Santos
We have the energy.

working in partnership

annual report 2011

Santos is a leading Australian oil and gas exploration and production company, with operations and interests in every major Australian petroleum province and in Indonesia, Vietnam, Papua New Guinea, Bangladesh, India and Central Asia.

ABOUT SANTOS

Established in 1954, Santos' core foundations are based on safe, sustainable operations and working in partnership with host communities, governments, business partners and shareholders.

Santos is one of the largest producers of natural gas to the Australian domestic market, supplying to all mainland states and territories as well as to Indonesia and other domestic Asian markets.

Santos has also developed significant oil and liquids businesses in Australia, Indonesia and Vietnam, with recent developments including the Chim Sáo oil project in Vietnam delivered in 2011.

Santos is pursuing a transformational liquefied natural gas (LNG) strategy and has interests in four LNG projects, including the two-train Santos GLNG project in Gladstone, Australia. Through its interest in the Darwin LNG project, Santos has been exporting LNG to Asia since 2006. First LNG shipments are expected from PNG LNG in 2014 and from the GLNG project in 2015. Santos' fourth LNG project is the proposed Bonaparte floating LNG project offshore northern Australia, which is currently in the design phase.

At 152,360 square kilometres, Santos' Australian exploration and production acreage is the largest by area of any company.

Santos has over 2,800 employees across Australia and Asia, with offices in Adelaide, Bishkek, Brisbane, Dhaka, Gladstone, Gunnedah, Hanoi, Jakarta, New Delhi, Perth, Port Moresby, Roma, Sydney and Singapore.

Santos' 2011 total production was 47.2 million barrels of oil equivalent (mmboe), and as at 31 December 2011 Santos had a substantial proven plus probable (2P) reserve base of approximately 1,364 mmboe.

VISION AND STRATEGY

Santos' vision is to be a leading energy company in Australia and Asia, and the company has a robust strategy to achieve this by:

Continuing to be a leading Australian domestic producer.

- Strong 50-year track record of safe, sustainable operations.
- Presence in every major Australian hydrocarbon basin, with oil, conventional gas and unconventional gas assets.
- Increasing exposure to oil-linked gas prices.

Delivering a unique LNG portfolio from existing resources.

- GLNG – upstream operator of the two-train project with first LNG exports expected in 2015.
- PNG LNG – construction underway, with first LNG exports expected in 2014.
- Darwin LNG – LNG production since 2006 with potential for brownfield expansion.
- Bonaparte LNG – innovative floating LNG project in the Bonaparte Basin.

Building a focused, exploration-led Asian portfolio.

- Established Indonesian business with a record of project delivery.
- Chim Sáo oil project in Vietnam delivered, with further growth potential.
- Significant drilling program planned, with exciting opportunities including Indonesia, Bangladesh and Vietnam.

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.
- **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.
- **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.
- **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.

Mutineer-Exeter oil field, Carnarvon Basin, Western Australia.

As pioneers of the Australian gas industry for more than half a century, we know that effective leadership relies on respectful partnerships – with our people, governments and the communities in which we operate. It is through our commitment to forging enduring partnerships that we ensure our enduring leadership and continued success.

This 2011 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2011.

All references to dollars, cents or $ in this document are to Australian currency, unless otherwise stated.

An electonic version of this report is available on Santos' website, www.santos.com

about this report

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Delivering new growth
Building a focused exploration-led Asian portfolio.

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Operating responsibly
Integrating sustainability into business strategy.

Cover: Field Engineer, Paul Michell, and Oil Team Leader, Tom Thurgood, near Tirrawarra in the Cooper Basin, South Australia.

This page: Countryside near Fairview, eastern Queensland.

operating and financial highlights

↑ 14%
Sales revenue
$2,530 million

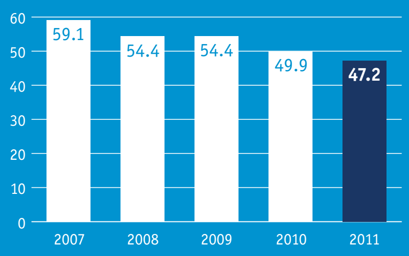
↑ 27%
EBITDAX
$2,126 million

↑ 51%
Net profit after tax
$753 million

	2011	2010	% change
Production volume (mmboe)	**47.2**	49.9	(5)
Sales volume (mmboe)	**57.1**	59.2	(4)
Sales revenue ($million)	**2,530**	2,228	14
EBITDAX ($million)	**2,126**	1,672	27
Net profit after tax ($million)	**753**	500	51
Underlying net profit after tax ($million)	**453**	376	20
Operating cash flow ($million)	**1,253**	1,273	(2)
Earnings per share (cents)	**84.8**	59.7	42
Dividends declared per ordinary share (cents)	**30.0**	37.0	(19)
Safety performance (TRCFR)	**3.3**	3.3	–

PRODUCTION VOLUME

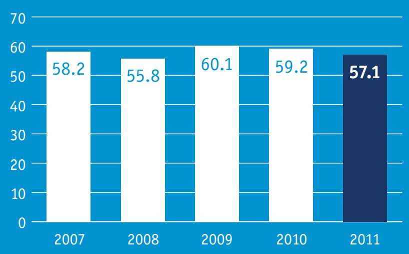
47.2 mmboe



Production was in line with guidance and down 5%, primarily due to the sell-down of a 15% interest in the GLNG project.

SALES VOLUME

57.1 mmboe



Sales volumes were down 4%, with lower production offset by higher third-party product sales.

5%

Production
47.2 mmboe

2%

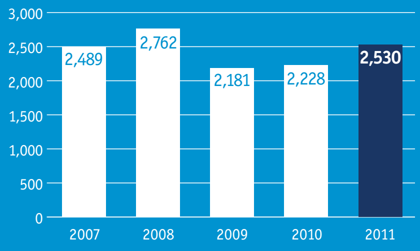
Operating cash flow
$1,253 million

20%

Underlying net profit after tax
$453 million

SALES REVENUE

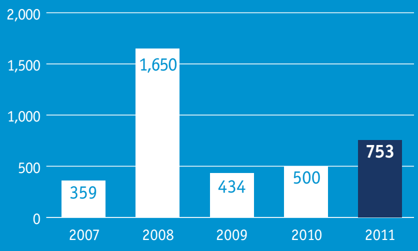
$2,530 million



Sales revenue increased by 14% due to higher oil and gas prices, offset by lower sales volumes and the stronger Australian dollar.

NET PROFIT AFTER TAX

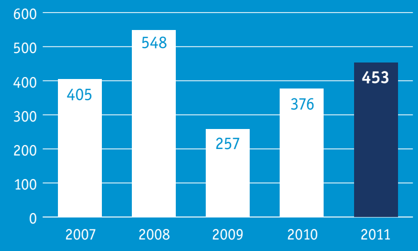
$753 million



Net profit after tax was up 51%, driven by higher commodity prices and the sell-down of interests in the GLNG project and in Evans Shoal.

UNDERLYING NET PROFIT AFTER TAX

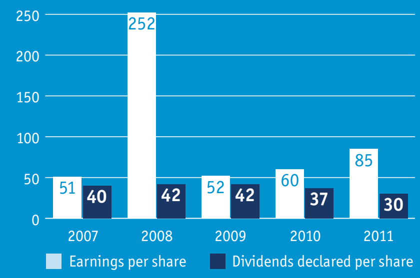
$453 million



Underlying net profit increased by 20%, with higher commodity prices offset by lower production and a higher effective tax rate.

EARNINGS & DIVIDENDS PER SHARE

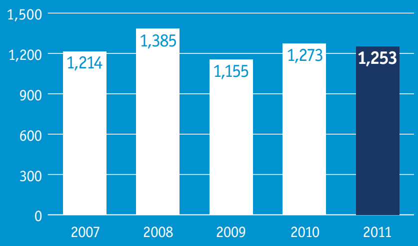
84.8 cents



The total 2011 dividend of 30 cents is down 19%, which reflects the company's funding strategy to deliver its growth program.

OPERATING CASH FLOW

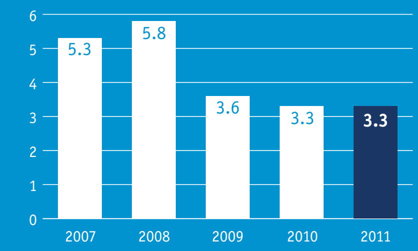
$1,253 million



Operating cash flow was down 2%, as the impact of higher commodity prices was offset by higher taxes paid.

SAFETY PERFORMANCE

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



2011 was the equal best safety performance in the company's history, with the record best combined contractor performance rate.

review by Peter Coates and David Knox

Chairman and Chief Executive Officer

2011 was highlighted by strong project delivery and good operational and financial results.

L to R: David Knox and Peter Coates

Dear shareholder,

Your company performed well during 2011 with higher full-year net profit and underlying net profit, continued improvement in safety and strong project delivery. We continued to generate strong cash flows to fund our material pipeline of growth projects and to provide your returns.

Our net profit after tax of $753 million was up 51% on the previous year. This included one-off items such as the sale of a 15% interest in the Santos GLNG Project and our entire stake in the undeveloped Evans Shoal gas field. It also includes some asset impairments. If we exclude the impact of these and similar items, underlying profit was up 20% to $453 million. This higher profit was primarily due to higher oil and gas prices, offset by a stronger Australian dollar and a higher tax rate.

In 2012, we have ahead of us another exciting year, both for project delivery and with the exploration and evaluation drill-bit. Our strategy is to unlock the company's significant resources in a rising market for oil and gas demand in Asia and Australia. We have the skills, teamwork and commitment to deliver on our plans – safely, profitably and sustainably.

SAFETY AND SUSTAINABILITY

Santos' safety performance has improved by 40% over the past three years, with a total recordable case frequency rate (a standard industry measure) of 3.3 recordable injuries per million hours worked in 2011. This is the equal best safety performance in the company's history.

Santos' Sustainability Report 2011, which includes a dedicated section on coal seam gas (CSG), is designed to complement this Annual Report, and is also available online at www.santos.com/sustainability. We encourage you to read the report and find out more about what sustainability means to Santos and what we are doing to achieve it.

FOCUS ON CSG

We are committed to maintaining our 50-year track record of safe, responsible and sustainable gas exploration and production activities, including more than 15 years of CSG operations in Queensland. There has been considerable public discussion about CSG and we acknowledge the legitimate concerns held by some in the community.

The expansion of Australia's CSG industry is bringing new jobs, widespread economic benefits, cleaner energy, greater energy security and other benefits such as making treated water from coal seams available to farmers and local communities. We are listening to community concerns and know we will not be successful in building our CSG business unless those concerns can be addressed.

Santos is one of the coal seam gas industry's most experienced operators.

Our core foundations are built on respectful relationships with landowners, responsible stewardship of the environment and water resources, and strong partnerships with communities. We always seek access to land through the informed agreement of landowners, and act reasonably at all times.

MEETING AN ENERGY CHALLENGE

At Santos, we will play a role in delivering the benefits of natural gas to Australians and the energy-hungry markets of Asia.

Natural gas is an important part of the global energy market, providing a fuel source that is abundant and available now to underpin the transition to a low carbon economy.

Santos is one of Australia's largest producers of natural gas for domestic consumption. It's through this strong Australian base that we can support Australia and Asia's energy needs. Australia has the gas resources to supply its domestic market and also give a massive boost to the LNG export market, which will help fuel Asia's economic growth.

The Cooper Basin has been our heartland for more than 40 years. We are pleased to report that the Cooper has many years of life left in it. To unlock that potential, we are applying new technology, particularly in the areas of drilling rigs and multi-pad drilling. Initial results have been successful and contributed to the largest annual gas reserves upgrade in the Cooper Basin for 10 years.

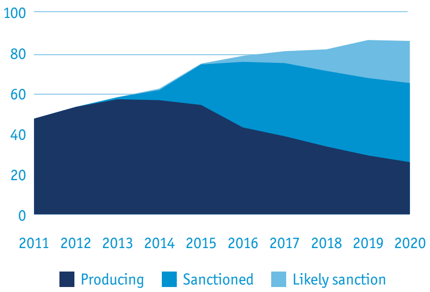
During the year, we completed the acquisition of Eastern Star Gas Limited via a recommended Scheme of Arrangement, together with the on-sale of a 20% interest in Eastern Star's permits in the Gunnedah Basin to TRUenergy. The acquisition gives Santos the largest natural gas reserves position in New South Wales, a state that currently imports most of its natural gas from other states. With our partner TRUenergy, we plan to invest $500 million in the Gunnedah Basin over the next three to four years to further explore the potential of this resource.

We are also building a material gas business in Western Australia, where, in conjunction with our partner Apache Energy, we commissioned the new Devil Creek domestic gas plant in 2011. Supplied with gas from

Review by Peter Coates and David Knox (continued)

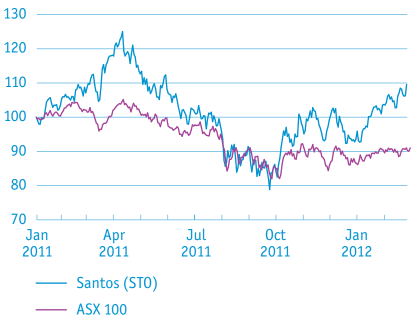
SANTOS PRODUCTION OUTLOOK

mmboe



SANTOS VS ASX 100 INDEX RELATIVE PERFORMANCE

January 2011 – February 2012



Values are indexed to base 100 from 4 January 2011.

our offshore Reindeer field, Devil Creek is the first gas plant development in the state in 15 years and brings new supply capacity and greater energy security to the state.

In Asia, we produce gas for domestic consumption in Indonesia, Bangladesh and Vietnam.

POSITIONED FOR FUTURE GROWTH

Consistent delivery of Santos' strategy has positioned the company for growth in the years ahead, with production expected to reach over 80 mmboe by 2020. This compares to 47 mmboe in 2011.

Part of this growth will come from production from new assets commissioned during 2011 and early 2012. These included the Reindeer and Spar gas projects in Western Australia, the Chim Sáo oil project in Vietnam and the Wortel gas project in Indonesia. Importantly, all of these projects were delivered on or under their sanctioned budgets – a strong performance by Santos and our partners during a time of inflationary cost pressures across our industry.

Our LNG projects are progressing well, with PNG LNG and GLNG on track for first production in 2014 and 2015 respectively, in line with their sanction targets. These projects will deliver on the strategic vision to transform Santos into a significant exporter of LNG.

You can read more about our LNG projects on pages 16 to 17 of this Annual Report.

STRONG POSITION TO FUND GROWTH

We are in a strong position to fund our growth, with $7.5 billion of cash and available credit facilities at 31 December 2011.

A key element in determining the right funding strategy is the level of dividends. Given the significant commitment to funding our key LNG growth projects over the next few years, the Board made the decision to reduce the dividend in 2011. This was necessary to strike an appropriate balance between funding growth and continuing to pay a meaningful dividend to shareholders.

In line with this policy, the dividend for the year ending 31 December 2011 was 30 cents per share fully franked. The Board anticipates that the annual dividend will remain at this level during our capital intensive growth phase between now and 2015. Following that, the Board will look to increase the dividend as soon as appropriate.

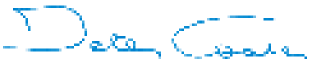
We remind shareholders that Santos continues to offer a Dividend Reinvestment Plan (DRP) that enables shareholders to increase their shareholding at a 2.5% discount to the market price and without brokerage.

EMPLOYEES AND THE BOARD

We would like to express our appreciation to our fellow Directors for the commitment and dedication they bring to the Santos Board.

We would also like to thank our employees who have rallied to support their local communities, be it during the flooding in Queensland at the beginning of 2011 and again in 2012, or through volunteering during the year.

On behalf of the Directors, we would like to thank all Santos employees for their hard work and dedication in continuing to deliver value to our shareholders.



Peter Coates AO
Chairman

David Knox
Chief Executive Officer
and Managing Director

production statistics

	Total 2011		Total 2010	
	Field units	**mmboe**	Field units	mmboe
Sales gas, ethane and LNG (PJ)				
Cooper	**66.1**	**11.4**	66.6	11.4
Otway/Gippsland	**19.0**	**3.3**	19.2	3.3
Surat/Bowen	**14.2**	**2.4**	14.4	2.5
GLNG	**9.0**	**1.6**	19.6	3.4
Amadeus	**0.7**	**0.1**	1.6	0.3
Gunnedah	**0.2**	**0.0**	0.1	0.0
Carnarvon	**45.5**	**7.8**	47.7	8.2
Bonaparte	**14.7**	**2.6**	15.0	2.6
Indonesia	**33.9**	**5.8**	38.2	6.5
Bangladesh	**3.5**	**0.6**	3.8	0.7
Total production	**206.8**	**35.6**	226.2	38.9
Total sales volume	**265.8**	**45.7**	277.7	47.7
Total sales revenue ($million)		**1,252.5**		1,196.9
Condensate ('000 bbls)				
Cooper	**1,072.0**	**1.0**	945.8	0.9
Amadeus	**24.1**	**0.0**	25.9	0.0
Otway	**19.5**	**0.0**	23.5	0.0
Surat/Bowen	**2.8**	**0.0**	4.3	0.0
Bonaparte	**1,291.9**	**1.2**	1,367.0	1.3
Carnarvon	**502.4**	**0.5**	474.4	0.5
Indonesia	**5.2**	**0.0**	3.8	0.0
Bangladesh	**0.6**	**0.0**	0.4	0.0
Total production	**2,918.5**	**2.7**	2,845.1	2.7
Total sales volume	**2,919.6**	**2.7**	3,009.1	2.8
Total sales revenue ($million)		**303.2**		253.1

	Total 2011		Total 2010	
	Field units	**mmboe**	Field units	mmboe
Crude oil ('000 bbls)				
Cooper	**2,831.4**	**2.8**	2,557.8	2.6
Amadeus	**112.7**	**0.1**	86.3	0.1
Surat/Bowen	**89.6**	**0.1**	84.1	0.1
Stag	**1,677.2**	**1.7**	1,430.6	1.4
Mutineer-Exeter	**669.5**	**0.7**	572.6	0.6
Barrow	**526.0**	**0.5**	561.1	0.5
Thevenard	**235.5**	**0.2**	254.0	0.2
Vietnam	**680.6**	**0.7**	-	-
Indonesia	**269.9**	**0.3**	578.8	0.6
SE Gobe	**77.5**	**0.1**	93.2	0.1
Other[1]	**-**	**-**	308.7	0.3
Total production	**7,169.9**	**7.2**	6,527.2	6.5
Total sales volume	**6,990.2**	**7.0**	6,797.5	6.8
Total sales revenue ($million)		**803.6**		593.8
LPG ('000 t)				
Cooper	**134.4**	**1.1**	132.7	1.1
Surat/Bowen	**0.0**	**0.0**	0.1	0.0
Bonaparte	**75.2**	**0.6**	77.7	0.7
Total production	**209.6**	**1.7**	210.5	1.8
Total sales volume	**198.4**	**1.7**	224.5	1.9
Total sales revenue ($million)		**171.0**		184.1
TOTAL				
Production (mmboe)		**47.2**		49.9
Sales volume (mmboe)		**57.1**		59.2
Sales revenue ($million)		**2,530.3**		2,227.9

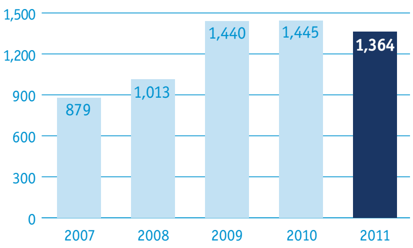
1 Includes Jabiru, Challis and Legendre which ceased production in 2010.

reserves statistics

Our significant reserve and resource position, combined with existing infrastructure, leaves Santos strategically well placed to supply the growing demand for natural gas in Australia and Asia.

2P RESERVES

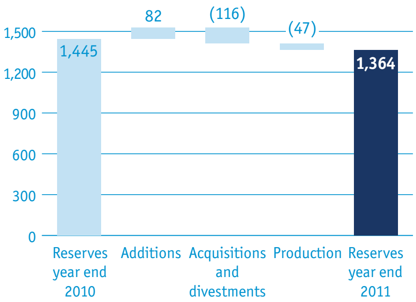
1,364 mmboe



2011 was the first year in eight years that Santos' total reserves decreased, with net acquisitions and divestments during 2011 reducing 2P reserves by 116 mmboe.

2P RESERVES RECONCILIATION

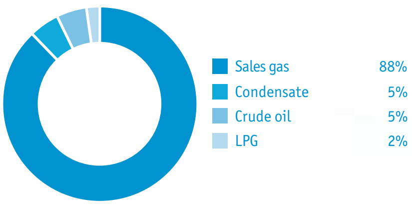
mmboe



Additions of 82 mmboe were primarily driven by strong growth in Cooper Basin gas reserves. The 116 mmboe decrease for acquisitions and divestments is due to the 15% sell-down of the GLNG project and the completion of the transfer of some of the GLNG upstream permits, partially offset by the Eastern Star Gas acquisition.

2P RESERVES BY PRODUCT

%



Sales gas reserves comprise 88% of 2P reserves and over 90% of 2C contingent resources.

RESERVES (SANTOS SHARE)

(mmboe)	Year end 2010	Production	Additions	Acquisitions/ divestments	Year end 2011
1P reserves	646	-47	80	-30	649
2P reserves	1,445	-47	82	-116	1,364
2C contingent resources	2,261	0	12	-111	2,162

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) BY ACTIVITY

	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Reserves year end 2010	7,489	66	70	3,083	1,445
Production	-207	-7	-3	-210	-47
Additions	369	9	4	576	82
Acquisitions/divestments	-692	3	1	0	-116
Estimated reserves year end 2011	6,959	71	72	3,449	1,364

PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) YEAR END 2011 BY AREA

Area					
Eastern Australia					
Cooper Basin	1,130	29	19	2,350	262
Southern Australia	358	0	5	398	69
Queensland CSG	1,760	0	0	0	303
Queensland Conventional	44	0	0	0	8
New South Wales CSG	1,141	0	0	0	196
Total Eastern Australia	**4,433**	**29**	**24**	**2,748**	**838**
Western Australia and Northern Territory					
Carnarvon	803	19	9	0	165
Bonaparte	233	0	11	701	57
Amadeus	123	8	2	0	30
Total Western Australia and Northern Territory	**1,159**	**27**	**22**	**701**	**252**
Asia Pacific					
Papua New Guinea	1,228	0	25	0	235
Indonesia	131	1	0	0	23
Vietnam and Bangladesh	8	14	0	0	16
Total Asia Pacific	**1,367**	**15**	**25**	**0**	**274**
Total	**6,959**	**71**	**71**	**3,449**	**1,364**

The information in this reserves statement has been compiled by Greg Horton, a full-time employee of the company. Greg Horton is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears. Santos prepares its reserves and contingent resources estimates in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

Unless otherwise stated, all references to reserves and resource quantities in this release are Santos net share. References to contingent resources are mid (2C) contingent resource estimates. Sales gas reserves and contingent resources are estimated after deducting the fuel, flare and vent necessary to produce and deliver sales gas.

Santos engages independent experts Gaffney, Cline & Associates, Netherland, Sewell & Associates, Inc. and DeGolyer and MacNaughton to audit and/or evaluate reserves and contingent resources. The auditors found that, based on the outcomes of each of the respective audits and evaluations, and their understanding of the estimation processes employed by Santos, that Santos' 31 December 2011 reserves and contingent resources quantities in aggregate compare reasonably to those estimates prepared by the auditors. In addition, based on incorporating the results from the other auditors, without independent validation of their results and Santos' own estimates for unaudited properties, Gaffney, Cline & Associates found that, in the aggregate, the total volumes summarised in the Santos summary table represents a reasonable estimate of Santos' 31 December 2011 reserves and contingent resources position.

Moomba gas plant, Cooper Basin, South Australia.

review by Chief Financial Officer

Andrew Seaton

Santos produced strong financial results in 2011, and has a robust balance sheet to fund its growth projects, with $7.5 billion of available funding capacity.

STRONG 2011 FINANCIAL RESULTS

Santos performed well in 2011, with net profit after tax (NPAT) up 51% to $753 million. After adjusting for a number of items, including $408 million from assets sales and asset impairments of $102 million, the underlying NPAT of $453 million was up 20% on the previous year.

Sales revenue increased by 14%, reflecting higher realised prices across all products offset by a stronger Australian dollar. Over 30% of this revenue was attributable to oil sales, including first production from the Chim Sáo oil project in October 2011.

Cash production costs have been held essentially flat over the past four years. This is a good result against an industry backdrop of escalating costs, and reflects management's commitment to control costs across the business.

Operating cash flow of $1,253 million was in line with 2010 as the impact of higher commodity prices was offset by higher taxes paid. Clearly, this reliable cashflow is important for our overall funding mix as we continue to fund our growth portfolio.

The company's capital expenditure in 2011 was $3.1 billion. We expect capital expenditure of approximately $3.75 billion in 2012, including $2.5 billion on the PNG LNG and GLNG projects.

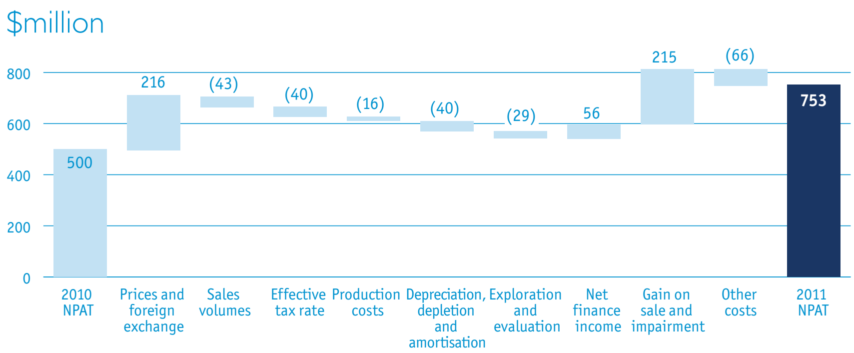
KEY DRIVERS OF 2011 NPAT VERSUS 2010 (as shown in the chart on page 11)

- Prices and foreign exchange increased NPAT by $216 million, driven by higher commodity prices offset by the stronger Australian dollar. The average realised oil price in 2011 of $115 per barrel was 32% higher than 2010 and the average realised gas price of $4.71 per gigajoule was up 9%.
- Sales volumes decreased NPAT by $43 million, primarily due to lower gas volumes partially offset by higher crude oil sales.
- The effective tax rate decreased NPAT by $40 million, primarily due to higher non-deductible overseas expenses.
- Production costs decreased NPAT by $16 million, primarily due to one-off flood recovery costs in the Cooper Basin and the commencement of production from Chim Sáo.
- Depreciation, depletion and amortisation expenses decreased NPAT by $40 million, reflecting higher unit development costs.
- Exploration and evaluation expense decreased NPAT by $29 million, due to a higher level of activity, including seismic surveys and drilling.
- Net finance income increased NPAT by $56 million, resulting from higher cash balances and the capitalisation of interest to development projects.
- Gain on sale and impairment increased NPAT by $215 million, primarily due to the sell-down of a 15% interest in GLNG to Total and KOGAS, the sale of the Evans Shoal gas field and lower net impairment charges.
- Other costs decreased NPAT by $66 million, primarily due to one-off tax adjustments.

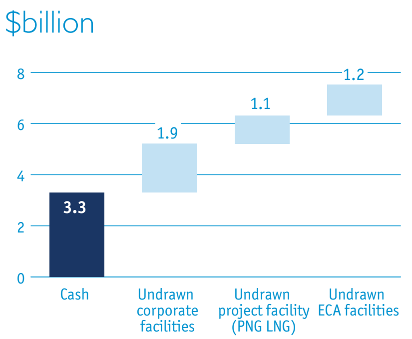
TAXATION

Santos' total taxation expense in 2011 was $531 million. After refunds, we made total tax payments of $605 million in 2011, including $157 million in royalty-related taxes, such as the Petroleum Resource Rent Tax (PRRT) which applies to petroleum projects that are located offshore Australia.

NET PROFIT AFTER TAX



AVAILABLE FUNDING CAPACITY



During 2011, the Federal Government introduced legislation to parliament to extend the PRRT to onshore Australian oil and gas projects. As at February 2012, the legislation had not been passed by the Senate, and therefore the impact is uncertain. However, if this legislation is passed and enacted in its current form, Santos' expectation is that it will not result in any significant additional payments of PRRT.

STRONG FINANCIAL POSITION

Santos' strong balance sheet and liquidity position provides the capacity to fund the execution of the company's strategy, while minimising refinancing risk. Our senior long-term credit rating of BBB+ has continued to be affirmed by Standard & Poor's.

At year end 2011, Santos had $3.3 billion in cash and $4.2 billion in committed but undrawn debt facilities, resulting in a funding capacity of $7.5 billion.

During 2011, we successfully secured US$1.2 billion in Export Credit Agency (ECA) supported debt facilities. The ECA facilities, with an average maturity of eight years, provide Santos with a flexible drawdown profile during the construction period of the GLNG project. The ECA facilities demonstrate the company's ability to raise capital from a diverse range of sources on attractive terms.

Maturities on drawn debt facilities are minimal out to 2017, at which time Santos has the option to redeem the €1 billion hybrid notes that otherwise mature in 2070.

RESERVES AND RESOURCES

Santos continued its strong track record of reserves replacement and resource conversion in 2011.

Successful appraisal activity and the sanctioning of the Fletcher Finucane project added 82 mmboe of 2P reserves. These reserves additions represent an organic 2P reserves replacement ratio of 173% when compared to our 2011 production of 47.2 mmboe.

Net acquisitions and divestments during 2011 reduced 2P reserves by 116 mmboe. This reflects additions to reserves from the acquisition of Eastern Star Gas, offset by the sale of a 15% interest in the GLNG project to Total and KOGAS and the completion of the transfer of GLNG reserves to our partners as part of the previously announced sell-downs.

Santos offices

Detailed exploration maps are available on the Santos website www.santos.com. Percentage interests are provided in the Santos Group interests section of this Annual Report.

- Exploration
- Development
- Operations/production
- Processing and load-out facility

world of Santos

REF	LOCATION	SITE/ASSET	ACTIVITY	SANTOS OPERATED	PRODUCT
AUSTRALIA					
1	Carnarvon Basin	Mutineer-Exeter	●	Yes	Oil
		Thevenard, Stag, Barrow Island	●	No	Oil
		Spar, John Brookes, Varanus Island, Reindeer, Devil Creek	●	No	Gas, liquids
		Fletcher Finucane	●	Yes	Oil
		Zola, Winchester, Beam, Hoss	●	4 of 9 permits	Oil, gas
2	Browse Basin	Crown, Burnside	●	Yes	Gas
3	Bonaparte Basin	Caldita Barossa	●	No	Gas
		Other gas assets	●	Yes	Gas
4	Amadeus Basin	Mereenie	●	Yes	Oil, gas
5	Cooper/Eromanga Basins	South Australia – Moomba	●●	Yes	Oil, gas, liquids
		South-west Queensland – Ballera, Jackson	●●	Yes	Oil, gas, liquids
		Other oil assets	●●	No	Oil
6	Surat/Bowen Basins	Denison, Mahalo	●●	Yes	Gas
		Moonie	●	Yes	Oil
		Other gas assets	●	No	Gas
7	Gunnedah Basin	PEL 238 (Narrabri)	●	Yes	Gas
8	Gippsland Basin	Kipper	●	No	Gas, liquids
		Sole	●	Yes	Gas
9	Otway Basin	Casino, Henry, Netherby	●	Yes	Gas, liquids
		Minerva	●	No	Gas
LNG PROJECTS					
10	Bonaparte Basin	Bonaparte LNG	●	No	LNG
11	Timor Sea and Gap	Bayu-Undan, Darwin LNG	●	No	LNG, liquids
12	Surat/Bowen Basins	GLNG	●	Yes*	LNG
13	Papua New Guinea	PNG LNG	●	No	LNG, liquids
ASIA					
14	Papua New Guinea	SE Gobe	●	No	Oil
		Hides, Barikewa	●	No	Oil, gas, liquids
15	Papuan Basin, Indonesia	Warim	●	No	Oil, gas, liquids
16	East Java Basin, Indonesia	Maleo, Oyong, Wortel, Peluang	●●	Yes	Oil, gas, liquids
17	South Sumatra, Indonesia	Ogan Komering I and II	●	No	Gas
18	Nam Con Son Basin, Vietnam	Chim Sáo	●	No	Oil, gas
		Dua, Chim Sáo north-west	●	No	Oil, gas
		Block 13/03	●	Yes	Oil, gas
19	Phu Khanh Basin, Vietnam	123 PSC	●	Yes	Oil, gas, liquids
20	Bengal Basin, Bangladesh	Sangu/Block 16	●●	Yes	Gas, liquids
21	North East Coast Basin, India		●	Yes	Gas
22	Fergana Basin, Kyrgyz Republic		●	No†	Oil, gas

* Santos operates the upstream and has a 30% interest in the jointly held project company that operates the downstream.

