbeing program;
- a strategic approach to climate change management;
- improved governance systems including the publication of the Human Rights Policy and the How Santos Works management system; and
- economic and environmental efficiencies in supply chain management.

A major disappointment in 2007 was the Moonie to Brisbane pipeline oil spills. Santos recognises its responsibility to the environment and will continue to strive for excellence in this regard.

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

Santos' goal for 2008 is to continue to improve its performance across all sustainability indicators and achieve an average performance score of at least seven.

Santos has in place a suite of systems and procedures to manage risks. These systems also ensure the company is prepared to respond to incidents to minimise potential impacts. An assessment using sustainability indicators beyond traditional economic measures helps Santos to continue to identify areas for improvement.

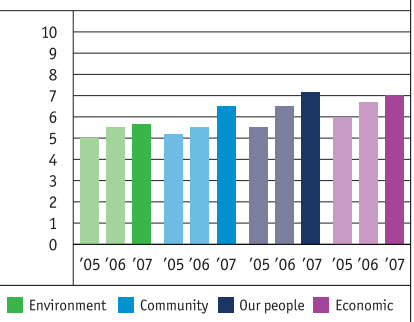
Santos approaches sustainability in a way that integrates these principles into its business activities. Therefore the Sustainability Report is structured in line with Santos' functional organisational model (shown on page 9) rather than as a generic environmental and social report.

The comprehensive sustainability performance scorecard on page 7 and the environmental efficiency cycle on page 9 illustrate Santos' progress in integrating sustainability throughout the organisation.

With progressive Sustainability Reports, the maturity of Santos' monitoring and measurement for each sustainability indicator continues to improve and, where practical, Santos has included more data and performance metrics.

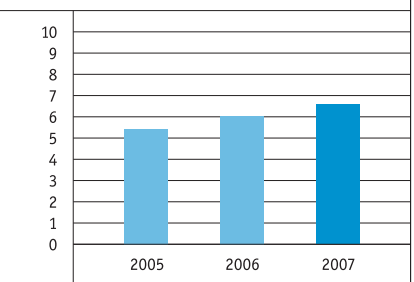
Santos scorecard

Score out of 10



Santos scorecard

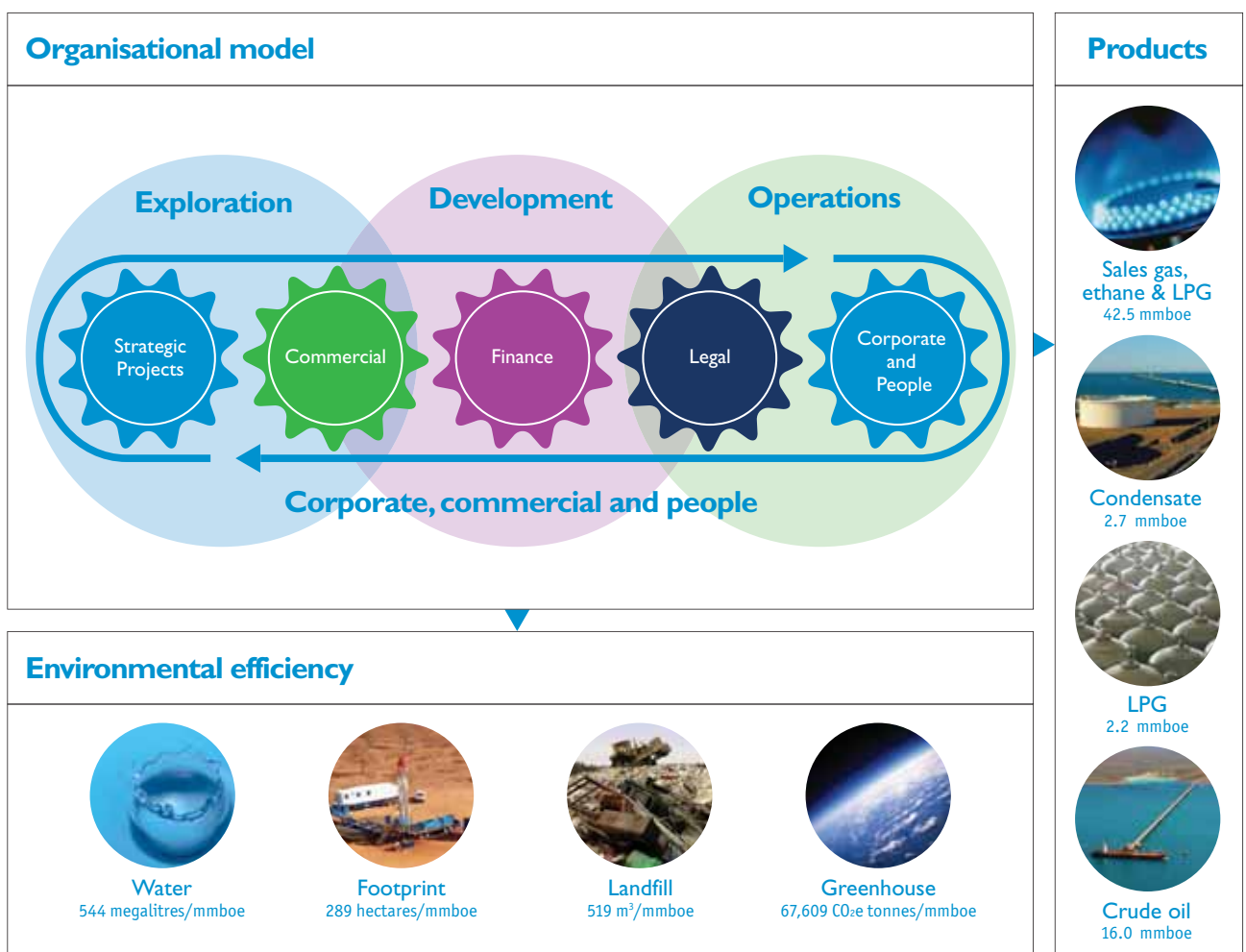
Score out of 10



Recognition of Santos' sustainability performance

- Listed on Australian SAM Sustainability Index (AuSSI).
- Listed on RepuTex Social Responsibility Index with RepuTex 'A' rating.
- Goldman Sachs JBWere ASX Climate Disclosure Leadership Index.
- Five-star rating for corporate governance in Horwath-University of Newcastle report.

Sustainability creates long-term shareholder value by realising opportunities and managing risks derived from social, environmental and economic factors.



Product figures (mmboe) for this diagram are calculated as gross annual production from Santos-operated sites in Australia. Net production from all Santos sites is published in Santos' Annual Report. In 2007 this was 59.1 mmboe, broken down as 41.6 mmboe of sales gas, ethane and LNG; 3.5 mmboe of condensate; 2.1 mmboe of LPG; and 11.9 mmboe of crude oil.

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

For this report:

- produced water (page 20) and footprint (page 19) data have been calculated for Santos-operated sites in Australia;
- landfill (page 22) data have been calculated for major Santos-operated sites in central Australia;
- greenhouse (page 37) has been calculated for all Santos-operated and non-operated sites; and
- water and greenhouse emissions are calculated and verified mid year therefore this ratio represents 2006 emissions and production data.

Exploration





'It is vital we start off on the right foot when entering new countries, and a broad sustainability assessment that helps us understand environmental and social factors as well as economic ones gives us the edge.'

David Knox Executive Vice President Growth Businesses

What is exploration?

Santos' geoscientists apply sophisticated mapping techniques to search for oil and gas thousands of metres below the earth's surface.

Seismic surveys traverse vast areas of land transmitting sound waves underground which are refracted (bounced) back to recording equipment that collects these waves at the surface. The degree of refraction or reflection enables geologists to map the below-ground rock strata and locate potential oil and gas accumulations.

Using this mapping, Santos identifies the best location for drilling exploration wells. Unfortunately not all wells locate commercial quantities of hydrocarbons, and water and other gases such as CO₂ are also encountered.

To minimise the impact of seismic and drilling activities on the environment and cultural heritage of the areas in which it operates, Santos employs stringent practices such as:

- conducting environmental and social impact assessments;
- employing indigenous cultural heritage monitors on seismic surveys to avoid impact to areas of cultural significance;
- routing seismic surveys around significant vegetation; and
- using newer compact drill rigs which require a smaller area of land to be disturbed.

Santos' approach to exploration

To meet its long-term development objectives, Santos has balanced its exploration portfolio through a combination of new acreage awards, acquisitions and revisiting opportunities in its existing portfolio of exploration permits.

Key areas of growth have been via new acreage in the Otway, Sorell, Houtman, Browse and Bonaparte Basins, offshore Australia; offshore East Java and Kalimantan in Indonesia; offshore Vietnam and India; onshore and offshore Bangladesh and Egypt; and Kyrgyzstan.

In 2007 Santos focused on near-field exploration and appraisal of recent successes. Ten exploration wells were drilled, with oil as the principal target.

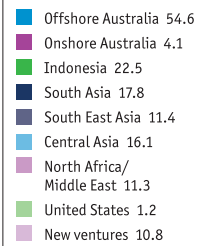
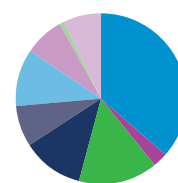
Santos' exploration portfolio is constantly being optimised and may vary as a result of drilling outcomes, new prospects maturing and rig availability. The latest data on the company's drilling activities are provided on the Santos website www.santos.com.

Offshore Australia

Santos continues to pursue its offshore Australian exploration program and has steadily built its reputation in this region. This is based on strong consultation programs with local industries such as fishing industries, partnership with Australian universities to further marine studies, good working relationship with regulators and extensive collaboration with exploration contractors.

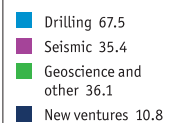
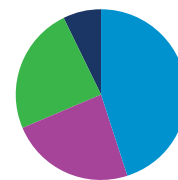
Exploration expenditure by area 2007

\$ million



Exploration expenditure by category 2007

\$ million



left

Luke Faulkner, Technical Assistant, inspecting core samples.



Unearthing Queensland's dinosaurs

Santos sponsored a 'dinosaur dig' at Eromanga in 2007 to help excavate the first dinosaur discovery in south-west Queensland.

The dig is uncovering further remains of a titanosaur which was discovered on an Eromanga property in 2004 and is now on display at the Queensland Museum.

Titanosaurs were the largest land-dwelling animal and lived more than 95 million years ago.

As well as providing funds and hosting a public information day, Santos geologists also participated in the excavations, near Santos' Cooper Basin operations.

Santos' marine management efforts were recognised with the receipt of the 2007 APPEA environmental award, which rewarded Santos for its contribution to whale research.

South East Asia focus

Exploration personnel are often Santos' first face in the community, so the company's consultation programs are evolving as Santos expands its activities in Australia and Asia.

Santos works closely with regulators and communities to identify local issues and agree on practicable work plans and approvals. The high standard of Australian consultation, regulation and industry work practices is often recognised as an asset in this region and Santos seeks to maintain and improve this reputation.

Santos balances industry experience with local knowledge by engaging external affairs managers from the country in which it is operating and bringing considerable industry experience to these project teams. This helps build capacity in these developing countries.

During 2007 Santos completed further seismic exploration in its Indonesian and Vietnam acreage. Data collected from these surveys will be analysed to identify future work programs and development options for Santos.

Onshore seismic in Kyrgyzstan

Santos has obtained a working interest in 23 exploration permits in Kyrgyzstan.

Santos will sole fund and operate a phased work program over a period of approximately four years to earn the working interests. Many of the licences are located in the

Fergana Basin. The basin, which extends across parts of Kyrgyzstan and into Uzbekistan and Tajikistan is, in part, similar to the prolific hydrocarbon province of the Tarim and Junggar Basins in western China, which contain many large fields.