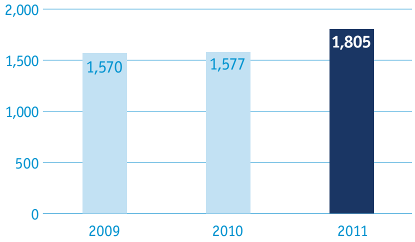
† Santos holds a majority interest in companies that operate these permits.

building the base

Australia

AUSTRALIA SALES REVENUE

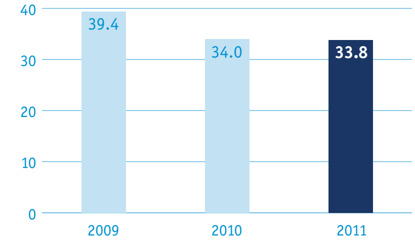
$1,805 million



Sales revenue up 14%, with higher oil and gas prices offsetting lower sales volumes.

AUSTRALIA PRODUCTION

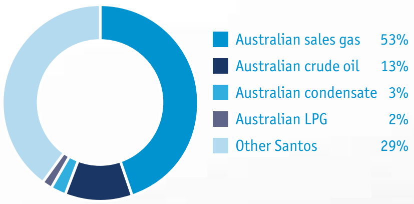
33.8 mmboe



Production in line with 2010, with higher oil production offset by lower gas production.

AUSTRALIA CONTRIBUTION TO TOTAL 2011 PRODUCTION

%



Santos is a leading gas producer in Australia, and has a strong, 50-year track record of safe and sustainable operations.

Demand for Australian gas, both domestic and for export as LNG, is expected to quadruple by 2025, with gas prices trending towards oil-linked international parity.

With assets in every major hydrocarbon province in Australia, Santos is well placed to help meet this increasing demand and support a lower-carbon future underpinned by the wider use of cleaner burning natural gas.

WESTERN AUSTRALIA

Santos is continuing to build its already significant business in Western Australia, from which oil, gas and condensate account for 24% of Santos' total production.

The Reindeer/Devil Creek and Spar (Halyard well) projects were delivered in 2011, on schedule and on budget. These projects are important additions to the state's domestic gas supply, with the Devil Creek gas plant also representing greater energy security for Western Australia. Four gas sale contracts for Reindeer gas have been signed with major local companies in the mining industry.

Santos has an exciting program planned in 2012, with three operated rigs scheduled to drill wells in the Carnarvon and Browse Basins, offshore Western Australia.

SANCTION OF FLETCHER FINUCANE

Santos sanctioned the Fletcher Finucane oil project in January 2012, which will be developed through a tie-back to the existing Santos operated floating production, storage and offloading facility at Mutineer-Exeter in the Carnarvon Basin.

Fletcher Finucane is scheduled to begin production in the second half of 2013, extending the economic life of Mutineer-Exeter and allowing the joint venture partners to examine other opportunities near the existing facilities.

Santos holds a 48% effective interest in the Fletcher Finucane project and is the operator.

NORTHERN TERRITORY

Offshore northern Australia, Santos completed the sale of its entire working interest in the Evans Shoal field to Eni, for up to US$350 million. The sale is consistent with Santos' ongoing program to monetise non-core assets and actively manage its portfolio to maximise shareholders value.

COOPER CONVENTIONAL GAS GROWTH

The Cooper Basin has been the heartland of Santos' operations for over 40 years, with its natural gas safely fuelling industry and homes in eastern Australia since 1969.

In 2011, total production from the Cooper Basin was slightly higher than 2010 and all customer deliveries were met despite adverse weather.

Through a combination of successful results from the infill drilling program and improved base performance, Santos' share of Cooper Basin 2P reserves increased by 30% in 2011 to over 1,100 PJ.

Infill drilling involves drilling new wells at closer spacing to improve gas recovery, and will enable Santos to unlock significant further conventional gas resources.

Santos has also been applying North American technology to lower costs and improve gas recovery, and a fleet of three new state-of-the-art drilling rigs commenced operations in the Cooper Basin during the year.

COOPER BASIN SHALE AND OTHER UNCONVENTIONAL GAS

Santos has been a leader in unconventional resources exploration in the Cooper Basin since 2008, when it booked Australia's first independently certified shale contingent resource.

Santos drilled its first dedicated vertical shale well in 2011. Well stimulation activities in March 2012 will go a long way towards improving the technical understanding of this vast resource.

As the operator of the Cooper Basin joint venture, Santos has access to the critical infrastructure, processing, gathering systems, transport and storage that will allow the region's unconventional resources to be sold into the growing markets of eastern Australia.

NSW CSG ACQUISITION

In November 2011, Santos completed the acquisition of Eastern Star Gas Limited, along with the subsequent sale of a 20% working level interest in Eastern Star's permits in the Gunnedah Basin, New South Wales, to TRUenergy.

This acquisition made Santos the largest holder of CSG reserves in New South Wales, and strengthened Santos' integrated eastern Australian portfolio, which has the ability to supply into domestic and LNG export markets.

Santos is committed to continuing to work in partnership with local communities in New South Wales. We have already been working in regional NSW for over three years, employing and supporting local people and businesses.

Good reason to ride

Santos is a proud partner of the multi-award winning Santos Tour Down Under, Australia's biggest free sporting event.

In the past three years, more than 1,200 employees have volunteered for Santos booths, ridden in the Bupa Challenge Tours, and raised over $100,000 for Cancer Council SA's Ride for a Reason initiative.

The 2011 race contributed $43.4 million to the SA economy and attracted record crowds of 782,000 people. Santos' partnership with the Santos Tour Down Under will run to 2016.

Above:
Santos employees recuperating after the Bupa Challenge Tour.

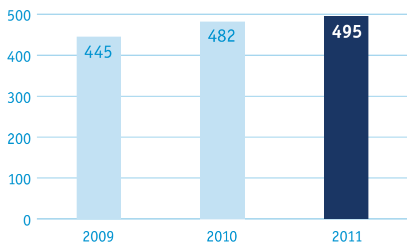
Left:
Field Engineer Paul Michell and Oil Team Leader Tom Thurgood near Tirrawarra in the Cooper Basin, South Australia.

transforming through LNG

LNG projects

LNG PROJECTS SALES REVENUE*

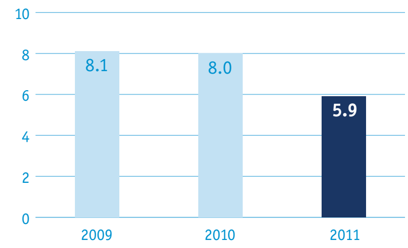
$495 million



Sales revenue up 3%, with higher Darwin LNG revenue due to higher liquids prices offset by lower GLNG sales volumes.

LNG PROJECTS PRODUCTION†

5.9 mmboe



Production down 26%, primarily due to the sell-down of a 15% interest in the GLNG project to Total and KOGAS.

LNG PROJECTS CONTRIBUTION TO TOTAL 2011 PRODUCTION

%

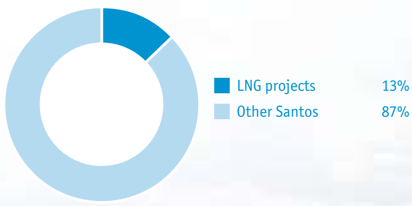


*Chart includes all LNG, condensate and LPG revenue from Darwin LNG and domestic gas revenue from the under-construction GLNG project.

†Chart includes all LNG, condensate and LPG production from Darwin LNG and domestic gas production from the under-construction GLNG project.

With Asian demand for LNG set to nearly double by 2025, Santos is uniquely placed to deliver its transformational LNG portfolio. Santos has interests in four LNG projects: the cornerstone GLNG project, the developing PNG LNG project, the producing Darwin LNG project and the proposed Bonaparte LNG project.

SANTOS GLNG PROJECT

Sanctioned in January 2011, the GLNG project is progressing well, with first LNG exports expected in 2015.

GLNG is a joint venture between Santos (upstream operator and 30% equity holder), PETRONAS of Malaysia, Total of France and KOGAS of South Korea. GLNG has binding LNG sales agreements with KOGAS and PETRONAS, two of the world's largest LNG companies, for 7 million tonnes per annum (mtpa).

The US$16 billion project involves the development of CSG resources in the Bowen and Surat Basins in Queensland, construction of a 420-kilometre pipeline from the gas fields to Gladstone and construction of a 7.8 mtpa, two-train LNG plant located on Curtis Island, Gladstone.

As part of the upstream development, the project has secured over 520 landholder agreements and has obtained all cultural heritage clearances. In 2011, 125 wells were drilled. This was slightly below expectation due to wet weather. Gas is currently being produced to meet domestic contract nominations, with the remaining gas being injected into storage.

Over 150 kilometres of the gas transmission pipeline has been fabricated, with the project receiving the second delivery of pipe in Gladstone in early 2012. Construction is continuing at the LNG plant site, with the laying of the foundation of the LNG train compressor underway in early 2012.

In 2011, the project announced two major Queensland CSG research and training initiatives, which will increase the knowledge and skills base of the growing CSG industry. The project's workforce of 1,800 will be increased significantly in 2012.

PNG LNG

Santos has a 13.5% interest in the 6.6 mtpa, two-train LNG project, which is operated by ExxonMobil. The integrated project includes the development of gas and condensate resources in the Southern Highlands and Western Provinces of PNG, construction of gas production, processing, liquefaction and storage facilities near Port Moresby and construction of over 7,000 kilometres of pipeline.

Development drilling in the Hides and Angore fields from 2012 to 2014 will provide better understanding of the potential for project expansion.

Construction on the US$15.7 billion project has been progressing well, with first LNG exports on target for 2014. Earthworks and construction activities at the Hides plant site and Komo airfield are underway and the offshore pipelay has commenced.

DARWIN LNG

Santos has an 11.5% stake in Darwin LNG – the company's first producing LNG asset.

Operated by ConocoPhillips, the 3.6 mtpa project has been selling LNG to Asian customers since 2006. Gas is processed from the offshore Bayu-Undan fields located 500 kilometres north-west of Darwin in the Timor Gap.

The project has expansion potential through the processing of third-party gas and an ongoing drilling campaign.

In 2012, there will be a planned 35-day shutdown for regulatory and inspection checks, and to conduct maintenance work to improve operational efficiency.

BONAPARTE LNG

Bonaparte LNG is a proposed floating LNG project in the Bonaparte Basin, offshore northern Australia, which will involve the development of the Petrel, Tern and Frigate gas fields.

Santos has a 40% interest in the innovative project, while GDF SUEZ, one of the world's leading LNG companies, holds the remaining stake and is the operator. GDF SUEZ will cover Santos' costs until a final investment decision is made.

Bonaparte LNG is in the pre-front end engineering and design phase, with 150 people working on the project.

The final investment decision is scheduled for 2014, with first LNG production expected in 2018.

Leading the way in water management

Water management continues to be an a focus across Santos, with the launch of an Australia-first online water portal in 2011, which shows results from more than 100 monitoring locations. Located at www.santoswaterportal.com.au, users can view information on surface and subsurface water quality, test results for aquifers, and water bore levels.

GLNG also launched the Mount Hope Station Irrigation Pilot Project, which provides a state-of-the-art pilot irrigation system to landholders that uses treated water from coal seams to irrigate high protein forage crops.

Above:
Landholders Ree and Leon Price with President Santos GLNG Mark Macfarlane (centre) drinking treated CSG water at Mount Hope Station.

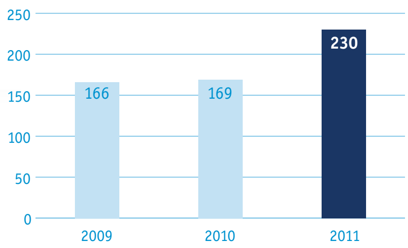
Left:
Santos GLNG Team Leader Land and Resources, Andrew Snars, with pivot irrigation at Mt Hope Station, Queensland.

delivering new growth

Asia

ASIA SALES REVENUE

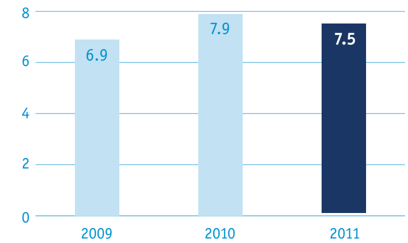
$230 million



Sales revenue up 36%, due to oil sales from the Chim Sáo project, which started production in October 2011.

ASIA PRODUCTION

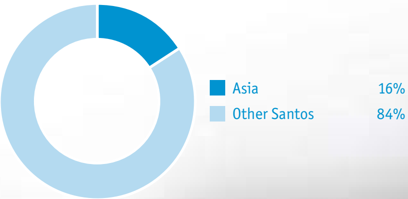
7.5 mmboe



Production down 5%, with lower Indonesian gas production offset by Chim Sáo oil production.

ASIA CONTRIBUTION TO TOTAL 2011 PRODUCTION

%



Santos has an exploration-led, focused Asian portfolio with operations in six countries. Over the past 12 months, producing assets performed well and the Chim Sáo and Wortel projects were delivered. Santos also opened an office in Singapore, which will focus on the management and development of Santos' Asia Pacific business.

CHIM SÁO DELIVERED

Vietnam has been an important part of Santos' Asian growth strategy since 2006, when the company entered the offshore Block 12W in the Nam Con Son Basin.

In October 2011, Santos' first Vietnam oil project, Chim Sáo was delivered on schedule and under the sanctioned budget. Santos has a 31.9% interest in Chim Sáo, which is situated in Block 12W and was sanctioned in 2009.

Oil is currently produced from six wells, with the gross production rate expected to plateau at about 25,000 barrels of oil per day.

Gas is also produced at a gross plateau production rate of 25 million cubic feet per day. This gas will be sent to existing gas infrastructure via a subsea pipeline, and will be used for domestic power generation.

In 2012, Santos will drill the Chim Sáo NW-1 well, which has the potential to add significant resources to the project. Santos will also work with its partners to plan the development concept for the discovered gas resource of Dua, also located in Block 12W.

VIETNAM GROWTH OPPORTUNITIES

Also in Vietnam, Santos has a 50% equity interest in Block 123 in the Phu Khanh Basin and drilled its first exploration well in 2011, which was a non-commercial discovery. Santos and its partners plan to conduct a 3D seismic program in 2012 to evaluate the remaining prospects in Block 123.

Santos further expanded its Vietnam acreage in December 2011, when it signed a Production Sharing Contract (PSC) with Petrovietnam for Block 13/03, located in the Nam Con Son Basin. Under this PSC, Santos will operate the block and hold a 65% participating interest.

WORTEL ONLINE

The Wortel gas development was delivered on budget in January 2012, and is Santos' third producing asset in Indonesia after Maleo and Oyong.

Located in the Sampang PSC offshore East Java, Wortel is a tie-in to Santos' existing facilities at Oyong. Gross gas production from both fields is expected to be 85 million cubic feet per day.

INDONESIA: EXCITING OPPORTUNITIES

Santos continues to grow its asset portfolio in Indonesia, which remains a core part of the company's business, accounting for 13% of total production in 2011.

Santos' base Indonesian assets, Maleo and Oyong, continued to produce strongly in 2011, and Santos signed an agreement to increase the Maleo gas price to US$5 per mmbtu, with escalation from June 2011.

In August 2011, Santos signed a farm-in agreement into two CSG (known in Indonesia as coal bed methane or CBM) licences in South Sumatra. This farm-in agreement with Indonesia's Sugico will allow Santos to leverage its CSG experience in Australia and its operating experience in Indonesia, with Santos to begin drilling in 2012.

Santos is also seeking to sanction the Peluang project in late 2012, which is a tie-back to Santos' existing Maleo platform and which has begun front-end engineering design. If sanctioned, gas production would be expected to commence in late 2013.

BANGLADESH DRILLING

In late 2011, Santos commenced a three-well drilling campaign in Block 16, in the Bengal Basin offshore Bangladesh.

This exploration program is targeting short to long-term gas production, which would add to Santos' existing production which supplies the growing Bangladesh domestic gas market.

CENTRAL ASIA EXPLORATION

Santos continues to hold interests in exploration permits in the Fergana Basin, located in Central Asia.

In 2007, Santos acquired an option to acquire an interest in Somon Oil, which holds two exploration licences in Tajikistan. A 2D seismic survey is currently underway on the Tajikistan licence areas and initial results are encouraging.

Supporting local communities

As part of its ongoing commitment to communities in Bangladesh, Santos is supporting the Chillumpur multi-purpose building in Chittagong, which provides education, health and vocational training facilities to disadvantaged and vulnerable local people of the Chillimpur Union.

During regular visits to the building to meet students, teachers and parents, it became clear that fresh water was a major local issue as the existing supply was causing health problems. Santos funded the drilling of a new well in October 2011, which now provides the local community with clean water.

Above:
Santos funded the drilling of a new freshwater well for local communities in Chittagong, Bangladesh.

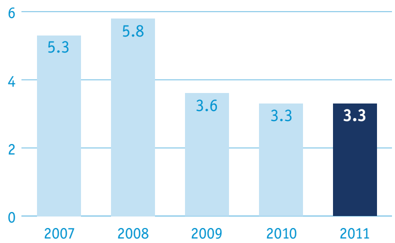
Below:
The Grati plant, which processes gas from the Wortel and Oyong gas fields in Indonesia.

operating responsibly

sustainability

SAFETY PERFORMANCE

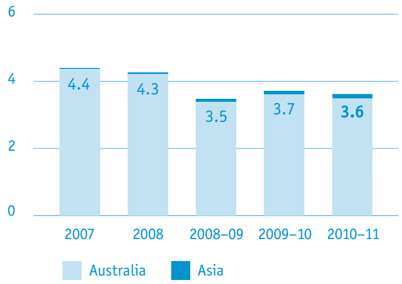
3.3 TRCFR



Santos strives for the highest safety standards and achieved an equal best safety performance in 2011.

GREENHOUSE GAS EMISSIONS FROM OPERATED ASSETS (GROSS)

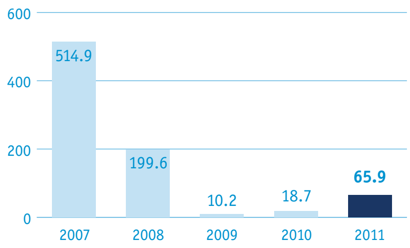
3.6 $mtCO_2e$



Energy efficiency projects completed, or in the process of implementation, will save 4.8 PJ per year.

OIL SPILL VOLUMES FROM OPERATED ASSESTS (GROSS)

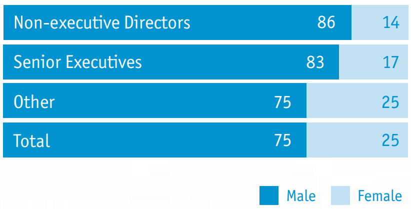
65.9 m^3



We are committed to the prevention of spills. When incidents have occurred we have instigated comprehensive investigations and adopted corrective measures.

WORKFORCE GENDER PROFILE

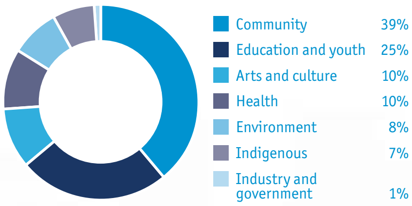
%



Santos values diversity and creates an environment in which everyone is empowered to succeed.

SPONSORSHIP BY TYPE

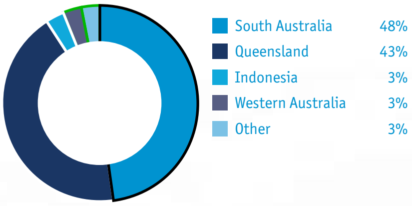
%



Santos continues to invest in partnerships in the communities in which we operate, supporting a broad range of meaningful programs.

SPONSORSHIP BY REGION

%



Santos supports mutually beneficial partnerships that enrich and are valued by the communities in which we operate.

Applying the principles of sustainability improves Santos' efficiency and profitability as it strives for a leadership position in the Australian and Asian energy markets.

INTEGRATED APPROACH

By evaluating criteria beyond traditional economic measures, Santos can assess the full impact of its activities and make better business decisions.

For Santos, sustainability means making economic progress, protecting the environment and being socially responsible – all on a foundation of sound corporate governance. It is a way of doing business that improves outcomes for employees, shareholders, business partners and the communities in which we operate.

New developments require early engagement with stakeholders, and careful assessment and management of social and environmental impacts. Good relationships with local communities, governments and suppliers are critical to Santos' success. We seek to build lasting relationships and positive legacy assets in the community.

To achieve this, Santos has established a framework that provides a consistent approach to incorporating sustainability principles into Santos' way of doing business.

MEASURING PERFORMANCE

This framework provides a clear, pragmatic approach and includes a unique tool for measuring and driving sustainability performance across 24 sustainability indicators, six for each of four categories: environment, community, our people and economic.

In 2011, performance scores were maintained across most indicators and improved performance was achieved for two key indicators: water resources and safety.

These improvements were achieved as a result of improved performance and delivery of innovative programs, such as beneficial water re-use in Queensland.

Sustainability Report 2011

For further information please refer to Santos' Sustainability Report 2011, which details Santos' management approach and sustainability performance during 2011.

It also identifies Santos' key stakeholders and addresses their concerns, and includes a dedicated section on coal seam gas.

www.santos.com/sustainability

Santos' Vice President Technical & Engineering, Diana Hoff, with Graduate Geologist Emma Hissey, in the core laboratory in Santos Place, Adelaide.

board of directors

GREGORY JOHN WALTON MARTIN

BEc, LLB, FAIM, MAICD

Age 52. Independent non-executive Director since 29 October 2009. Chairman of the People and Remuneration Committee of the Board and member of the Environment, Health, Safety and Sustainability Committee of the Board.

Managing Director of Murchison Metals Limited (appointed July 2011). Non-executive director of a number of listed and unlisted companies, including Energy Developments Limited (May 2006) and the Australian Energy Market Operator Limited (July 2009).

Previous Deputy Chairman of the Australian Gas Association and inaugural Chairman of the Energy Supply Association of Australia between 2004 and 2006. Past member of the Business Council of Australia and Committee for the Economic Development of Australia. Formerly Managing Director and Chief Executive Officer of AGL, and Chief Executive Infrastructure at Challenger Financial Services Group.

KENNETH ALFRED DEAN

BCom (Hons), FCPA, FAICD

Age 59. Independent non-executive Director since 23 February 2005. Chairman of the Audit Committee and member of the Finance Committee of the Board. Director of Santos Finance Ltd since 30 September 2005.

Non-executive director of BlueScope Steel Limited since April 2009 and Chairman of BlueScope's Audit and Risk Committee. Chief Financial Officer of Alumina Limited from October 2005 to February 2009, alternate director of Alumina Limited from October 2005 to February 2009, and non-executive director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies from October 2005 to February 2009.

Director of Shell Australia Ltd from 1997 to 2001 and Woodside Petroleum Ltd from 1998 to 2004. Over 30 years of experience in the oil and gas industry. Fellow of the Australian Society of Certified Practising Accountants and Fellow of the Australian Institute of Company Directors. Former Chief Executive Officer of Shell Financial Services and member of the La Trobe University Council.

RICHARD MICHAEL HARDING

MSc

Age 62. Independent non-executive Director since 1 March 2004. Chairman of the Environment, Health, Safety and Sustainability Committee of the Board. Member of the Audit and Nomination Committees of the Board.

Chairman of Downer EDI Limited since November 2010, having previously been appointed a non-executive director in July 2008 and Deputy Chairman on 1 July 2010.

Independent non-executive Chairman of Clough Limited from May 2006 to October 2010. Non-executive Deputy Chairman of Arc Energy Ltd until May 2007 (appointed as non-executive director in August 2003). Chairman of the Ministry of Defence Project Governance Board – Land Systems Division (Army) from 2003 to February 2009. Former President and General Manager of BP Developments Australia Ltd with over 25 years of international experience with BP. Former Vice-Chairman and Council member of the Australian Petroleum Production and Exploration Association (APPEA).

DAVID JOHN WISSLER KNOX

BSc (Hons) Mech Eng, MBA, FIEAust

Age 54. Appointed Chief Executive Officer and Managing Director in July 2008. Member of the Environment, Health, Safety and Sustainability Committee of the Board. Director of Santos Finance Ltd since 24 April 2008.

29 years of experience in the global oil and gas industry, including as Managing Director of BP Developments in Australasia from 2003 to 2007.

Previously held senior positions with BP in Australia, the United Kingdom and Pakistan, and management and engineering roles at ARCO and Shell in the United States, the Netherlands, the United Kingdom and Norway.

Chairman of the Australian Petroleum Production and Exploration Association (APPEA). Director of the Board of the Botanic Gardens and State Herbarium in South Australia. Council Member of the Business Council of Australia and Royal Institute of Australia, Member of the Advisory Board of University College London School of Energy and Resources (Aust), and a Fellow of the Institution of Engineers Australia.

JANE SHARMAN HEMSTRITCH

BSc (Hons), FCA, FAICD

Age 58. Independent non-executive Director since 16 February 2010. Member of the People and Remuneration Committee of the Board and the Audit Committee of the Board.

Broad experience in the oil and gas, telecommunications, government, financial services and manufacturing sectors. Spent 25 years with Accenture and Andersen Consulting. Formerly Accenture's Managing Director Resources Operating Group Asia Pacific and, before that, Country Managing Director Australia.

Non-executive director of the Commonwealth Bank of Australia (October 2006), Lend Lease Group (September 2011), Tabcorp Holdings Ltd (November 2008), Victorian Opera Company Ltd (October 2010) and Deputy Chairman of The Global Foundation (November 2009). A member of the Research and Policy Council of the Committee for Economic Development of Australia and the Council of the National Library of Australia. A Fellow of the Institute of Chartered Accountants in Australia and in England and Wales, a Fellow of the Australian Institute of Company Directors and a member of Chief Executive Women Inc.

PETER ROLAND COATES AO

BSc (Mining Engineering)

Age 66. Appointed Santos Chairman on 9 December 2009. Previously an independent non-executive Director since 18 March 2008. Chairman of the Nomination Committee of the Board and a member of the People and Remuneration and Finance Committees of the Board. Chairman of Santos Finance Ltd since 1 January 2010.

Non-executive director of Amalgamated Holdings Limited since July 2009. Non-executive director of Glencore International plc since April 2011. Former non-executive Chairman of Xstrata Australia Pty Limited (from January 2008 to August 2009), and former Chairman and non-executive director of Minara Resources Limited (from April 2008 to April 2011). Previously Chief Executive of Xstrata Coal, Xstrata plc's global coal business.

Past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association. Made an Officer of the Order of Australia in June 2009 and was awarded the 2010 Australasian Institute of Mining and Metallurgy Medal.

ROY ALEXANDER FRANKLIN OBE

BSc (Hons)

Age 58. Independent non-executive Director since 28 September 2006 and member of the Environment, Health, Safety and Sustainability and People and Remuneration Committees of the Board.

Non-executive director of Keller Group plc since July 2007 and Chairman since August 2009. Non-executive director of StatoilHydro ASA since October 2007, Boart Longyear Limited since October 2010 and non-executive director of Cuadrilla Resources Holdings Limited since January 2012.

Former Chief Executive Officer of Paladin Resources plc from 1997 to 2005 and former Group Managing Director of Clyde Petroleum plc. Former Chairman of BRINDEX, the trade association for UK independent oil and gas companies, from 2002 to 2005, and a former member of PILOT, the joint industry/UK Government Taskforce set up to maximise hydrocarbon recovery from the UK North Sea from 2002 to 2005. In 2004, awarded the OBE for services to the UK oil and gas industry.

KENNETH CHARLES BORDA

LLB, BA

Age 59. Independent non-executive Director since 14 February 2007. Chairman of the Finance Committee of the Board and member of the Nomination Committee of the Board.

Chairman of Leighton Contractors Pty Ltd since August 2011, having previously been a non-executive director since July 2007. Board member of Fullerton Funds Management, owned by Temasek, Singapore, since February 2007. Appointed a director of Talent2 International Ltd in August 2008 and to the Asian Advisory Board of Aviva Pte Ltd in Singapore in February 2009.

Previously a Board member of SFE Corporation for over five years until its acquisition by the Australian Stock Exchange Ltd in July 2006. Former non-executive director of Ithmaar Bank (Bahrain and Kuwait). CEO of Middle East and North Africa, Deutsche Bank before retirement in May 2007. Formerly Regional CEO Asia Pacific and CEO Australia and New Zealand, Deutsche Bank. Director of Deutsche Bank Malaysia from 2002 until retirement in May 2007.

Santos leadership team

JAMES BAULDERSTONE

Vice President Eastern Australia
LLB (Hons), BSc (Hons)

James Baulderstone is responsible for Santos' activities in South Australia, Victoria and New South Wales. This includes the exploration, production, development and commercialisation of the company's oil and gas resources in central Australia, the Gunnedah Basin and offshore Victoria.

James joined Santos in January 2007 as General Counsel and Company Secretary after previously holding similar roles at Mayne Group and BlueScope Steel. Prior to his current role, James was Santos' Vice President Corporate and Commercial with responsibility for mergers and acquisitions, and commercial. James has extensive legal, commercial and business development experience across many countries, including the United States, Germany, the United Kingdom, Malaysia, China and India.

PETRINA COVENTRY

Chief Human Resources Officer
BEd, Grad Dip HR, Grad Dip Phil, Master Business Ethics

Petrina Coventry is responsible for the company's organisation and people strategies.

Petrina has previously held global leadership roles for The General Electric Company, The Coca Cola Company and Proctor and Gamble. Her industry experience includes energy, oil and gas, financial services and fast-moving consumer goods.

Petrina is a PhD partner with Melbourne Business School, a Vincent Fairfax Fellow, a member of the World Economic Forum Partner Against Corruption Initiative (PACI) and an advisor to the Global Council of Corporate Universities (GlobalCCU).

JOHN ANDERSON

Vice President Western Australia and Northern Territory
LLB, BEc, GDCL

John Anderson is responsible for Santos' activities in Western Australia and the Northern Territory, including commercial and finance, business development, exploration, development and operated assets, and has held the Perth-based position since 2009.

John joined Santos in 1996 as Corporate Counsel for the former Queensland Northern Territory Business Unit after 10 years as a solicitor with Freehills. He has held a range of roles at Santos, including Manager Legal and Business Services, Group Executive Business Development, Vice President Strategic Projects and, most recently, Vice President Commercial.

TREVOR BROWN

Vice President Exploration and Subsurface
BSc (Hons)

Trevor Brown is responsible for exploration and new ventures and for ensuring excellence in subsurface activities across Santos' exploration, appraisal and development portfolio.

Trevor is a geoscientist with 26 years of industry experience in Australia, Asia, the US and South America. He has been with Santos for 10 years in roles including Manager New Ventures, Manager Growth Projects, and Vice President Geoscience and New Ventures. He previously held roles with Unocal, Vico and Woodside. Trevor's career has included onshore and offshore operations with extensive drilling activities, deepwater exploration and appraisal and new ventures.

PETER CLEARY

Vice President Strategy and Corporate Development
BCom, LLB

Peter Cleary is responsible for Santos' commercial, strategy and planning, corporate development, and public affairs functions.

Peter has extensive global experience in the petroleum industry and joined Santos from BP in September 2010. He was most recently President of North West Shelf Australia LNG, the LNG marketing company for the North West Shelf Venture. During his 24-year career with BP, Peter held senior management positions in Australia, Indonesia, Korea, Hong Kong, Abu Dhabi and the United Kingdom.

DAVID LIM

Company Secretary
BEc, LLB, Ch.Sec

David Lim is responsible for corporate governance, continuous disclosure and compliance with ASX and ASIC requirements, and provides the Santos Board with independent advice and support in relation to these matters.

Prior to joining Santos in 2007, David had over 15 years of experience in commercial legal practice. He is an accredited Chartered Secretary. Before his current role, David held the position of Deputy General Counsel and Assistant Company Secretary.

DAVID KNOX

Chief Executive Officer and Managing Director

BSc (Hons) Mech Eng, MBA, FIEAust

David Knox joined Santos in September 2007 as Executive Vice President Growth Businesses and was appointed Acting Chief Executive Officer in March 2008 and Chief Executive Officer and Managing Director in July 2008.

He has 30 years of experience in the global oil and gas industry, including as Managing Director for BP Developments in Australasia from 2003 to 2007. He previously held senior positions with BP in Australia, the United Kingdom and Pakistan, and management and engineering roles at ARCO and Shell in the United States, the Netherlands, the United Kingdom and Norway.