The Fergana Basin covers an area of 63,000 square kilometres and has been producing hydrocarbons since the early 1900s. Cumulative discovered reserves from 58 fields are estimated to be in excess of 1.2 billion barrels of oil and 5.5 trillion cubic feet of gas, with cumulative production to date of more than 600 million barrels.

Santos commenced a seismic exploration program in 2007 and data from this program will be used to firm up prospects and leads for drilling.

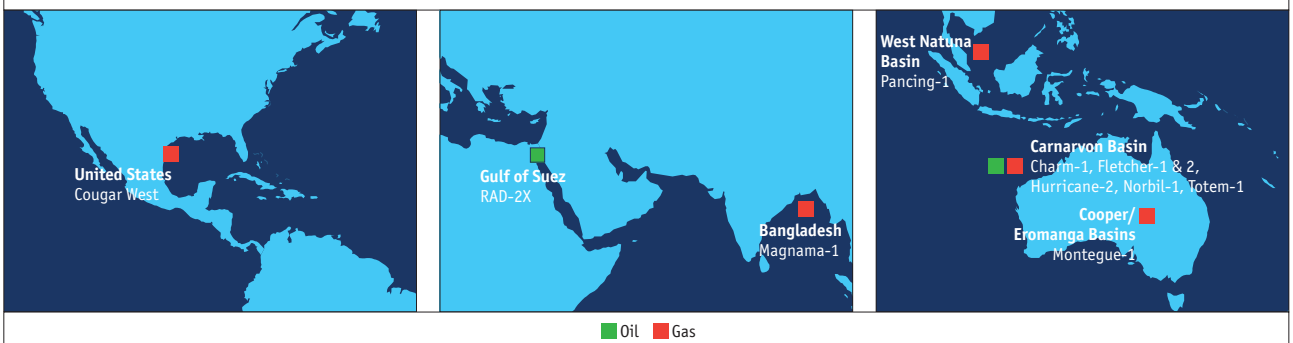
Growing position in India and Bangladesh

Santos has secured two offshore deep water exploration licences in the Bay of Bengal, India, with a commitment to an eight-year approximately A\$90 million work program. These two prospective exploration blocks provide the company with a significant offshore exploration opportunity in a frontier basin.

Santos has also acquired various assets in Bangladesh, including a 37.5% interest in the Sangu gas field and a portfolio of exploration acreage.

Santos' move into this region is in line with the company's strategy to engage in a focused exploration program in Asia. The Annual Report provides more detail on the company's strategy.

2007 wildcat drilling exploration program



Santos' growth into new countries requires its employees to be well prepared for different cultures' customs, values and expectations, and to be sensitive to how their own conduct affects local communities.

Employee travel security

In 2007 Santos launched a travel management system to manage the safety and security of employees' international travel. The system is designed to:

- ensure all employees receive destination-specific advice about health, safety, security and culture before international travel;
- track employees' travel location using the internet or telephone; and
- respond effectively to an emergency by having vital information available via the internet.

Incident plan broadens scope

An important aspect of Santos' risk management and governance practices is having in place a robust and workable crisis or emergency management plan.

This is relevant not only for existing operations but also when expanding into new exploration frontiers.

Santos has a company-wide incident management plan that outlines and defines roles and responsibilities for personnel at all levels in the company in the event of an emergency or incident.

This plan was expanded during 2007 from a focus on operational incidents to also include issues that might be encountered when entering new regions; for example, natural disasters or political unrest.

While the chance of such incidents occurring is very rare, it is vital that such plans are in place and tested and reviewed regularly.

Pandemic preparation in place

Santos continues to identify and manage risks relating to new areas of operation.

One potential emergency that Santos prepared for during 2007 was the outbreak of a virulent disease: a pandemic. Santos has a full set of procedures and policies to manage the effect on the company of such an outbreak.

Santos also conducted a business impact assessment to understand the effect on business operations, address reliability of supply and minimise the impact on personnel, the community, customers, governments and shareholders.

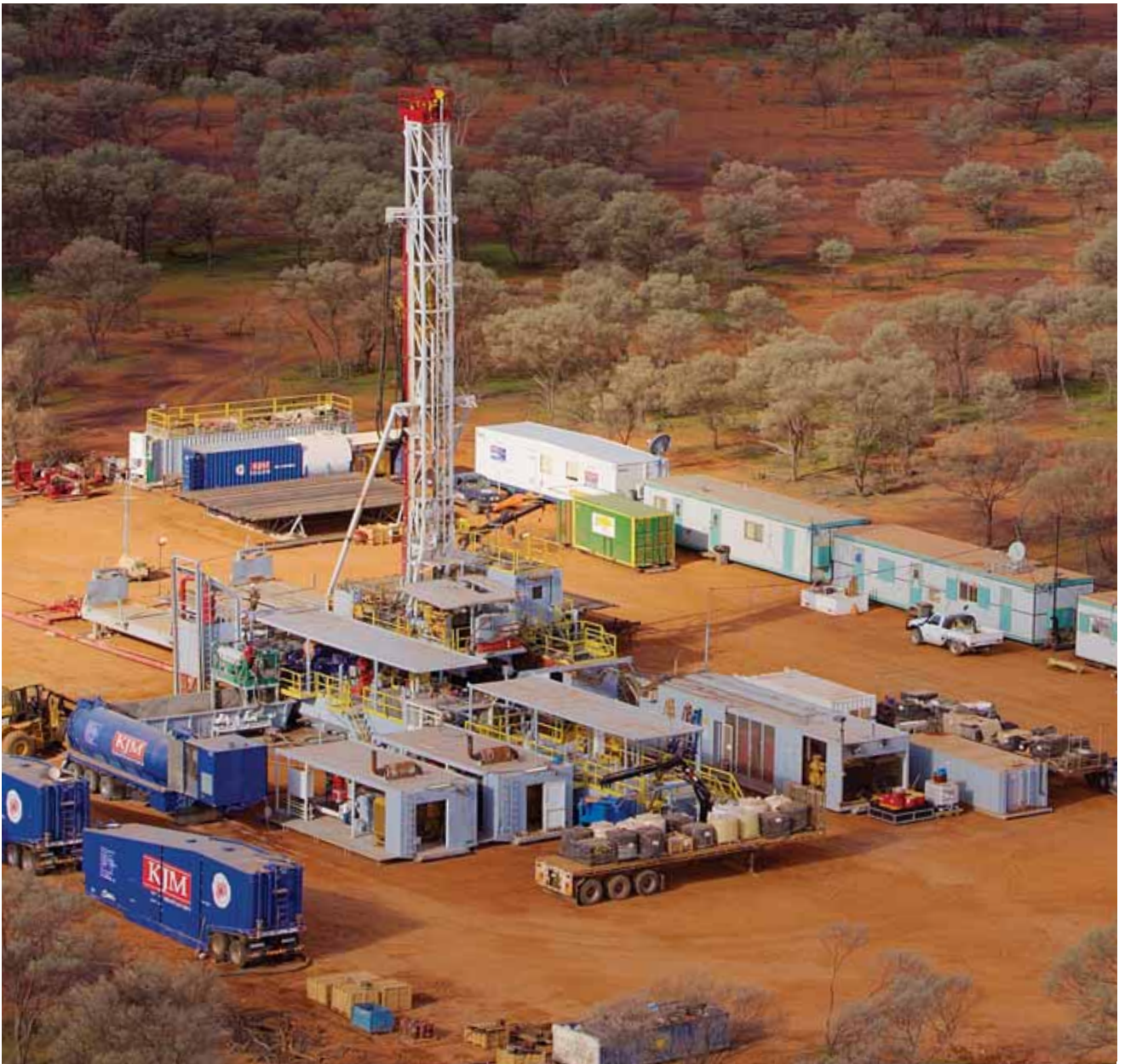


Offshore seismic acquisition, Camarvon Basin.



Vibroseis vehicles fitted with rubber tracts, which minimise land disturbance, acquiring seismic survey in the Cooper Basin.

Development





'Completing development projects smoothly relies on good relations with communities and regulators. Sustainable practices and planning pave the way and make the whole process more efficient'

Mark Macfarlane Vice President Development

What is development?

Once Santos' exploration team has discovered oil or gas in sufficient quantity and quality, the development team then determines the best way to develop this resource.

The development stage is the crucial link between exploration and production. It involves engineering teams appraising hydrocarbon reserves and designing development options which can include offshore platforms, onshore processing plants, pipelines and support facilities.

Santos strives to minimise the amount of time taken to bring an oil or gas discovery to market. The smooth and efficient development of a project is achieved through early consultation with stakeholders – including local communities and government – and the careful management of environmental impacts. This also ensures Santos is welcome in the community in the future.

The development team also conducts appraisal drilling to determine the size and characteristics of an oil or gas discovery and field development drilling to maximise the amount of hydrocarbons recovered from producing fields.

Water recycled on drilling rigs

Santos redesigned its drill cuttings pits in 2007 to allow water from drill cuttings to be recycled from the sump.

Water is used in the drilling fluid that lubricates the drill hole, cools the drill bit and maintains pressure in the hole. Drill cuttings, a mixture of this drilling fluid and rock fragments from the drilled hole, had previously been discharged to an evaporation pond.

As a result of this innovation, the volume of water needed to drill a typical Cooper Basin gas well has been reduced by approximately 50%.

Managing drilling fluid on offshore rigs is even more challenging due to space constraints, transportation limitations and additional safety considerations.

During the Mutineer-Exeter drilling program in 2007, Santos installed a cuttings drier onto the drill rig to reduce the discharge of synthetic drilling fluid to an average of 5% of overall drilling cuttings, half the regulatory compliance amount.

Santos implemented a comprehensive training program for personnel on the rig and support vessels and also audited the entire system from the drilling fluid plant at the shore base through to handling on the rig to ensure the safety of personnel and to minimise the risk of spills.

Safety was further improved on the Mutineer-Exeter program by introducing automated pipe handling – a concept Santos pioneered for onshore Australia at the Cooper Basin Oil Project – which eliminates the physical handling of drilling pipes and thereby reduces the risk of hand and finger injuries.

Development highlights 2007

- Oyong oil production commenced and gas project sanctioned, offshore Indonesia.
- Cooper Basin Oil Project 132 wells drilled with 73% success rate.
- Henry and Kipper gas projects sanctioned, offshore Victoria.
- Patricia-Baleen plant upgrade for Longtom gas sanctioned, offshore Victoria.
- Reindeer gas project front-end engineering and design progressed, offshore Western Australia.
- Coal seam gas project to increase production to 115 terajoules per day sanctioned, Queensland.
- Gladstone LNG project proposed, Queensland.
- PNG LNG pre-front-end engineering and design progressed.

left
Drilling operations,
Cooper Basin
Oil Project.



Pipelaying operations, Fairview coal seam gas field.

Enhanced oil recovery

A similar approach applied through the enhanced oil recovery program delivered environmental and production benefits during 2007. Enhanced oil recovery involves injecting fluids back into an oil well as the production rate tapers off to help push the remaining oil out of the reservoir.

Santos reuses the water produced from the well that is comingled with the oil that comes to the surface – essentially recycling the water and returning it to where it has come from while extracting the oil for production.

This reduces the need for evaporation ponds, returns the produced water to the underground reservoir and reduces waste, while providing the added benefit of increased oil production.

Drilling innovations reduce land disturbance

Santos has introduced several initiatives to reduce disturbance from drilling, including using drilling rigs which require smaller pads and less periphery requirements such as large areas for trucks to manoeuvre.

Further to this, drilling mud pits and disposal pits have been replaced by portable tanks which allow for recycling and reduces the overall footprint.

Santos has further reduced land disturbance through an innovative redesign of drilling pads to integrate several well leases into one pad. Using this technique, Santos can drill four wells from the same pad, which has reduced the overall area disturbed by 58%.

This not only reduces the area needed for drilling, but also reduces the number of pipeline corridors and access tracks required.

Reduced flaring

The flaring, or burning, of hydrocarbons is a necessary safety procedure on wells when the hydrocarbons can't be delivered to a storage facility or pipeline.

Santos developed a technique in 2007 which significantly reduced the need for flaring at the Mutineer-Exeter floating production, storage and offtake (FPSO) facility during well clean-up operations.

In the past, well clean-ups used a drilling fluid that needed to be flared from the drilling rig. Thanks to the introduction of a 'clean' brine completion fluid, this fluid can now be handled by the FPSO.

This eliminates the fallout or smoke emissions that could possibly occur during a typical six-hour well clean-up. Flaring during the Mutineer-Exeter clean-ups has been reduced to a slow one-hour displacement of reservoir fluids which also improves safety by minimising the amount of exposure to production fluids by rig personnel.

Safer and more efficient flowline welding

Pipelines and flowlines are an integral part of oil and gas field operations with hundreds of kilometres being laid each year. As part of a continual drive to find safer and more efficient ways to lay flowlines, Santos has started using a new piece of equipment to weld and lay flowlines for the Fairview coal seam gas field in Queensland.

The Fastfusion welding machine, the first in Australia, requires only two operators, can weld more joints per day and operates on a smaller footprint, reducing the impact to the environment.

Drill pad land disturbance

	Standard drill pad	Standard drill pad x 4	Multi-well drill pad
No of wells	1	4	4
Drill pad dimensions	110 m x 65 m	110 m x 65 m x 4	170 m x 70 m x 1
Hard stand area	2,800 m ²	11,200 m ²	5,200 m ²
Total drill pad area	7,150 m ²	28,600 m ²	11,900 m ²

Santos can drill four wells from the same drill pad, which has reduced the overall area disturbed by 58%.

Safety has also improved because the machine requires negligible manual handling of the pipe which reduces the risk of hand and finger injuries to workers. The other good news for welders is that they now work from an air-conditioned cabin.

New camps improve remote working conditions

Santos has commissioned new mobile camps during 2007 to improve conditions for people working at remote locations in the Cooper Basin away from the main camps at Moomba and Ballera.

The camps, which are fully self-contained with standalone power generation, water storage and sewerage treatment plants, have a robust skid-mounted design which makes them capable of being moved within 24 hours without the need for cranes.

The updated standard for these mobile camps now includes single-person sleeping cabins with wireless internet capability, shared en suite bathrooms, a gymnasium with a variety of weight and aerobic equipment, first aid, recreation and theatre rooms.

Careful attention has also been given to establishing a catering and camp management contract that best supports the needs and requirements of the camp occupants.

As well as delivering a well-received boost to morale for personnel, the camps occupy less land, and use less water and energy.

Working in the sensitive environment of Embarka Swamp

One of the most environmentally challenging activities for Santos in 2007 was a seismic exploration program in the sensitive Embarka Swamp.

The lignum swamp is a part of the extended Coongie Lakes wetlands system within the extensive Cooper Creek Catchment which ultimately flows into Lake Eyre. The area abuts the Coongie Lakes National Park – an area which the company was instrumental in having declared a National Park in 2006.

In order to undertake the 271 kilometre seismic program, Santos adopted special operating procedures designed to further minimise environmental disturbance.

Santos aligned the survey to avoid areas of dense vegetation, weaved the survey line around significant species and used a hydroaxe to clear vegetation. The hydroaxe required a narrower easement than traditional methods and created a clean cut above the ground surface to enable rapid regeneration from the rootstock.

Santos continues to work closely with representatives from the South Australian Department of Primary Industries and Resources, with the regulators conducting a thorough pre-audit program, site inspection during the survey and will include a close-out audit, with outstanding items to be addressed by Santos.



Joining the Injune neighbourhood

Santos took a fresh approach to accommodating contractors associated with the construction of the Comet Ridge to Wallumbilla pipeline in central Queensland to maximise the benefit to the local community and personnel.

Instead of building on-site accommodation close to the construction area, Santos worked with the Bungil and Bendemere Shire Council and local businesses to build accommodation in the nearby town of Injune.

This increased the economic benefit to the community through additional employment and demand for goods and services. It also reduced Santos' costs and environmental footprint by being able to access Injune's existing infrastructure.

Personnel benefit too, by living within a community with associated facilities and services rather than at a remote site.

Operations





‘Successful operations require responsible management of assets. Sustainable practices help us protect our people and the environment to achieve more from less.’
Roger Kennett Vice President Operations

What are operations?

The operations team is responsible for producing and processing Santos’ petroleum resources for delivery to customers. Natural gas and liquids are collected from wells via a series of flowlines, which transport the product to major petroleum plants or smaller satellite facilities for processing.

Santos strives to be a safe, responsible and efficient operator, maintaining the reliability of product supply to its customers.

Lightening Santos’ footprint

A key objective, encapsulated in the company’s Environmental Vision ‘We will lighten the footprint of our activities’, is to minimise environmental disturbance and conserve biodiversity values through innovation and sustainable operating practices.

In Australia Santos has 192,000 square kilometres of petroleum exploration and production acreage, of which only a small percentage (182 square kilometres or 0.1%) has had physical disturbance through petroleum activities.

To reduce the impact from the installation and operation of onshore pipelines, Santos aligns pipelines and roads to follow similar corridors and avoid significant vegetation.

To promote revegetation, topsoil is removed and stockpiled during pipeline construction and then re-spread over the buried pipeline ensuring the impact is only short term.

Oil sludge tanks

Disposing of oil sludge is an environmental challenge for all oil companies.

In the past oil sludge, or the unusable product remaining at the bottom of vessels and tanks, was placed in sealed pits to dry out and then disposed of as per regulatory approved processes.

Santos is striving to find a better way to deal with this environmental waste and is working to eventually eliminate open oil sludge pits and further reduce its environmental footprint in the Cooper Basin.

The Santos solution involves installing sludge processing tanks at operational sites. The sludge, once put into the tanks, is further processed to separate the water and free-hydrocarbons, leaving just the unusable oil sludge solids.

The solids are then stored in the new tanks and eventually transported to Moomba for further processing and ultimate disposal.

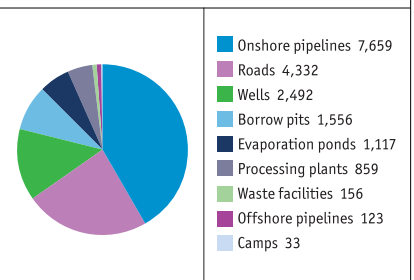
While environmental factors drove the initiative, an added bonus is reduced costs because there is less waste material to be transported and there are additional profits for the company by returning the hydrocarbons to the system.

The new program has been so successful in south-west Queensland it has reduced the volume of sludge being transported by 90% and eliminated the need for the sludge disposal pond at Jackson.

Santos is now planning to install sludge tanks at further operational sites throughout the Cooper Basin.

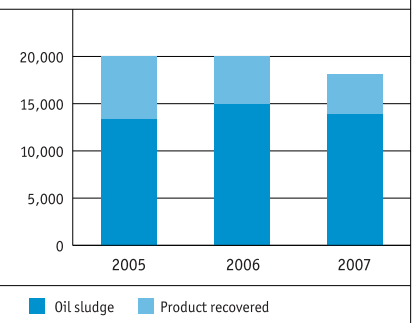
Land use footprint 2007

Hectares



Oil sludge recycling

m³

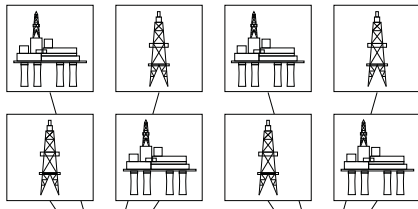


Sludge processing efficiency improved in 2007; however, the percentage of product recovered was lower than previous years because the sludge centrifuge was off-site for maintenance for four months and, with full-time application, recorded volumes are expected to improve in 2008.

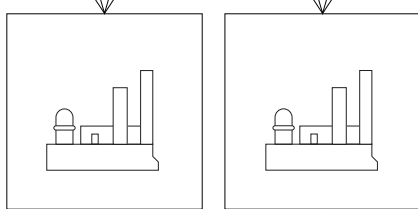
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 Inspection of Fairview Compressor Site 2.

Oil and gas industry process

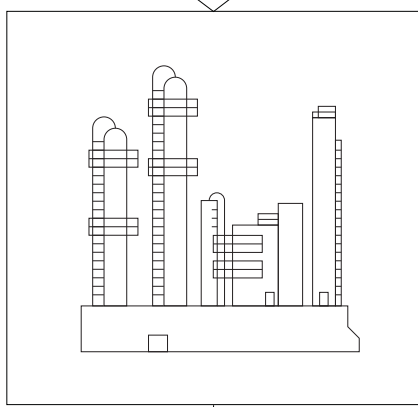
Wells



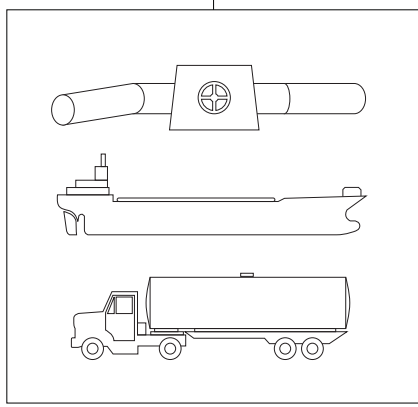
Satellites



Processing plants



Transport to market



Responsible water management

Water is an important part of Santos' operations and the responsible management of water resources is a significant environmental issue for the company.

Santos' management of water resources includes:

- **potable water** – required for domestic use in facilities and process plants; and
- **produced water** – commingled with oil and gas and brought to the surface by the wells.

Potable water is sourced under appropriate environmental licences from mains water supplies, surface water or groundwater bores.

Santos operates in many diverse operating environments from the remote Australian desert to Gippsland Victoria, Indonesia and offshore. The source of water depends to an extent on these locations and the availability of supply.

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

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

Santos aims to reduce its water consumption, reuse and recycle water and look for ways to safely return water to natural water systems. This not only benefits the environment but also benefits local communities where water is required.

In addition to oil and gas, production wells bring to the surface varying volumes of water that has accumulated in the rock strata commingled with the hydrocarbons. The quality of this water varies from well to well and is usually unfit for human consumption as it may contain suspended solids, salts and hydrocarbons.

At offshore locations this produced water is separated from hydrocarbons primarily by centrifugal equipment (separators) and discharged in accordance with strict environmental licence conditions. At onshore locations hydrocarbons are removed from the produced water via gravity separation in process vessels and a series of ponds.

Santos operates in accordance with Australian environmental regulatory conditions, which stipulate a maximum allowable hydrocarbon content of water in evaporation ponds of 30 milligrams per litre or 10 milligrams per litre in free-form areas.

Santos continues to review produced water management to identify beneficial uses and alternative disposal options. In 2008 this will focus on:

- reviewing Santos procedures for water management (Environment, Health and Safety Management System);
- improving metering, volume measurement and data management of water sources (produced water, ground water, surface water and mains) and disposal (produced water, grey water and sewerage);
- managing water quality data;
- researching produced water re-injection projects, including re-injection for enhanced hydrocarbon recovery;

left

At major onshore operations such as Santos' Cooper Basin, hydrocarbons are gathered from approximately 1,680 producing wells located across 235 producing fields. The gas or oil is transported via a 5,600-kilometre network of pipelines and flowlines to one of 15 major satellite stations where water is removed.

After being piped to a major processing plant such as Moomba, Ballera or Jackson, the hydrocarbons are processed to remove impurities and meet customers' specifications. The oil, gas or petroleum liquids products are then transported to market via pipeline, road or sea transportation.

- furthering biodiversity impact assessment of water sourcing and disposal; and
- reviewing alternative produced water reuse; for example, stock watering, horticulture, forestry or further treatment for potable water.