David holds a first-class honours degree in Mechanical Engineering from Edinburgh University and a Masters of Business Administration from the University of Strathclyde.

DIANA HOFF

Vice President Technical and Engineering

BSc Petroleum Engineering (Magna cum Laude)

Diana Hoff is responsible for drilling and completions, projects, surface engineering, safety and environment. She has 25 years of experience with major and independent operators in the upstream oil and gas industry.

Diana joined Santos in 2010 as General Manager Drilling and Completions. She previously held positions with several oil and gas companies, including Chevron, Amoco and Questar. Her career has included drilling and completions operations, engineering and management, and production management with significant focus on regulatory processes, including environmental approvals, stakeholder engagement and mitigations to lessen impacts to air quality, water quality and surface disturbance.

MARK MACFARLANE

President Santos GLNG

BEng (Hons) Mechanical

Mark Macfarlane is responsible for the delivery of the Santos GLNG Project in Queensland, including gas field infrastructure development, construction of a 420-kilometre gas transmission pipeline and the two-train 7.8 mtpa LNG plant on Curtis Island near Gladstone.

Before his current role, Mark held a number of leadership roles at Santos, including Vice President Eastern Australia and Vice President Development. Mark joined Santos in 1997, following a nine-year career with Esso in Australia and Malaysia.

CHRISTIAN PAECH

General Counsel

LLB (Hons), BCom

Christian Paech advises the Santos Board and management on legal matters affecting the company and its operations. He is responsible for Santos' legal function, which supports the corporate team and the business units in joint venture agreements, project development, dispute resolution, statutory compliance, mergers and acquisitions, gas sales and production sharing contracts.

Christian has broad experience in the petroleum industry and joined Santos in 2004 after working in national and international firms in Melbourne and London where he focused on large-scale corporate transactions and corporate governance.

MARTYN EAMES

Vice President Asia Pacific

BSc (Hons)

Martyn Eames is responsible for managing Santos' activities in the Asia Pacific region. This includes management of Santos' existing exploration, development and production assets in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh and Central Asia and any future growth.

Martyn joined Santos in December 2004 as Vice President Corporate and People. Before then, he spent more than 25 years with BP, working in various upstream roles in Angola, Canada, Australia, Papua New Guinea, Norway, the United Kingdom and the United States.

ANDREW SEATON

Chief Financial Officer

BEng (Hons) Chemical, GradDip BusAdmin

Andrew Seaton was appointed Chief Financial Officer in 2010, and is responsible for Santos' corporate finance, accounting, taxation, treasury, investor relations, risk, insurance, audit, information systems and procurement functions.

Andrew has 25 years of experience in the global oil and gas industry, encompassing a broad range of finance, banking, commercial and engineering roles. Before joining Santos in 2005, Andrew held senior roles in investment banking with Merrill Lynch and corporate banking with National Australia Bank. His early career included 10 years of engineering and project management experience, including LNG, refining and petrochemicals projects. Prior to being appointed Chief Financial Officer, Andrew held the position of General Manager, Commercial and Finance for Santos' Eastern Australia Business Unit.

corporate governance

INTRODUCTION

The Board and Management of Santos believe that, for the Company to achieve its vision of becoming a leading energy company for Australia and Asia, it is necessary for the Company to meet the highest standards of personnel safety and environmental performance, governance and business conduct across its operations in Australia and internationally.

The Board has established corporate governance policies and charters (Policies) designed to achieve the highest standards of corporate governance within Santos. The Policies, or a summary of the Policies, are publicly available on the Company's website, www.santos.com.

The Company's Policies meet the requirements of both the *Corporations Act 2001* (Cth) (Corporations Act) and the Listing Rules of the Australian Securities Exchange (ASX), and, in the opinion of the Board, comply with best practice, including the ASX Corporate Governance Council's Principles and Recommendations (ASX Principles). Consistent with the 'Guide to Reporting' recommendations under the ASX Principles, this statement provides details of the corporate governance practices adopted by the Company. The table below indicates the sections of this Statement that address each of the substantive recommendations under the ASX Principles.

ASX RECOMMENDATION FOR FY2011	HOW SANTOS SATISFIES THE RECOMMENDATION
Principle 1 – Lay solid foundations for management and oversight	
Establish and disclose the functions reserved to the Board and those delegated to management	Section 2 discusses the division of responsibilities between the Board and Management
Disclose the process for evaluating the performance of senior executives	Section 2.1 details how senior executive performance is reviewed
Principle 2 – Structure the Board to add value	
A majority of the Board should be independent Directors	Sections 1.1 and 1.2 confirm that the Board comprises seven independent Directors and one executive Director
The chairperson should be an independent Director	Section 1.1 confirms this and explains how the composition of the Board is determined
The roles of chairperson and chief executive officer should not be exercised by the same individual	Section 1.2 confirms this
The Board should establish a Nomination Committee consisting of a minimum of 3 members, the majority being independent directors	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the Nomination Committee
Disclose the process for evaluating the performance of the Board, its committees and individual directors	Section 1.5 details how the performance of the Board and Directors is reviewed Section 3.1 confirms that the role, composition and performance of the Board's Committees is periodically reviewed
Principle 3 – Promote ethical and responsible decision-making	
Establish a code of conduct to guide the Directors, the CEO, the CFO and any other key executives	Section 5.2 provides details regarding the Santos Code of Conduct, which sets out the Company's key rules, values and guidelines
Adopt and disclose a diversity policy and set measurable objectives relating to gender diversity for disclosure in the Annual Report	The Company has adopted a Group-wide diversity policy. Further details of the Company's diversity initiatives and measurable objectives are set out in Section 5.1
Disclose the proportion of female employees in the organisation, in senior executive positions and on the Board in the Annual Report	Section 5.1 provides details of female representation levels across Santos

Principle 4 – Safeguard integrity in financial reporting	
The Board should establish an Audit Committee, and structure the Committee so that it: • consists only of non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; and • has at least three members	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the Audit Committee, and confirm compliance with the Audit Committee structure
The Audit Committee should have a formal charter	The Audit Committee operates under a Charter approved by the Board. For further details see Sections 3.1 and 3.3
Principle 5 – Make timely and balanced disclosure	
Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	Section 5.4 outlines the written policies and processes Santos has adopted to ensure compliance with its continuous disclosure obligations
Principle 6 – Respect the rights of shareholders	
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	Section 5.4 summarises the Company's shareholder communication policies
Principle 7 – Recognise and manage risk	
Establish policies for the oversight and management of material business risks and disclose a summary of those policies	Sections 4.1 to 4.3 summarise the Company's risk management systems, including reporting to the Board on risk, and provide examples of how business risks are managed
Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to the Board on whether those risks are being managed effectively	Sections 4.1 to 4.3 summarise the Company's risk management systems, including reporting to the Board on risk, and provide examples of how business risks are managed
Disclose whether the Board has received assurance from the CEO and the CFO that the declaration provided under s295A of the Act is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks	Section 4.2 confirms that the Board has received such assurance for the 2011 financial year
Principle 8 – Remunerate fairly and responsibly	
The Board should establish a remuneration committee	Sections 3.1 to 3.3 set out the role and membership of the Board Committees, including the People and Remuneration Committee
Distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives	Further information regarding the structure and details of the remuneration paid to Directors, the CEO and other senior executives is set out in the Remuneration Report on pages 59 to 74 of this Annual Report

Corporate Governance (continued)

PART 1: COMPOSITION OF THE BOARD

Relevant policies and charters

See www.santos.com

- Board Guidelines
- Company Constitution

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

- the Board comprise a minimum of five directors (exclusive of the Chief Executive Officer (CEO) and Managing Director), and a maximum of ten directors;
- the Board should comprise a substantial majority of independent, non-executive Directors;
- there should be a separation of the roles of Chairman and CEO of the Company;
- the Chairman of the Board should be an independent, non-executive Director; and
- performance of the Board and its members should be reviewed regularly and objectively.

1.1 DIRECTOR INDEPENDENCE

The Board has adopted the definition of independence set out in the ASX Principles.

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

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

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

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focusing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to provide a standing notice of interests to the Board and to make prompt disclosure to the Board of any changes in interests in contracts, family ties and cross-directorships that may be relevant in considering their independence.

In addition to a standing Board agenda item for declarations of changes to Directors' interests, Directors' standing notices of interests were last refreshed in February 2012, tabled at the February 2012 Board meeting and copies distributed to all Directors. Taking into account each refreshed standing notice, the Board considers that all non-executive Directors are independent.

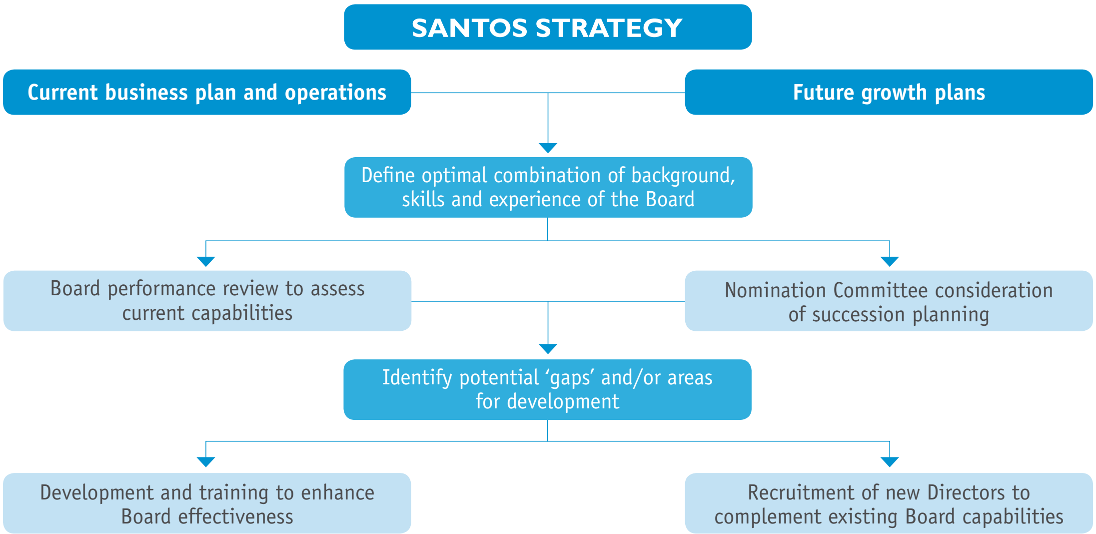
Similarly, Directors must declare any conflict of interest that they may have at the start of all Board meetings. Where a material personal interest arises with respect to a matter that is to be considered by the Board, the Director is required to declare that interest and must not take part in any Board discussion or vote in relation to that matter, unless permitted in accordance with the Corporations Act.

Currently, the Board comprises seven non-executive Directors, all of whom are considered independent under the principles set out above, and one executive Director (the CEO and Managing Director).

1.2 BOARD CAPABILITIES

In determining the composition of the Board, consideration is given to the optimal mix of background, skills and experience that will position the Board to guide the Company. As the needs of the Board are dynamic, these skills and experiences may change over time.

The following diagram shows how the Company's programs and systems (described in further detail in sections 1.3–1.5) support Santos in building an effective Board, with the background, skills and experience necessary to guide the Company's strategic growth plans.



The current Board comprises eight Directors from diverse backgrounds with a range of business experience, skills and attributes. The following charts show the skills and experience of the current Directors across several dimensions that are relevant to Santos as a leading energy company.

EDUCATIONAL QUALIFICATIONS

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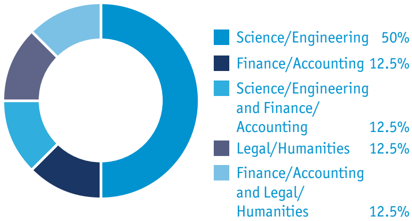

INDUSTRY EXPERIENCE

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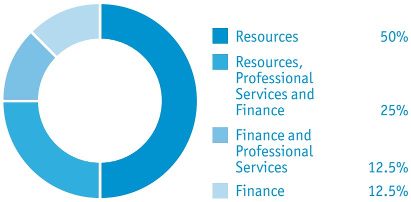

GEOGRAPHICAL EXPERIENCE

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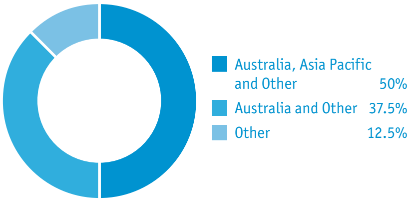


The names and details of the experience, qualifications, special responsibilities (including Committee memberships) and term of office of each Director of the Company and the Company Secretary can be found on pages 22 to 24 of the Annual Report.

1.3 DIRECTOR SELECTION AND SUCCESSION PLANNING

The Board renewal process is overseen by the Nomination Committee and involves regularly reviewing the composition of the Board to ensure that the Directors have an appropriate mix of experience, skills and backgrounds to manage a leading energy company.

The primary criterion adopted in selection of suitable Board candidates, and the assessment of incumbent Directors seeking re-election, is their capacity to contribute to the ongoing development of the Company, having regard to the location and nature of the Company's significant business interests and to the candidates' qualifications and experience by reference to the attributes of existing Board members.

The Board Guidelines include the following principles:

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

In making recommendations relating to Board composition, the Nomination Committee takes into account both the current and future needs of the Company.

Corporate Governance (continued)

The Nomination Committee specifically considers each of the Directors coming up for re-election and makes an assessment as to whether to recommend their re-appointment to shareholders. This assessment considers matters including their contribution to the Board, the results of Board and Committee reviews, and the ongoing needs of the Company. The Committee also takes into account the succession plans for the Directors more broadly.

Where a potential 'gap' is identified in the backgrounds, experiences or skill-sets that are considered desirable or necessary for the Board's continued effectiveness, this information is used to inform the selection of new Director candidates.

While the Nomination Committee is responsible for defining the desired attributes and skill-sets for a new Director, the services of an independent consultant are used to assist in the identification and assessment of a range of potential candidates based on a brief from the Nomination Committee. The Nomination Committee reviews prospective candidates, then makes recommendations to the Board regarding possible appointments of Directors, including recommendations for appointments to Committees.

1.4 DIRECTOR INDUCTION AND CONTINUING EDUCATION

Prior to appointment, each Director is provided with a letter of appointment, which includes copies of the Company's Constitution, Board Guidelines, Committee Charters, relevant policies, and functional overviews of the Company's strategic objectives and operations. Additionally, the expectations of the Board in respect to a proposed appointee to the Board, and the workings of the Board and its Committees, are conveyed in interviews with the Chairman. Induction procedures include access to appropriate executives in relation to details of the business of the Company.

Directors are encouraged by the Board to continue their education by attending both internal and external training and education relevant to their role.

During 2011, the Directors participated in briefing sessions on a broad range of issues, including crude oil pricing, global LNG supply and the national *Work Health and Safety Act 2011* (Cth), and attended a site visit to GLNG, including engagement with local community, business and government leaders.

1.5 REVIEW OF BOARD AND DIRECTOR PERFORMANCE

Ordinarily, an external review of the Board and individual Directors is carried out on a biennial basis and internal reviews of individual Directors are conducted annually. The external reviews are carried out by an independent consultant, based on a scope agreed in advance with the Board. Internal reviews are facilitated by the Chairman, in consultation with the Nomination Committee, and involve formal interviews with each Director, culminating in a written report prepared by the Chairman.

An external review of the Board as a whole commenced in December 2010, together with peer review of all individual Directors. This review continued into 2011, culminating in a report in February 2011, and addressed:

- the Board's contribution to strategy and policy;
- interaction between the Board and Management;
- the Board's processes to monitor business performance and compliance;
- risk management;
- Board composition and structure; and
- the operation and conduct of the Board.

As a result of recommendations arising from the external Board review, a number of initiatives were introduced in 2011 to ensure the continued effectiveness of the Board's performance and enable its sustained focus on key issues for the Company.

These initiatives include:

- a five-year strategic review;
- broadening the remit of the Remuneration Committee to include oversight of diversity, succession planning and talent development; and
- increasing the Board's engagement with the upcoming talent within the Company as well as the key external stakeholders in the Company's business.

An internal review is being undertaken in February and March 2012, the results of which will be reported to the Board by the Chairman at the next Board meeting in May 2012. This review includes feedback from all Directors as well as feedback from Senior Executives on the workings of the Board as a whole, and includes a review of the performance, structure, objectives and purpose of the Board Committees. Further details regarding this process and recent Board Committee reviews are provided in Section 3.1 below.

PART 2: BOARD RESPONSIBILITIES

Relevant policies and charters

See www.santos.com

- Board Guidelines

In addition to the Board Guidelines, the Board has adopted a formal document outlining the Role of the Board. The overriding objective is to increase shareholder value to top quartile performance. The Board endeavours to do this by use of a management framework that protects the rights and interests of shareholders and ensures the Company is properly managed through the implementation of sound strategies and action plans and the development of an integrated framework of risk management and control over the Company's economic resources.

2.1 RESPONSIBILITIES

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

Specifically, the Board is responsible for:

- the oversight of the Company's strategic direction and management of the Company;
- the approval of the annual capital and operating budget;
- the approval of delegations of authority to Management;
- significant acquisitions and disposals of assets;
- significant expenditure decisions outside of the Board-approved corporate budget, including hedging of product sales, sales contracts and financing arrangements;
- the approval of, and monitoring of, financial performance against strategic plans and corporate budgets;
- the approval of the Company's financial reports;
- approving ethical standards and codes of conduct;
- the selection and evaluation of, and succession planning for, Directors, CEO and Company Secretary and general endorsement of the same for other Executives reporting to the CEO;
- the remuneration of Directors and the CEO and general endorsement of the same for other Executives reporting to the CEO; and
- oversight of the integrity of material business risk management, including financial and non-financial risks.

Each Director is required to ensure that they are able to devote sufficient time to discharge their duties and to prepare for Board and Committee meetings and associated activities.

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

- the conduct and operation of the Company's business in the ordinary course;
- implementing corporate strategies; and
- operating under approved budgets and written delegations of authority.

An important aspect of the Board's responsibilities is the evaluation of the Company's executives. Performance evaluation of senior executives is undertaken twice a year by the CEO and the Chairman undertakes the CEO's review. The results of these reviews are used in determining future remuneration in consultation with the People and Remuneration Committee, and generally for review by the Board in relation to Management succession planning. Performance reviews were conducted in accordance with this process for each of the Senior Executives, including the CEO, during the year. These reviews impacted on the short-term incentives for the Senior Executives and included the following criteria:

- analysing performance against agreed measures;
- examining the effectiveness and quality of the individual in their given role;
- assessing key contributions;
- identifying areas of potential improvement; and
- assessing whether expectations of shareholders and other stakeholders have been met.

Details of the remuneration received by the CEO and Senior Executives, including short- and long-term incentives relating to Company and individual performance targets, are set out in the Remuneration Report commencing on page 59 of the Annual Report. Details of non-executive Director remuneration are also set out in the Remuneration Report.

2.2 INDEMNITY, ACCESS TO INFORMATION AND INDEPENDENT PROFESSIONAL ADVICE

The Board Guidelines set out the circumstances and procedures pursuant to which a Director may seek independent professional advice at the Company's expense. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant adviser.

Pursuant to a deed executed by the Company and each Director, a Director also has the right to access all documents that have been presented to meetings of the Board or to any Committee of the Board or otherwise made available to the Director whilst in office. This right continues for a term of seven years after ceasing to be a Director, or such longer period as is necessary to determine relevant legal proceedings that commenced during that term. Information in respect of indemnity and insurance arrangements for Directors and certain senior executives appears in the Directors' Report on page 75 of this Annual Report.

PART 3: BOARD COMMITTEES

Relevant policies and charters

See www.santos.com

- Audit Committee Charter
- Environment, Health, Safety and Sustainability Committee Charter
- Finance Committee Charter
- Nomination Committee Charter
- People and Remuneration Committee Charter

3.1 ROLE AND MEMBERSHIP

The Board has established a number of Committees to assist with the effective discharge of its duties. The membership and role of each Committee is set out in Section 3.3.

Corporate Governance (continued)

All Committees are chaired by and comprise only non-executive, independent Directors, except the Environment, Health, Safety and Sustainability Committee, which includes the CEO as a member in accordance with the Charter of that Committee. Other composition requirements specific to each Committee are set out in Section 3.3. Non-Committee members may attend Committee meetings by invitation.

Each Committee operates under a specific charter approved by the Board.

Board Committees conduct their own internal review of their performance, structure, objectives and purpose from time to time. Reviews conducted in 2011 resulted in the following changes to Committee Charters:

- Following a review in 2011, a decision was made to expand the scope of the Remuneration Committee, which was renamed the People and Remuneration Committee. A more extensive Charter for that Committee was adopted in May 2011. Changes to reflect diversity obligations had already been implemented in 2010.
- Changes to the Nomination Committee Charter to reflect its diversity obligations were approved in February 2011.
- Most recently, changes to the Charter of the Environment, Health, Safety and Sustainability Committee were reviewed in December 2011 and adopted in February 2012. This updated the Charter in line with changes brought about by the new *Work Health and Safety Act 2011* (Cth). An indicative annual schedule of matters for consideration by the Committee was also added, as part of consolidation of safety due diligence principles endorsed by the Board.

Board Committees have access to internal and external resources, including access to advice from independent external consultants or specialists. In 2011, the People and Remuneration, Nomination and Audit Committees took advice from independent external consultants without Management present, in relation to the CEO's remuneration, non-executive Director remuneration, candidates for appointment to the Board and audit matters.

The Chairman of each Committee provides an oral, and, where appropriate and practicable, a written report together with the minutes and recommendations of the Committee at the next Board meeting.

Following is a summary of the membership of the Board Committees. Details of the qualifications and experience of each Director can be found on pages 22 to 23 of this Annual Report.

Board Committees

		Audit Committee	Environment, Health, Safety and Sustainability Committee	Finance Committee	Nomination Committee	People and Remuneration Committee
KC Borda	Non-executive Director			Chairman	Member	
PR Coates	Non-executive Director (Chairman)			Member	Chairman	Member
KA Dean	Non-executive Director	Chairman		Member		
RA Franklin[1]	Non-executive Director		Member			Member
RM Harding[1]	Non-executive Director	Member	Chairman		Member	
JS Hemstritch	Non-executive Director	Member				Member
DJW Knox	Executive Director (CEO and Managing Director)		Member			
GJW Martin	Non-executive Director		Member			Chairman

1. Mr RM Harding ceased to be a member of the People and Remuneration Committee, and Mr RA Franklin was appointed as a member of the People and Remuneration Committee, on 17 February 2012.

3.2 BOARD AND COMMITTEE MEETINGS

The Board Guidelines prescribe that the Board is to meet at least eight times a year, including a strategy meeting. Board members are expected to attend any additional meetings as required. In 2011, a total of 10 meetings were held, including a strategy workshop and meeting. In addition to formal meetings, the Directors participated in a site visit to Gladstone in June 2011.

Members of Management attend relevant parts of Board and Committee meetings, at which they report to Directors within their respective areas of responsibility. Where appropriate, advisers to the Company attend meetings of the Board and of its Committees. Board meetings regularly include a session at which the non-executive Directors meet without the CEO and Managing Director, or other members of Management, present.

Details of the Board and Committee meetings held and Directors' attendances at those meetings appear in the Directors' Statutory Report on page 50 of this Annual Report.

The Company recognises the importance of building relationships between its Directors. The Board believes that events outside formal Board meetings help to foster collaboration and trust between the Directors. In accordance with the Board Guidelines, several Board dinners are held each year, of which at least one is attended exclusively by non-executive Directors.

3.3 ROLE AND MEMBERSHIP OF COMMITTEES

Committee	Members and composition	Role
Audit	Mr KA Dean (Chairman) Mr RM Harding Ms JS Hemstritch The Committee is required to consist of: • members who are financially literate; • at least one member with past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background; and • at least one member with an understanding of the exploration and production industry. The Chairman of the Board is precluded from being the Chairman of the Audit Committee.	The primary objective of the Audit Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities related to financial accounting practices, external financial reporting, financial risk management and internal control, the internal and external audit function, and compliance with laws and regulations relating to these areas of responsibility. The role of the Audit Committee includes: • evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board; • reviewing the process adopted by the CEO and Chief Financial Officer (CFO) when certifying to the Board that the Company's financial reports are true and fair and that they are based on a sound system of risk management and internal compliance and control that is operating effectively in all material respects; • examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices; • meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures; • where the external auditor provides non-audit services, reporting to the Board as to whether the Committee is satisfied that the provision of those services has not compromised the auditor's independence; • reviewing the process of the Reporting Misconduct Programme; • recommending proposed dividends to the Board for final adoption; and • recommending to the Board the appointment and dismissal of the head of internal audit.

Corporate Governance (continued)

Committee	Members and composition	Role
Finance	Mr KC Borda (Chairman) Mr PR Coates Mr KA Dean The Finance Committee Charter requires that the Committee comprise at least three independent non-executive Directors, all of whom will be financially literate and including at least one with past employment experience in finance, requisite professional certification or other comparable experience or background that results in the individual's financial sophistication.	The role of the Finance Committee includes: • responsibility for considering and making recommendations to the Board on the Company's capital management strategy and the Company's funding requirements and specific funding proposals; • formulating and monitoring compliance with treasury policies and practices; and • the management of credit, liquidity and commodity market risks.
Environment, Health, Safety and Sustainability	Mr RM Harding (Chairman) Mr RA Franklin Mr GJW Martin Mr DJW Knox The Charter requires that this Committee comprise at least three non-executive Directors and the Managing Director.	The role of the Environment, Health, Safety and Sustainability Committee includes: • monitoring and review of the Environment, Health and Safety and Sustainability Policies and related systems and their compliance with all applicable environment, health and safety legislation; • monitoring and review of all aspects of environment, and health and safety risks that are relevant to the Company's operations; • receipt and consideration of reports on all major changes to the Company's environment and health and safety responsibilities; • receipt and consideration of reports on any significant system failure, accident or other incident; • review of the regular internal and external environmental, health and safety audits; and • monitoring and review of the appropriateness and implementation of the Company's environment, health, safety and sustainability governance arrangements.
Nomination	Mr PR Coates (Chairman) Mr KC Borda Mr RM Harding As required by its Charter, the Nomination Committee consists of at least three independent Directors and is chaired by the Chairman of the Board.	It is the responsibility of the Nomination Committee to devise the criteria for, and review membership of, the Board – including the re-election of incumbent Directors and nominations for new appointments, to maintain an appropriate balance of skills, experience, diversity and expertise on the Board. When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, experience or background, the Nomination Committee has responsibility for proposing candidates for consideration by the Board.

<table>
<tr><th>Committee</th><th>Members and composition</th><th>Role</th></tr>
<tr><td>People and Remuneration</td><td>Mr GJW Martin (Chairman)
Mr PR Coates
Mr RA Franklin
Ms JS Hemstritch

The People and Remuneration Committee Charter requires that the Committee comprise at least three non-executive Directors, including the Chairman of the Board.

Mr RM Harding ceased to be a member, and Mr RA Franklin was appointed as a member of the People and Remuneration Committee, on 17 February 2012.</td><td>The People and Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company, including:

• the compensation arrangements for the non-executive and executive Directors (including the CEO and Managing Director), and Senior Executives;
• development and succession plans for the CEO and Managing Director and the senior leadership team;
• the Company's superannuation arrangements;
• employee share and option plans;
• reviewing and reporting to the Board on measurable objectives for achieving gender diversity;
• an annual assessment of the gender diversity objectives and progress in achieving them; and
• reviewing and reporting on remuneration analysed by gender.

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

The People and Remuneration Committee recently reviewed the Company's processes for the engagement of external remuneration consultants and has made changes to ensure that these processes are consistent with new legislation regulating the provision of remuneration recommendations.

The structure and details of the remuneration paid to Directors, the CEO and other Senior Executives during the period are set out in the Remuneration Report commencing on page 59 of this Annual Report and notes 30–31 to the financial statements commencing on page 131 of this Annual Report.</td></tr>
</table>

Corporate Governance (continued)

PART 4: RISK MANAGEMENT

Relevant policies and charters

See www.santos.com

- Board Guidelines
- Risk Management Policy

4.1 RISK MANAGEMENT SYSTEMS

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Company's risk management and internal compliance and control systems. These systems require Management to be responsible for identifying and managing the Company's material business risks, which include financial and non-financial risks, such as environmental, exploration and investment risks.

An Enterprise-Wide Risk Management approach, based on the relevant International Standard (ISO31000:2009) forms the cornerstone of Risk Management activities of the Company. This approach is incorporated in the Company's Risk Management Policy and aims to ensure that material business risks (both financial and non-financial) facing the Company are consistently identified, analysed and evaluated, and that active management plans and controls are in place for the ongoing management of these risks. Independent validation of controls is undertaken by internal audit as part of its risk-based approach. The internal audit function is independent of the external auditor and reports to the Audit Committee.

4.2 MANAGEMENT REPORTING ON RISK

Management reporting on risk operates on a number of levels.

The Board receives dedicated risk management updates from Management, which address the material business risks facing the Company and the systems and policies in place to manage those risks.

All reports to the Board on strategic and operational issues incorporate an assessment by Management of the associated risks, which ensures that the Board is in a position to make fully-informed business judgements on these issues.

In addition to the formal reporting arrangements, the Board and Management give ongoing consideration to the effectiveness of the Company's risk management and internal compliance and control systems, and whether there is scope for further improvement of these systems.

The Board confirms that it has received a report from Management as to the effectiveness of the Company's management of its material business risks for the 2011 financial year.

The Board also receives written certifications from the CEO and the CFO in relation to the Company's financial reporting processes. For the 2011 financial year, the CEO and CFO provided assurance that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

4.3 EXAMPLES OF BUSINESS RISKS

Examples of management of specific business risks, and the systems the Company has in place to manage these risks, include the following:

Type of risk	**Method of management**
Environmental and safety risk	Environmental and safety risk is managed through: • a comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001; • environment, health, safety and sustainability committees at Board and management levels; • the retention of specialist environmental, health and safety staff and advisers; • regular internal and external environmental, health and safety audits and reviews, including process safety reviews; • regular training of employees with respect to environment, health and safety; and • imposing environmental care and health and safety accountability as line management responsibilities.
Exploration and reserves risk	Exploration risk and uncertainty is managed through: • the implementation of risk management processes, including reporting mechanisms in respect of each exploration project; • internal control systems that include resource assessment of exploration prospects, resource development plans and project assurance processes; • corporate reviews, both forward looking and retrospective; and • Board approval of exploration budgets. The Company has a Reserves Management System that is consistent with the Society of Petroleum Engineers' Petroleum Resources Management System. External reserves reviews and audits are regularly undertaken.
Operational risk	• All significant areas of Company operations are subject to regular reporting to the Board. • The Board receives regular reports on the performance of each business unit, functional area and major project, including: Eastern Australia, Western Australia and the Northern Territory; Asia Pacific; GLNG; PNG LNG; Strategy and Corporate Development; Legal; Finance and Investor Relations; Human Resources; Government and Media; Environment, Health, Safety and Sustainability.
Investment risk	The Company has clearly defined procedures for capital allocation and expenditure. These include: • a portfolio management system; • annual budgets approved by the Board; • short- and long-term funding strategies which are approved by the Finance Committee; • detailed appraisal and review procedures, including the appointment of independent advisers; • project management processes, including cost reporting, project forecasts and monitoring; • levels of authority; and • due diligence requirements where assets are being acquired.

Corporate Governance (continued)

Type of risk	Method of management
Financial reporting and treasury	• A comprehensive budgeting system exists with an annual budget approved by the Board. • Monthly actual results are reported against budget and quarterly forecasts for the year are prepared and reported to the Board. • Treasury operations are subject to a comprehensive system of internal control, and speculative financial transactions are prohibited. • Further details relating to financial instruments and commodity price risk management are included in note 38 to the Consolidated Financial Statements. • Regular treasury and market risk reports are made to the Finance Committee of the Board.
Organisational capability risk	In order to manage organisational capability risk, the Company: • conducts regular reviews of the organisational capacity; • has developed its workforce development and succession plans for all employees with focus on key roles within the Company; • maintains a personal and professional development curriculum with general and industry programs; • conducts a biennial survey of employees to ensure both qualitative and quantitative measures are in place to communicate with all employees and take appropriate actions; and • conducts regular reviews of Human Resources policy and practice.

Santos has two major projects, GLNG and PNG LNG, which have been identified due to their size, complexity and location as being material to the delivery of the Company's strategy. Risks associated with these projects have been identified and actions are being taken to address the risks where appropriate.