Oil spill management

Oil spill management and prevention remains a high priority for Santos.

Disappointingly, Santos had four significant oil spills in 2007: the Alwyn #1 flowline (15 m³), Moonie to Brisbane oil pipeline (Moonie East, 50 m³), Moonie to Brisbane oil pipeline (Algerster, 400 m³), Jackson South oil flowline (24 m³) and one minor spill at Kooroopa North #3 (9.2 m³).

The management and clean-up of these spills were undertaken immediately and thoroughly to minimise the impact on the environment and community.

For example, the oil spill in the Brisbane suburb of Algerster was detected by Santos' automatic monitoring system. When the leak site was identified, the section of pipeline in the vicinity of the incident was further isolated to minimise the spill.

Santos worked closely with emergency services and the Queensland Environmental Protection Authority to contain the oil and support the affected residents.

In the first 48 hours after the spill, the majority of surface oil was recovered and stormwater drains cleaned. Clean-up activities were continuing at the time this report was published to ensure the area is fully rehabilitated.

Communicating with and assisting the affected residents is a priority. Santos visited all households in the immediate vicinity of the spill site and provided support as required.

Santos appointed a dedicated community liaison officer, maintains a website and 24-hour hotline, and provides regular written communication to residents.

Pipeline spills accounted for 96% of oil spills during 2007, with the remaining 4% (19.75 m³) the result of 66 relatively minor incidents, typically from leaks from small hoses, pumps and valves.

Uncontained oil spills are unacceptable to Santos and the challenge ahead is to continue to develop and implement programs to prevent spills. With more than 5,600 kilometres of pipeline networks this is a major challenge.

Santos is concerned about the impact to the environment and community as a result of these oil spills and will diligently pursue programs to remediate spill sites and prevent further spills.

In 2007 Santos undertook an oil spill prevention management review to analyse the number and severity of uncontained spills and assess Santos' pipeline integrity management programs.

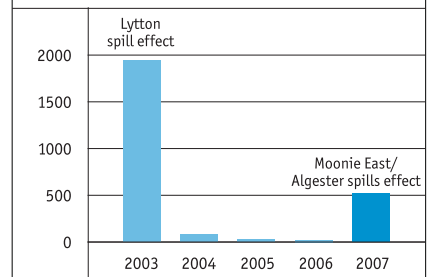
The review endorsed the management program and recommended that an audit program be established to assess conformance against procedures and the effectiveness of the standards and programs in place in the field.



Health and safety representatives

Santos has more than 50 volunteer health and safety representatives who provide an integral link to the broader workforce on occupational health and safety.

Oil spill volumes
m³



The Moonie to Brisbane pipeline website provides residents and other stakeholders with regular updates.



Process safety management partnership

Personnel safety focuses on the management of risks associated with high-frequency, low-consequence events (such as slips, trips, strains) whereas process safety manages risks associated with high-consequence, low-frequency events (such as an explosion following an uncontrolled release of flammable gas).

Santos issued the process safety standard to all sites in 2007 and launched an awareness training program for employees and contractors working in process, production, maintenance and engineering areas.

Santos appointed risk management specialists Lloyd's Register as a strategic partner to support the enhanced focus on process safety management development and practice.

Continuous improvement delivers waste savings

Santos works to continually improve its waste management based on the following hierarchy:

- **avoid** – choose a process that avoids the production of waste;
- **reduce** – revise processes to reduce production of waste;
- **reuse** – reuse waste streams within process;
- **recycle** – use the waste stream in a different process or as an energy source;
- **treatment** – destruction, detoxification or neutralisation; and
- **disposal** – last resort, responsible disposal using appropriate methods.

Standards for waste management at Santos sites are incorporated through an environmental hazard standard within the company's Environment, Health and Safety Management System framework and monitored through the ongoing audit/review process.

The large and varied nature of staff and contractors at Santos' many operations require education programs to ensure waste management procedures are adopted by all. Santos is working with its waste management contractor to ensure an increased focus in 2008.

Waste management performance is reviewed regularly through audits which aim to assess progress against defined minimum acceptable standards for the treatment of waste from operations, domestic camps and facilities.

In 2007 there was an increased focus on quantifying waste streams so that future improvements can be identified and accurately measured. This company-wide program is an extension of the waste monitoring database that was rolled out in the Cooper Basin over 2005 and 2006.

The database measures incoming and outgoing (recycled) waste to assess the amount of waste being diverted from landfill. Despite increased operational activity in the Cooper Basin, Santos will strive to reduce waste to landfill in 2008.

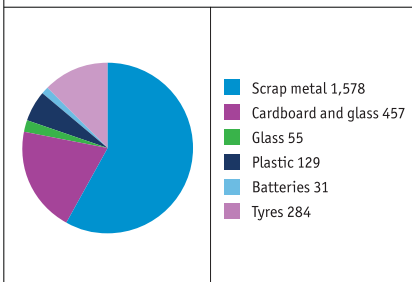
Santos works to address legacy waste areas as opportunities arise. For example, during 2007 the industrial waste pit at Port Bonython was excavated and the contents sent to a managed industrial waste facility in South Australia. This was undertaken to return the Port Bonython site to a state consistent with the surrounding coastal land.

In addition to traditional camp-based waste management, during 2007 there was a concerted focus on reducing oil sludge production at its source.

Process and production operations were scrutinised to identify projects to modify equipment or change operating practices to reduce sludge production. Efforts to date have been successful, reducing waste and generating more product for sale (see enhanced oil recovery project on page 16).

Waste recycled 2007

Recycled m³



Total waste volume 35,421 m³
 Waste to landfill 32,887 m³
 Waste recycled 2,534 m³

Focus on Indonesia



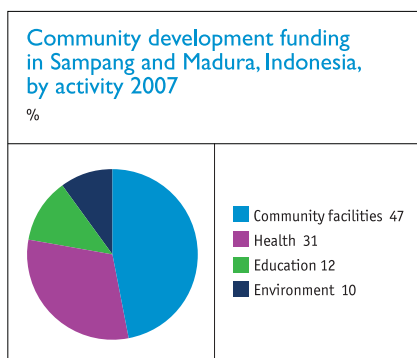
Madura Island
fishermen, East Java.



Revegetation of mangroves, Sumenep, Indonesia.



New public health clinic, Giligenting Island, Indonesia.



Santos' vision is to become a leading energy company in South East Asia.

Indonesia is Santos' most significant growth area outside Australia and provides a solid operational base for continued expansion.

Santos continued its exploration activity in Indonesia, conducting 135 square kilometres of seismic survey during 2007.

Over the past five years, Santos has acquired a significant exploration portfolio in the East Java and Kutei Basins, built a strong domestic gas business based on the Maleo gas field and commenced oil production from the Oyong field.

All of Santos' activities in Indonesia are governed by its Community Development Plan. The plan aims to foster the development of community wellbeing and social infrastructure in the areas in which Santos operates.

Santos drafted the plan after extensive socioeconomic assessment and local consultation and it formed the basis for a Memorandum of Understanding between Santos, the local communities and government agencies.

Santos will review the plan each year with these stakeholders.

Improved access to health facilities

In coordination with local Regency and Sub District governments and community leaders and members, Santos provided assistance to the Giligenting Island community to develop public health clinics and village roads.

Giligenting is a sub-district comprising eight villages on two small islands, Giligenting and Giliraja, which are reached via a 60-minute boat trip from the main island of Madura.

Each island had only one public health clinic with limited medical equipment. Roads are typically in poor condition with most only usable by motorbikes.

By the end of 2007, Santos and the community had developed six public health clinics and three roads. Santos contributed all materials required for the development of these facilities while village residents worked together in the construction work.

Boost to education helps students

Regencies of Madura Island are known to be among the poorest in the country, with education one of the many aspects that requires ongoing financial support for textbooks and infrastructure.

Santos worked with schools in the Camplong sub-district of Sampang to determine what books were required, then purchased more than 1,000 text and literature books for nine junior high schools.

In the Giligenting sub-district of the Sumenep Regency, Santos provided financial assistance towards the construction of an Islamic high school as well as scholarships for 10 high school graduates to pursue higher education at the Fishery Academy in Surabaya.

Mangrove planting protects fishing villages

Mangroves on the fringe of coastal land provide a buffer against the elements, protecting the coastline and land, while also providing important habitat and breeding ground for fish and other marine life.

Historically, mangroves have been cleared to feed cattle and to open up docking areas for fishing boats.

One of the many challenges in Indonesia is balancing community livelihoods with environmental conservation. Local communities have begun to recognise the benefits of mangrove planting to protect their villages.

Santos conducted a survey with the local government environmental agency to determine priority areas for mangrove revegetation.

In cooperation with the Sumenep Regency's Environmental Agency, Santos then held a community information session to discuss the planting plan and the benefits of conserving the mangrove ecosystem.

Santos procured seeds and worked with village residents to plant the seeds under the technical guidance of the agency. In the rocky coastal area of Sampang, Santos planted 43,000 seeds in eight hectares of coast while along the calmer area of Sumenep, 25,000 seeds were planted across five hectares.

2D seismic program

Santos successfully completed a 400-kilometre two-dimensional seismic acquisition program in the Sampang block off the south coast of Madura Island during 2007.

The shallow water in this area, ranging from five to 50 metres in depth, is heavily used for fishing with traps, nets and trawlers.

In preparing for the survey, Santos worked extensively with governments and local communities to build awareness of Santos' operations and identify risks and challenges for early resolution.

Santos strived to demonstrate respect for the local culture and preserve environmental values. This was achieved by developing structured programs to manage community expectations and ensure clear communication.

Before the survey, Santos worked with government agencies and local communities including the navy, police, Sampang Regencies, fisheries department, local government, local fishermen and media.

Compensation for disturbance was agreed between parties and regulated by the integrated team led by the head of Sampang Regencies.

After the survey, Santos completed its monitoring program and formally thanked the governments and local community for their cooperation with the project.

Santos completed the survey without any injury or safety incident and has been recognised for its efforts in seismic survey preparation by the local community and governments.

Sidoarjo well incident

On 29 May 2006, an outflow of mud and water occurred near the location of the exploration well Banjar Panji-1, which is near the city of Surabaya at Sidoarjo on the Indonesian island of Java. The cause of the incident is not known. This incident is of significant concern to Santos.

Santos has an 18% non-operated interest in the Brantas production sharing contract.

During the year, Santos provided further support to the operator, the Indonesian

company Lapindo Brantas Inc, and relevant Government agencies in responding to the mudflow and provision of assistance to affected communities.

While Santos cannot lead this effort as it is not the operator, the company continues to encourage the joint venture to make decisions in the interests of sustainable environmental and community outcomes, as well as longer-term planning to manage issues arising from the incident. Testing has indicated that the mud is not toxic.

The Government of Indonesia has taken a progressively greater role in managing the issues arising from the event. In September 2006 the President of Indonesia appointed a national task force to address regional and environmental issues including sealing off the well, disposing of the mud and dealing with the affected community.

The team's mandate expired in April 2007 and the Government's management of the issues was then placed with a new team with a long-term mandate. This team is called the Sidoarjo Mud Mitigation Agency.

Unfortunately, there are no simple or quick solutions to this situation.

Addressing the issues associated with the incident is a very complex task involving multiple technical and logistical efforts and liaison with the affected community, local and regional governments, as well as national government agencies and non-government organisations, all with differing needs and expectations.

Besides contributing funding through the joint venture, Santos has provided Lapindo with contacts in companies who may be able to assist with technical support and personnel to augment their capacity to manage the issues, and sources of supply for items they require.

Santos has also contributed significantly to the humanitarian relief effort organised by the operator.



Corporate, commercial and people



Café in the foyer
of the Santos Centre,
Adelaide.



'Good governance, systems and service drive everything, and the holistic view that sustainability reporting gives us ensures we have the right people and procedures in the right places at the right time.'