4.4 INDEPENDENCE OF AUDITORS AND NON-AUDIT SERVICES

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor. The policy ensures the external auditor's independence and impartiality by prescribing that:

- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years and there will be a period of at least two successive years before that partner can again be involved in the Company's audit; and
- the internal audit function, if outsourced, will be provided by a firm other than the external audit firm. The nature and amount of non-audit services provided by the external auditors is detailed in the Directors' Statutory Report on page 75 of this Annual Report, together with the Directors' reasons for being satisfied that the provision of those services did not compromise the auditor independence requirements of the Act.

The policy requires that services that are considered to be in conflict with the role of statutory auditor are not performed by the Company's external auditor and prescribes the approval process for all non-audit services where the Company's external auditor is used. The Audit Committee Chairman is responsible for the final approval of these services.

Non-assurance service work in 2011 represented 5% of the fees paid to the Company's external auditor or associates.

A copy of the auditor's independence declaration as required under section 307C of the Act is set out on page 162 of the Annual Report.

PART 5: DIVERSITY, ETHICS AND CONDUCT

Relevant policies and charters

See www.santos.com

- Diversity Policy
- Code of Conduct
- Reporting Misconduct Policy
- Securities Trading Policy
- Continuous Disclosure and Shareholder Communications Policy
- Market Disclosure Policy

5.1 DIVERSITY

Diversity is an important aspect of the Company's continuing success. A Group-wide Diversity Policy is in place at Santos, in accordance with the ASX Principles. The Company is committed to providing an inclusive culture that embraces diversity, including a focus on indigenous education and employment, equal opportunity programs, multicultural awareness, and development of women.

Santos is a partner in the Gender Equality Project (GEP), an initiative developed by the Centre for Ethical Leadership at Melbourne Business School. Industry and research partners and associates are collaborating in pursuit of the common mission to produce a significant and sustainable improvement in the gender balance in leadership roles. Santos has committed to the GEP for three years.

In accordance with its Diversity Policy, the Board has adopted measurable objectives for achieving gender diversity. The CEO and Managing Director and Chief Human Resources Officer are required under the Company's Diversity Policy to monitor and report annually to the People and Remuneration Committee of the Board on the progress and effectiveness of these objectives. To assist the CEO and Managing Director and Chief Human Resources Officer in this process, the Company requires business units and corporate leaders to report on diversity at their quarterly business reviews and as part of the ongoing 'People Planning process'.

The measurable objectives set by the Board in 2011 are outlined in the following table:

Objective	Initiatives to facilitate the achievement of the objective and notable achievements to date	Status of the objective
Deliver training to leaders in sound recruitment methods, including removal of gender bias	• Selection of recruitment partners and contracting organisations is based on their commitment to providing gender-balanced candidate slates and sound recruitment principles that encompass diversity within their own organisations. • Launch of a recruitment training program with a diversity component for hiring managers, leaders and recruiters. • Leadership diversity training programs have been developed, with full introduction planned in 2012. • Review conducted to assist with removing gender bias from recruitment practices and systems and assist with attracting females into trade and technical/science-based positions. The following short-term and long-term initiatives are examples of initiatives that the Company has adopted as a result of the review: – targeted marketing and advertising campaigns; – introduction of school-based entry-level programs; – focusing on strategies to attract women in apprenticeships/traineeship intakes; – inclusion of female testimonials and success stories in career publications and online blogging; and – encouraging recruitment of women through the recruitment team's KPIs.	Ongoing in 2012.
Review gender pay equity at Santos and report on findings and implemented actions	• Introduction of pay equity review processes (including gender pay equity). • The 2011 review indicated that Santos' current practices are sound and result in gender pay equity.	Completed. Now forms part of Santos' regular processes.

Corporate Governance (continued)

Objective	Initiatives to facilitate the achievement of the objective and notable achievements to date	Status of the objective
Double the number of females undertaking apprenticeships/ traineeships	• We doubled the number of female cadets and trainees in the last year. • The Company recognises the low number of females entering into traditional apprenticeships, particularly in mechanical and instrument/electrical vocations. As a result, the following initiatives have been developed: – publicity material, tools and resources targeted at informing and attracting female students into trade studies and careers; and – further launches in 2012 to TAFE, trade expos and careers fairs with a focus on students currently in pre-vocation studies and years 11 and 12.	Completed (to be extended in 2012).
Maintain a high proportion of female graduates for 2012 graduate intake	• As part of the Company's recruitment process, the graduate program aims at achieving a balanced proportion of gender. In 2011, equal proportions of male and female graduates were recruited.	Completed for 2011 and ongoing in 2012.
Equal representation of women and men to receive opportunities for in-house development programs	• Commitment to equal representation of women and men in the Company's in-house development programs. From 2010 to 2011, female representation increased 8% across all programs, with a strong increase of 27% in the invitation-only senior leadership program.	Ongoing in 2012.
Initiate a tertiary MBA program to assist with the development of women in Santos	• An MBA program was introduced during 2011. The program supports the development of women into senior positions and strengthens and broadens their network and visibility. In 2011, 26% of the participants in the MBA program were female.	Ongoing.
Undertake a gender audit to identify any career or development blockers and report on findings and implemented actions	• As a result of the Gender Audit, new policies were issued, retraining around workplace flexibility was undertaken and Santos has been running regular resilience workshops for all employees. • New legislation has been integrated into Santos' workplace harassment and bullying policies, and subsequently incorporated into the Code of Conduct and employee equal opportunity training program. • In addition, professional networking, coaching and mentoring programs have been increased as an offering.	Ongoing.

Additionally, as an example of initiatives to provide workplace flexibility for women, the Parental Leave Policy, which provided 16 weeks of paid maternity leave, was updated in December 2010 to incorporate an option of 32 weeks at half pay. This took effect from 1 January 2011 in line with the Australian national paid parental leave scheme, for which employees may be eligible in addition to the Company's scheme.

The following tables show the proportional representation of men and women at various levels within the Santos workforce. In 2011, there was an increase of 2% in female representation across the Group.

WORKFORCE GENDER PROFILE 2011

%

	Male	Female
Non-executive Directors	86	14
Senior Executives	83	17
Other	75	25
Total	75	25

WORKFORCE GENDER PROFILE 2010

%

	Male	Female
Non-executive Directors	86	14
Senior executives	92	8
Other	77	23
Grand Total	77	23

The 2011 Senior Executives included in this category are those who are described in this Annual Report on pages 22 to 23, reflecting changes to the comparable group as described on pages 22 to 23 of the 2010 Annual Report. One woman was appointed as a Vice-President in 2011, thereby doubling the representation of women in the Senior Executive group.

5.2 ETHICAL STANDARDS AND CODE OF CONDUCT

Santos is committed to practising high standards of business conduct and corporate governance and complying with legal requirements wherever the Company operates. To promote high standards of corporate governance and business conduct, the Company has provided its employees with a clear set of rules, values and guidelines to follow when carrying out their work as a Santos employee and representative. These rules, values and guidelines set out what is expected of Directors, employees, contractors and agents of Santos.

In particular, the Company has in place an integrated Code of Conduct that:

- sets out the Company's key rules, values and guidelines with respect to workplace and environment, business conduct and sustainability; and
- outlines the processes for reporting and investigating suspected breaches, and the penalties that may be imposed where a breach is found to have occurred.

Key issues addressed by the Code of Conduct include:

- achieving compliance with all applicable laws of the countries in which Santos operates;
- avoiding conflicts, by prioritising the interests of the Company and its stakeholders over personal interests;
- prohibiting inappropriate gifts, hospitalities, bribes, commissions and inducements;
- communicating regularly, accurately and effectively with investors, other stakeholders, the media and the market generally;
- treating employees and prospective employees fairly and equitably in all matters;
- protecting rights of privacy and confidentiality, both at an individual and Company level;
- ensuring Company assets are used solely to promote the interests of the Company and its stakeholders;
- operating with a view to long-term sustainability, through a focus on health, safety and the environment; and
- acting as a responsible corporate citizen in all communities of which the Company is part, and actively contributing to the needs of the communities.

The Code of Conduct was reviewed in 2011 and re-launched in January 2012. All employees are required to undertake a refresher of compulsory online training, and this training module is also a compulsory component of new personnel inductions.

In addition, the Company has a separate Anti-Corruption Policy. All Santos staff and contractors are required to be familiar with and to abide by the Policy and related Guidelines. In 2011, Santos commenced the roll-out of anti-corruption workshops and web-based training for employees in roles or locations where there is a higher risk of exposure to corrupt practices by third parties.

The standards of conduct expected of Santos staff, including those directed at the broader stakeholder constituency of shareholders, employees, customers and the community, are also recorded in separate guidelines and policies relating to dealing in securities (discussed below), the environment, occupational health and safety, and human resources.

Further, a Finance Code of Conduct, based on that developed by the Group of 100 (an association of senior finance executives from Australia's business enterprises) applies to the CFO and all other officers and employees within the finance function of the Company who have the opportunity to influence the integrity, direction and operation of the Company and its financial performance.

Corporate Governance (continued)

Santos treats actual or suspected breaches of its guidelines and policies seriously, and has adopted Reporting Misconduct and Issue Resolution policies as additional mechanisms to ensure that suspected breaches are reported and acted upon fairly and effectively. A Reporting Misconduct Programme is in place at Santos, to enable employees to report misconduct confidentially, without fear of reprisal or discrimination. Matters are investigated without bias and anyone using the hotline in good faith will be protected from reprisals and discrimination and their identity will be protected (if desired by them or otherwise required by law).

Misconduct is defined as non-compliance with laws and regulations and Company policy and procedures. Where a serious breach is found to have occurred, penalties may be imposed, ranging from counselling to dismissal.

5.3 SECURITIES TRADING POLICY

Santos has in place a Securities Trading Policy that prohibits Directors, executives and employees (as well as connected persons over whom they may be expected to have control or influence) from acquiring, selling or otherwise trading in the Company's securities where they are in possession of material price-sensitive information that is not in the public domain. Directors, executives and employees (and their connected persons) are also prohibited from dealing in the Company's securities during defined 'blackout periods', except:

- where there are exceptional circumstances in which selling the securities is the only reasonable course of action available (such as severe financial hardship); or
- where the dealing falls within one of the excluded categories under the Policy (such as pro-rata issues of securities to all shareholders).

The following periods are defined as 'blackout periods' under the Policy:

- the period from the close of trading on 31 December each year until the trading day following the announcement to the ASX of the Company's preliminary final statement or full-year results (usually in the third week of February);
- the period from the close of trading on 30 June each year until the trading day following the announcement of the Company's half-year results (usually in the third week of August); and
- any other period that the Company specifies from time to time.

Directors, executives and employees are also prohibited from trading the Company's securities on a short-term basis, and are not permitted to hedge their securities (including options and share acquisition rights) unless those securities have fully vested and are no longer subject to restrictions.

Outside of these circumstances, employees are generally free to deal in the Company's securities. However, Directors, the CEO and Managing Director, the Company Secretary and specified executives can only deal in the Company's securities if they first provide notice of their intention and receive written clearance from an appropriate senior officer.

Breaches of the Securities Trading Policy will be subject to appropriate sanctions, which could include disciplinary action or termination of employment.

5.4 CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

The Company has developed policies and procedures to ensure that Directors and Management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX. Employees must notify their departmental manager or a designated Disclosure Officer as soon as they become aware of information that should be considered for release to the market.

When the Company makes an announcement to the market, that announcement is released to the ASX. The Company Secretary and Group Executive Investor Relations are responsible for communications with the exchanges. All material information disclosed to the ASX is posted on the Company's website at www.santos.com. This includes ASX announcements, annual reports, notices of meetings, media releases and materials presented at investor, media and analyst briefings. An email alert facility is also offered to shareholders. Webcasting of material presentations, including annual and half-yearly results presentations, is provided for the benefit of shareholders, regardless of their location. The Annual General Meeting is also webcast live and made available for later viewing.

The Board is conscious of its obligations to shareholders and will seek their approval as required by the Company's Constitution, the Corporations Act and the ASX Listing Rules, or where otherwise considered appropriate by the Directors.

Additionally, the Company's external auditor attends Annual General Meetings to be available to answer shareholder questions relevant to the conduct of the audit. The Annual General Meeting also provides an opportunity for any shareholder or their proxy to attend and ask questions of the Board, and exercise their vote.

organisation chart

BOARD COMMITTEES

- Audit
- Environment, Health, Safety and Sustainability
- Finance
- Nomination
- People and Remuneration

BOARD OF DIRECTORS

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

SANTOS LEADERSHIP TEAM

Comprises the CEO and his reports

Drive business strategy and operations

CORPORATE CENTRE

Allocate capital and provide governance and policy

- Human Resources, Health, Aboriginal Participation
- Finance, Tax, Insurance, Treasury, Risk and Audit, Information Technology, Logistics and Procurement, Investor Relations
- Strategy and Corporate Development, Legal, Commercial and Marketing, Public Affairs, Climate Change and Sustainability
- Corporate Secretariat

BUSINESS UNITS

Business execution and delivery

- Asia Pacific
- Eastern Australia
- GLNG
- Western Australia and Northern Territory

TECHNICAL DISCIPLINES

Provide excellence, service and assurance

- Exploration and Subsurface
- Engineering, Safety, Environment

Santos Group interests

As at 15 February 2012

Licence area	% interest
Note: In South Australia PPL = Petroleum Production Licence and PL = Pipeline Licence. In Queensland PPL = Pipeline Licence and PL = Petroleum Lease. Interests shown are beneficial interests.	
South Australia	
Cooper Basin (Fixed Factor Area)[1]	
(PPLs 6–20, 22–25, 27, 29–33, 35–48, 51–61, 63–70, 72–75, 78–81, 83–84, 86–92, 94–95, 98–111, 113–117, 119, 120, 124, 126–130, 132–135, 137–140, 143–146, 148–151, 153–155, 159–166, 172, 174–180, 189, 190, 193, 195, 196, 228 & 230–238)	66.6
Cooper Basin (Patchawarra East Block)[1]	
(PPLs 26, 76, 77, 118, 121–123, 125, 131, 136, 142, 147, 152, 156, 158, 167, 182, 187, 194, 201 & 229)	72.3
Reg Sprigg West (PPL 211 RSW)[1]	54.2
Derrilyn Unit (PPLs 206, 208 & 215)[1]	65.0
PEL 114, PPLs 225–227[1]	100.0
PL 2[1]	66.6
PL 17[1]	100.0
Queensland	
South-West Queensland	
ATP 259P[1]	55.5
Naccowlah (PLs 23–26, 35, 36, 62, 76–79, 82, 87, 105, 107, 109, 133, 149, 175, 181, 182, 189, 287[2] & 302)	
Total 66 (PLs 34, 37, 63, 68, 75, 84, 88, 110, 129, 130, 134, 140, 142–144, 150, 168, 178, 186, 193, 241, 255, 301 & PPLs 8 & 14)[1]	70.0
Wareena (PLs 113, 114, 141, 145, 148, 153, 157, 158, 187, 188 & 411)[1]	61.2
Innamincka (PLs 58, 80, 136, 137, 156, 159, 249 & 409[2])[1]	70.0
Aquitaine A (PLs 86, 131, 146, 177, 208 & 254)[1]	52.5
Aquitaine B (PLs 59–61, 81, 83, 85, 97, 106, 108, 111, 112, 132, 135, 139, 147, 151, 152, 155, 205, 207, 288[2] & 410[2])[1]	55.0
Aquitaine C (PLs 138 & 154)[1]	47.8
50/40/10 (PL 55)[1]	60.0
SWQ Unit (PPLs 13, 16–18, 31, 34–40, 46, 48, 62, 64–72, 78–82, 84, 86, 94–96, 98, 101, 105 & 113 and in South Australia PLs 5 & 9)[1]	60.1

Licence area	% interest
ATP 267P (Nockatunga) (PLs 33, 50, 51, 244 & 245)[1]	100.0
ATP 269P	4.9
ATP 299P (Tintaburra)(PLs 29, 38, 39, 52, 57, 95, 169[2] & 170, PPLs 109, 110, 111, 112, 293–295 & 298)[1]	89.0
ATP 633P	50.0
ATP 636P[1,2]	100.0
ATP 661P[1,2]	100.0
ATP 752P (Barta) & PL 303 (Cuisinier)[1,3]	45.0
ATP 752P (Wompi)[1,3]	30.0
ATP 765P[1,2]	100.0
ATP 766P[1,2]	100.0
ATP 820P[1,2]	100.0
ATP 1063P[1,2]	100.0
PPL 127 (Tickalara to SA Border)[1]	100.0
PPL 128 (Jackson to Tickalara)[1]	100.0
Surat Basin	
ATP 212P (Major) (PL 56)	15.0
ATP 336P (Roma) (PLs 3, 6–9, 13, 93, 309, 310, 314 & 315)[1]	30.0
ATP 336P (Roma) (PL12)[1]	100.0
ATP 336P (Waldegrave) (PLs 10W–12W, 28, 69 & 89)[1]	53.8
ATP 470P (Redcap)	10.0
ATP 470P (Formosa Downs)	5.5
ATP 526P (PLs 90, 91, 92, 99, 100, 232, 233, 234, 235, 236, PPLs 76 & 92)[1]	22.8
ATP 606P	2.6
ATP 631P[1]	24.6
ATP 653P (Arcadia)[1]	22.8
PL 1 (Moonie)[1]	100.0
PL 1 (Cabawin Exclusion)[1]	100.0
PL 1 (Cabawin Farm-out)[1]	50.0
PL 2 (A & B) (Kooroon)[1]	52.5
PL 2 (Alton)[1]	100.0
PL 2C (Alton Farm-out)[1]	63.5
PLs 10 & 11 (Roma)[1]	30.0
PL 11 (Snake Creek East)[1]	75.0
PL 12 (Trinidad)[1]	100.0
PL 12 (Oberina)[1]	100.0
PL 21, 22, 27, 64 (Balonne)	12.5
PL 17 (Upper Stratum)[1]	100.0
PL 30	15.0
PL 64 (Cogoon River)	12.5
PL 71 (Parknook)	8.0
PL 74	15.0
PL 195	4.0

Licence area	% interest
PL 200 (Spring Gully)	2.7
PL 203	4.0
PL 204 (Spring Gully)	0.2
PL 213 (Churchie West)	16.7
PL 315 (Drillsearch)[1]	25.0
PL 315 (Mascotte)[1]	50.0
Bowen Basin	
ATP 337P (Mahalo)[1]	30.0
ATP 337P (Denison Trough) (PLs 41–45, 54, 67, 173, 183, 218, 448–457[2], PPLs 10 & 11)	50.0
ATP 553P (Denison)[1]	50.0
ATP 592P	4.0
ATP 653P (Fairview) (PLs 420, 421, 440)	23.9
ATP 655P (Taringa)[1]	30.0
ATP 685P (Cockatoo Creek)	50.0
ATP 665P[1]	30.0
ATP 708P (Fairview)[1]	30.0
ATP 745P (Fairview)[1]	22.8
ATP 803P[1]	30.0
ATP 804P[1]	21.2
ATP 868P[1]	30.0
ATP 972P[2]	2.6
PL 176 (Scotia)[1]	30.0
PL 176 (Scotia domestic)	100.0
Facilities	
Moonie to Brisbane Pipeline[1]	100.0
Comet Ridge to Wallumbilla Pipeline (PPL 118)[1]	30.0
Fairview Laterals (PPLs 147 and 164)	30.0
Gladstone Transmission Pipeline	30.0
Gladstone LNG Plant	30.0
Roma Lateral (PPL 148)	30.0
New South Wales	
Gunnedah Basin	
PEL 1[1]	65.0
PEL 6 Edendale Area[1,12]	55.4
PEL 6 Remainder Area[1,12]	53.6
PEL 6 Edendale Area	3.5
PEL 6 Remainder Area	1.7
PEL 12[1]	65.0
PEL 238[1,12]	80.0
PEL 238[1]	69.2
PAL 2[1,12]	80.0
PAL 2[1]	69.2
PPL 3	80.0
PEL 427[1,12]	34.6
PEL 428[1,12]	27.7
PEL 433[1]	80.0

Licence area	% interest
PEL 434[1]	80.0
PEL 450[1]	100.0
PEL 452[1]	100.0
PEL 456[1,12]	15.0
PEL 462[1]	100.0
Facilities	
Wilga Park Power Station[1]	80.0
Victoria	
Otway Basin	
VIC/P44[1]	50.0
VIC/L22 (Minerva)	10.0
VIC/L24 (Casino)	50.0
VIC/L30 (Henry)	50.0
Gippsland Basin	
VIC/RL3 (Sole)[1]	100.0
VIC/L21 (Patricia-Baleen)[1]	100.0
VIC/L25 (Kipper)	50.0
VIC/L25 (Unit)	35.0
Northern Territory	
Amadeus Basin	
OL 3 (Palm Valley)[9]	48.0
OL 4 and OL 5 (Mereenie)[1,10]	65.0
RL 2 (Dingo)[1,9]	65.7
PL 2 Mereenie Pipeline[1,10]	65.0
Offshore Northern Australia	
Carnarvon Basin	
EP 61	28.6
EP 62	28.6
EP 357	35.7
L1H (Barrow Island)	28.6
L10	28.6
L12 (Crest)	35.7
L13 (Crest)	35.7
TL/2[8] (Airlie)	15.0
TL/3 (Banta-Triller)	28.6
TL/4	35.7
TL/7 (Thevenard)	35.7
TP/7 (1–2)[8]	43.7
TP/7 (3)[8]	63.4
TP/7 (4)[8]	18.7
TR/4 (Australind)	35.7
WA-1-P	22.6
WA-5-L (Spar)	45.0
WA-8-L (Talisman)[1]	37.4
WA-13-L (East Spar)	45.0
WA-15-L (Stag)	66.7
WA-20-L (Legendre)	22.6
WA-26-L (Mutineer)[1]	33.4

Licence area	% interest
WA-27-L (Exeter)[1]	33.4
WA-29-L (John Brookes)	45.0
WA-33-R (Maitland)	18.7
WA-38-R (Oryx)	45.0
WA-41-L (Reindeer)	45.0
WA-191-P (Fletcher Finucane)[1]	33.4
WA-208-P[1]	31.3
WA-209-P	45.0
WA-214-P (John Brookes)	45.0
WA-290-P	24.8
WA-323-P[3]	75.0
WA-330-P[3]	75.0
10SL/06-7 (Saffron)	22.6
11SL/06-7 (Sage)	22.6
7SL/06-7 (Ajax)	22.6
8SL/06-7 (Corvus)	22.6
9SL/06-7 (Forestier)	22.6
1SL/07-8 (Hurricane)[1]	37.3
Browse Basin[1]	
WA-274-P	30.0
WA-281-P	47.8
WA-410-P	30.0
WA-411-P	63.6
WA-459-P	100.0
Bonaparte Basin	
NT/RL1 (Petrel)[1]	35.0
NT/P61 (Caldita)	40.0
NT/P69 (Barossa)	40.0
WA-6-R (Petrel West)[1]	35.0
WA-18-P (Frigate)	40.0
WA-27-R (Tern)	40.0
Timor Sea and Timor Gap	
AC/L1 (Jabiru)	10.3
AC/L2 (Challis)	10.3
AC/L3 (Cassini)	10.3
JPDA 03-12	19.4
Bayu-Undan Gas Field	11.4
Bangladesh[1]	
Block 16	100.0
Sangu Development Area[6]	75.0
India[1]	
NEC-DWN-2004/1	100.0
NEC-DWN-2004/2	100.0
Indonesia	
East Java Basin[1]	
Madura Offshore (Maleo)	67.5
Sampang (Oyong)	45.0

Licence area	% interest
Kutei Basin	
Donggala[1,4]	0.0
Papalang	20.0
Popodi	20.0
South Sumatra Basin	
Ogan Komering I PSC[11]	10.0
Ogan Komering II PSC[11]	10.0
West Papua Basin	
Warim	20.0

Kyrgyz Republic[5]

Closed Joint Stock Company South Petroleum Company (SPC)

The Santos Group holds a 70% equity interest in SPC, which is the legal and beneficial holder of the following exploration licences: Tuzluk, Soh and Nanai.

Closed Joint Stock Company KNG Hydrocarbons (KNG HC)

The Santos Group holds a 75% equity interest in Zhibek Resources Limited, which in turn owns 72% of KNG HC, which is the legal and beneficial holder of the Tashkumyr licence.

Licence area	% interest
Papua New Guinea	
PDL 1 (Hides)	24.0
PDL 3[1]	15.9
PRL 9	40.0
SE Gobe Unit (Unitisation of PDLs 3 & 4)	9.4
Vietnam	
Block 101-100/04[7]	27.5
Block 12W	31.9
Block 123[1]	50.0
Block 13/03[1]	65.0

1 Santos operated.
2 Under application.
3 Subject to Farm-in commitments.
4 Disposal of entire interest is near completion and is only subject to final Government approval.
5 Santos is preparing for country exit.
6 Acquisition of remaining 25% has completed, subject to Government approval expected Q1 2012.
7 Disposal of remaining 27.5% is near completion and only subject to Government approval expected Q1 2012.
8 Completion of conditional sale agreements will result in a transfer of the beneficial interest, expected by 30 April 2012.
9 Disposal of entire interest is near completion and expected prior to 31 March 2012.
10 Acquisition of remaining 35% interest is near completion and expected prior to 31 March 2012, will result in Santos owning 100% of these interests.
11 Subject to Government approval expected Q2 2012.
12 CSG

10-year summary

As at 31 December	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Santos average realised oil price (A$/bbl)	44.74	43.59	51.83	73.83	89.35	92.00	117.45	78.83	87.35	**114.96**
Financial Performance ($million)										
Product sales revenue	1,478.4	1,465.0	1,500.9	2,462.8	2,750.3	2,488.5	2,761.8	2,180.5	2,227.9	**2,530.3**
Total revenue[1]	1,518.5	1,486.3	1,526.4	2,491.8	2,779.3	2,518.0	2,805.0	2,250.5	2,305.9	**2,628.1**
Foreign currency gains/(losses)[3]	(0.7)	(7.9)	2.6	(3.8)	0.8	0.4	24.4	(28.3)	(10.0)	**17.8**
Profit from ordinary activities before tax[3]	493.3	430.9	518.8	1,133.5	964.7	718.6	2,533.2	716.5	793.1	**1,282.3**
Income tax relating to ordinary activities[3]	171.2	103.9	164.1	371.4	321.3	195.7	768.4	204.6	244.1	**440.2**
Royalty-related taxes[2]						163.6	114.7	78.4	51.2	**90.7**
Net profit after tax attributable to the shareholders of Santos Ltd[3]	322.1	327.0	354.7	762.1	643.4	359.3	1,650.1	433.5	499.6	**753.1**
Financial Position ($million)										
Total assets[3]	5,320.8	5,218.3	4,836.6	6,191.3	6,902.9	7,320.2	9,801.9	11,361.0	13,769.3	**15,813.7**
Net debt/(cash)[3]	1,162.9	897.6	1,133.3	1,598.9	1,449.7	1,838.7	506.0	(605.4)	(1,200.5)	**(205.0)**
Total equity[3]	2,863.9	3,087.9	2,357.8	2,964.0	3,355.5	3,093.1	4,478.3	6,967.1	7,603.7	**8,963.2**
Reserves and production (mmboe)										
Proven plus probable reserves (2P)	732	636	643	774	819	879	1,013	1,440	1,445	**1,364**
Production	57.3	54.2	47.1	56.0	61.0	59.1	54.4	54.4	49.9	**47.2**
Exploration[4]										
Wells drilled (number)	18	19	16	22	25	10	13	6	3	**4**
Expenditure ($million)	133.1	136.4	125.6	187.0	258.5	149.8	233.1	181.0	90.4	**151.2**
Other capital expenditure ($million)										
Delineation and development[4]	308.8	519.0	672.7	666.1	865.5	954.6	1,290.3	1,203.8	1,684.3	**2,769.3**
Buildings, plant and equipment	319.0	94.9	131.1	106.0	182.1	202.2	105.1	172.2	107.3	**148.5**
General										
Number of employees (excluding contractors)	1,737	1,700	1,526	1,521	1,679	1,786	1,940	2,096	2,367	**2,847**
Number of shareholders	85,888	84,327	78,976	78,157	83,566	77,498	78,933	107,138	112,145	**113,173**
Market capitalisation ($million)	3,509	4,017	4,965	7,280	5,907	8,274	8,696	11,721	11,506	**11,560**
Netback ($/boe)	18.9	18.4	19.8	29.5	32.9	32.9	35.9	22.9	23.0	**28.1**

As at 31 December	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Share information										
Share issues	Employee Share Plan/ Executive Share Plan/ Exercise of Options	Employee Share Plan/ Executive Share Plan/ Exercise of Options	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Preference Share Buy-Back/ Issue of FUELS/ Convertible Preference Shares	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/2 for 5 Rights Issue/ Redemption of FUELS/ Convertible Preference Shares	Executive Share Plan/ Dividend Reinvestment Plan/ Non-executive Director Share Plan/ Exercise of Options/ Employee Share Plan/ Placement (institutional)	Executive share plan/ Dividend Reinvestment Plan/ Exercise of Options/ Employee Share Plan/ ESG Plan/ ESG Scheme of Arrangement
Number of issued ordinary shares at year end (million)	583.1	584.7	585.7	594.4	598.5	586.1	584.9	831.9	875.1	**944.6**
Weighted average number of issued ordinary shares (million)	630.3	633.0	634.6	637.9	646.8	640.7	640.9	780.5	837.0	**888.1**
Dividends – ordinary shares										
Paid during the period (cents per share)	30.0	30.0	30.0	36.0	40.0	40.0	42.0	42.0	42.0	**30.0**
Declared in respect of the period (cents per share)	30.0	30.0	33.0	38.0	40.0	40.0	42.0	42.0	37.0	**30.0**
Paid during the period ($million)	174.2	175.0	175.5	212.4	238.1	235.1	248.3	299.4	349.9	**263.3**
Number of issued preference shares at year end (million)	3.5	3.5	6.0	6.0	6.0	6.0	6.0	-	-	**-**
Dividends – preference shares										
Paid during the period ($ per share)										
- ordinary	5.4	6.6	6.6	5.1	5.1	5.6	6.3	4.6	-	**-**
- special	-	-	5.0	-	-	-	-	-	-	**-**
Declared in respect of the period ($ per share)										
- ordinary	8.7	6.6	5.7	5.2	5.3	5.9	6.3	-	-	**-**
- special	-	-	5.0	-	-	-	-	-	-	**-**
Paid during the period ($million)										
- ordinary	18.9	23.0	23.0	30.6	30.4	33.5	38.0	27.7	-	**-**
- special	-	-	14.3	-	-	-	-	-	-	**-**
Ratios and statistics										
Earnings per share (cents)[3]	48.1	48.0	50.0	114.7	94.8	50.9	251.5	52.0	59.7	**84.8**
Return on total revenue (%)[1]	21.2	22.0	23.2	30.6	23.1	14.3	58.8	19.3	21.7	**28.7**
Return on average ordinary equity (%)[3]	12.4	11.6	18.6	35.5	23.9	12.4	50.6	7.5	6.9	**9.1**
Return on average capital employed (%)[3]	8.9	8.8	11.7	19.8	15.1	9.0	34.1	7.3	7.3	**8.7**
Net debt/(net debt + equity) (%)[3]	28.9	22.5	32.5	35.0	30.2	37.3	10.2	(9.5)	(18.7)	**(2.3)**
Net interest cover (times)[3]	8.1	8.5	9.1	14.9	10.1	7.4	38.5	(45.3)	(19.1)	**700.9**

1 From 2005, 'Total operating revenue' has been reclassified to 'Total revenue' and prior year amounts have been restated.

2 From 2007, 'Royalty related taxes' have been accounted for as a tax.

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

4 Exploration expenditure includes wildcat wells. Delineation and development expenditure includes appraisal, near field exploration wells and CSG expenditure.

financial report

directors' report

The Directors present their report together with the consolidated financial report of the consolidated entity, being Santos Limited (Santos or the Company) and its controlled entities, for the financial year ended 31 December 2011, and the auditor's report thereon. Information in the Annual Report referred to in this report, including the Remuneration Report, or contained in a note to the Financial Statements referred to in this report forms part of, and is to be read as part of, this report.

DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

Directors and Directors' Shareholdings

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

Surname	Other Names	Shareholdings in Santos Limited
Borda	Kenneth Charles	72,532
Coates	Peter Roland (Chairman)	31,985
Dean	Kenneth Alfred	15,956
Franklin	Roy Alexander	-
Harding	Richard Michael	2,580
Hemstritch	Jane Sharman	14,000
Knox	David John Wissler (Managing Director)	93,749
Martin	Gregory John Walton	10,750

The above named Directors held office during and since the end of the financial year. There were no other persons who acted as Directors at any time during the financial year and up to the date of this report.

All shareholdings are of fully paid ordinary shares. No Director holds a relevant interest in a related body corporate of Santos Limited.