Martyn Eames Vice President Corporate and People

Five functions – Strategic Projects, Commercial, Finance, Legal, and Corporate and People – provide specific expertise to support the exploration-to-production life cycle.

They also provide the commercial framework, policies and systems to ensure Santos achieves a high level of performance across the sustainability domains.

This is achieved by building the capacity for Santos to manage the various sustainability considerations at the corresponding part of the business.

GOVERNANCE

Corporate governance

Top performing companies recognise the benefits of being transparent about their governance systems to ensure employees are fully aware of the way things are done and how to act accordingly.

In 2007, Santos pulled together the various management tools and processes into a unified management system called How

Santos Works to formally document the management systems in an integrated manner.

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

How Santos Works also outlines the management system objectives which are used to govern the business including setting policies, managing risk and ensuring the whole system functions properly.

How Santos Works has been created to ensure Santos' operational systems and decision-making processes are capable of achieving its corporate strategy.

Santos' focus on high quality corporate governance has been recognised in the independent report prepared by leading accounting and management firm, Horwath, and the University of Newcastle. This highly regarded report has awarded Santos the maximum five-star rating for its corporate governance each year since the report's inception in 2002.

Santos' Board works under a set of well-established corporate governance policies that reinforce the responsibilities of all Directors and meet the requirements of the *Corporations Act 2001* and the Listing Rules of the Australian Securities Exchange (ASX).

The Board reviews and updates Santos' corporate governance policies and relevant practices and procedures for changes to the law, the Listing Rules and corporate practice each year and as required.

The company's policies continue to be updated to ensure that they remain compliant with the relevant legislation and in accordance with best practice.

An external review of the composition and function of the Board is conducted every two years and individual Director reviews occur annually.

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

Board Subcommittee membership		Audit	Nomination	Remuneration	Finance	Environment, health, safety & sustainability
S Gerlach	Director and Chairman		✓*	✓	✓*	✓
J C Ellice-Flint	Managing Director					✓
K C Borda	Independent non-executive Director				✓	
K A Dean	Independent non-executive Director	✓*			✓	
R A Franklin	Independent non-executive Director					✓
R M Harding	Independent non-executive Director	✓	✓	✓		✓*
J Sloan	Independent non-executive Director	✓	✓	✓*		

* Denotes Chairperson of the Subcommittee.

Santos systems and policies include:
How Santos Works
Code of Conduct
Environment, Health and Safety Management System
Business conduct
Anti-corruption
Company resources
Confidentiality
Conflict of interest
Financial governance
Financial management and accounting
Gifts and benefits
Guidelines for dealing in securities
Political affiliation
Privacy
Recruitment and selection
Reporting misconduct
Risk management
Shareholder communication and market disclosure
Environment and social
Environment
Greenhouse
Health and wellbeing
Human rights
Safety
Workplace and employment
Conditions of employment
Equal opportunity
Internet and electronic communications
Issue resolution
Leave
Performance management
Remuneration and benefits
Training and development

A major achievement during 2007 was the publication of the Human Rights Policy and How Santos Works following an extensive review process.

Risk management

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

Like many organisations, Santos is exposed to a wide variety of risks and manages them through its Enterprise-Wide Risk Framework. This framework is consistent with the AS/NZ 4360 Risk Management Standard and is reflected in the company’s Risk Management Policy.

A structured process of identifying and assessing risks is the cornerstone of Santos’ risk management practice, and this is embedded into strategic, operational, project and functional processes and decision-making across the company. It is also embedded into the Environment, Health and Safety Management System.

This qualitative approach to understanding risk supplements numerous other unique and often quantitative processes including modelling subsurface risk and uncertainty, calculating total cost of insurable risk, and the risking of economic cash flow models.

Where considered necessary by management or the Board, risk treatment plans are prepared. This is done either through the strengthening of controls to help prevent their occurrence or through initiatives that aim to reduce the consequence should the risk occur. Action plans are developed and monitored.

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

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

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

business development and the Environment, Health and Safety Management System.

Transparency and disclosure

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

Information must not be selectively disclosed. Directors and employees must notify a designated Disclosure Officer as soon as they become aware of information that should be considered for release to the market.

When Santos makes an announcement to the market, it is released to both exchanges where its shares are listed: ASX and NASDAQ. The Company Secretary is responsible for communications with the exchanges.

All material information disclosed to the exchanges is posted on the Santos website at www.santos.com. This includes news announcements, Annual Reports, Sustainability Reports, notices of meetings and materials presented at investor briefings.

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

The quality of Santos’ transparency and disclosure was recognised in 2007 with a Gold Award at the 57th Australasian Reporting Awards. This award recognises the quality of information provided in Santos’ 2006 Annual Report and the level of disclosure about the company’s performance and outlook.

Product responsibility

Santos is Australia’s largest domestic gas producer, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.

Critical to these customer relationships is ensuring reliability of supply, which essentially means maintaining the quality and quantity of product to meet sales specifications.

This includes the removal of impurities from the gas, such as water and carbon dioxide, thereby delivering a low-carbon-intensive product to the electricity generation sector.

As Australia's largest producer of natural gas, Santos will play an important role as the economy moves towards a cleaner energy portfolio.

The transportation and transfer of Santos' hydrocarbon product is also managed under strict safety protocols. Santos is well regarded by its customers for the reliable supply of high quality product.

Research and development

Santos spent \$8.8 million on research and development activities during 2007, with major projects investigating new techniques for fracture stimulation, coal seam gas production and exploiting possible and contingent hydrocarbon resources.

Santos' research and development of low emission technology projects is discussed further from page 37.

Company-wide EHS management system

Santos has a management system that accommodates all aspects of its environment, health and safety requirements and is the foundation on which assessments are conducted and improvements made.

The Environment, Health and Safety Management System applies to all aspects of Santos' business both within and outside of Australia. It describes the requirements for effective environmental and safety practice and is the basis on which the company complies with relevant international

and Australian standards and regulatory requirements.

Santos continues to review the effectiveness of the system and has developed a suite of performance requirements for the systematic management of process safety related risk ranging from facility design to abandonment.

Efficient supply chain

Sustainability is not just about doing the right thing within the Santos business. It is also about ensuring that contractors and suppliers are doing the right thing.

To this end, Santos has an environment, health and safety management standard for contractors and suppliers to ensure that they have in place appropriate management systems to prevent harm to Santos' and other personnel, the public, the environment and Santos' business interests.

This is backed by a rigorous pre-qualification process for all suppliers of equipment, goods and services. The pre-qualification assessment ensures Santos works with appropriate suppliers and that goods and services are procured in accordance with Santos' policies. This further ensures that Santos' sustainability targets and ethics are aligned with those of the selected supplier.

A challenge for Santos, particularly in a rapidly expanding business with significant pressure on resources, is to ensure that policies and procedures are embedded seamlessly to allow benefits to be delivered without intervention at every step.

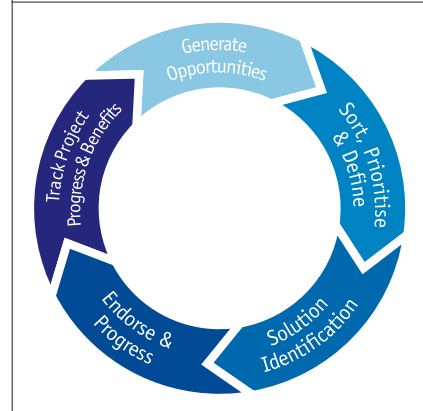
Santos increased its focus on planning activities during 2007 to improve efficiency throughout the supply chain and reduce the footprint of operations.

Continuous improvement makes an impact

Following the successful pilot of the company's Continuous Improvement Framework, Santos established this process throughout the organisation in 2007.

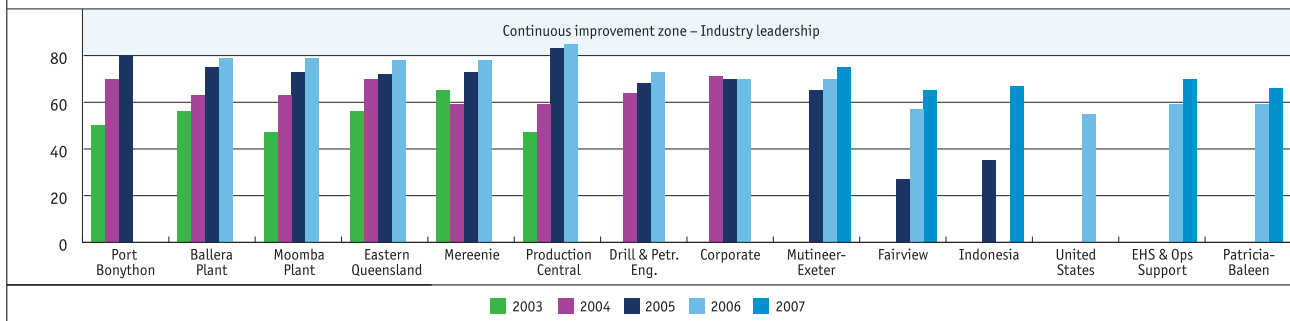
Continuous improvement provides a process that enables Santos to identify better ways to do things while building the capability of employees to make sustainable changes that contribute to business efficiency and growth.

Santos has trained more than 100 employees throughout the company to use the Continuous Improvement Framework and has developed a suite of projects that have the potential to deliver significant benefits.



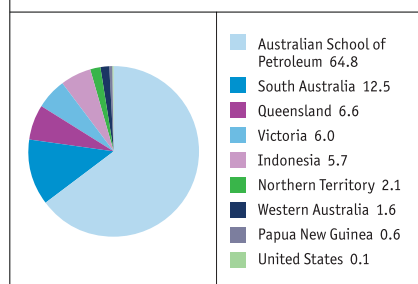
Environment, Health and Safety Management System management standard assessments

Implementation %



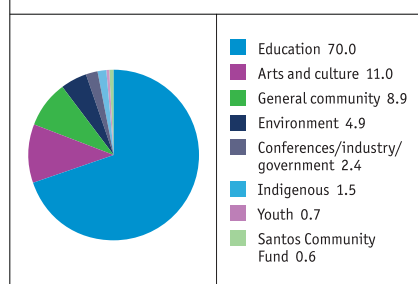
Sponsorship by area 2007

%



Sponsorship by activity 2007

%



For example, the company conducted a review of transportation costs for goods and services and identified opportunities for sourcing closer to operations to reduce air or road transportation distances.

Further efficiencies were achieved by replacing paper-based systems with:

- electronic ordering (iProcurement);
- integrated order placements with key suppliers, enabling orders to be despatched within hours of entry in Santos systems (cXml integration); and

- web-based cataloguing system (Cataloguing Portal).

Santos also found opportunities to improve supply chain efficiency by implementing a web-based Feedback Portal that collates feedback from employees, with 251 opportunities for improvement actioned in 2007.

The integration of maintenance planning systems with procurement systems and the introduction of amalgamated schedules for work planning, as well as three-month and two-year forecasts has consolidated work and reduced the movement of materials (Maximo systems).