At the date of this report, Mr DJW Knox holds 389,488 options and 207,635 share acquisition rights (SARs). Details of the options and SARs granted to Mr Knox during the year are set out in the Remuneration Report on page 59 to 74 and in note 31 to the Financial Statements.

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

Directors' Report (continued)

Directors' Meetings

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

Table of Directors' Meetings

Director		Directors' Meeting[2]		Audit Committee		Environment, Health & Safety Committee		People and Remuneration Committee		Finance Committee		Nomination Committee	
		Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Borda	Kenneth Charles	10	9	-	-	-	-	-	-	6	6	2	2
Coates	Peter Roland	10	10	-	-	-	-	4	4	6	6	2	2
Dean	Kenneth Alfred	10	10	5	5	-	-	-	-	6	6	-	-
Franklin	Roy Alexander	10	10	-	-	4	4	-	-	-	-	-	-
Harding	Richard Michael	10	9	5	3	4	3	4	4	-	-	2	1
Hemstritch	Jane Sharman	10	10	5	5	-	-	4	4	-	-	-	-
Knox	David John Wissler	10	10	-	-	4	4	-	-	-	-	-	-
Martin	Gregory John Walton	10	9	-	-	4	4	4	4	-	-	-	-

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

2 In addition to formal meetings, the Directors participated in a site visit to Gladstone in June 2011.

PRINCIPAL ACTIVITIES

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

REVIEW AND RESULTS OF OPERATIONS

A review of the operations and of the results of those operations of the consolidated entity during the year is as follows:

Summary of results table

	2011	2010	Variance
	mmboe	mmboe	%
Production volume	47.2	49.9	(5)
Sales volume	57.1	59.2	(4)
	$million	$million	%
Product sales	2,530	2,228	14
EBITDAX	2,126	1,672	27
Exploration and evaluation expensed	(167)	(129)	29
Depreciation and depletion	(641)	(600)	7
Net impairment loss	(127)	(157)	(19)
EBIT	1,191	786	52
Net finance income	91	7	
Taxation expense	(531)	(295)	80
Net profit for the period	751	498	51
Net loss attributable to non-controlling interest	(2)	(2)	-
Net profit attributable to equity holders of Santos Limited	753	500	51
Underlying profit for the period[1]	453	376	20

1 Underlying profit is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. Please refer to page 52 for the reconciliation from net profit to underlying profit for the period. The non-IFRS financial information is unaudited however the numbers have been extracted from the audited financial statements.

Base Business

2011 production of 47.2 million barrels of oil equivalent (mmboe) was within the Company's guidance range and 5% lower compared to 2010, primarily due to the sell-down of Santos' interest in GLNG from 60% to 30%, which reduced Santos' production by about 2 mmboe for the full year, and to a lower net entitlement rate from Maleo in Indonesia following a favourable price review. This was partially offset by stronger oil production following the commencement of production from Chim Sáo in Vietnam.

Sales volumes for 2011 of 57.1 mmboe were 4% lower than 2010, reflecting lower customer nominations combined with a lower entitlement to gas volumes from Maleo.

Higher commodity prices were experienced across the Santos portfolio in 2011. The average realised oil price was A$114.96 per barrel, 32% higher than 2010, while the average gas price of A$4.71 per gigajoule was 9% higher. Product sales revenue was $2,530 million, 14% higher than 2010.

LNG Projects

Santos is building a substantial LNG business with interests in four LNG projects. Santos' LNG portfolio includes the Darwin LNG project, which commenced production in 2006, the GLNG and PNG LNG projects, which are currently under construction, and Bonaparte LNG, a proposed floating LNG project.

A significant milestone in Santos' LNG strategy was achieved in January 2011 when the GLNG project was approved for development. GLNG involves the construction of a two-train 7.8 million tonne per annum (mtpa) LNG plant on Curtis Island at Gladstone in Queensland. Gas will be supplied to the LNG plant from the GLNG fields around Roma in south west Queensland via a 420-kilometre gas transmission pipeline. GLNG has an estimated gross capital cost of US$16 billion from the final investment decision to the end of 2015, when the second LNG train is expected to be ready for start-up. First LNG is expected in 2015. Santos has a 30% interest in GLNG and is the operator.

Construction continues on the PNG LNG project in Papua New Guinea. The project involves the construction of a two-train 6.6 mtpa LNG plant near Port Moresby. Gas will be supplied to the LNG plant from the project's gas fields in the Western Highlands of PNG via pipeline. In December 2011, ExxonMobil, the operator, announced the project's estimated gross capital cost of US$15.7 billion had increased by US$0.7 billion to date due to the impact of the stronger than forecast Australian dollar. First LNG is expected in 2014. Santos has a 13.5% interest in PNG LNG.

Studies continue on Bonaparte LNG, a proposed 2-mtpa floating LNG project in partnership with GDF Suez. Assuming successful completion of engineering design, a final investment decision on the project is expected in 2014. Santos has a 40% interest in the project.

Asia

Santos has operations in six Asian countries and production in four. Indonesia continues to be a source of growth with strong production from three operated assets in East Java. Santos' first oil project in Vietnam, Chim Sáo (Santos 31.875%), commenced production in October 2011 and provided a substantial boost to Santos' oil production. Santos also has production in Papua New Guinea and Bangladesh in addition to exploration acreage in India and Central Asia.

NET PROFIT

The 2011 net profit attributable to equity holders of Santos Limited of $753 million is $253 million higher than in 2010, mainly due to higher sales revenue driven by higher product prices, higher gains on sales of assets and lower impairment losses, offset by increased third-party product purchases, depletion, depreciation, and a higher effective tax rate.

As a result of the Company's regular review of asset carrying values, some assets were assessed to be impaired and impairment losses of $127 million pre-tax ($102 million after tax) have been recognised in the 2011 financial report. The impairments primarily relate to the Kipper project in Eastern Australia and to the Sangu, Bangladesh assets in Asia Pacific. The Sangu assets were impaired following an evaluation of the results of a drilling program that was completed subsequent to year end.

Net profit includes items before tax of $418 million ($300 million after tax), as referred to in the reconciliation of net profit to underlying profit below.

Directors' Report (continued)

Reconciliation of Net Profit to Underlying Profit

	2011 $million			2010 $million		
	Gross	Tax	Net	Gross	Tax	Net
Net profit after tax attributable to equity holders of Santos Limited			**753**			**500**
Deduct/(add) the following:						
Net gains on sales of fixed assets	529	(121)	**408**	312	(98)	**214**
Impairment losses	(127)	25	**(102)**	(157)	34	**(123)**
Foreign currency gains/(losses)	18	(5)	**13**	(10)	3	**(7)**
Fair value adjustments on embedded derivatives and hedges	(5)	2	**(3)**	(7)	2	**(5)**
Remediation costs and contract losses, net of related insurance recoveries	-	-	**-**	6	(2)	**4**
Other income/(expense) items	3	(2)	**1**	-	-	**-**
Capital losses, investment allowance and other tax adjustments	-	(17)	**(17)**	-	41	**41**
	418	(118)	**300**	144	(20)	**124**
Underlying Profit[1]			**453**			**376**

1 Underlying profit is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited, however the gross numbers presented above have been extracted from the audited financial statements.

'Other income/(expense) items' comprises a non-refundable deposit ($15 million) and finalisation of re-determination ($5 million), offset by fair value adjustment on step-up acquisition from associate to subsidiary ($6 million) and transaction costs on acquisition of subsidiary ($11 million) (refer notes 3, 2, 26 and 2 respectively to the Financial Statements).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- the proposed extension of the Petroleum Resource Rent Tax to all Australian onshore and offshore oil and gas projects from 1 July 2012. However, the impact is uncertain as the legislation has not been passed by the Senate;
- the acquisition of 100% of the shares of Eastern Star Gas Limited (ESG) followed by the sale of a 20% working interest in ESG's permits to TRUenergy Holdings Pty Ltd, giving Santos the largest natural gas position in New South Wales. Further detail is contained in the Scheme Booklet issued by ESG on 22 September 2011.

DIVIDENDS

On 17 February 2012, the Directors resolved to pay a fully franked final dividend of 15 cents per fully paid ordinary share on 30 March 2012 to shareholders registered in the books of the Company at the close of business on 1 March 2012 (Record Date). This final dividend amounts to approximately $142 million. The Board also resolved that the Dividend Reinvestment Plan (DRP) will be in operation for this dividend. Shares issued under the DRP will be allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Record Date, less a 2.5% discount (DRP Price). The last election date for the DRP is the Record Date. The DRP will be fully underwritten.

A fully franked final dividend of $131 million (15 cents per fully paid ordinary share) was paid on 31 March 2011 in respect of the year ended 31 December 2010, as disclosed in the 2010 Annual Report. In addition, a fully franked interim dividend of $132 million (15 cents per fully paid ordinary share) was paid to members on 30 September 2011. The DRP was in operation for both of these dividends and shares were allocated based on the DRP Price. The DRP associated with the interim 2011 dividend was fully underwritten.

ENVIRONMENTAL REGULATION

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

During the financial year, the consolidated entity received $12,000 in fines relating to six Infringement Notices issued pursuant to the *Environmental Protection Act 1994* (Qld) and undertook corrective measures in respect of the infringements to preclude re-occurrences.

The consolidated entity received 14 other environmental regulatory instruments under various State environmental legislation in Queensland, South Australia and New South Wales for which it was not fined and no penalty was issued.

Santos has completed and complied with all conditions in the Site Contamination Assessment Orders relating to the Port Bonython facility and compliance with the Site Remediation Orders is ongoing. These orders were disclosed in the Directors' Report in the previous financial year.

Santos is reviewing the operations of Eastern Star Gas Limited (ESG) prior to Santos' acquisition of ESG on 17 November 2011 and is cooperating with an investigation by regulatory authorities into a loss of CSG water from the Eastern Star Gas operations at the Bibblewindi Water Management Facility located in the Pilliga Forest near Narrabri in NSW.

POST BALANCE DAY EVENTS

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

- On 17 February 2012, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2011 financial year. The dividend has not been provided for in the 31 December 2011 Financial Statements. Refer to note 22 of the Financial Statements for dividends declared after 31 December 2011.

LIKELY DEVELOPMENTS

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

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

SHARES UNDER OPTION AND UNVESTED SHARE ACQUISITION RIGHTS (SARs)

Options

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

Date options granted	Expiry date	Issue price of shares[1]	Number of options
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	61,100
24 October 2006	24 October 2016	$10.48	372,700
4 May 2006	3 May 2016	$11.36	2,500,000
1 July 2007	30 June 2017	$14.14	203,900
1 July 2007	30 June 2017	$14.14	47,400
3 September 2007	2 September 2017	$12.81	100,000
3 May 2008	2 May 2018	$15.39	483,348
3 May 2008	2 May 2018	$15.39	249,630
28 July 2008	27 July 2018	$17.36	81,948
28 July 2008	27 July 2018	$17.36	131,976
2 March 2009	2 March 2019	$14.81	54,621
			4,294,973

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

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

Directors' Report (continued)

Unvested SARs

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

Date SARs granted	Number of shares under unvested SARs
28 July 2008	50,403
2 March 2009	127,524
2 March 2009	82,671
2 March 2010	463,833
2 March 2010	243,834
15 November 2010	40,000
22 November 2010	15,000
4 January 2011	293,420
1 March 2011	701,418
1 March 2011	259,310
4 July 2011	324,466
4 January 2012	40,230
	2,642,109

No amount is payable on the vesting of SARs. SARs do not confer an entitlement to participate in a bonus or rights issue, prior to the vesting of the SAR. Further details regarding the SARs (including when they will lapse) are contained in the Remuneration Report commencing on page 59 of this report.

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

Options

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2011 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
24 October 2006	$10.48	63,100
2 March 2009	$14.81	2,568
		65,668

Vested SARs

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2011 on the vesting of SARs granted under the Santos Employee Share Purchase Plan (SESPP) and ShareMatch Plan (ShareMatch). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares issued
3 May 2008	102,760
3 May 2008	64,575
28 July 2008	31,297
2 March 2009	34,663
2 March 2009	8,850
2 March 2010	7,510
2 March 2010	5,051
22 November 2010	15,000
4 January 2011	1,512
4 July 2011	375
	271,593

Since 31 December 2011, the following ordinary shares of Santos Limited have been issued on the vesting of SARs granted under the SESPP and ShareMatch.

Date SARs granted	Number of shares issued
2 March 2009	4,496
4 January 2011	3,175
4 July 2011	1,125
	8,796

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and senior management (including shares, options and SARs granted during the financial year) are set out in the Remuneration Report commencing on page 59 of this report.

2011 remuneration in brief

This section is in addition to the Remuneration Report on pages 59 to 74. This section therefore does not form part of the audited Remuneration Report. It outlines the Company's key remuneration activities in 2011 and provides additional information in relation to the amount of remuneration paid to its CEO and Senior Executives during 2011. The Company has chosen to do this so that investors have the benefit of this information in addition to the Remuneration Report on pages 59 to 74, which has been prepared in accordance with statutory requirements and accounting standards.

KEY 2011 REMUNERATION ACTIVITIES

People and Remuneration Committee

The Remuneration Committee Charter was expanded in 2011 and the Committee was accordingly renamed the People and Remuneration Committee, to reflect its new remit. The Charter now includes oversight of diversity, succession planning and talent development as well as remuneration and benefits.

Review of executive remuneration practices

2011 was a year of continued focus on improving the way we reward and motivate our people, including through a Board-initiated review of the Company's executive remuneration practices. The review was overseen by the People and Remuneration Committee and the focus of the review in 2011 was base remuneration and Long-term Incentives (LTI). Short-term incentives (STI) will be reviewed in 2012.

As a result of the review, a number of changes to further align Senior Executive remuneration with long-term shareholder value were made to the LTI program applying from 2012 onwards. For example, 'deferred rights', that is, LTI awards subject to a condition consisting only of a period of service, will no longer be granted as part of the regular LTI program. This means that future grants as part of the regular LTI program will be solely performance-based.

Review of pay equity

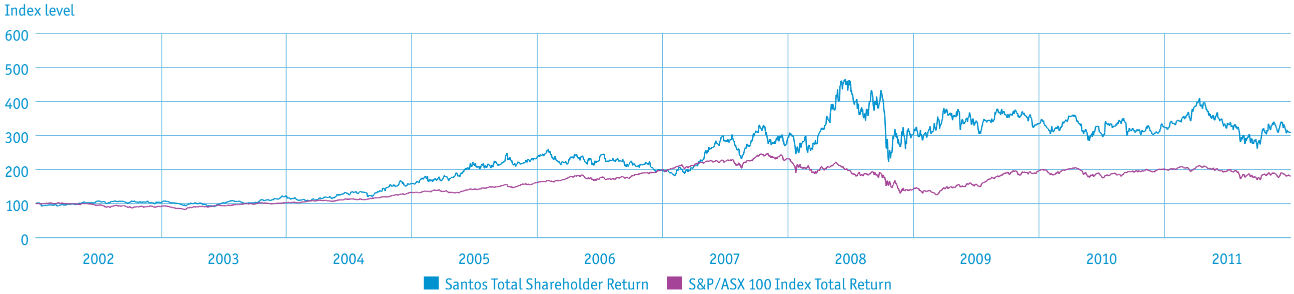
Another key activity was a pay equity review across various factors including gender, which was undertaken for the first time in 2011 and now forms part of Santos' regular processes. The review indicated that Santos' current practices are sound and result in gender pay equity.

ShareMatch

ShareMatch, the salary sacrifice component of the new general employee share plan introduced in late 2010, was well received, with 45% of eligible employees accepting the offer to participate in 2010. ShareMatch is designed to encourage ownership of Santos shares among the Company's employees, and therefore alignment with shareholder interests, and provides a matching Share Right for each purchased share at a ratio determined by the Board (currently on a 1:1 basis). The Share Rights only vest if the employee continues employment with the Company for a minimum service period.

Figure 1: Total Shareholder Return 10-Year Comparison

TSR OF SANTOS AND S&P/ASX 100 2002–2011



CEO AND SENIOR EXECUTIVE REMUNERATION IN 2011

LTI is awarded to the CEO and Senior Executives on the basis that a certain number of Share Acquisition Rights (SARs) or Options will vest if performance or service hurdles are met. In the case of performance grants, the hurdle is, broadly speaking, the performance of Santos shares (including the value of dividends) relative to the performance of shares of other ASX 100 companies over a three-year period. The LTI will vest if the performance of Santos shares is ranked in the 50th percentile or higher, with a greater proportion of the LTI vesting the higher the ranking. Performance testing usually occurs in the first few weeks of the year following the end of the performance period. For example, for the 2009–2011 performance grant, testing occurred in early 2012.

Testing of the 2009–2011 performance grant has now been completed, with the Company ranking at the 39th percentile against the ASX 100, resulting in zero LTI vesting. This compares against the Company's performance in 2008–2010 which was at the 87th percentile, resulting in the vesting of 83% of the LTI granted.

In addition, the Company's performance in 2011 as evaluated by the Board against the Company Scorecard resulted in an average STI award of 69% of maximum compared to 78% in 2010.

2010 and 2011 comparative remuneration for the CEO and Senior Executives is shown in Figure 2.

The remuneration figures in the following table are unaudited and provide additional but different disclosure to that required by the Accounting Standards and statutory requirements, particularly in relation to the valuation of LTI granted to the CEO and Senior Executives. The Company believes that the additional information provided in this table is useful to investors, as recognised by the Productivity Commission in its Report on Executive Remuneration in Australia. The Commission noted that the usefulness of remuneration reports to investors was diminished by complexity and omissions and in particular recommended that the report should include reporting of pay 'actually realised' by the executives named in the report.

2011 remuneration in brief (continued)

Figure 2: Remuneration received (unaudited and non-IFRS)

Name and role		Fixed remuneration[1]	STI[2]	LTI[3,4]	Other[5]	Total
DJW Knox	2011	$2,250,000	$1,552,500	$0	$0	$3,802,500
Managing Director and Chief Executive Officer	2010	$2,125,000	$1,700,000	$489,172	$0	$4,314,172
JH Anderson	2011	$610,301	$235,000	$0	$0	$845,301
Vice President Western Australia and Northern Territory	2010	$550,498	$250,000	$184,545	$0	$985,043
JL Baulderstone	2011	$648,340	$235,000	$0	$0	$883,340
Vice President Eastern Australia	2010	$599,500	$270,000	$168,141	$0	$1,037,641
PJ Cleary	2011	$627,000	$205,000	N/A	$1,400	$833,400
Vice President Strategy and Corporate Development	2010[6]	$204,545	$82,000	N/A	$5,600	$292,145
MEJ Eames	2011	$662,908	$215,000	$0	$0	$877,908
Vice President Asia Pacific	2010	$638,150	$245,000	$218,720	$0	$1,101,870
MS Macfarlane[7]	2011	$642,185	$208,000	$0	$23,215	$873,400
President Santos GLNG	2010	$574,892	$235,000	$184,545	$5,600	$1,000,037
AJ Seaton	2011	$622,500	$235,000	N/A	$0	$857,500
Chief Financial Officer	2010[6]	N/A	N/A	N/A	N/A	N/A
RJ Wilkinson[7]	2011	$625,955	$182,000	$72,792	$0	$880,747
Vice President Queensland	2010	$589,200	$230,000	$369,007	$0	$1,188,207

1 Comprising base salary and superannuation, as set out in Table 4 and Table 8 of the Remuneration Report.

2 This figure represents the amount of the STI or bonus that will be paid to the executive for 2011 performance, as set out in Table 4 and Table 8 of the Remuneration Report. For further details of the Company's STI program, see pages 62 and 64 of the Remuneration Report.

3 In the previous year, this table referred to the value of the LTI which vested in early 2010 but which related to the 2007–2009 performance period. This meant that investors were reviewing the 2010 information against 2007–2009 performance. This year the Company has changed its practice and this table refers to the value of the 2009–2011 grant to enable investors to directly compare LTI remuneration for 2011 against 2009–2011 performance. So as not to create a 'gap' in disclosure, the value of the 2008–2010 grant is also shown in this column.

4 For the value of share-based payments calculated in accordance with the accounting standards, see Table 4 and Table 8 of the Remuneration Report. As a general principle, the Accounting Standards require the value of the LTI to be calculated at the time of grant, that is, before the SARs or Options vest (and even if, ultimately, they do not vest because the performance hurdles are not met). By contrast, this table values the LTI, in the case of SARs, only if the SARs vest and shares are issued to the executive, on the basis of their closing price on the date of vesting. And, in the case of Options, only if the Options vest and are exercised, resulting in the issue of shares to the executive, on the basis of the difference between the exercise price and the market price on the date of exercise of the Options.

The unaudited figures in this column represent:

- for 2011, the pre-tax vested value of service-based SARs which vested on 3 May 2011 at a closing share price of $14.96. Nil 2009–2011 performance SARs vested and no Options were exercised in 2011.
- for 2010, the pre-tax vested value of the 2008–2010 performance grant SARs which vested on 22 February 2011 based on the closing share price of $14.32, plus service-based SARs which vested on 1 July 2010 at a closing share price of $12.36. No Options were exercised in 2010. Note that the LTI values in the 2010 Remuneration Report are different because the 2010 report refers to the values of the 2007–2009 performance grant (which vested in early 2010).

They also include the value of an ex gratia payment of $1.31 per vested SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements.

5 Comprising ad hoc payments treated as remuneration, such as relocation allowance.

6 Mr Cleary joined the Company on 30 August 2010 and Mr Seaton was not a KMP until he became CFO on 1 January 2011.

7 Mr Macfarlane became a KMP when he was appointed President Santos GLNG on 20 May 2011 and Mr Wilkinson joined the Australian Petroleum Production and Exploration Association and ceased to be a KMP on 3 July 2011. Remuneration for the entire year is included for both Mr Macfarlane and Mr Wilkinson.

As mentioned previously, remuneration details calculated in accordance with statutory obligations and accounting standards are provided on pages 59–74 of the Remuneration Report.

2011 remuneration report

The Directors of Santos Limited present this Remuneration Report for the consolidated entity for the year ended 31 December 2011. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) (Corporations Act). The Remuneration Report forms part of the Directors' Report.

The Remuneration Report sets out remuneration information pertaining to the Company's Directors and Senior Executives who are the key management personnel of the consolidated entity for the purposes of the Corporations Act and the Accounting Standards. They include the five highest remunerated Company and Group executives for the 2011 financial year, and are listed in Table 1 below.

Table 1: Directors and Senior Executives

Executives

Name	Position
DJW Knox	Managing Director and Chief Executive Officer
JH Anderson	Vice President Western Australia and Northern Territory
JL Baulderstone	Vice President Eastern Australia
PJ Cleary	Vice President Strategy and Corporate Development
MEJ Eames	Vice President Asia Pacific
MS Macfarlane	President Santos GLNG[1]
AJ Seaton	Chief Financial Officer
RJ Wilkinson	Vice President Queensland[2]

Non-executives

Name	Position
PR Coates	Chairman
KC Borda	Director
KA Dean	Director
RA Franklin	Director
RM Harding	Director
JS Hemstritch	Director
GJW Martin	Director

1 Appointed 20 May 2011.

2 Ceased as Vice President Queensland on 3 July 2011 and joined the Australian Petroleum Production and Exploration Association.

GOVERNANCE OF REMUNERATION

People and Remuneration Committee

On behalf of the Board, the People and Remuneration Committee (Committee) oversees the remuneration of non-executive Directors, the CEO and key management personnel. The Committee is a committee of the Board and has no authority independent of the functions delegated to it by the Board, and is to report its findings and recommendations to the Board.

The Committee's Charter can be viewed or downloaded from www.santos.com. The Charter states that the Committee is to comprise at least three non-executive Directors, including the Chairman of the Board. In 2011, Committee members were:

GJW Martin	Committee Chair
PR Coates	Board Chairman
RM Harding	Director
JS Hemstritch	Director

Remuneration Report (continued)

The CEO attends Committee meetings, except parts in which his own arrangements are discussed. Other executives may also attend Committee meetings, providing management support to the Committee's activities.

Until recently, the Committee was known as the Remuneration Committee. However, the Committee's functions were expanded to include diversity, succession planning and talent development in addition to overseeing remuneration, and accordingly the Committee's name was recently changed to emphasise its broader role.

External advisers and remuneration consultants

In performing its role, the Board and the Committee directly commission and receive information, advice and recommendations from independent external advisers. In 2011, the Board reviewed the process for engaging and seeking advice from external advisers, and adopted a protocol to formally record a process which ensures remuneration recommendations in relation to KMP are free from undue influence by management. One of the key outcomes of this review was that the Chairman of the People and Remuneration Committee appoints and engages directly with remuneration consultants in relation to KMP remuneration matters.

During the year, the following remuneration consultants were engaged by the Committee in accordance with the Board-approved protocol to provide remuneration recommendations in respect of key management personnel.

Table 2: Remuneration consultants and external advisers engaged by the Remuneration Committee in 2011

Remuneration Consultant	Advice and/or services provided	Fees
PricewaterhouseCoopers	Benchmarking of CEO, executive and non-executive Director remuneration and review of executive remuneration practices	$129,000
	Other non-remuneration-related work including taxation, assurance and consulting fees	$4.4 m
External Advisers		
AON Hewitt	Benchmarking of key management personnel remuneration	

SENIOR EXECUTIVE REMUNERATION

Remuneration Policy

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

ATTRACTING AND RETAINING TALENTED AND QUALIFIED EXECUTIVES

- Remuneration levels are market-aligned against similar roles in comparable companies.
- Individual performance targets determine 30% of Senior Executives' short-term incentive awards.

ENCOURAGING EXECUTIVES TO STRIVE FOR SUPERIOR PERFORMANCE

- A significant component of remuneration is 'at risk' under short-term and long-term incentive plans. Value to the executive is dependent on meeting challenging targets.
- Consistently high-performing executives are also rewarded through higher base remuneration.
- The short-term incentive is aligned to key performance milestones including safety, environment, profitability, project delivery and staff development.

ALIGNING EXECUTIVE AND SHAREHOLDER INTERESTS

- The long-term incentive component of remuneration is delivered through equity instruments linked to Santos ordinary shares.
- Vesting of performance-based long-term incentive awards is contingent on Santos' performance relative to the ASX 100.
- Executives cannot hedge equity instruments that are unvested or subject to restrictions.

Linking remuneration structures to corporate objectives

Santos' executive remuneration structures support the Company's vision to be a leading energy company in Australia and Asia.

Fixed and variable components of the Senior Executives' remuneration are impacted by Company and individual performance against objectives and performance measures set within the Company's Short-term Incentive program. Company objectives and performance measures are cascaded from the Company's vision and strategy, which is:

- a strong Australian base business;
- LNG channels to market;
- strategic domestic gas in Eastern Australia and Western Australia; and
- focused Asian growth.

A balance between short-term and growth-related objectives is sought, and objectives typically include safety, environmental, financial, production, cost control, project delivery and reserve growth related performance measures.

Santos' remuneration practices have been designed to promote corporate objectives without encouraging irresponsible risk taking, particularly given the long-term nature of many of the Company's projects. Accordingly, short-term incentive targets are set carefully to encourage outcomes and behaviours that support long-term goals.

Longer-term performance measures associated with delivering superior returns to shareholders are linked to the Company's Long-term Incentive program which is described in more detail in this report.

Remuneration components and their relative weightings for the CEO and Senior Executive remuneration

Total remuneration for the Managing Director and Chief Executive Officer (CEO), Mr DJW Knox, and Senior Executives is made up of the following components:

- Base remuneration – comprising salary and superannuation;
- Short-term Incentive (STI) – an annual bonus linked to individual and Company performance in the achievement of strategic objectives; and
- Long-term Incentive (LTI) – equity grants tied to vesting conditions tested over a three-year period, some or all of which are dependent on Santos' performance relative to the ASX 100.

Santos' executive remuneration structure is consistent with the Company's 'reward performance' policy. The relative weightings of the three components comprising the CEO's and Senior Executives' total remuneration are provided in Table 3 below. These weightings are calculated on the basis that the 'at risk' components (STI and LTI) are at their maximum. A higher proportion of the CEO's total package is 'at risk' because he has the greatest scope to personally influence the Company's performance.

Table 3: Relative weightings of remuneration components[1]

	% of total remuneration (annualised)		
	Fixed remuneration	**Performance-based remuneration**	
		STI	**LTI**
CEO	33.33%	33.33%	33.33%
Senior Executives	49%	25%	26%

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

Remuneration Report (continued)

CEO REMUNERATION

The non-executive Directors directly engaged and received independent external advice on Mr Knox's remuneration package, which is benchmarked against the remuneration paid to CEOs of ASX 100 companies with a market capitalisation of 50% to 200% of Santos' market capitalisation, as well as an industry peer group. This advice was received and considered by the People and Remuneration Committee and the Board without management being present.

Base remuneration

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

Mr Knox's TFR increased from $2,125,000 to $2,250,000 in 2011. This increase followed a review by the Board which considered Mr Knox's performance, the performance of Santos and the remuneration provided to CEOs of companies in the comparator group.

Short-term Incentive

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

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

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

As outlined above, for the 2011 performance period, Mr Knox's STI targets were based on agreed objectives linked to Company performance targets and delivery of its strategic growth initiatives. The performance targets for 2011 included health and safety, environment, profitability, production, cost control, project delivery including LNG and other long-term growth projects, reserve growth and people targets including staff development.

Based on performance against these targets during the year, Mr Knox was awarded an STI payment of $1,552,500 or 69% of the maximum STI payable. The difference between actual STI paid and maximum STI will not be carried forward.

Long-term Incentive

At the Company's 2010 Annual General Meeting, shareholder approval was obtained for the CEO's 2011 LTI grant. Key terms of the grant are as follows:

- Mr Knox was granted 157,232 Share Acquisition Rights (SARs) with a face value of $2.25 million on 1 March 2011. For accounting purposes, the fair value of the SARs on the grant date was $12.08 per SAR, which represents an estimated maximum value of $1.899 million for the grant.
- Vesting of the grant is subject to the Company's Total Shareholder Return (TSR) relative to ASX 100 companies (as at 1 January 2011) over the period 1 January 2011 to 31 December 2013. Details of why relative TSR has been chosen as the Company's LTI performance hurdle and how it is assessed are set out in the Senior Executive remuneration LTI section of this report.
- Vesting will be in accordance with the following schedule:

TSR percentile ranking	% of grant vesting
< 50th percentile	0%
= 50th percentile	50%
51st to 75th percentile	Further 2% for each percentile improvement above the 50th percentile
76th to 100th percentile	100%

- There is no re-testing of the performance condition. The SARs will lapse if the performance condition is not met.

LTI grants in respect of the 2008, 2009 and 2010 financial years were made on 28 July 2008. These grants are subject to the Company's TSR performance (relative to ASX 100 companies) over a three-year performance period. Further details of these grants (including the applicable vesting schedule) are set out in the 2008, 2009 and 2010 Remuneration Reports. The 2008 performance grant was tested in 2011 and achieved 83% vesting (see Table 11 for more detail). The testing of the 2009 performance grant was completed in early 2012, with the Company's TSR ranking in the 39th percentile relative to the ASX 100, resulting in nil (0%) vesting. The 2010 grant is still in progress and will be subject to testing in early 2013.

2010 and 2011 remuneration details for Mr Knox

Table 4: 2010 and 2011 remuneration details for Mr Knox

Year	Short-term employee benefits			Post-employment	Share-based payments[1,2,5]	Termination	Other long-term benefits[3]	Total	% at risk
	Base salary	STI	Other	Super-annuation					
	$	$	$	$	$	$	$	$	
2011	2,234,513	1,552,500[4]	-	15,487	1,167,963	-	60,399	5,030,862	54%
2010	2,110,170	1,700,000	-	14,830	1,209,357	-	64,219	5,098,576	57%

1 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the value of equity-linked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated as remuneration is not related to or indicative of the actual benefit (if any) that Mr Knox may ultimately realise should the equity instruments vest. The value of equity-linked compensation was determined in accordance with AASB 2 Share-based Payment applying the Monte Carlo simulation method. Details of the assumptions underlying the valuation are set out in note 30 to the Financial Statements.

2 Of the total remuneration for Mr Knox for the year, 22% consisted of Share-based payments.

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

4 This amount represents the STI award for 2011, which will be paid in March 2012.

5 'Share-based payments' in 2010 and 2011 consists of the following equity-linked compensation and, as a consequence of the rights issue in May 2009, includes a cash-settled component payable only upon conversion of applicable SARs and options to shares. This matter is discussed further at note 30 to the Financial Statements.

	SARs	Options	Cash-settled
2011	$842,402	$283,793	$41,768
2010	$401,460	$669,227	$138,670

Service Agreement

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

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

The Company may terminate the CEO's employment without notice at any time for cause. No payment in lieu of notice, nor any payment in respect of STI or LTI is payable under the agreement in this circumstance.

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

Remuneration Report (continued)

SENIOR EXECUTIVE REMUNERATION

The non-executive Directors received independent external advice on the Senior Executives' remuneration packages, which were benchmarked against a core group of companies with Australian-based industry roles of similar size and scope to those in Santos.

Base remuneration

Salary and superannuation	Senior Executives are paid TFR, out of which the Company makes contributions into their superannuation funds of at least the minimum statutory amount. They may, if they wish, salary sacrifice part of their TFR for additional superannuation contributions or other benefits such as novated car leases.
Benefits	Senior Executives do not receive any benefits in addition to TFR.
Market alignment	Executive remuneration levels are market-aligned by comparison to similar roles in a core group of companies with Australian-based industry roles of similar size and scope to those in Santos.

Short-term Incentive

Frequency	STI is assessed and paid annually.
Maximum STI	50% of TFR.
Performance measures	To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 70% of their STI is based on Company performance. The remaining pool of 30% is distributed to executives based on their individual performance. A range of Company performance measures is used in order to drive balanced business performance. These measures include lagging indicators to assess the Company's past performance, as well as forward-looking indicators to ensure the Company is positioning itself effectively for future growth. The areas covered by the measures include safety, environment, profitability, production, cost control, project delivery including LNG and other growth projects, reserve growth and people targets including staff development. Individual performance is assessed against targets set within each executive's own area of responsibility and the delivery of key project milestones for those Senior Executives with responsibility for growth LNG businesses. Further details regarding the performance measures and the link to Santos' performance is set out in Table 10 on page 70.
Assessment of performance	Individual performance is assessed by the CEO. Company performance is assessed by the People and Remuneration Committee. Each metric is assessed against an agreed target and assigned a percentage weighting of the total scorecard. The actual versus target performance of each metric is assigned a score between 0% and 100%. The weightings are then applied to these scores to derive a rating for that metric. The sum of each metric's rating is used to determine the Company's overall performance score. The Board believes the above methods of assessment are rigorous and transparent and provide a balanced assessment of the executive's performance.
Payment method	Cash.
STI awarded in 2011	Company performance against the measures in 2011 resulted in an average STI of 69% of maximum payable to all eligible employees. 2011 STI awards made to individual Senior Executives ranged from 57% to 76% of maximum. The difference between actual STI paid and maximum STI will not be carried forward.

Long-term Incentive

During the year, the Company made equity grants to each of its Senior Executives as the LTI component of their remuneration for 2011. The actual grants comprised:

- a performance-based component, equal to 71% of the total grant value (Performance Award); and
- a service-based component, equal to 29% of the total grant value (Deferred Award).

All LTI grants were delivered in the form of SARs, i.e. a conditional entitlement to a fully paid ordinary share at zero price, subject to satisfaction of vesting conditions. Nothing is payable by executives if and when SARs vest.

LTI grants all have a three-year performance or service period. This period has been chosen as an appropriate balance between providing a genuine and foreseeable incentive to Senior Executives and fostering a long-term view of shareholder interests.

The Performance Awards have a TSR performance condition which is tested by an independent third party and reviewed by the Board prior to vesting. The Board believes this method of assessment is rigorous and provides an appropriate assessment of the Company's performance against the performance condition.

Vesting details of the Performance and the Deferred Awards are summarised in Table 5. In addition, Table 6 contains details of the number and value of SARs granted to Senior Executives in 2011 under the Performance and the Deferred Awards.

Table 5: Performance Award and Deferred Award[1] vesting details

Vesting period	1 January 2011 to 31 December 2013.
Vesting condition	Vesting of this grant is based on relative TSR against ASX 100 companies as at 1 January 2011. The Board believes the chosen performance hurdle effectively aligns the interests of the individual executives with that of the Company's shareholders, as TSR is a fair measure of shareholder returns, and the ASX 100 represents the companies in which most of the Company's shareholders could invest as an alternative to Santos.
Vesting schedule	Vesting commences when Santos' TSR performance equals the median for ASX 100 companies, with one-third of the total grant vesting at this level of performance. A further 1.33% of the grant vests for each percentile improvement in Santos' TSR ranking over the 50th percentile. Consistent with its remuneration policy, the Board believes it is appropriate to provide executives with an additional incentive to strive for exceptional performance, with full vesting occurring only if Santos is the top-performing ASX 100 company based on its TSR performance over the vesting period. There is no re-testing of the performance condition if it is not satisfied.

Santos TSR percentile ranking	% of grant vesting
< 50th percentile	0%
= 50th percentile	33.33%
51st to 99th percentile	A further 1.33% for each percentile improvement
100th percentile	100%

Vesting	Upon vesting of SARs, shares will automatically be allocated to the executive. Shares will be allocated without restrictions unless the executive has elected an extended restriction period. Restricted shares cannot be traded until the earlier of five/seven years from the grant date (depending on the period elected by the executive) or cessation of employment, whichever is earlier.
Expiry/lapse	SARs that do not vest upon testing of the performance condition will lapse.
Cessation/change of control	Upon cessation of employment, SARs which have not already vested will, in general, lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in other circumstances approved by the Board, then a proportion of the SARs may vest. Where there is a change in control, the Board may determine whether, and the extent to which, SARs may vest.
Hedging policy	Consistent with the objective of creating a meaningful alignment of interests, Directors and Senior Executives are not permitted to hedge their shareholdings or LTIs unless those securities have fully vested and are no longer subject to restrictions. Breaches of this policy will be subject to appropriate sanctions, which could include disciplinary action or termination of employment.

1 Deferred Awards are granted on the same terms as Performance Awards, except that instead of a TSR hurdle they are subject to a continuous service requirement from 2 March 2011 to 1 March 2014 that is intended to encourage retention.

Remuneration Report (continued)

Table 6: SARs granted to Senior Executives in 2011[1]

Executive	Grant name	Number of SARs granted	Maximum value of grant[2]
JH Anderson	Performance Award	17,794	$182,033
	Deferred Award	6,159	$93,925
JL Baulderstone	Performance Award	18,882	$193,163
	Deferred Award	6,621	$100,970
PJ Cleary	Performance Award[3]	18,220	$186,391
	Deferred Award	5,864	$89,426
MEJ Eames	Performance Award	19,175	$196,160
	Deferred Award	5,840	$89,060
MS Macfarlane[3]	Performance Award	-	-
	Deferred Award	-	-
AJ Seaton	Performance Award	17,762	$181,705
	Deferred Award	5,167	$78,797
RJ Wilkinson[4]	Performance Award	18,189	$186,073
	Deferred Award	5,587	$85,202

1 The grants made to the Senior Executives during the year constitute their full LTI awards for the 2011 financial year. As the SARs only vest on satisfaction of service and/or performance conditions to be tested in future financial years, none of the SARs detailed above were forfeited during the year.

2 Maximum value represents the fair value of the Performance Award and Deferred Award as at their grant date (being 1 March 2011), determined in accordance with AASB 2 Share-based Payment. The fair value per instrument at the grant date was:

Performance Award	SARs – $10.23
Deferred Award	SARs – $15.25

Monte Carlo simulation was used to determine the value of the SARs and options granted. Details of the assumptions underlying the valuation are set out in note 30 to the Financial Statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

3 No grants were made to Mr Macfarlane during the period after he commenced to be in a key management personnel role on 20 May 2011.

4 Grants to Mr Wilkinson are for the period until 3 July 2011, after which time he ceased to be in a key management personnel role.

LTI grants to Senior Executives

The following LTI grants were still in progress or were tested during 2011:

Table 7: LTI grants to Senior Executives

Grant year	Grant type	Vesting condition(s)	Performance/vesting period	Status
2008	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2008 to 31 December 2010	Testing completed. Resulted in 83% of the grant vesting in early 2011.
	Deferred Award	Continuous service	3 May 2008 to 2 May 2011	Vested in full to Senior Executives who met the continuous service condition.
2009	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2009 to 31 December 2011	Testing completed. Resulted in 0% of the grant vesting on 15 February 2012.
	Deferred Award	Continuous service	2 March 2009 to 1 March 2012	In progress.
2010	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2010 to 31 December 2012	In progress.
	Deferred Award	Continuous service	2 March 2010 to 1 March 2013[1]	In progress.
2011	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2011 to 31 December 2013	In progress.
	Deferred Award	Continuous service	2 March 2011 to 1 March 2014	In progress.

1 As Mr Cleary joined the Company on 30 August 2010, he received his 2010 grant at a later date than the other Senior Executives, the performance/vesting period for which is 1 September 2010 to 31 August 2013.

Changes to long-term incentives commencing 2012

In 2011, the Board engaged PricewaterhouseCoopers to conduct a review of the Company's Senior Executive LTI arrangements. The changes to the LTI program approved by the Board, to commence in the 2012 Senior Executive LTI grant, include:

- 'deferred rights', that is, LTI awards that are subject to a condition consisting only of a period of service, will no longer be granted as part of the regular LTI program. Hence, future annual LTI grants to the Senior Executives will be solely performance-based, ensuring further alignment with the interests of shareholders;
- vesting will be in accordance with the following schedule, which is the same as the schedule for the CEO's LTI grant and aligns more closely with the vesting schedule used by a majority of ASX 50 companies which have a relative total shareholder return performance hurdle:

TSR percentile ranking	% of grant vesting
< 50th percentile	0%
= 50th percentile	50%
51st to 75th percentile	Further 2% for each percentile improvement above the 50th percentile
76th to 100th percentile	100%

- the number of SARs awarded will be determined according to their fair value instead of a volume weighted average price.

Full details of the 2012 LTI grant will be provided in the 2012 Remuneration Report.

Service Agreements – Senior Executives

The Company has entered into service agreements with the Senior Executives. The service agreements are ongoing until termination by the Company upon giving 12 months' notice or the Senior Executive upon giving six months' notice. In a Company-initiated termination, the Company may make a payment in lieu of notice equivalent to the TFR the executive would have received over the notice period. All Senior Executives' service agreements may be terminated immediately for cause, whereupon no payments in lieu of notice or other termination payments are payable under the agreement.

Remuneration Report (continued)

2011 Senior Executive remuneration details

Table 8: 2011 Senior Executive remuneration details

Executive	Short-term employee benefits			Post-employment	Share-based payments (LTI)[1,2,3]	Termination	Other long-term benefits[4]	Total	% at risk
	Base salary $	STI[5] $	Other $	Super-annuation $	$	$	$	$	$
JH Anderson	594,814	235,000	-	15,487	220,739	-	29,973	1,096,103	42%
JL Baulderstone	632,853	235,000	-	15,487	308,607	-	17,635	1,209,582	45%
PJ Cleary	601,059	205,000	1,400	25,941	129,595	-	10,670	973,665	34%
MEJ Eames	647,421	215,000	-	15,487	241,770	-	31,522	1,151,200	40%
MS Macfarlane[6]	389,220	128,789	9,084	9,615	157,791	-	22,046	716,545	40%
AJ Seaton	607,013	235,000	-	15,487	177,405	-	39,773	1,074,678	38%
RJ Wilkinson[7]	283,401	91,748	-	27,604	116,810	-	10,609	530,172	39%

1 In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the value of equity-linked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated as remuneration is not related to or indicative of the actual benefit (if any) that the Senior Executives may ultimately realise should the equity instruments vest. The value of equity-linked compensation was determined in accordance with AASB 2 Share-based Payment applying the Monte Carlo simulation method. Details of the assumptions underlying the valuation are set out in note 30 to the Financial Statements.

2 The percentage of each Senior Executive's total remuneration for the year that consisted of Share-based payments is as follows:

JH Anderson	20%	MS Macfarlane	22%
JL Baulderstone	25%	AJ Seaton	16%
PJ Cleary	13%	RJ Wilkinson	22%
MEJ Eames	21%		

3 'Share-based payments' consists of the following equity linked to compensation and, as a consequence of the rights issue in May 2009, now includes a cash-settled component payable only upon conversion of applicable SARs and options to shares. This matter is discussed further at note 30 to the Financial Statements.

Executive	SARs	Options	Cash-settled
JH Anderson	$207,671	$8,180	$4,888
JL Baulderstone	$295,981	$7,487	$5,139
PJ Cleary	$129,595	$ -	$ -
MEJ Eames	$226,535	$9,640	$5,595
MS Macfarlane	$155,481	$ -	$2,310
AJ Seaton	$172,187	$ -	$5,218
RJ Wilkinson	$114,054	$ -	$2,756

4 'Other long-term benefits' represents the movement in the Senior Executive's long service leave entitlements measured as the present value of the estimated future cash outflows to be made in respect of the Senior Executive's service between the respective reporting dates.

5 This amount represents the STI award made for 2011, which will be paid in March 2012.

6 From 20 May 2011, when Mr Macfarlane was appointed President Santos GLNG, to 31 December 2011.

7 From 1 January 2011 to 3 July 2011. Mr Wilkinson joined the Australian Petroleum Production and Exploration Association on 4 July 2011.

2010 Senior Executive remuneration details

Table 9: 2010 Senior Executive remuneration details

Executive	Short-term employee benefits			Post-employment	Share-based payments (LTI)[1,2]	Termination	Other long-term benefits[3]	Total	% at risk
	Base salary $	STI[4] $	Other $	Super-annuation $	$	$	$	$	$
JH Anderson	534,418	250,000	-	16,080	240,417	-	48,749	1,089,664	45%
JL Baulderstone	584,670	270,000	-	14,830	299,502	-	16,736	1,185,738	48%
PJ Cleary[5]	185,109	82,000	5,600	19,436	5,385	-	-	297,530	29%
MEJ Eames	623,320	245,000	-	14,830	277,943	-	37,567	1,198,660	44%
MS Macfarlane[6]	354,301	155,164	-	9,648	160,723	-	48,020	727,856	43%
PC Wasow	1,011,420	-	-	14,830	142,398[7]	517,500[8]	54,725	1,740,873	8%
RJ Wilkinson	536,597	230,000	1,400	52,603	231,849	-	44,165	1,096,614	42%

1 The percentage of each Senior Executive's total remuneration for the year that consisted of Share-based payments is as follows:

JH Anderson	20%	MS Macfarlane	20%
JL Baulderstone	24%	PC Wasow	7%
PJ Cleary	2%	RJ Wilkinson	20%
MEJ Eames	21%		

2 'Share-based payments' consists of the following equity-linked compensation and, as a consequence of the rights issue in May 2009, includes a cash-settled component payable only upon conversion of applicable SARs and options to shares. This matter is discussed further at note 30 to the Financial Statements.

Executive	SARs	Options	Cash-settled
JH Anderson	$131,597	$87,038	$21,782
JL Baulderstone	$199,251	$79,662	$20,589
PJ Cleary	$5,385	$ -	$ -
MEJ Eames	$149,841	$102,577	$25,525
MS Macfarlane	$88,860	$56,599	$15,264
PC Wasow	$128,856	$ -	$13,542
RJ Wilkinson	$217,886	$ -	$13,963

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

4 This amount represents the STI award made for 2010, which was paid in March 2011.

5 Mr Cleary joined the Company on 30 August 2010.

6 Mr Macfarlane's figures are for the period 1 January 2010 to 29 August 2010, after which he was seconded to GLNG Operations Pty Ltd and ceased to be in a key management personnel role.

7 In accordance with the exercise of the Board's discretion under the rules of the Santos Employee Share Purchase Plan, Mr Wasow's unvested LTI awards were tested as at the date of cessation of employment, resulting in the vesting of 27,272 SARs and the forfeiture of 70,761 SARs.

8 This amount is as a consequence of Mr Wasow's retirement on 31 December 2010.

Remuneration Report (continued)

LINK BETWEEN COMPANY PERFORMANCE AND SENIOR EXECUTIVE REMUNERATION OUTCOMES

Key performance indicators

Table 10 sets out the Group's performance over the past five years in respect of several key financial and non-financial indicators and the size of the STI pool available to Senior Executives over this period.

Table 10: Key indicators of Company performance 2007–2011

Key indicator	2007	2008	2009	2010	2011
Safety (total recordable case frequency rate)	5.3	5.8	3.6	3.3	**3.3**
Production (mmboe)	59.1	54.4	54.4	49.9	**47.2**
Proven plus probable reserves – 2P	879	1,013	1,441	1,445	**1,364**
Reserve replacement rate – 2P organic (%)	198	517	965	330	**173**
Netback (A$/boe)	33	36	23	23	**28**
Net profit after tax $m	359	1,650	434	500	**753**
Earnings per share (cents)	55	273	52	59.7	**84.8**
Dividends per ordinary share (cents)	40	42	42	42	**30**
Size of STI pool (% of maximum)	80	80	80	78	**69**

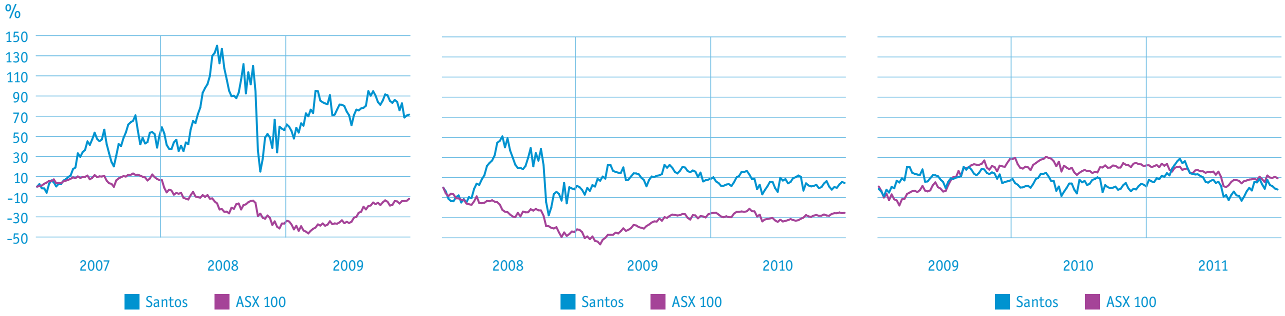
Company performance in 2011 resulted in an average STI award of 69% of the maximum payable to all eligible employees. In addition to STI scorecard metrics, other achievements in 2011 included:

- the continuing focus on health and safety, with the total recordable case frequency rate (TRCFR) of 3.3 in 2011 being the lowest in the Company's history;
- sanctioning the two-train Gladstone LNG project early in 2011, and achieving start-up on budget and on schedule in several other growth projects across Santos' area of operations that will grow production over the next few years, in particular Reindeer, Halyard and Chim Sáo;
- securing $1.2 billion of Export Credit Agency (ECA) supported senior debt facilities as part of the funding strategy announced in late 2010, providing the Company with additional liquidity and flexibility in the funding of its growth plans;
- completion of the acquisition of Eastern Star Gas Limited, together with the associated sell-down of 20% of the permits to TRUenergy, giving the Company the largest natural gas position in NSW;
- the sale of Evans Shoal for up to US$350 million, continuing the Company's strategy of monetising its significant contingent resource base.

The following graphs show the relationship over the past five years between the Company's TSR and the ASX 100 performance and the Company's share price growth, being two key indicators of long-term Company performance, and the percentage of LTI grants to Senior Executives that vested. The graphs demonstrate how the level of Senior Executive reward derived from their LTI grants is dependent upon the delivery of sustained above-average returns to shareholders.

TSR and unadjusted share price 2007–2011

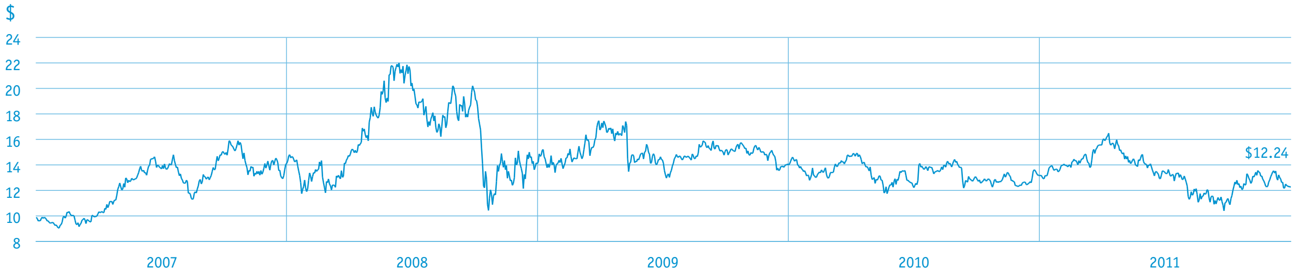
TSR OF SANTOS AND ASX 100



LTI vesting for 2007–2009 performance period = 100%	LTI vesting for 2008–2010 performance period = 83%[1]	LTI vesting for 2009–2011 performance period = 0%
TSR ranking: 88th percentile	TSR ranking: 87th percentile	TSR ranking: 39th percentile

1 From 2008 the performance award differed from previous awards in that the 2008 award consisted of a larger grant and was structured so that 33.33% of the grant vested where Santos' TSR ranked at the 50th percentile and a further 1.33% of the grant vested for each percentile improvement in Santos' TSR ranking above the 50th percentile, as detailed in the vesting schedule in Table 5. For the 2007 awards 50% of the grant vested where Santos' TSR ranked at the 50th percentile and a further 2% of the grant vested for each percentile improvement in Santos' TSR ranking above the 50th percentile.

SANTOS' UNADJUSTED SHARE PRICE 2007–2011



The TSR growth shown above incorporates dividends and capital returns the Company made to shareholders during the past five years. Dividends paid by the Company in the past five years are as follows:

(Dividends per ordinary share)

2007	$0.40
2008	$0.42
2009	$0.42
2010	$0.42
2011	$0.30

The following capital returns were made in the 2007–2011 period:

- On 30 June 2007, the Company bought back 24,671,275 fully paid ordinary shares, representing 4.10% of fully paid ordinary shares on issue at that date, at a price of $12.16 per share.
- On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid shares on issue at that date, at a price of $16.23 per share.
- On 30 September 2009, the Company redeemed the 6,000,000 Franked Unsecured Equity Listed Securities (FUELS) on issue at the price of $100 each.

Remuneration Report (continued)

Senior Executive remuneration outcomes in 2011

The value derived by Senior Executives during 2011 in respect of LTIs granted in previous financial years (i.e. prior-year awards which vested and/or were exercised during 2011) is set out in Table 11 below. Table 11 shows vested and forfeited/lapsed SARs and options. No options were exercised during 2011 by the Senior Executives.

Table 11: Senior Executives' LTI remuneration outcomes in 2011

	Vested		Lapsed	
	Number	Value[1]	Number	Value[1]
DJW Knox				
SARs	-	-	(50,403)	($682,961)
Options	21,837	($9,390)	(131,976)	($848,606)
JH Anderson				
SARs	-	-	(13,359)	($181,014)
Options	11,247	($4,836)	-	-
JL Baulderstone				
SARs	-	-	(13,450)	($182,248)
Options	10,294	($4,426)	-	-
PJ Cleary				
SARs	-	-	-	-
Options	-	-	-	-
MEJ Eames				
SARs	-	-	(15,744)	($213,331)
Options	13,255	($5,700)	-	-
MS Macfarlane[2]				
SARs	-	-	(13,481)	($182,668)
Options	-	-	-	-
AJ Seaton				
SARs	-	-	(5,982)	($81,056)
Options	9,520	($4,094)	-	-
RJ Wilkinson[3]				
SARs	4,474	$72,792	-	-
Options	-	-	-	-
Total SARs	**4,474**	**$72,792**	**(112,419)**	**($1,523,277)**
Total Options	**66,153**	**($28,446)**	**(131,976)**	**($848,606)**

1 In respect of SARs for senior executives other than Mr Knox, these figures show the value of performance-based SARs in respect of the performance period ended 31 December 2011 at the closing share price on that date of $12.24, for which vesting was effected by the Board on 15 February 2012, plus service-based SARs which vested on 3 May 2011 at a closing share price of $14.96. This figure also includes the value of an ex gratia payment of $1.31 per vested SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements. In respect of options, these figures show the value of options (for which vesting was effected by the Board on 15 February 2011) based on the difference between the closing share price of $12.24 on the last date of the performance period (31 December 2011) and the exercise price of $14.81, plus the value of options based on the difference between the closing share price of $14.96 on the date of vesting (3 May 2011) and the exercise price of $15.39. No ex gratia payment is applicable to vested options as this is paid only upon exercise of the vested options, but the forfeited ex gratia payment amount is included in the forfeited/lapsed options value. For Mr Knox, the figures also include the value of options (for which vesting was effected by the Board on 15 February 2011) based on the difference between the closing share price of $12.24 on the date of the end of the performance period (31 December 2011) and the exercise price of $17.36.

2 Remuneration disclosed for Mr Macfarlane is for the period after he commenced to be in a key management personnel role on 20 May 2011.

3 Remuneration disclosed for Mr Wilkinson is until 3 July 2011, after which time he ceased to be in a key management personnel role.

NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration policy

The diagram below shows the key objectives of Santos' non-executive Director remuneration policy and how these are implemented through the Company's remuneration framework.

SECURING AND RETAINING TALENTED, QUALIFIED DIRECTORS

Fee levels are set with regard to:

- time commitment and workload;
- the risk and responsibility attached to the role;
- experience and expertise; and
- market benchmarking.

PROMOTING INDEPENDENCE AND IMPARTIALITY

- Fee levels do not vary according to the performance of the Company or individual Director performance from year to year.
- Santos' market capitalisation is considered in setting the aggregate fee pool and in benchmarking of Board and Committee fees.

ALIGNING DIRECTOR AND SHAREHOLDER INTERESTS

- Santos encourages its non-executive Directors to build a long-term stake in the Company.
- Non-executive Directors can acquire shares through acquisition on market during trading windows.

Remuneration arrangements

Maximum aggregate amount

Total non-executive Directors' fees paid in a year, including Board Committee fees, must not exceed the amount that was approved by shareholders at the Annual General Meeting held on 2 May 2008, being $2,100,000. Directors may also be paid additional fees for special duties or exertions, and are entitled to be reimbursed for all business-related expenses. These payments are not included in the maximum aggregate amount approved by shareholders. No additional fees were paid during the year.

2011 non-executive Directors' fees

In September 2011 the Board engaged PricewaterhouseCoopers to conduct an external review of non-executive Directors' fees, which were last adjusted on 1 October 2010.

The review included benchmarking comparisons of non-executive Directors' fees against peer group companies with a market capitalisation between 50% and 200% of the Company and consideration of the dedication of time, commitment and responsibilities required from the Directors to discharge their duties. Although the Company was positioned in the 75th percentile of the peer group based on market capitalisation, the fees paid to the non-executive Directors were below the median fees paid by the peer group companies. Recommendations arising from this independent review resulted in approval by the Board of a revised scale of payment, effective from 1 October 2011, to bring the non-executive Directors' fees closer to the median of the comparator group. Directors' previous and revised fee rates are provided in Table 12 below.

Table 12: Non-executive Directors' fees per annum

	Annual fees[1]			
	Board		Committees	
	Chair[2]	Member	Chair	Member
Previous fee	$456,750	$152,250	$22,000–$40,000	$10,000–$20,000
Current fee (after 1 October 2011)	$480,725	$160,725	$22,000–$42,000	$10,000–$21,000

1 Fees are shown exclusive of superannuation.

2 The Chairman of the Board does not receive any additional fees for serving on or chairing any Board Committee.

Remuneration Report (continued)

Superannuation

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

Retirement benefits

Non-executive Directors are not entitled to retirement benefits (other than mandatory statutory entitlements).

Details of remuneration paid to non-executive Directors

Details of the fees and other benefits paid to non-executive Directors during 2011 are set out in Table 13 below.

Table 13: 2010 and 2011 Non-executive Director remuneration details

Director	Year	Short-term benefits			Retirement benefits	Share-based payments	Total
		Directors' fees (incl. Committee fees)[1] $	Fees for special duties or exertions $	Other $	Superannuation contributions[2] $	NED Share Plan $	$
KC Borda	2011	186,369	-	-	15,487	-	201,856
	2010	166,902	-	-	14,646	-	181,548
PR Coates	2011	462,744	-	-	15,487	-	478,231
	2010	440,438	-	-	14,830	-	455,268
KA Dean	2011	209,869[3]	-	-	15,487	-	225,356
	2010	141,797	-	-	14,830	47,266	203,893
RA Franklin	2011	184,119	-	-	736	-	184,855
	2010	160,688	-	-	952	-	161,640
RM Harding	2011	221,869	-	-	15,487	-	237,356
	2010	201,625	-	-	14,830	-	216,455
JS Hemstritch	2011	189,869	-	-	15,487	-	205,356
	2010	152,701[4]	-	-	13,061	-	165,762
GJW Martin	2011	193,369	-	-	15,487	-	208,856
	2010	173,286	-	-	14,788	-	188,074

1 Refer to Table 12 above for details of annual Directors' fees and Committee fees.

2 Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin only in relation to days worked in Australia.

3 Mr Dean did not participate in the NED Share Plan in 2011 and accordingly fees compared to 2010 do not include a salary sacrifice component. See note 30 to the Financial Statements for further details about the NED Share Plan, which was suspended in 2011.

4 Ms Hemstritch was appointed 16 February 2010.

INDEMNIFICATION

Rule 61 of the Company's Constitution provides that the Company indemnifies, on a full indemnity basis and to the full extent permitted by law, officers of the Company for all losses or liabilities incurred by the person as an officer of the Company, a related body corporate or trustee of a Company-sponsored superannuation fund. Rule 61 does not indemnify an officer for any liability involving a lack of good faith.

Rule 61 also permits the Company to purchase and maintain a Directors' and Officers' insurance policy. No indemnity has been granted to an auditor of the Company in their capacity as auditor of the Company.

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain senior executives of the consolidated entity. The indemnities operate to the full extent permitted by law and are not subject to a monetary limit. Santos is not aware of any liability having arisen, and no claims have been made, during or since the financial year ending 31 December 2011 under the Deeds of Indemnity.

During the year, the Company paid premiums in respect of Directors' and Officers' Liability and Legal Expenses insurance contracts for the year ending 31 December 2011 and since the end of the year the Company has paid, or agreed to pay, premiums in respect of such contracts for the year ending 31 December 2012. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company and its controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

NON-AUDIT SERVICES

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

Taxation services	$99,000
Assurance services	$515,000
Other services	$19,000

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

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 162 of the Financial Report.

ROUNDING

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

This report is made out on 17 February 2012 in accordance with a resolution of the Directors.