Summary of socioeconomic contribution

	2007	2006	2005	2004	2003
Number of employees (full time equivalent)	1,774	1,679	1,521	1,526	1,700
Number of shareholders	77,498	83,566	78,157	78,976	84,327
Wages and salaries (\$million)	253.0	230.7	216.6	214.0	191.8
Materials, goods and services (\$million)	947.4	754.2	544.7	433.8	305.6
Royalties and taxes (\$million)	534.6	427.5	209.3	169.6	118.7
Sponsorship (\$million)	3.8	3.8	3.5	4.0	3.2

Summary of financial performance

As at 31 December	2007	2006	2005	2004	2003
Santos average realised oil price (A\$/bbl)	92.10	89.35	73.83	51.83	43.59
Financial performance (\$million)					
Product sales revenue ¹	2,488.5	2,750.3	2,462.8	1,500.9	1,465.0
Net profit after income tax	440.6	643.4	762.1	354.7	327.0
Financial position (\$million)					
Market capitalisation	8,274	5,907	7,280	4,965	4,017
Total assets ²	7,320.2	6,902.9	6,191.3	4,836.6	5,218.3
Total equity ² (shareholder funds)	3,310.5	3,355.5	2,964.0	2,357.8	3,087.9
Reserves and production (mmboe)					
Proven plus Probable reserves (2P)	879	819	774	643	636
Production	59.1	61.0	56.0	47.1	54.2
Exploration					
Wells drilled (number)	10	25	22	16	19
Expenditure (\$million)	149.8	258.5	187.0	125.6	136.4
Other capital expenditure (\$million)					
Delineation and development	954.6	865.6	666.1	672.7	519.0
Buildings, plant and equipment	202.2	182.0	106.0	131.1	94.9

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

² From 2004, amounts reflect Australian equivalents to International Financial Reporting Standards. Prior year amounts reflect previous Australian Generally Accepted Accounting Principles and have not been restated.

COMMUNITY

Contributing to community wellbeing

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

This is achieved in part through the sponsorship and donations program and in 2007 Santos contributed \$3.8 million to 170 events and organisations in Australia, Indonesia, Papua New Guinea and the United States.

Through this program, Santos provides support for community-based programs, organisations and events that are valued by members of those communities, reflect each community's specific socioeconomic and cultural circumstances, and which share common values and priorities with Santos.

In this regard, the following examples show that contributions were made in 2007 in the categories of:

- **education** – for example, the Australian School of Petroleum at the University of Adelaide;
- **environment** – for example, an extensive tree-planting program at Newmerella Reserve, Victoria;
- **art and culture** – for example, the Adelaide Symphony Orchestra and the Queensland Gallery of Modern Art's Andy Warhol exhibition; and
- **youth** – for example, the AFL's Central Australia football team which develops young indigenous people.

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

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

Santos made contributions to 24 organisations through this community fund during 2007, including the Children's Medical

Research Centre, DeafBlind Association, Juvenile Diabetes Research Foundation and Queensland Cancer Fund.

Santos' longest-standing community support program is in the Cooper Basin which straddles the South Australia–Queensland border. Santos participates in and supports events such as the Cooper Cup Cricket Challenge and the Outback Car Trek that benefit the largely landholder population.

The combined efforts of Santos, its employees and contractors, and the Cooper Basin community raised \$100,000 in 2007 for the Royal Flying Doctor Service: an essential service for outback communities.

The Yard Dogs Association, a volunteer group of Cooper Basin employees and contractors, raised \$70,000 in 2007 for Camp Quality, an organisation that supports young people and their families living with cancer.

Engaging with stakeholders

During 2007, Santos documented its approach to stakeholder relations in a draft Community Policy and an associated set of management standards to be incorporated into the company's Environment, Health and Safety Management System.

The policy and standards are expected to be formally introduced in 2008 and will guide future community investment and stakeholder engagement activities.

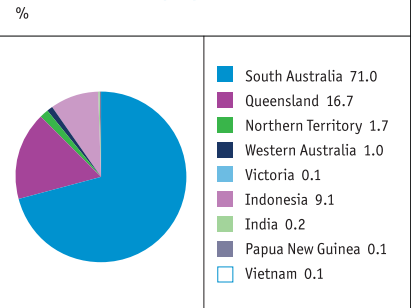
Santos consults with members of the community in areas where its work programs may affect them. This helps identify the impact of Santos' activities on social infrastructure; for example, the purchase of local goods and services, and impacts on road use or resident amenity.

In eastern Queensland and the Cooper Basin, Santos' landholder liaison employees have regular interaction with the landowners in the vicinity of Santos' exploration and production activities.

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

Santos also has an extensive stakeholder consultation program in Indonesia, which is discussed on page 24.

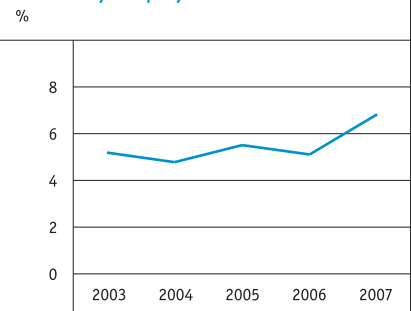
Location of employees 2007



Workforce composition 2007

Head count		
Employee	Full-time	1,665
	Part-time	65
	Graduate program	65
Contractors		250
External service providers		1,639
		3,684

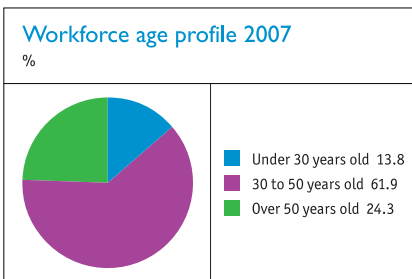
Voluntary employee turnover



Workforce gender profile 2007
%

Board of Directors	86	14
Strategic leader	94	6
Functional leader	95	5
Team leader	90	10
Senior technical specialist	92	8
Technical specialist	81	19
Team member	78	22
Total	82	18

■ Male ■ Female



Workforce training 2007

Category	Total employees	Average training hours per employee
Strategic leader	17	11.4
Functional leader	78	10.3
Team leader	210	25.9
Senior technical specialist	108	13.3
Technical specialist	364	29.7
Team member	1,009	85.3

Creating indigenous partnerships

Santos recognises and acts upon its responsibility to native title claimants and understands the importance of identifying and protecting cultural heritage.

Santos has had a long and successful relationship with indigenous stakeholders. The company worked with 15 native title groups during 2007 and spent more than \$5.5 million as part of cultural heritage and native title processes.

A focus for 2008 is to lay the groundwork for the negotiation of native title and cultural heritage agreements for Santos' Gladstone LNG project. Santos has engaged three indigenous employees to help manage project negotiations.

During 2007, Santos also began to develop an Aboriginal Engagement Policy. A proactive approach to native title and cultural heritage, the policy broadens the areas in which Santos interacts with indigenous Australian communities.

This policy will provide the basis for sustainable long-term relationships between Santos and indigenous communities and will deliver commercial efficiencies for Santos.

The policy will aim to establish programs to provide long-term targeted support and help bring consistency to Santos' agreements, leading to mutually beneficial outcomes for all parties.

OUR PEOPLE

Developing leadership

Santos' approach to leadership is central to developing capability, fostering an achievement-oriented culture and strengthening employee commitment.

The company works to develop leadership skills to meet future challenges such as industry consolidation, strong competition for skills in the marketplace, expectations of recruits, new technology, increasing governance and public reporting issues and rapidly changing workplace demographics.

The Santos Board oversees the continuity of executive leadership for the organisation through succession planning for key roles. Ongoing development of leadership potential at other levels of the organisation ensures long-term depth of leadership capacity.

Structured approach builds capabilities

The Santos Capability Framework, which sets out an organisation's capabilities and competencies, was further developed during 2007.

The framework will underpin all human resources initiatives from recruitment to employee development, enabling individuals and their managers to focus development discussions on the most important capabilities and competencies.

The process of applying the Capability Framework began in 2007 through executive leadership assessments and tailored development plans.

Further implementation of this approach will occur in 2008, and leadership and management training programs will also be delivered from the core learning curriculum.

Santos' graduate program is also an integral part of the company's capability development strategy. The company has an active graduate program in the industry, designed to attract and retain the best graduates by offering them career path opportunities.

Each year, approximately 15 engineering and geoscience university graduates are selected for the three-year program. They are given training and career development opportunities while working in a structured job rotation program.

Training for the future

Development and training at Santos addresses specific skills for individuals and learning that the company considers core to its business.

In 2007, employees participated in more than 105,000 hours of training. The expenditure on all forms of training attendance totalled \$4.35 million, and \$120,000 was spent to support independent tertiary study through Santos' study assistance program.

Competency-based training was an important training focus in 2007 for field operations. This training is externally accredited under the Australian Qualifications Training Framework and includes on-the-job competency and skills assessment for operators and supervisors.

During 2007, Santos issued 37 level III and IV certificates and engaged 12 apprentices.

Santos was also the recipient of the Commonwealth Minister for Vocational and Further Education's Runner-Up Award for Excellence for Employers of Australian Apprentices for the Adelaide Region.

Creating the culture for success

During 2007, Santos continued the practice of having the Managing Director and senior leadership conduct face-to-face communication sessions to inform employees about business direction, strategy and performance.

Building an achievement-oriented culture at Santos is an important objective. The majority of employees participate in the annual performance review process. Half of the annual performance review assesses for behaviour that is consistent with Santos' values (see inside cover).

The performance review provides valuable two-way communication between employees and their manager to assess performance against agreed objectives. It also provides a forum to identify professional development needs, career planning and future opportunities.

To improve the quality of this exchange, a number of programs were developed and presented to leaders during 2007 to develop skills in coaching for performance and giving and receiving feedback. These programs will continue to be implemented in 2008.

Short-term variable remuneration is driven by company and individual performance while long-term variable remuneration, applicable to the company's executive, is linked to shareholder wealth creation.

Executive remuneration processes and initiatives are overseen by the Remuneration Committee of the Board, which ensures broad company and shareholder interests are represented.

Growing employee commitment

Strong employee commitment correlates with business measures such as productivity and retention, customer satisfaction, total shareholder return and sales growth.

Santos measures employee commitment every two years, using the intervening year to implement findings from these surveys. The 2006 survey conducted by an international research organisation showed that employee commitment was positive and had improved.

Santos continued to implement programs during 2007 to improve employee commitment. Change management was identified via employee feedback as an area for further improvement and during 2007 Santos developed tools and education materials for the effective management of change.

Santos has recognised the increasing importance of flexible work options in maintaining a diverse, adaptable and highly committed workforce. Therefore a range of additional work/life policies and tools were developed in 2007.

The Queensland Resources Council awarded Santos the 2007 High Achievement Resources Award for Women, Best Company Initiative. The award recognised Santos' policies and practices that have attracted and retained women in the company's coal seam gas business.

New head office exemplifies sustainability

Santos relocated to a new Adelaide head office during 2007 in a move that is a tangible expression of the company's commitment to sustainability.

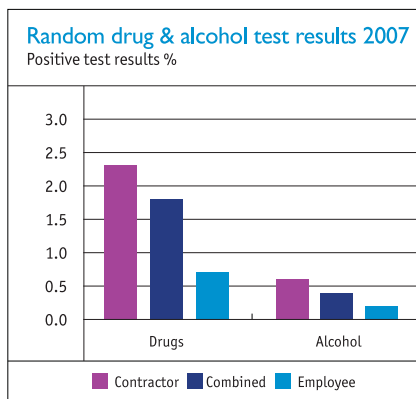
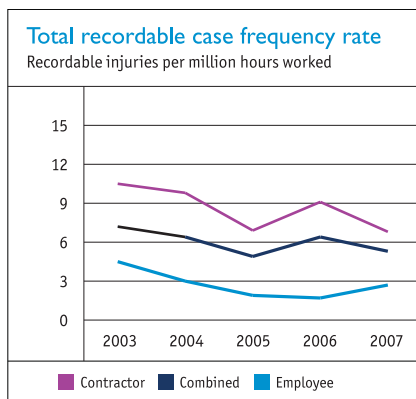
Designed with a long-term horizon, the new Santos Centre provides a safe, environmentally-responsible workplace that helps employees work effectively together. It also embodies the cultural change that has occurred over recent years with a design that reinforces Santos' values.

Santos Centre met its objective of being a satisfying and productive workplace because it grew out of the ideas and aspirations of Santos' people. A comprehensive consultation process resulted in the final design which reflects, in small and large ways, the input of hundreds of employees.