Director

Director

Consolidated Income Statement
for the year ended 31 December 2011

	Note	**2011 $million**	2010 $million
Product sales	3	**2,530**	2,228
Cost of sales	4	**(1,562)**	(1,462)
Gross profit		**968**	766
Other revenue	3	**98**	78
Other income	3	**545**	344
Other expenses	4	**(411)**	(400)
Finance income	5	**190**	140
Finance expenses	5	**(99)**	(133)
Share of net losses of an associate	26	**(9)**	(2)
Profit before tax		**1,282**	793
Income tax expense	6	**(440)**	(244)
Royalty-related taxation expense	6	**(91)**	(51)
Total taxation expense		**(531)**	(295)
Net profit for the period		**751**	498
Net profit/(loss) attributable to:			
Owners of Santos Limited		**753**	500
Non-controlling interests		**(2)**	(2)
		751	498
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic earnings per share	23	**84.8**	59.7
Diluted earnings per share	23	**84.5**	59.5
Dividends per share ($)			
Paid during the period	22	**0.30**	0.42
Declared in respect of the period	22	**0.30**	0.37

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

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	Note	2011 $million	2010 $million
Net profit for the period		**751**	498
Other comprehensive income, net of tax:			
Exchange gain/(loss) on translation of foreign operations	21	**6**	(141)
(Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations		**(20)**	133
Tax effect	6	**6**	(40)
	21	**(14)**	93
Decrease in fair value of available-for-sale financial assets		**–**	(1)
Impairment of available-for-sale financial assets reclassified to the income statement		**4**	–
Tax effect	6	**(1)**	–
	21	**3**	(1)
(Loss)/gain on derivatives designated as cash flow hedges		**(23)**	3
Tax effect	6	**7**	(1)
	21	**(16)**	2
Actuarial loss on the defined benefit plan	29	**(14)**	(1)
Tax effect	6	**4**	–
	21	**(10)**	(1)
Other comprehensive income/(loss), net of tax		**(31)**	(48)
Total comprehensive income		**720**	450
Total comprehensive income/(loss) attributable to:			
Owners of Santos Limited		**722**	452
Non-controlling interests		**(2)**	(2)
		720	450

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

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	2011 $million	2010 $million
Current assets			
Cash and cash equivalents	7	**3,332**	4,319
Trade and other receivables	8	**899**	594
Prepayments		**200**	71
Inventories	9	**283**	261
Other financial assets	10	**14**	4
Tax receivable		**24**	22
Total current assets		**4,752**	5,271
Non-current assets			
Receivables	8	**25**	10
Prepayments		**16**	11
Investment in an associate	26	**–**	208
Other financial assets	10	**184**	138
Exploration and evaluation assets	11	**1,386**	962
Oil and gas assets	12	**9,068**	6,914
Other land, buildings, plant and equipment	13	**241**	201
Deferred tax assets	15	**142**	54
Total non-current assets		**11,062**	8,498
Total assets		**15,814**	13,769
Current liabilities			
Trade and other payables	16	**1,005**	754
Deferred income		**104**	96
Interest-bearing loans and borrowings	17	**169**	370
Current tax liabilities		**109**	201
Provisions	18	**135**	99
Other financial liabilities	19	**2**	95
Total current liabilities		**1,524**	1,615
Non-current liabilities			
Deferred income		**3**	13
Interest-bearing loans and borrowings	17	**3,092**	2,787
Deferred tax liabilities	15	**977**	843
Provisions	18	**1,173**	891
Other financial liabilities	19	**82**	17
Total non-current liabilities		**5,327**	4,551
Total liabilities		**6,851**	6,166
Net assets		**8,963**	7,603
Equity			
Issued capital	20	**6,392**	5,514
Reserves	21	**(351)**	(330)
Retained earnings	21	**2,926**	2,421
Equity attributable to owners of Santos Limited		**8,967**	7,605
Non-controlling interests		**(4)**	(2)
Total equity		**8,963**	7,603

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Note	2011 $million	2010 $million
Cash flows from operating activities			
Receipts from customers		**2,685**	2,399
Interest received		**208**	106
Overriding royalties received		**9**	10
Insurance proceeds received		**–**	7
Pipeline tariffs and other receipts		**165**	102
Income taxes refunded		**43**	89
Royalty-related taxation refunded		**14**	5
Payments to suppliers and employees		**(1,212)**	(1,076)
Exploration and evaluation – seismic and studies		**(113)**	(90)
Royalty and excise paid		**(51)**	(50)
Borrowing costs paid		**(81)**	(67)
Income taxes paid		**(243)**	(18)
Royalty-related taxation paid		**(171)**	(144)
Net cash provided by operating activities	28	**1,253**	1,273
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		**(171)**	(156)
Oil and gas assets		**(2,583)**	(1,518)
Other land, buildings, plant and equipment		**(48)**	(26)
Acquisitions of oil and gas assets		**(18)**	–
Acquisition of controlled entities, net of cash received		**3**	(4)
Investment in an associate		**–**	(33)
Restoration		**(42)**	(13)
Receipts from loans to related entities		**3**	3
Proceeds from:			
Disposal of exploration and evaluation assets	3	**653**	261
Disposal of oil and gas assets	3	**444**	558
Disposal of other land, buildings, plant and equipment	3	**3**	–
Income taxes paid on disposal of non-current assets		**(248)**	(67)
Borrowing costs paid		**(132)**	(6)
Other investing activities		**(6)**	(16)
Net cash used in investing activities		**(2,142)**	(1,017)
Cash flows from financing activities			
Dividends paid		**(155)**	(316)
Drawdown of borrowings		**354**	1,868
Repayments of borrowings		**(385)**	(272)
Proceeds from issues of ordinary shares		**96**	490
Proceeds from maturity of term deposits		**–**	60
Net cash (used in)/provided by financing activities		**(90)**	1,830
Net (decrease)/increase in cash and cash equivalents		**(979)**	2,086
Cash and cash equivalents at the beginning of the period		**4,319**	2,240
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(8)**	(7)
Cash and cash equivalents at the end of the period	7	**3,332**	4,319

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

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Note	Issued capital $million	Translation reserve $million	Fair value reserve $million	Hedging reserve $million	Retained earnings $million	Total equity $million	Non-controlling interests $million	Total equity $million
		Equity attributable to owners of Santos Limited							
Balance at 1 January 2010		4,987	(281)	(2)	–	2,263	6,967	–	6,967
Net profit for the period		–	–	–	–	500	500	(2)	498
Other comprehensive income/(loss) for the period		–	(48)	(1)	2	(1)	(48)	–	(48)
Total comprehensive income/(loss) for the period		–	(48)	(1)	2	499	452	(2)	450
Transactions with owners in their capacity as owners:									
Institutional placement	20	493	–	–	–	–	493	–	493
Shares issued	20	34	–	–	–	–	34	–	34
Dividends to shareholders	22	–	–	–	–	(350)	(350)	–	(350)
Share-based payment transactions	30	–	–	–	–	9	9	–	9
Balance at 31 December 2010		5,514	(329)	(3)	2	2,421	7,605	(2)	7,603
Balance at 1 January 2011		**5,514**	**(329)**	**(3)**	**2**	**2,421**	**7,605**	**(2)**	**7,603**
Profit for the period		**–**	**–**	**–**	**–**	**753**	**753**	**(2)**	**751**
Other comprehensive income/(loss) for the period		**–**	**(8)**	**3**	**(16)**	**(10)**	**(31)**	**–**	**(31)**
Total comprehensive income/(loss) for the period		**–**	**(8)**	**3**	**(16)**	**743**	**722**	**(2)**	**720**
Transactions with owners in their capacity as owners:									
Issue of shares related to acquisition	20	**683**	**–**	**–**	**–**	**–**	**683**	**–**	**683**
Shares issued	20	**195**	**–**	**–**	**–**	**–**	**195**	**–**	**195**
Dividends to shareholders	22	**–**	**–**	**–**	**–**	**(263)**	**(263)**	**–**	**(263)**
Share-based payment transactions	30	**–**	**–**	**–**	**–**	**25**	**25**	**–**	**25**
Balance at 31 December 2011		**6,392**	**(337)**	**–**	**(14)**	**2,926**	**8,967**	**(4)**	**8,963**

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The financial report of Santos Limited ("the Company") for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 17 February 2012.

The consolidated financial report of the Company for the year ended 31 December 2011 comprises the Company and its controlled entities ("the Group"). Santos Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") and is the ultimate parent entity in the Group. The nature of the operations and principal activities of the Group are described in the Directors' Report.

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

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

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

Adoption of new accounting standards and interpretations

The following standards and interpretations and all consequential amendments, which became applicable from 1 January 2011, have been adopted by the Group. These standards and interpretations have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the financial report:

- AASB 124 *Related Party Disclosures*;
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*;
- AASB 2009-12 *Amendments to Australian Accounting Standards*;
- AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*;
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*;
- AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters*;
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*;
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*;
- AASB 2010-5 *Amendments to Australian Accounting Standards*; and
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*.

The Group has made a formal written election to early adopt the following new and amended Australian Accounting Standards as of 1 January 2011:

- AASB 1054 *Australian Additional Disclosures*; and
- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*.

These standards have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the financial report.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2011 are outlined in the following table:

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1 January 2013 (currently being revised by AASB to 1 January 2015)	Not expected to have a material impact	1 January 2013 (currently being revised by AASB to 1 January 2015)
AASB 10	*Consolidated Financial Statements*	AASB 10 identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.	1 January 2013	Not expected to have a material impact	1 January 2013
AASB 12	*Disclosure of Interests in Other Entities*	AASB 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.	1 January 2013	Not expected to have a material impact	1 January 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 11	*Joint Arrangements*	AASB 11 replaces AASB 131 *Interests in Joint Ventures*. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures: • A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly). • A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with AASB 128 *Investments in Associates and Joint Ventures (2011)*. Unlike AASB 131, the use of "proportionate consolidation" to account for joint ventures will no longer be permitted.	1 January 2013	Santos will be required to change its accounting for jointly controlled entities that are considered to be joint ventures as defined under AASB 11, from the proportionate consolidation method of accounting to the equity accounting method. Santos does not expect the adoption of this standard to have a material impact on net profit, opening retained earnings or net assets.	1 January 2013
AASB 127	*Separate Financial Statements (2011)*	Amended version of AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 *Consolidated and Separate Financial Statements*.	1 January 2013	No impact	1 January 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 128	*Investments in Associates and Joint Ventures (2011)*	This standard supersedes AASB 128 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2013	No impact	1 January 2013
AASB 13	*Fair Value Measurement*	AASB 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value.	1 January 2013	Not expected to have a material impact	1 January 2013
AASB 119	*Employee Benefits (2011)*	Incorporates amendments to AASB 119 recently issued by the IASB. The key changes are: • changes in the defined benefit plan obligations and plan assets are disaggregated into three components: service costs, net interest on the net defined benefit plan liabilities (assets) and remeasurement of the net defined benefit plan liability (asset); • net interest on the net defined benefit plan liabilities (assets) is to be recognised in interest expense or income; • remeasurement of net defined benefit plan liabilities (assets) required to be recognised in other comprehensive income (“OCI”) with no recycling; and • definition of short-term benefits changed which may result in entitlements such as annual leave being discounted based on expected payments.	1 January 2013	Not expected to have a material impact	1 January 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2010-6	*Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*	This standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.	1 July 2011	Not expected to have a material impact	1 January 2012
AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*	The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in OCI rather than within profit or loss.	1 January 2013	Not expected to have a material impact	1 January 2013
AASB 2010-8	*Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*	Amends AASB 112 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. This change eliminates the need to determine "management expectations" as to use or sale for eligible investment properties.	1 January 2012	No impact	1 January 2012
AASB 2011-4	*Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*	These amendments arise from a decision of the AASB to remove the individual key management personnel disclosures from AASB 124 on the basis they are not part of International Financial Reporting Standards, which include requirements to disclose aggregate (rather than individual) amounts of key management personnel compensation.	1 July 2013	Reduce disclosures on key management personnel	1 January 2014

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Impact on Group financial report	Application date for Group
AASB 2011-5	*Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*	This standard provides relief to certain entities from being required to use consolidation, the equity method and proportionate consolidation when preparing financial statements.	1 July 2011	Not applicable to Santos Limited	1 January 2012
AASB 2011-9	*Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*	The main change resulting from the amendments is a requirement for entities to group items presented in OCI on the basis of whether they are potentially subsequently reclassifiable to profit or loss.	1 July 2012	Minor presentation impact	1 January 2013
Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*	Interpretation 20 clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.	1 January 2013	No impact	1 January 2013

Change in functional currency

An entity's functional currency is the currency of the primary economic environment in which the entity, or a significant component of the entity, operates. On 13 January 2011, the Gladstone LNG ("GLNG®") joint venture partners approved the final investment decision for the development of the GLNG® project in Queensland. Santos' interest in the GLNG® project comprises interests in joint ventures held through subsidiary companies. An analysis of the future cash flows of each entity was performed to determine their functional currency and, where applicable, the entity's functional currency was changed from Australian dollars to US dollars. The change in functional currency has been applied prospectively with effect from 1 January 2011, in accordance with the requirements of the Australian Accounting Standards.

On 1 January 2011 the assets, liabilities, reserves and retained earnings of GLNG® entities with an Australian dollar functional currency were converted into US dollars at a fixed exchange rate of US$1:A$1.0169.

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

(C) BASIS OF CONSOLIDATION

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The assets acquired and liabilities assumed are measured at their acquisition date fair values (refer note 1(G)).

The difference between the above items and the fair value of the consideration, including the fair value of the pre-existing investment of the acquiree, is goodwill or a discount on acquisition.

If the Group loses control over a subsidiary it will:

- derecognise the assets and liabilities of the subsidiary;
- derecognise the carrying value of any non-controlling interest;
- derecognise the cumulative translation differences, recorded in equity;
- recognise the fair value of the consideration received;
- recognise the fair value of any investment retained; and
- recognise any surplus or deficit in the income statement.

A change in ownership interest of a subsidiary that does not result in the loss of control is accounted for as an equity transaction.

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

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Non-controlling interests

Non-controlling interests in the net assets of consolidated entities are allocated their share of net profit after tax in the income statement, and are identified separately from the Group's equity in those entities. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Jointly controlled assets

Santos' exploration and production activities are often conducted through joint venture arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships. A summary of the Group's interests in its significant joint ventures is included in note 27.

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

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

Jointly controlled entities

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in an associate

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

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

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

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

(D) FOREIGN CURRENCY

Functional and presentation currency

Both the functional and presentation currency of Santos Limited is Australian dollars. Some subsidiaries have a functional currency other than Australian dollars which is translated to the presentation currency (see below).

Transactions and balances

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

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

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

Group companies

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

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

(E) DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Where derivatives qualify for hedge accounting (refer note 1(F)), recognition of any resultant gain or loss depends on the nature of the item being hedged, otherwise the gain or loss on remeasurement to fair value is recognised immediately in the income statement.

The fair value of these derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the contracts at the reporting date, taking into account current market prices and the current creditworthiness of the contract counterparties.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Embedded derivatives

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

(F) HEDGING

Hedge effectiveness

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

Fair value hedge

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

Cash flow hedge

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

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

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in a foreign operation

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

(G) ACQUISITION OF ASSETS

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

Business combinations

A business combination is a transaction in which an acquirer obtains control of one or more businesses. The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired.

The acquisition method is only applied to a business combination when control over the business is obtained. Subsequent changes in interests in a business where control already exists are accounted for as transactions between owners.

The cost of the business combination is measured as the fair value of the assets given, shares issued and liabilities incurred or assumed at the date of acquisition. The cost includes the fair value of any contingent consideration. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in either the income statement or in other comprehensive income. Where the contingent consideration is classified as equity, it shall not be remeasured.

Costs directly attributable to the business combination are expensed as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

(H) EXPLORATION AND EVALUATION EXPENDITURE

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

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

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

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

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

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

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

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

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

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

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

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

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

(I) OIL AND GAS ASSETS

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

Assets in development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated, the field enters its development phase. The costs of oil and gas assets in the development phase are separately accounted for as tangible assets and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings. Other subsurface expenditures include the costs of de-watering coal seam gas fields to provide access to the coal seams to enable production from coal seam gas reserves. De-watering costs are the costs of extracting, transporting, treating and disposing of water during the development phases of the coal seam gas fields.

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

Producing assets

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

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

Ongoing exploration and evaluation activities

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

Exploration and evaluation expenditure associated with oil and gas assets is accounted for in accordance with the policy in note 1(H). Exploration and evaluation expenditure amounts capitalised in respect of oil and gas assets are separately disclosed in note 12.

(J) LAND, BUILDINGS, PLANT AND EQUIPMENT

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

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of rotable spares and insurance spares that are purchased for specific plant and equipment items.

Similarly, the cost of major cyclical maintenance is recognised in the carrying amount of the related plant and equipment as a replacement only if it is eligible for capitalisation. Any remaining carrying amount from the cost of the previous major cyclical maintenance is derecognised. All other repairs and maintenance are recognised in the income statement as incurred.

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

(K) DEPRECIATION AND DEPLETION

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

Depreciation of onshore buildings, plant and equipment and corporate assets is calculated using the straight-line method of depreciation on an individual asset basis from the date the asset is available for use, unless a units of production method represents a more systematic allocation of the asset's depreciable amount over its economic useful life.

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

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

Depreciation of offshore plant and equipment is calculated using the units of production method for an asset or group of assets from the date of commencement of production.

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

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

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

(L) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial instruments classified as being available for sale are stated at fair value, with any resultant gain or loss being recognised directly in equity.

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

Financial instruments classified as available for sale are recognised or derecognised on the date of commitment to purchase or sell the investments. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) INVENTORIES

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

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

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

(N) TRADE AND OTHER RECEIVABLES

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

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

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

(O) CASH AND CASH EQUIVALENTS

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

(P) IMPAIRMENT

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

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

Individual assets or sub-component groups of assets within a cash-generating unit may become impaired if circumstances related to their ongoing use change or there is an indication that the benefits to be obtained from ongoing use are likely to be less than the carrying value of the individual asset or sub-component group of assets.

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

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

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

Calculation of recoverable amount

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

For oil and gas assets, the estimated future cash flows for the value-in-use calculation are based on estimates of 2P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available. For oil and gas assets, the estimated fair value less costs to sell calculation is based on estimates of hydrocarbon reserves and resources and other relevant factors.

Reversals of impairment

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

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

(Q) PROVISIONS

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

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

Restoration

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

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

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

Remediation

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

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

(R) EMPLOYEE BENEFITS

Wages, salaries, annual leave and sick leave

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

Long-term service benefits

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

Defined contribution plans

The Group contributes to several defined contribution superannuation plans. Obligations for contributions are recognised as an expense in the income statement as incurred.

Defined benefit plan

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

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Share-based payment transactions

Santos executive share-based payment plans

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

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

Cash-settled share-based payment plans

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

General employee share plans

Santos operates two general employee share plans, Share1000 Plan and ShareMatch Plan, under the Santos Employee Share Purchase Plan, which are open to eligible executives and employees. The Share1000 Plan provides for grants of fully paid ordinary shares in the capital of the Company up to a value determined by the Board.

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the Australian Securities Exchange ("ASX") during the week up to and including the date of issue of the shares. The fair value of shares granted is recognised as an employee expense with a corresponding increase in issued capital.

The ShareMatch Plan allows eligible executives and employees to purchase shares through salary sacrifice over a maximum twelve month period, and to receive matched Share Acquisition Rights ("SARs") at a ratio set by the Board.

The fair value per share is determined by the VWAP of ordinary Santos shares on the ASX during the week up to and including the date of issue of the shares. The fair value of shares is recognised as an increase in issued capital with a corresponding increase in loans receivable.

The fair value of matched SARs is measured by discounting the share price on the grant date using the assumed dividend yield for the term of the matched SAR. The fair value is measured at grant date and recognised as an employee expense with a corresponding increase in equity over the period during which the eligible executive or employee becomes unconditionally entitled to the SARs.

Santos Eastern Star Gas Limited Employee Incentive Plan

Under the Santos Eastern Star Gas Limited Employee Incentive Plan, eligible employees are granted ordinary shares in Santos, in exchange for Eastern Star Gas Limited ("ESG") shares issued under the Eastern Star Gas Limited Employee Incentive Plan pursuant to the acquisition of ESG. The cost of the ESG shares acquired is determined by reference to the fair value of the equity and associated interest-free employee loans, which is measured using a Monte Carlo simulation method, taking into account the contractual life of the loans and the expectation of early repayment, with a corresponding increase in equity.

These fully paid ordinary shares are not quoted on the ASX as they are subject to trading restrictions while the loans are outstanding. Under the terms of the plan, Santos holds a lien over the issued shares and the employees have no obligation to repay the outstanding loans. The loans are granted with terms of up to five years, and if the loans were not repaid before expiration of the term, the entitlement to the shares would be forfeited and the shares would be sold on-market by Santos. The loans are not recognised as receivables and an increase in issued capital is recognised upon receipt of payment of the loans or proceeds of sales.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) INTEREST-BEARING BORROWINGS

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

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

(T) BORROWING COSTS

Borrowing costs, including interest and finance charges relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate (refer note 17). Borrowing costs incurred after commencement of commercial operations are expensed.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(U) DEFERRED INCOME

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

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

(V) TRADE AND OTHER PAYABLES

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

(W) SHARE CAPITAL

Ordinary share capital

Ordinary share capital is classified as equity.

Dividends

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

Transaction costs

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

(X) REVENUE

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

Sales revenue

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

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

Dividends

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

Overriding royalties

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

Pipeline tariffs and processing tolls

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

Trading revenue

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

(Y) INTEREST INCOME

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

(Z) OTHER INCOME

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(AA) LEASES

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

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

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

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

(AB) GOODS AND SERVICES TAX

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

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

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

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

(AC) TAXATION

Income tax

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

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

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

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

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

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

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

Royalty-related taxation

Petroleum Resource Rent Tax, Resource Rent Royalty and Timor-Leste's Additional Profits Tax are accounted for as income tax as described above.

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

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

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

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

(AE) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates of reserve quantities

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

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(H). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off in the income statement. The carrying amount of exploration and evaluation assets and the assumptions used in the estimation of recoverable amount are disclosed in notes 11 and 14 respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for restoration

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

The carrying amount of the provision for restoration is disclosed in note 18.

Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of oil and gas assets and the assumptions used in the estimation of recoverable amount are discussed in notes 12 and 14 respectively.

Impairment of other land, buildings, plant and equipment

The Group assesses whether other land, buildings, plant and equipment are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of other land, buildings, plant and equipment and the assumptions used in the estimation of recoverable amount are discussed in notes 13 and 14 respectively.

Clean Energy Bill 2011

In November 2011 the Australian Government approved the *Clean Energy Bill 2011* which will have an impact on the Group's future cash flows. Consequently the expected cash flows from the introduction of the *Clean Energy Bill 2011* have been included in the estimation of the recoverable amount of the cash-generating unit when assessing impairment of oil and gas assets and other land, buildings, plant and equipment as at 31 December 2011.

Petroleum Resource Rent Tax

The Australian House of Representatives recently approved the extension of the current Petroleum Resource Rent Tax regime to all Australian onshore and offshore oil and gas projects to apply from 1 July 2012. The proposal is still subject to approval by the Senate. Consequently the financial statements have been prepared in accordance with current tax legislation.

2. SEGMENT INFORMATION

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

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

The Chief Executive Officer monitors the operating results of its business units separately for the purposes of making decisions about allocating resources and assessing performance. Segment performance is measured based on Santos earnings before interest, tax, impairment, exploration and evaluation, and gains or losses on sale of non-current assets and controlled entities ("SEBITX"). Santos reclassifies royalty-related taxation expense, before income tax, into SEBITX to improve comparability between those segments operating under a royalty regime and a royalty-related tax regime.

Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

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

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia 2011 $million	Eastern Australia 2010 $million	WA & NT 2011 $million	WA & NT 2010 $million	Asia Pacific 2011 $million	Asia Pacific 2010 $million	GLNG 2011 $million	GLNG 2010 $million	Corporate, exploration and eliminations 2011 $million	Corporate, exploration and eliminations 2010 $million	Total 2011 $million	Total 2010 $million
Revenue													
Sales to external customers		**1,313**	1,212	**958**	836	**230**	169	**28**	4	**1**	7	**2,530**	2,228
Inter-segment sales		**–**	–	**–**	6	**–**	–	**64**	112	**(64)**	(118)	**–**	–
Other revenue from external customers		**81**	62	**1**	1	**(1)**	(2)	**5**	8	**12**	9	**98**	78
Total segment revenue	3	**1,394**	1,274	**959**	843	**229**	167	**97**	124	**(51)**	(102)	**2,628**	2,306
Results													
SEBITX		**288**	245	**472**	404	**95**	68	**(18)**	13	**(11)**	(44)	**826**	686
Depreciation and depletion		**357**	335	**177**	161	**62**	43	**16**	35	**29**	26	**641**	600
Gains/(losses) on sale of non-current assets and controlled entities	3	**14**	–	**172**	33	**3**	(1)	**340**	282	**–**	(1)	**529**	313
Royalty-related taxation expense included in SEBITX		**(12)**	(3)	**142**	76	**–**	–	**–**	–	**–**	–	**130**	73
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX")		**647**	577	**963**	674	**160**	110	**338**	330	**18**	(19)	**2,126**	1,672
Depreciation and depletion	4	**(357)**	(335)	**(177)**	(161)	**(62)**	(43)	**(16)**	(35)	**(29)**	(26)	**(641)**	(600)
Exploration and evaluation expensed	4	**–**	–	**–**	–	**–**	–	**–**	–	**(167)**	(129)	**(167)**	(129)
Net impairment (loss)/reversal		**(51)**	(96)	**(1)**	(44)	**(83)**	5	**–**	–	**8**	(22)	**(127)**	(157)
Earnings before interest and tax ("EBIT")		**239**	146	**785**	469	**15**	72	**322**	295	**(170)**	(196)	**1,191**	786
Net finance income	5									**91**	7	**91**	7
Profit before tax												**1,282**	793
Income tax expense	6									**(440)**	(244)	**(440)**	(244)
Royalty-related taxation expense	6	**8**	2	**(99)**	(53)	**–**	–	**–**	–	**–**	–	**(91)**	(51)
Net profit for the period												**751**	498

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia 2011 $million	Eastern Australia 2010 $million	WA & NT 2011 $million	WA & NT 2010 $million	Asia Pacific 2011 $million	Asia Pacific 2010 $million	GLNG 2011 $million	GLNG 2010 $million	Corporate, exploration and eliminations 2011 $million	Corporate, exploration and eliminations 2010 $million	Total 2011 $million	Total 2010 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:													
Gain on sale of exploration and evaluation assets	3	**–**	–	**152**	–	**3**	–	**45**	59	**–**	–	**200**	59
Gain on sale of oil and gas assets	3	**14**	–	**20**	33	**–**	–	**295**	222	**–**	–	**329**	255
Transaction costs on acquisition of subsidiaries		**(11)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(11)**	–
Insurance recoveries from incidents		**–**	6	**–**	–	**–**	–	**–**	–	**–**	–	**–**	6
Non-refundable deposit received		**–**	–	**15**	–	**–**	–	**–**	–	**–**	–	**15**	–
Finalisation of redetermination		**–**	–	**5**	–	**–**	–	**–**	–	**–**	–	**5**	–
Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets):													
Exploration and evaluation assets	11	**998**	–	**55**	–	**54**	–	**19**	85	**–**	99	**1,126**	184
Oil and gas assets	12	**427**	390	**477**	418	**820**	636	**1,312**	268	**–**	–	**3,036**	1,712
Other land, buildings, plant and equipment	13	**27**	8	**–**	–	**–**	–	**8**	14	**42**	23	**77**	45
Investment in an associate	26	**–**	33	**–**	–	**–**	–	**–**	–	**–**	–	**–**	33
		1,452	431	**532**	418	**874**	636	**1,339**	367	**42**	122	**4,239**	1,974
Investment in an associate	26	**–**	208	**–**	–	**–**	–	**–**	–	**–**	–	**–**	208

2. SEGMENT INFORMATION (CONTINUED)	Note	**2011 $million**	2010 $million
Revenue from external customers by geographical location of production			
Australia		**2,400**	2,139
Other countries		**228**	167
Total revenue	3	**2,628**	2,306
During the year revenue from one customer amounted to $558 million (2010: $695 million from two customers), arising from sales from all segments of the Group.			
Non-current assets (other than financial assets and deferred tax assets) by geographical location			
Australia		**8,558**	6,831
Papua New Guinea		**1,330**	714
Other countries		**807**	740
		10,695	8,285

3. REVENUE AND OTHER INCOME	2011 $million	2010 $million
Product sales:		
Gas, ethane and liquefied gas	**1,252**	1,197
Crude oil	**804**	594
Condensate and naphtha	**303**	253
Liquefied petroleum gas	**171**	184
Total product sales	**2,530**	2,228
Other revenue:		
Overriding royalties	**9**	10
Pipeline tariffs and processing tolls	**56**	36
Trading revenue	**16**	19
Other	**17**	13
Total other revenue	**98**	78
Total revenue	**2,628**	2,306
Other income:		
Insurance recoveries	**–**	6
Net gain on sale of exploration and evaluation assets	**200**	59
Net gain on sale of oil and gas assets	**329**	255
Net loss on sale of other land, buildings, plant and equipment	**–**	(1)
Settlement of production overlift by partner	**–**	25
Non-refundable deposit received	**15**	–
Other	**1**	–
Total other income	**545**	344
Net gain on sale of non-current assets		
Proceeds on disposals	**1,332**	668
Amounts received in prior years	**–**	38
Recoupment of current year exploration and evaluation expenditure	**(3)**	(71)
Proceeds after recoupment of current year exploration and evaluation expenditure	**1,329**	635
Book value of oil and gas assets disposed	**(360)**	(290)
Book value of other land, buildings, plant and equipment disposed	**(3)**	–
Recoupment of prior year exploration and evaluation expenditure	**(451)**	(20)
Book value of working capital disposed	**18**	–
Transaction costs	**(4)**	(12)
Total net gain on sale of non-current assets	**529**	313
Comprising:		
Net gain on sale of exploration and evaluation assets	**200**	59
Net gain on sale of oil and gas assets	**329**	255
Net loss on sale of other land, buildings, plant and equipment	**–**	(1)
	529	313
Reconciliation to cash inflow from proceeds on disposal of non-current assets		
Proceeds after recoupment of current year exploration and evaluation expenditure	**1,329**	635
Amounts received in prior years	**–**	(38)
Foreign currency changes on settlement	**(2)**	15
Amounts to be received in the future	**(238)**	(15)
Amounts received from current year disposals	**1,089**	597
Amounts received from prior year disposals	**11**	222
Total proceeds on disposal of non-current assets	**1,100**	819
Comprising:		
Proceeds from disposal of exploration and evaluation assets	**653**	261
Proceeds from disposal of oil and gas assets	**444**	558
Proceeds from disposal of other land, buildings, plant and equipment	**3**	–
	1,100	819

4. EXPENSES	Note	2011 $million	2010 $million
Cost of sales:			
Cash cost of production:			
Production costs:			
Production expenses		**491**	476
Production facilities operating leases		**65**	61
Total production costs		**556**	537
Other operating costs:			
Pipeline tariffs, processing tolls and other		**109**	95
Royalty and excise		**54**	51
Total other operating costs		**163**	146
Total cash cost of production		**719**	683
Depreciation and depletion		**636**	595
Third party product purchases		**229**	162
(Increase)/decrease in product stock		**(22)**	22
Total cost of sales		**1,562**	1,462
Other expenses:			
Selling		**31**	14
Corporate		**94**	78
Depreciation		**5**	5
Foreign exchange (gains)/losses*		**(18)**	10
Gains from change in fair value of derivative financial assets designated as at fair value through profit or loss		**(8)**	–
Fair value hedges, (gains)/losses:			
On the hedging instrument		**(135)**	(29)
On the hedged item attributable to the hedged risk		**148**	36
Exploration and evaluation expensed		**167**	129
Net impairment loss on exploration and evaluation assets	14(A)	**13**	24
Net impairment loss on oil and gas assets	14(B)	**118**	98
Net impairment loss on other land, buildings, plant and equipment	14(C)	**1**	13
Net impairment (reversal)/loss on receivables		**(9)**	22
Net impairment loss on available-for-sale assets		**4**	–
Total other expenses		**411**	400

* *The foreign exchange gains for the year ended 31 December 2011 include the following significant amounts in relation to foreign functional currency subsidiaries: $30 million loss (2010: nil) relating to the effects of foreign exchange on Australian dollar denominated tax bases and $30 million gain (2010: nil) on foreign functional currency intercompany loans.*

Profit before tax includes the following:		
Depreciation and depletion:		
Depletion of subsurface assets	**341**	305
Depreciation of plant and equipment	**299**	292
Depreciation of buildings	**1**	3
Total depreciation and depletion	**641**	600
Minimum lease payments	**82**	79

5. NET FINANCE (INCOME)/COSTS	2011 $million	2010 $million
Finance income:		
Interest income	**(190)**	(140)
Total finance income	**(190)**	(140)
Finance costs:		
Interest expense:		
Interest paid to third parties	**192**	99
Deduct borrowing costs capitalised	**136**	4
	56	95
Unwind of the effect of discounting on provisions	**43**	38
Total finance costs	**99**	133
Net finance (income)/costs	**(91)**	(7)

6. TAXATION EXPENSE	2011 $million	2010 $million
Recognised in the income statement:		
Income tax expense		
Current tax expense		
Current year	**380**	198
Adjustments for prior years	**29**	(34)
	409	164
Deferred tax expense		
Origination and reversal of temporary differences	**40**	88
Adjustments for prior years	**(9)**	(8)
	31	80
Total income tax expense	**440**	244
Royalty-related taxation expense		
Current tax expense		
Current year	**125**	101
Adjustments for prior years	**5**	(1)
	130	100
Deferred tax expense		
Origination and reversal of temporary differences	**(43)**	(35)
Adjustments for prior years	**4**	(14)
	(39)	(49)
Total royalty-related taxation expense	**91**	51
Numerical reconciliation between tax expense and pre-tax net profit:		
Profit before tax	**1,282**	793
Prima facie income tax at 30% (2010: 30%)	**385**	238
Increase in income tax expense due to:		
Investment allowance	**–**	(4)
Foreign losses not recognised	**50**	35
Non-deductible expenses	**11**	–
Change in tax bases of assets as a result of change in use	**(25)**	17
Tax losses not previously recognised	**–**	(54)
Adjustment for prior years	**17**	12
Other	**2**	–
Income tax expense	**440**	244
Royalty-related taxation expense	**91**	51
Total taxation expense	**531**	295
Deferred tax charged/(credited) directly to equity:		
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	**(6)**	40
Impairment of available-for-sale financial assets reclassified to the income statement	**1**	–
Net gain on derivatives designated as cash flow hedges	**(7)**	1
Actuarial gain on defined benefit plan	**(4)**	–
Equity raising transaction costs	**–**	(3)
	(16)	38

7. CASH AND CASH EQUIVALENTS	2011 $million	2010 $million
Cash at bank and in hand	**282**	210
Short-term deposits	**3,050**	4,109
	3,332	4,319

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

The Group's usual cash management process includes investing cash in short-term deposits. As at 31 December 2011, $1,532 million (2010: $3,669 million) was placed in term deposits with original maturities greater than three months and up to nine months. All deposits are held with financial institutions approved by the Board and are readily convertible to cash with commensurate interest adjustments if required.