Sustainability in practice at Santos Centre

- 90% of rubber floor surfaces from recycled car tyres.
- 85-year-old timber, recycled from a Queensland railway bridge, in flooring.
- 97% of workstations and chairs made from recycled material, or are recyclable.
- 2,800 plants to absorb carbon dioxide and release oxygen.
- Automatic louvres to allow natural light while reducing energy demand for cooling.
- Motion detection controls for lights in meeting rooms and for after hours.
- Employee gymnasium.
- 100 bike parks for cyclists to improve fitness and reduce vehicle use.
- Healthy food choices available from on-site café.
- Open plan design to improve communication.
- Central atrium stairs to encourage incidental exercise at work.



These results are considered to be lower than industry and community averages.

The guiding principle for the design and fit-out was to minimise the impact on the environment during:

- **construction** – through, for example, the use of low volatile organic compound materials and recycled materials; and
- **ongoing operation** – through energy efficient design and recycling programs.

As a condition of its lease with the building’s owners, Santos prescribed that the base building design had to achieve at least a five-star Green Star rating by the Green Building Council of Australia. This rating was achieved, with the building achieving five-star Green Star ratings for the ‘Office Design’ and ‘Office Design As Built’ rating criteria.

Santos is seeking a five-star Green Star rating for the ‘Office Interiors’ criteria for the fit-out of the building. The rating is expected to be awarded in May 2008.

These ratings put Santos Centre’s green credentials ahead of most commercial buildings in Australia. The benefits of a green building include better indoor air quality, reduced energy use and greenhouse gas emissions, reduced water consumption and improved operating costs.

The Greening the Office Committee, formed in 2001 by employee volunteers, is stewarding the maintenance and, where possible, improvement of Santos Centre’s environmental performance.

The committee worked with Santos’ Facilities Management team during 2007 to develop a ‘Greening Dashboard’ of statistics on Santos’ Centre’s environmental performance. Energy consumption, greenhouse gas emissions, waste recycling and other indicators are communicated with employees to encourage environmentally-responsible behaviour.

HEALTH AND SAFETY

Creating a healthy workforce

Santos has an active program to manage the health and wellbeing of personnel by creating an environment where personnel are educated and motivated to improve their health, wellbeing and fitness for work.

Santos recognises that being healthy, happy and fit is good for the individual and good for the company. So in 2006 the company undertook its first workforce health check,

inviting employees and contractors to voluntarily undergo a health assessment.

The health checks identified a relatively high percentage of personnel with risk factors for heart disease, diabetes and obesity such as high blood glucose, poor dietary habits and high blood pressure. While the results were of concern, this finding reflects the health issues in the general community.

The Santos health and wellbeing program aims to reduce the incidence of the health issues and support people who are already effectively managing their health.

The most important outcome of the program is happier and healthier employees in the office and at home. An added bonus is reduced absenteeism and increased productivity in the workplace.

In 2007, the health and wellbeing program focused on nutrition, health and weight loss. Seminars on healthy eating, losing weight, exercise and understanding health factors such as blood pressure, cholesterol and weight were held in offices and the field locations.

This program is achieving some outstanding results for employees and contractors with participation rates continually rising.

The use of drugs – both legal and illegal – and alcohol, when used in the workplace, represents an unacceptable health and safety risk.

The company has in place a comprehensive drug and alcohol testing program supported by a confidential rehabilitation and management program for people who breach this policy.

To support this position, and help employees and contractors understand the consequences of drugs and alcohol, Santos ran a company-wide awareness program during 2007 to encourage healthy lifestyle practices.

Fatigue has also been identified as a root cause of many serious workplace accidents. It can result from long shifts, reduced breaks and monotonous work, or lifestyle and health factors such as late nights, insomnia, sleep apnoea and disturbed sleep.

Santos established a joint employee/employer working group to review the fatigue data and to steward ongoing initiatives, such as creating an information DVD that was developed for employees.

The DVD demonstrates the causes of fatigue and provides useful information about how to recognise and avoid it.

Santos is also conducting an analysis of rosters and work patterns to assess fatigue levels and target future strategies.

Health and wellbeing isn't just about physical health. It's also about mental health. Santos employees and their families have access to confidential counselling via the Santos Employee Assistance Program. Psychological support is provided for a range of issues including relationship difficulties, stress, and drug and alcohol problems.

Safety improved

During 2007 Santos improved safety through the successful implementation of new standards on process safety and achieving a reduction in the rate of injuries.

Injury rate as measured by total recordable case frequency rate (TRCFR) fell by 17% to 5.3 in 2007 and was also better than Santos' 2007 target by 9%.

This performance improvement in 2007 was an excellent achievement and a reflection of the hard work put in by many people.

Santos has an extensive work program in 2008 with a record number of projected work-hours for employees and contractors. This represents a very large amount of development work that will take place through drilling, petroleum engineering and project activity. At the same time Santos is challenging the organisation to target its best ever TRCFR performance with a target of less than 4.8 for 2008.

Hand and finger injuries continue to be the major injury type, accounting for up to half of all injuries. To address this, Santos launched an awareness program in 2007 including a hand hazard identification and glove selection program which aims to reduce the number of incidents and the severity of the injury.

The program was based on research into how hand injuries occur and consultation with field-based employees.

There were an unacceptably high number of safety incidents involving contractors in 2006. Consequently in 2007, Santos worked with contractor companies to arrest this

concerning trend. As a result, contractor safety performance improved by 25%.

Santos' field operations cover hundreds of square kilometres and pose an ongoing driver safety risk. A defensive driving program, entitled Safe Drive, was launched in 2007. Targeting all employees and their families, the program showed people how to drive defensively to prevent vehicle incidents.

Safe Drive was supported by the installation of in-vehicle monitoring systems for all vehicles to provide feedback to help change and improve driving behaviour.

Directors recognise EHS top performers

Each year the Santos Board holds the Directors' Environment, Health and Safety Awards to recognise innovation, improvement and excellent performance by employees and contractors. In 2007 the winners were:

- **Best Overall Environmental Performance** – awarded to the Onshore Australian Drilling team for its success in reducing drilling lease disturbance;
- **Best Overall Health and Safety Performance** – awarded to the Offshore Drilling and Completions team for achieving two years recordable injury-free;
- **Best Environmental Project or Innovation** – awarded to the Production Central South-West Queensland team for its development of a sludge tank to reduce sludge formation; and
- **Best Health and Safety Project or Innovation** – awarded to contractor Easternwell Services for its design and manufacture of an automated hydraulic pipe handler which eliminates significant manual handling exposure.

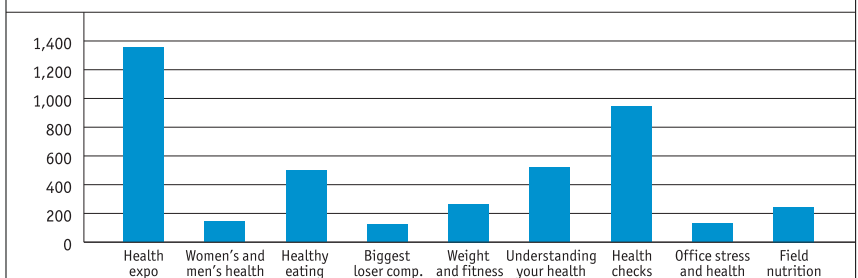


Santos programs helped employees to achieve and maintain a healthy lifestyle

- More than 250 employees joined weight reduction programs.
- Results of health checks indicated 76% of staff who had joined weight loss programs had lost or maintained weight.
- All Santos sites installed new gym facilities and/or equipment.
- 19% increase in voluntary health checks at all Santos sites.
- Health expo and information seminars held on weight loss, fitness, healthy eating and stress management.
- Several health information programs were created for employees' families.
- \$10,000 raised for the Juvenile Diabetes Research Foundation as part of employees' Walk the Moomba Pipeline competition.
- More than 4,000 random drug and alcohol tests conducted at office and field sites.

Employees increased commitment to health and wellbeing programs 2007

Number of employees in attendance



Focus on climate change



Addressing climate change

Climate change is an unprecedented global issue requiring significant resources to meet the complex environmental, energy, economic and political challenges.

As a global stakeholder in the energy business, Santos recognises that one of its most important environmental responsibilities is to pursue strategies that address the issue of greenhouse gas emissions.

Natural gas will play a pivotal role in helping Australia's economy move to a cleaner energy portfolio. Natural gas has approximately half the greenhouse intensity and only uses a minute fraction of the water that coal-fired electricity requires.

Reducing emissions intensity

Santos is actively pursuing an emission intensity reduction target of 20% by 2008, from 2002 levels.

Greenhouse gas and energy efficiency hazard standards under the Environment, Health and Safety Management System provide direction to Santos operations for the measurement and management of emissions and energy. Santos continues to deliver energy efficiency improvements with a number of projects identified in 2007. An example of this includes the Moomba Gas Recovery project which will divert gas from flaring.

Santos also continues to participate in the Yellowbank Gas Flare project where, in partnership with Origin Energy, credits were verified on the Greenhouse Friendly Register.

Santos is committed to reporting and disclosing its climate change performance and meets numerous reporting commitments including:

- quarterly reports to the Environment, Health, Safety and Sustainability Committee of the Board;
- Santos' website and Annual and Sustainability Reports;
- Commonwealth Challenge Plus program;
- Carbon Disclosure Project;
- annual reporting of air emissions to the National Pollution Inventory; and
- periodic review by external audit of Santos' climate change management.

Santos' performance in 2007 was recognised when it was named in the Goldman Sachs JBWere ASX Climate Disclosure Leadership Index.

Australian Business & Climate Group

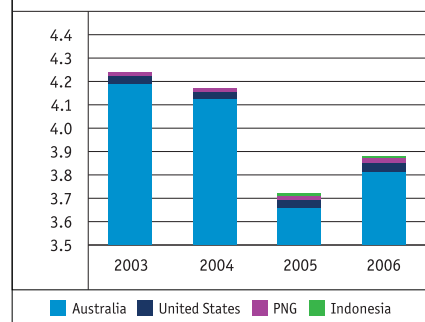
During 2007, a group comprising Santos and eight other leading companies called for an urgent strategy on low emission technology to help reduce greenhouse gas emissions.

The Australian Business & Climate Group said that urgent development of a national low emission technology strategy is required to complement an Australian emissions trading scheme.

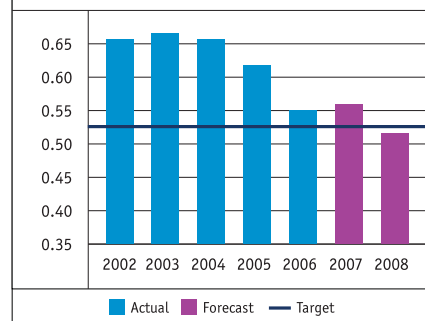
The group recommended the development of a national climate change response to address five main elements: global action, emissions trading, complementary measures, low emission technology strategy, and an adaptation strategy.

In the report, Stepping Up: Accelerating the Deployment of Low Emission Technology in Australia, the companies collaborated to specifically review and recommend

Santos share greenhouse gas emissions
Million tonnes CO₂-e

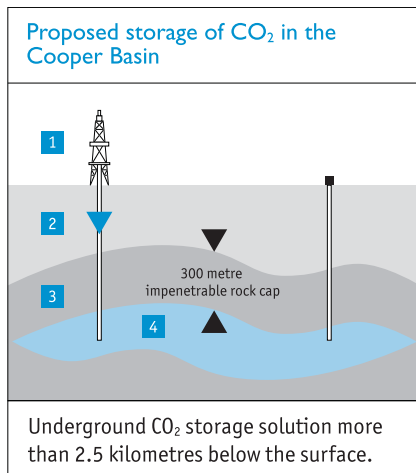


Santos greenhouse gas intensity
Greenhouse emissions per unit of production



Santos is on track to meet its greenhouse gas emissions intensity reduction target. 2007 emissions are verified mid year, after the publication of this report.

left
Ian Neville, Unit Controller, Moomba control room.



- 1 Once the CO₂ has been captured from the source it will be compressed to reduce it to a super-critical liquid ready for transportation.
- 2 The liquid CO₂ is then injected at high pressure into the subterranean reservoir thousands of metres underground.
- 3 An impenetrable rock cap will hold the CO₂ in place.
- 4 The injection wells are capped and over centuries the CO₂ will combine with water to form harmless minerals.

mechanisms needed to drive the development of transformational technologies critical if future emissions targets are to be met.

The group identified six types of barriers to the commercialisation of low emission technology: community acceptance, regulatory uncertainty, technology demonstration funding, public/private partnership frameworks, infrastructure development, and skills deficits.

The group says Australia cannot afford a fragmented approach. Government and business needs to work more closely to drive essential technological change and make the necessary investment.

The report and more information about the group are at the website www.businessandclimate.com.

Moomba Carbon Storage

A Santos initiative has the potential to establish Australia as a leader in climate change technology through the geological sequestration of greenhouse gases.

The first phase of this \$700 million-plus project is designed to demonstrate the technical and commercial feasibility of securely storing CO₂ in depleted oil and gas reservoirs in the Cooper Basin.

This component would harness Santos' existing basin knowledge and expertise to sequester CO₂ emissions associated with the Moomba oil and gas processing plant operations.

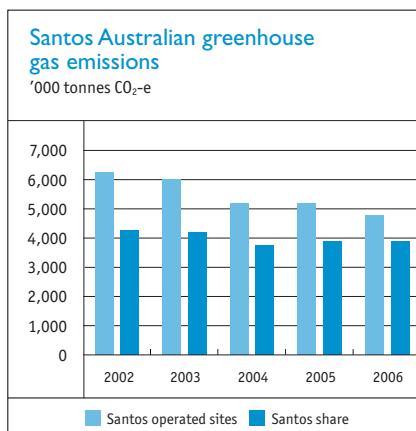
Santos has developed considerable experience in underground gas storage over the past 15 years. The company stores sales gas in depleted reservoirs at Moomba during off-peak production periods.

It is anticipated that approximately one million tonnes per annum of CO₂ – equivalent to taking 250,000 cars off the road per year – would be sequestered during the first phase which can commence as early as 2010.

Subject to the success of the demonstration phase, the Moomba Carbon Storage project would then be scaled up to serve as a regional, multi-user carbon storage hub serving eastern Queensland and the Hunter Valley region in New South Wales. It is projected that storage volumes could exceed 20 million tonnes of CO₂ each year for more than 50 years.

Moomba's central Australian location, proven geology and connection to existing infrastructure makes it uniquely positioned to become a major near-term carbon storage solution for eastern Australia. Its proximity to renewable energy companies also provides a potential link that would help to incubate solar thermal or geothermal technologies in the Cooper Basin.

The development of Moomba Carbon Storage would facilitate Australia's emergence as a world leader in carbon sequestration – allowing Australia to continue to reap the benefits of its endowment of fossil fuels while reducing CO₂ emissions.



The following total greenhouse gas ("greenhouse") emissions relate to Santos' Australian exploration and production operations for the year ended 31 December 2006:

Total greenhouse gas emissions¹ = 4,671,810 tonnes of carbon dioxide equivalents*

Notes:

1. Santos' total greenhouse emissions comprise greenhouse emissions from direct sources, including stationary combustion, process emissions (including flaring and venting) and fugitive emissions from oil and gas exploration and production facilities within Australia that Santos operates.

Santos has determined total greenhouse emissions using the Australian Petroleum Production and Exploration Association spreadsheet calculation tool and emission factors and other relevant methods such as engineering mass balance calculations.

* This amount has been subject to independent limited assurance by Ernst & Young in accordance with Australian Auditing and Assurance Standard ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. See www.santos.com/sustainability2007 for their Independent Limited Assurance Report.

GRI and IPIECA/API index

Santos' 24 sustainability indicators are based on the Global Reporting Initiative (GRI) G3 reporting guidelines and the International Petroleum Industry Environmental Conservation Association (IPIECA) and American Petroleum Institute (API) reporting guidance.

Below is an index referencing Santos' 24 sustainability indicators, the international guidelines and relevant pages of this report. This report provides a succinct overview of Santos' performance against these indicators.

Further detail on many of these indicators is provided in the Annual Report and the Santos website at www.santos.com/sustainability2007.

Santos sustainability indicators

GRI G3 guidelines

IPIECA/API guidance

Santos Sustainability Report 2007

Environment

- Air quality
- Biodiversity and land disturbance
- Climate change management
- Incidents and spills
- Waste management
- Water resources

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Community

- Community wellbeing
- External stakeholder engagement
- Indigenous rights and cultural heritage
- Product responsibility and reputation
- Social infrastructure
- Transparency and disclosure

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Our people

- Governance and policy
- Health and wellbeing
- Safety
- Workforce capability
- Workforce composition, culture and commitment
- Workforce remuneration and benefits

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Economic

- Business partnerships' performance
- Financial performance
- New project development and acquisitions
- Research and development
- Risk management
- Supply chain performance

-	-	Annual Report
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* National Pollution Inventory www.npi.gov.au

** Carbon Disclosure Project www.cdproject.net

Glossary

barrel/bbl

The standard unit of measurement for all production and sales. One barrel = 159 litres or 35 imperial gallons.

biodiversity

The natural variability of plants and animals, and the environments in which they live.

boe

Barrels of oil equivalent. The factor used by Santos to convert volumes of different hydrocarbon production to barrels of oil equivalent.

the company

Santos Ltd and its subsidiaries.

condensate

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

crude oil

A general term for unrefined liquid petroleum or hydrocarbons.

cultural heritage

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

exploration

Drilling, seismic or technical studies undertaken to identify and evaluate regions or prospects with the potential to contain hydrocarbons.

geoscience

Scientific disciplines related to the study of the earth.

greenhouse effect

The trapping of heat by certain gases in the earth's atmosphere in the same way that the glass in a greenhouse prevents heat from escaping and warms its internal environment.

greenhouse gas

A gas that contributes to the greenhouse effect by absorbing infrared radiation.

hazard

A source of potential harm.

hydrocarbon

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

liquids

A sales product in liquid form; for example, condensate and LPG.

LNG

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

LPG

Liquefied petroleum gas. A mixture of light hydrocarbons derived from oil-bearing strata which is gaseous at normal temperatures but which has been liquefied by refrigeration or pressure to store or transport it. Generally, LPG comprises mainly propane and butane.

lost time injury frequency rate (LTIFR)

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

market capitalisation

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

medical treatment injury frequency rate (MTIFR)

A statistical measure of health and safety performance. A medical treatment injury is a work-related injury or illness, other than a lost time injury, where the injury is serious enough to require more than minor first aid treatment. Santos classifies injuries that result in modified duties as medical treatment injuries.

mmboe

Million barrels of oil equivalent.

oil

A mixture of liquid hydrocarbons of different molecular weights.

PJ

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

sales gas

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

Santos

Santos Ltd and its subsidiaries.

seismic survey

Data used to gain an understanding of rock formations beneath the earth's surface using reflected sound waves.

top quartile

Top 25%.

total recordable case frequency rate (TRCFR)

A statistical measure of health and safety performance. Total recordable case frequency rate is calculated as the total number of recordable cases (medical treatment injuries and lost time injuries) per million hours worked.

Conversion

crude oil

1 barrel = 1 boe

sales gas

1 petajoule = 171,937 boe

condensate/naphtha

1 barrel = 0.935 boe

LPG

1 tonne = 8.458 boe

For a comprehensive online conversion calculator tool, visit the Santos website, www.santos.com.

About this report

Sustainability reporting is one component of Santos' framework for managing sustainability. This report is a concise summary, which complements information contained in Santos' Annual Report and other communication media such as the Santos website www.santos.com.

All reasonable effort has been made to provide accurate information in this Sustainability Report but Santos does not warrant or represent its accuracy. Anyone seeking to rely on information in this report or draw detailed conclusions from the data should contact Santos' Principal Sustainability Adviser via email susie.smith@santos.com.

Independent verification statement

To the Board, Management and Stakeholders of Santos Limited (Santos):

Santos commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide a statement, representing our independent opinion on the integrity of information presented within the Santos Sustainability Report 2007 (the 'report'). The report presents Santos' sustainability performance over the period 1st January 2007 to 31st December 2007. Santos was responsible for the preparation of the report and Net Balance's statement represents the verification team's independent opinion.

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

Based on the scope of the verification process, Net Balance is satisfied that the report is an appropriate representation of Santos' sustainability performance during the reporting period.

For additional information on the verification process, limitations, our opinion and recommendations, please refer to the full independent verification statement which can be found at www.santos.com/sustainability2007.

On behalf of the verification team
22nd February 2008
Melbourne, Australia



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

Paper and printing of the Sustainability Report

This report is printed on Monza Recycled paper, which contains elemental chlorine-free (ECF) recycled fibre and fibre from sustainable plantation forests.

The paper is certified by the Forest Stewardship Council (FSC), which promotes environmentally appropriate, socially beneficial, and economically viable management of the world's forests.

The report was printed by Vega Press, one of a small number of printers in Australia certified by the FSC to continue the chain of custody when printing on FSC-certified paper.

Vega Press is certified for ISO 14001:2004 (Environmental Management Systems).

The printing process uses digital printing plates which eliminate film and associated chemicals. The vegetable-based inks use renewable sources such as flax, rather than the traditional mineral oils which emit higher volumes of greenhouse gases.

Help save paper by reading this report online

An electronic version of this report is available on Santos' website www.santos.com/sustainability2007. Shareholders who do not require a printed Sustainability Report, or who receive more than one copy due to multiple shareholdings, can help reduce the number of copies printed by advising the Share Register in writing of changes to their report mailing preferences.

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

Feedback

Santos welcomes feedback on this Sustainability Report. Please complete the feedback form on Santos' website at www.santos.com/sustainability2007.



Corporate directory

Santos Ltd
ABN 80 007 550 923

Registered and Head Office

Ground Floor Santos Centre
60 Flinders Street
Adelaide South Australia 5000
GPO Box 2455
Adelaide South Australia 5001
Telephone: 61 8 8116 5000
Facsimile: 61 8 8116 5050

Share Register

Ground Floor Santos Centre
60 Flinders Street
Adelaide South Australia 5000
GPO Box 2455
Adelaide South Australia 5001
Telephone: 61 8 8116 5000
Facsimile: 61 8 8116 5950

Offices

Brisbane

Level 14 Santos House
60 Edward Street
Brisbane Queensland 4000
Telephone: 61 7 3228 6666
Facsimile: 61 7 3228 6700

Perth

Level 28 Forrest Centre
221 St Georges Terrace
Perth Western Australia 6000
Telephone: 61 8 9460 8900
Facsimile: 61 8 9460 8971

Port Bonython

PO Box 344
Whyalla South Australia 5600
Telephone: 61 8 8640 3100
Facsimile: 61 8 8640 3200

Roma

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

Hanoi

Santos Vietnam Pty Ltd
Suite 701 Level 7
39 A Ngo Quyen
Hanoi Vietnam
Telephone: 84 4 220 6000
Facsimile: 84 4 220 6002

Jakarta

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

New Delhi

Santos International
Operations Pty Ltd
Suite 1907 Level 19
Shangri-La Hotel
19 Ashoka Road
Connaught Place
New Delhi 110 001 India
Telephone: 91 11 4119 6900
Facsimile: 91 11 4119 1908

Port Moresby

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

Useful email contacts

Share register enquiries:
share.register@santos.com

Investor enquiries:
investor.relations@santos.com

Employment enquiries:
recruitment@santos.com

Website

www.santos.com