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2011 of US$13 million (2010: US$13 million) which can only be repatriated to Australia with the permission of the Internal Revenue Commission of Papua New Guinea in accordance with the financing plan submitted in respect of PDL 3.

8. TRADE AND OTHER RECEIVABLES	2011 $million	2010 $million
Current		
Trade receivables	**318**	305
Other receivables	**581**	311
Allowance for impairment loss on other receivables	**–**	(22)
	899	594
Non-current		
Other receivables	**25**	10
Ageing of trade receivables at the reporting date:		
Trade receivables not yet due	**305**	295
Past due not impaired:		
Less than one month	**9**	4
One to three months	**4**	1
Three to six months	**–**	1
Six to twelve months	**–**	2
Greater than twelve months	**–**	2
Considered impaired:		
Greater than twelve months	**–**	–
	318	305
Movement in provision for impairment loss:		
Balance at 1 January	**22**	–
Impairment loss	**–**	22
Reversal of impairment loss	**(9)**	–
Release of provision	**(13)**	–
Balance at 31 December	**–**	22

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

Impaired receivables

An allowance for impairment loss is recognised when there is objective evidence that an individual trade or other receivable is impaired. An impairment reversal of $9 million (2010: $22 million impairment loss) was recognised by the Group during the year.

9. INVENTORIES

	2011 $million	2010 $million
Petroleum products	**151**	138
Drilling and maintenance stocks	**132**	123
Total inventories at lower of cost and net realisable value	**283**	261
Inventories included above that are stated at net realisable value	**35**	36

10. OTHER FINANCIAL ASSETS

	2011 $million	2010 $million
Current		
Receivables due from other related entities	**3**	3
Embedded derivatives	**8**	1
Interest rate swap contracts	**3**	–
	14	4
Non-current		
Interest rate swap contracts	**178**	131
Receivables due from other related entities	**3**	6
Available-for-sale investment	**2**	1
Other	**1**	–
	184	138

11. EXPLORATION AND EVALUATION ASSETS	2011 Subsurface assets $million	2011 Plant and equipment $million	2011 Total $million	2010 Subsurface assets $million	2010 Plant and equipment $million	2010 Total $million
Cost	**1,395**	**28**	**1,423**	774	212	986
Less impairment	**(37)**	**–**	**(37)**	(24)	–	(24)
Balance at 31 December	**1,358**	**28**	**1,386**	750	212	962
Reconciliation of movements						
Balance at 1 January	**750**	**212**	**962**	783	140	923
Acquisition of controlled entities	**890**	**15**	**905**	10	–	10
Acquisitions of exploration and evaluation assets	**14**	**–**	**14**	3	–	3
Additions	**197**	**10**	**207**	98	73	171
Disposals and recoupment	**(370)**	**(86)**	**(456)**	–	–	–
Exploration and evaluation expensed	**(58)**	**–**	**(58)**	(46)	–	(46)
Impairment losses	**(13)**	**–**	**(13)**	(24)	–	(24)
Transfer to oil and gas assets in development	**(36)**	**(123)**	**(159)**	(33)	–	(33)
Transfer to oil and gas assets in production	**(16)**	**–**	**(16)**	(27)	(1)	(28)
Exchange differences	**–**	**–**	**–**	(14)	–	(14)
Balance at 31 December	**1,358**	**28**	**1,386**	750	212	962
Comprising:						
Acquisition costs	**1,006**	**28**	**1,034**	473	8	481
Successful exploration wells	**229**	**–**	**229**	253	–	253
Exploration and evaluation assets pending determination of success	**123**	**–**	**123**	24	204	228
	1,358	**28**	**1,386**	750	212	962

12. OIL AND GAS ASSETS	2011 Subsurface assets $million	2011 Plant and equipment $million	2011 Total $million	2010 Subsurface assets $million	2010 Plant and equipment $million	2010 Total $million
Cost	**9,060**	**9,508**	**18,568**	8,392	7,393	15,785
Less accumulated depreciation, depletion and impairment	**(5,565)**	**(3,935)**	**(9,500)**	(5,208)	(3,663)	(8,871)
Balance at 31 December	**3,495**	**5,573**	**9,068**	3,184	3,730	6,914
Reconciliation of movements						
Assets in development						
Balance at 1 January	**573**	**1,080**	**1,653**	538	230	768
Additions	**286**	**1,953**	**2,239**	69	906	975
Disposals	**–**	**–**	**–**	(16)	–	(16)
Transfer from exploration and evaluation assets	**36**	**123**	**159**	33	–	33
Transfer to oil and gas assets in production	**(386)**	**(653)**	**(1,039)**	–	–	–
Impairment losses	**(9)**	**(20)**	**(29)**	–	–	–
Exchange differences	**(13)**	**50**	**37**	(51)	(56)	(107)
Balance at 31 December	**487**	**2,533**	**3,020**	573	1,080	1,653
Producing assets						
Balance at 1 January	**2,611**	**2,650**	**5,261**	2,727	2,822	5,549
Acquisitions of oil and gas assets	**33**	**10**	**43**	1	1	2
Additions	**490**	**264**	**754**	383	352	735
Transfer from exploration and evaluation assets	**16**	**–**	**16**	27	1	28
Transfer from oil and gas assets in development	**386**	**653**	**1,039**	–	–	–
Recoupment of exploration and evaluation expenditure	**–**	**–**	**–**	(20)	–	(20)
Disposals	**(102)**	**(269)**	**(371)**	(107)	(179)	(286)
Depreciation and depletion	**(341)**	**(267)**	**(608)**	(306)	(263)	(569)
Net impairment losses	**(85)**	**(4)**	**(89)**	(67)	(31)	(98)
Exchange differences	**–**	**3**	**3**	(27)	(53)	(80)
Balance at 31 December	**3,008**	**3,040**	**6,048**	2,611	2,650	5,261
Total oil and gas assets	**3,495**	**5,573**	**9,068**	3,184	3,730	6,914
Comprising:						
Exploration and evaluation expenditure pending commercialisation	**35**	**–**	**35**	30	–	30
Other capitalised expenditure	**3,460**	**5,573**	**9,033**	3,154	3,730	6,884
	3,495	**5,573**	**9,068**	3,184	3,730	6,914

13. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	2011 Land and buildings $million	2011 Plant and equipment $million	2011 Total $million	2010 Land and buildings $million	2010 Plant and equipment $million	2010 Total $million
Cost	**72**	**427**	**499**	50	376	426
Less accumulated depreciation and impairment	**(6)**	**(252)**	**(258)**	(5)	(220)	(225)
Balance at 31 December	**66**	**175**	**241**	45	156	201
Reconciliation of movements						
Balance at 1 January	**45**	**156**	**201**	38	162	200
Acquisition of controlled entities	**25**	**1**	**26**	–	–	–
Additions	**–**	**51**	**51**	8	37	45
Disposals	**(3)**	**–**	**(3)**	–	–	–
Impairment	**–**	**(1)**	**(1)**	–	(13)	(13)
Depreciation	**(1)**	**(32)**	**(33)**	(1)	(30)	(31)
Balance at 31 December	**66**	**175**	**241**	45	156	201

14. IMPAIRMENT OF NON-CURRENT ASSETS

(A) EXPLORATION AND EVALUATION ASSETS

At 31 December 2011 the Group reassessed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the Group's accounting policy (refer note 1(H)). As a result, the recoverable amounts of some specific exploration and evaluation assets were formally reassessed, resulting in an impairment loss of $13 million (2010: $24 million). Estimates of recoverable amounts of exploration and evaluation assets are based on the asset's fair value less costs to sell.

Area of interest	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2011					
Bangladesh	Asia Pacific	Exploration area	**13**	**–**	**13**
Total impairment of exploration and evaluation assets			**13**	**–**	**13**
2010					
Kyrgyz Republic	Asia Pacific	Exploration area	24	–	24
Total impairment of exploration and evaluation assets			24	–	24

(B) OIL AND GAS ASSETS

At 31 December 2011 the Group reassessed the carrying amount of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. As a result, the recoverable amounts of cash-generating units and some specific oil and gas assets were formally reassessed, resulting in an impairment loss of $118 million (2010: $98 million).

Estimates of recoverable amounts of oil and gas assets are based on either fair value less costs to sell or value in use, determined by discounting each asset's estimated future cash flows at asset-specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates between 8.3% and 14.4% (2010: 9.3% and 16.1%), depending on the nature of the risks specific to each asset.

14. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

Cash-generating unit	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2011					
Impairment/(reversal) of CGUs:					
Legendre	WA & NT	Oil field	**6**	**–**	**6**
Airlie	WA & NT	Oil field	**4**	**–**	**4**
Thevenard	WA & NT	Oil field	**(5)**	**–**	**(5)**
Mutineer Exeter	WA & NT	Oil field	**(4)**	**–**	**(4)**
Kipper	Eastern Australia	Gas field	**9**	**20**	**29**
Moonie	Eastern Australia	Oil field	**9**	**5**	**14**
Sangu*	Asia Pacific	Gas PSC	**66**	**–**	**66**
Impairment/(reversal) of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Oil and gas field	**7**	**–**	**7**
Cooper Basin	Eastern Australia	Pipeline	**–**	**(1)**	**(1)**
Other Surat	Eastern Australia	Gas field	**2**	**–**	**2**
Total impairment of oil and gas assets			**94**	**24**	**118**
2010					
Impairment/(reversal) of CGUs:					
Legendre	WA & NT	Oil field	10	9	19
Jabiru-Challis	WA & NT	Oil field	16	1	17
Thevenard	WA & NT	Oil field	2	6	8
Sampang	Asia Pacific	Oil and gas PSC	(17)	(12)	(29)
Impairment of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Oil assets	56	25	81
Cooper Basin	Eastern Australia	Pipeline	–	2	2
Total impairment of oil and gas assets			67	31	98

* *Following an evaluation of the results of a drilling programme, which was completed subsequent to the year end, the Group has impaired the Sangu cash-generating unit.*

(C) OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT

At 31 December 2011 the Group reassessed the carrying amount of its other land, buildings, plant and equipment assets for indicators of impairment. As a result, the recoverable amounts of some specific other land, buildings, plant and equipment assets were formally reassessed, resulting in an impairment loss of $1 million (2010: $13 million). Estimates of recoverable amounts of other land, buildings, plant and equipment assets are based on fair value less costs to sell.

Asset	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2011					
Other plant and equipment	Corporate	Aircraft	**–**	**1**	**1**
Total impairment of other land, buildings, plant and equipment			**–**	**1**	**1**
2010					
Shaw River power station	Eastern Australia	Project costs	–	13	13
Total impairment of other land, buildings, plant and equipment			–	13	13

15. DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2011 $million	2010 $million	**2011 $million**	2010 $million	**2011 $million**	2010 $million
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Exploration and evaluation assets	**–**	–	**(455)**	(236)	**(455)**	(236)
Oil and gas assets	**–**	–	**(155)**	(257)	**(155)**	(257)
Other land, buildings, plant and equipment	**20**	33	**–**	–	**20**	33
Available-for-sale financial assets	**2**	1	**–**	–	**2**	1
Trade receivables	**–**	–	**(2)**	(3)	**(2)**	(3)
Other receivables	**–**	–	**(9)**	(15)	**(9)**	(15)
Inventories	**–**	–	**(3)**	(24)	**(3)**	(24)
Derivative financial instruments	**–**	–	**(42)**	(12)	**(42)**	(12)
Other assets	**–**	–	**(24)**	(24)	**(24)**	(24)
Equity-raising costs	**11**	16	**–**	–	**11**	16
Interest-bearing loans and borrowings	**–**	–	**(32)**	(112)	**(32)**	(112)
Other liabilities	**–**	10	**(20)**	–	**(20)**	10
Provisions	**237**	53	**–**	–	**237**	53
Royalty-related taxes	**–**	–	**(361)**	(217)	**(361)**	(217)
Other items	**–**	–	**(16)**	(10)	**(16)**	(10)
Investment in an associate	**–**	1	**–**	–	**–**	1
Tax value of carry-forward losses recognised	**14**	7	**–**	–	**14**	7
Tax assets/(liabilities)	**284**	121	**(1,119)**	(910)	**(835)**	(789)
Set-off of tax	**(142)**	(67)	**142**	67	**–**	–
Net tax assets/(liabilities)	**142**	54	**(977)**	(843)	**(835)**	(789)

	2011 $million	2010 $million
Unrecognised deferred tax assets		
Gross deferred tax assets have not been recognised in respect of the following items:		
Temporary differences in relation to investments in subsidiaries	**1,550**	709
Deductible temporary differences	**358**	280
Tax losses	**288**	231
	2,196	1,220

Deferred tax assets have not been recognised in respect of these items because it is not probable that the temporary differences will reverse in the future and that there will be sufficient future taxable profits against which the benefits can be utilised. Tax losses of $66 million (2010: $66 million) will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

16. TRADE AND OTHER PAYABLES

Trade payables	**764**	615
Non-trade payables	**241**	139
	1,005	754

17. INTEREST-BEARING LOANS AND BORROWINGS

	2011 $million	2010 $million
This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 38.		
Current		
Finance leases	**1**	1
Bank loans – unsecured	**17**	20
Medium-term notes	**–**	349
Long-term notes	**151**	–
	169	370
Non-current		
Finance leases	**2**	2
Bank loans – secured	**695**	344
Bank loans – unsecured	**77**	93
Medium-term notes	**105**	99
Long-term notes	**868**	960
Subordinated notes	**1,345**	1,289
	3,092	2,787

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.86% as at 31 December 2011 (2010: 5.10%).

All secured interest-bearing loans and borrowings, with the exception of the finance leases, are borrowed through Santos Finance Ltd, which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings by Santos Finance Ltd are guaranteed by Santos Limited. All borrowings are unsecured, with the exception of the secured bank loans and finance leases.

Details of major credit facilities

(A) BANK LOANS – SECURED

Secured assets	Year of maturity	Currency	Effective interest rate **2011 %**	Effective interest rate 2010 %	**2011 $million**	2010 $million
PNG LNG	2024/2026	USD	**4.59**	3.46	**695**	344

PNG LNG

Loan facilities for the PNG LNG project in which Santos entities hold an equity interest of 13.5%, were entered into by the joint venture participants on 15 December 2009 and are provided by 17 commercial banks and six export credit agencies, bear fixed and floating rates of interest and have estimated final maturity dates (subject to the date of practical completion of the PNG LNG project) of December 2024 and December 2026 respectively. As at 31 December 2011, US$1,079 million (A$1,064 million) of the facility limit remains undrawn.

The facilities include security over assets and entitlements of the participants in respect of the project. The carrying values of the Group's assets pledged as security are:

	2011 $million	2010 $million
Trade and other receivables	**35**	33
Oil and gas assets in development	**1,308**	710
	1,343	743

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(A) BANK LOANS – SECURED (CONTINUED)

The coordinated development and operating agreement for the project is the key commercial agreement for the project and includes a "mandatory default step-up" provision under which prior to first cargo:

(i) parties which have not defaulted in the payment of a cash call for a licence area within the project are required to pay a pro-rata share of cash calls not paid by the defaulting parties; and

(ii) if a licence area fails to collectively remedy a payment default, non-defaulting project participants from other licence areas are required to pay a pro-rata share of the amounts not paid by the defaulting licence area.

Where non-defaulting parties make "mandatory default step-up" payments they are entitled to dilute the equity interests of defaulting parties at a penalty rate of 20%.

(B) BANK LOANS – UNSECURED

Term bank loans

		Effective interest rate			
Year of maturity	**Currency**	**2011 %**	2010 %	**2011 $million**	2010 $million
2012 to 2017	USD	**0.62**	0.58	**94**	113

Term bank loans bear interest at the relevant interbank reference rate plus a margin of up to 0.75%. The amount outstanding at 31 December 2011 is US$95 million (A$94 million) (2010: US$115 million (A$113 million)).

(C) MEDIUM-TERM NOTES

The Group has a $1,000 million (2010: $1,000 million) Australian medium-term note programme under which the following were issued in 2005:

		Effective interest rate			
Year of issue	**Year of maturity**	**2011 %**	2010 %	**2011 $million**	2010 $million
2005	2011	**–**	6.29	**–**	349
2005	2015	**5.66**	5.55	**105**	99
				105	448

(D) LONG-TERM NOTES

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

		Effective interest rate			
Year of issue	**Year of maturity**	**2011 %**	2010 %	**2011 $million**	2010 $million
2000	2010 to 2015	**1.82**	1.91	**82**	83
2002	2010 to 2022	**2.73**	2.71	**296**	288
2007	2017 to 2027	**0.90**	0.85	**641**	589
				1,019	960

Long-term notes bear interest at 5.85% to 8.44% (2010: 5.85% to 8.44%) fixed rate interest, most of which has been swapped to floating rate commitments. The amount outstanding at 31 December 2011 is US$839 million (A$828 million) (2010: US$839 million (A$825 million)).

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(E) SUBORDINATED NOTES

The Group has issued €1,000 million in subordinated notes, which mature after 60 years but which can be redeemed by the Group after 22 September 2017.

		Effective interest rate			
Year of issue	**Year of maturity**	**2011 %**	2010 %	**2011 $million**	2010 $million
2010	2070	**7.26**	13.07	**1,345**	1,289

The subordinated notes accrue fixed coupons at a rate of 8.25% (2010: 8.25%) per annum for the first seven years, and thereafter on a floating rate basis plus a 6.85% margin. The subordinated notes are not convertible into Santos Limited ordinary shares.

(F) BILATERAL BANK LOAN FACILITY

As at 31 December 2011 the Group had bilateral bank loan facilities of A$1,450 million (2010: A$1,450 million) and US$500 million (A$493 million) (2010: US$500 million (A$492 million)) which mature between 2014 and 2017. The facilities are undrawn at 31 December 2011.

(G) EXPORT CREDIT AGENCY SUPPORTED LOAN FACILITIES

During the year the Group entered into loan facilities of US$1,200 million (A$1,184 million) supported by various export credit agencies, which have estimated maturity dates (subject to the date of practical completion of the GLNG project) between 2016 and 2024.

As at 31 December 2011, US$100 million of the facilities remain subject to the completion of subunderwriting arrangements, which are expected to be finalised by early 2012. The facilities are undrawn at 31 December 2011.

18. PROVISIONS	2011 $million	2010 $million
Current		
Employee benefits	**84**	76
Restoration	**46**	16
Remediation	**3**	5
Other	**2**	2
	135	99
Non-current		
Employee benefits	**9**	7
Defined benefit obligations (refer note 29)	**50**	32
Restoration	**1,114**	851
Remediation	**–**	1
	1,173	891

Movement in provisions

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

	Total restoration $million	Total remediation $million	Total $million
Balance at 1 January 2011	**867**	**6**	**873**
Provisions made/(reversed) during the year	**225**	**(2)**	**223**
Provisions used during the year	**(48)**	**(1)**	**(49)**
Unwind of discount	**43**	**–**	**43**
Disposal	**(16)**	**–**	**(16)**
Change in discount rate	**109**	**–**	**109**
Exchange differences	**(20)**	**–**	**(20)**
Balance at 31 December 2011	**1,160**	**3**	**1,163**

Restoration

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

Remediation

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

19. OTHER FINANCIAL LIABILITIES

	2011 $million	2010 $million
Current		
Interest rate swap contracts	–	1
Cross-currency swap contracts	–	91
Embedded derivatives	–	1
Other	2	2
	2	95
Non-current		
Cross-currency swap contracts	47	–
Other	35	17
	82	17

20. ISSUED CAPITAL

	2011 $million	2010 $million
944,469,750 (2010: 874,991,455) listed ordinary shares, fully paid	6,392	5,514
83,000 (2010: 83,000) ordinary shares, paid to one cent	–	–
	6,392	5,514

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

	Note	2011 Number of shares	2010 Number of shares	2011 $million	2010 $million
Movement in fully paid ordinary shares					
Balance at 1 January		874,991,455	831,834,626	5,514	4,987
Shares issued in Eastern Star Gas Limited ("ESG") acquisition	20(A)	51,200,158	–	673	–
Santos ESG Employee Incentive Plan	20(A)	2,002,362	–	10	–
Santos Dividend Reinvestment Plan ("DRP")	20(B)	8,629,248	2,556,328	108	34
DRP underwriting agreement	20(B)	6,498,096	–	75	–
Institutional placement	20(C)	–	39,840,637	–	493
Santos Employee Share1000 Plan	30(A)	171,750	–	2	–
Santos Employee ShareMatch Plan	30(A)	639,420	–	9	–
Shares issued on exercise of options	30(B)	65,668	25,668	1	–
Shares issued on vesting of Share Acquisition Rights	30(A,B)	271,593	725,652	–	–
Santos Executive Share Plan	30(E)	–	5,000	–	–
Non-executive Director Share Plan	30(F)	–	3,544	–	–
Balance at 31 December		944,469,750	874,991,455	6,392	5,514

Fully paid ordinary shares carry one vote per share, which entitles the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. The market price of the Company's ordinary shares on 31 December 2011 was $12.24 (2010: $13.15).

20. ISSUED CAPITAL (CONTINUED)

(A) SHARES ISSUED IN EASTERN STAR GAS LIMITED ACQUISITION

Santos acquired Eastern Star Gas Limited ("ESG") during the year (refer note 25). The consideration included the issue of 0.06881 Santos Limited shares for each ESG share on issue. On completion of the Scheme of Arrangement on 17 November 2011, 51,200,158 fully paid ordinary shares were issued and $673 million was credited to the Company's capital account. In addition, 2,002,362 restricted shares were issued to ESG employees to replace their existing ESG employee incentive plan shares. During the year, $10 million was received in respect of repayment of loans in relation to these shares.

In the period between the acquisition date and the date of shares being issued, the loans in respect of 316,525 restricted shares were paid in full to ESG by ESG employees.

Refer notes 25 and 30(C) for further details.

(B) SANTOS DIVIDEND REINVESTMENT PLAN

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Dividend Record Date. At this time, the Board has determined that a 2.5% discount will apply to the Santos Dividend Reinvestment Plan on the final dividend for the year ended 31 December 2011. The last date for the receipt of an election notice to participate in the Santos Dividend Reinvestment Plan is the record date, 1 March 2012. The Santos Dividend Reinvestment Plan was fully underwritten for the 2011 interim dividend.

(C) INSTITUTIONAL PLACEMENT

On 17 December 2010 the Company announced a fully underwritten institutional placement at an offer price of $12.55 per share. As a result, 39,840,637 fully paid ordinary shares were allotted to institutional investors of the Company on 24 December 2010. $500 million cash received from the institutional placement was credited and transaction costs, net of tax, of $7 million were debited to the Company's capital account.

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to meet its objectives with various stakeholders, and to maintain an efficient capital structure. In order to maintain a prudent long-term capital structure the Group may adjust its distribution policy, return capital to shareholders, issue new shares or undertake corporate initiatives.

The Group manages its capital structure with a primary objective to maintain an investment grade credit rating. A number of metrics are used to monitor the capital structure including financial ratios measuring Funds from Operations to Debt ("FFO-to-Debt") and Debt divided by EBITDA ("Debt-to-EBITDA"). The Group monitors these capital structure metrics on a forecast and actual results basis.

During 2011, Santos Limited maintained a corporate credit rating of BBB+ from Standard & Poor's. The credit rating was placed on "negative outlook" in January 2011 following the Group's announcement of the final investment decision on the Gladstone LNG project and this rating outlook remains in place.

21. RESERVES AND RETAINED EARNINGS	Translation reserve $million	Fair value reserve $million	Hedging reserve $million	Total $million
Reserves				
Balance at 1 January 2010	(281)	(2)	–	(283)
Net exchange loss on translation of foreign operations	(141)	–	–	(141)
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	93	–	–	93
Net decrease in fair value of available-for-sale financial assets	–	(1)	–	(1)
Net gain on derivatives designated as cash flow hedges	–	–	2	2
Balance at 31 December 2010	(329)	(3)	2	(330)
Balance at 1 January 2011	**(329)**	**(3)**	**2**	**(330)**
Net exchange gain on translation of foreign operations	**6**	**–**	**–**	**6**
Net loss on foreign currency loans designated as hedges of net investments in foreign operations	**(14)**	**–**	**–**	**(14)**
Impairment of available-for-sale financial assets reclassified to the income statement	**–**	**3**	**–**	**3**
Net loss on derivatives designated as cash flow hedges	**–**	**–**	**(16)**	**(16)**
Balance at 31 December 2011	**(337)**	**–**	**(14)**	**(351)**

Nature and purpose of reserves

Translation reserve

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

Fair value reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Retained earnings

	2011 $million	2010 $million
Balance at January	**2,421**	2,263
Net profit after tax	**753**	500
Net actuarial loss on the defined benefit plan	**(10)**	(1)
Share-based payments	**25**	9
Dividends paid	**(263)**	(350)
Balance at 31 December	**2,926**	2,421

22. DIVIDENDS

	Dividend per share $	Total $million	Franked/ unfranked	Payment date
Dividends recognised during the year				
Dividends recognised during the year by the Company are:				
2011				
Interim 2011 ordinary	**0.15**	**132**	**Franked**	**30 Sep 2011**
Final 2010 ordinary	**0.15**	**131**	**Franked**	**31 Mar 2011**
	0.30	**263**		
2010				
Interim 2010 ordinary	0.22	184	Franked	6 Oct 2010
Final 2009 ordinary	0.20	166	Franked	31 Mar 2010
	0.42	350		

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

	Dividend per share $	Total $million	Franked/ unfranked	Payment date
Dividends declared in respect of the year				
Dividends declared in respect of the year by the Company are:				
2011				
Final 2011 ordinary*	**0.15**	**142**	**Franked**	**30 Mar 2012**
Interim 2011 ordinary	**0.15**	**132**	**Franked**	**30 Sep 2011**
	0.30	**274**		
2010				
Final 2010 ordinary	0.15	131	Franked	31 Mar 2011
Interim 2010 ordinary	0.22	184	Franked	6 Oct 2010
	0.37	315		

* *After the reporting date, the final 2011 ordinary dividend of $0.15 per share was proposed by the Directors. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2011 and will be recognised in subsequent financial reports.*

	2011 $million	2010 $million
Dividend franking account		
30% franking credits available to the shareholders of Santos Limited for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December	**994**	919

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by $61 million (2010: $56 million).

23. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Santos Limited by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Santos Limited by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows:

	2011 $million	2010 $million
Earnings used in the calculation of basic and diluted earnings per share	**753**	500

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

	2011	2010
	Number of shares	
Basic earnings per share	**888,063,443**	836,953,667
Partly paid shares	**63,885**	66,906
Executive share options	**498,386**	479,133
Share acquisition rights	**2,777,746**	2,938,582
Diluted earnings per share	**891,403,460**	840,438,288

	2011 ¢	2010 ¢
Earnings per share attributable to the equity holders of Santos Limited		
Basic earnings per share	**84.8**	59.7
Diluted earnings per share	**84.5**	59.5

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan and Share Acquisition Rights ("SARs") issued to eligible executives and employees have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2011. The number of shares included in the calculation is that assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price. The weighted average number of shares used for the purposes of calculating diluted earnings per share in 2010 was retrospectively adjusted for the effect of a 2.5% discount applicable to the Dividend Reinvestment Plan from the annual dividend for the year ended 31 December 2010 (refer note 20(B)).

During the year 65,668 (2010: 25,668) options, 271,593 (2010: 725,652) SARs and nil (2010: 5,000) partly paid shares were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 72,138 (2010: 239,364).

During the year 226,568 (2010: 43,433) options and 390,704 (2010: 61,855) SARs lapsed. The diluted earnings per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options and SARs lapsed. The weighted average number included is 154,202 (2010: 39,395).

24. CONSOLIDATED ENTITIES

Name	Country of incorporation
Santos Limited (Parent Entity)	AUS
Controlled entities[1]:	
Alliance Petroleum Australia Pty Ltd[2]	AUS
Basin Oil Pty Ltd	AUS
Boston L.H.F. Pty Ltd[5]	AUS
Bridgefield Pty Ltd	AUS
Bridge Oil Developments Pty Ltd[2]	AUS
Bronco Energy Pty Ltd	AUS
Canso Resources Pty Ltd	AUS
Coveyork Pty Ltd	AUS
Doce Pty Ltd	AUS
Eastern Star Gas Ltd[3]	AUS
Controlled entities of Eastern Star Gas Ltd	
Betel Gas Pty Ltd[3]	AUS
Eastern Star Gas Holdings Pty Ltd[3]	AUS
Controlled entities of Eastern Star Gas Holdings Pty Ltd	
Eastern Star Gas LNG Pty Ltd[3]	AUS
Eastern Star Gas Pipeline Pty Ltd[3]	AUS
Eastern Star Gas Sales Pty Ltd[3]	AUS
Eastern Star Operations Pty Ltd[3]	AUS
Hillgrove Energy Pty Ltd[3]	AUS
Narrabri Energy Pty Ltd[3]	AUS
Controlled entities of Narrabri Energy Pty Ltd	
Eastern Energy Australia Pty Ltd[3]	AUS
Sulu Resources Pty Ltd[3]	AUS
Tooncomet Pty Ltd[3]	AUS
Narrabri Power Pty Ltd[3]	AUS
Fairview Pipeline Pty Ltd	AUS
Farmout Drillers Pty Ltd	AUS
Gidgealpa Oil Pty Ltd	AUS
Kipper GS Pty Ltd	AUS
Controlled entities of Kipper GS Pty Ltd	
Santos Carbon Pty Ltd	AUS
Controlled entity of Santos Carbon Pty Ltd	
SB Jethro Pty Ltd	AUS
Moonie Pipeline Company Pty Ltd	AUS
Reef Oil Pty Ltd[2]	AUS
Santos Asia Pacific Pty Ltd	AUS
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Sampang) Pty Ltd	AUS
Santos (Warim) Pty Ltd	AUS
Santos Australian Hydrocarbons Pty Ltd	AUS
Santos (BOL) Pty Ltd[2]	AUS
Controlled entity of Santos (BOL) Pty Ltd	
Bridge Oil Exploration Pty Ltd	AUS
Santos CSG Pty Ltd	AUS
Santos Darwin LNG Pty Ltd[2]	AUS
Santos Direct Pty Ltd	AUS
Santos Facilities Pty Ltd	AUS
Santos Finance Ltd	AUS
Santos GLNG Pty Ltd	AUS
Controlled entity of Santos GLNG Pty Ltd	
Santos GLNG Corp	USA
Santos (Globe) Pty Ltd	AUS
Santos International Holdings Pty Ltd	AUS
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Ltd	PNG
CJSC South Petroleum Company[1]	KGZ
Lavana Ltd	PNG
Sanro Insurance Pte Ltd	SGP
Santos Americas and Europe Corporation	USA
Controlled entities of Santos Americas and Europe Corporation	
Santos TPY Corp	USA

Name	Country of incorporation
Controlled entities of Santos TPY Corp	
Santos Queensland Corp	USA
Santos TOG Corp	USA
Controlled entities of Santos TOG Corp	
Santos TOGA Pty Ltd	AUS
Santos TPY CSG Corp	USA
Santos Bangladesh Ltd	GBR
Santos (BBF) Pty Ltd	AUS
Controlled entities of Santos (BBF) Pty Ltd	
Santos (SPV) Pty Ltd	AUS
Controlled entity of Santos (SPV) Pty Ltd	
Santos (Madura Offshore) Pty Ltd	AUS
Santos (Donggala) Pty Ltd	AUS
Santos Egypt Pty Ltd	AUS
Santos EOM Pty Ltd *(previously Santos (Nth Bali I) Pty Ltd)*	AUS
Santos Hides Ltd	PNG
Santos International Pte Ltd[4]	SGP
Santos International Operations Pty Ltd	AUS
Santos International Ventures Pty Ltd	AUS
Santos Niugini Exploration Ltd	PNG
Santos OIG Pty Ltd *(previously Santos (Bawean) Pty Ltd)*	AUS
Santos (Papalang) Pty Ltd	AUS
Santos Petroleum Ventures B.V.	NLD
Santos (Popodi) Pty Ltd	AUS
Santos Sangu Field Ltd *(previously Cairn Energy Sangu Field Ltd)*	GBR
Santos Vietnam Pty Ltd	AUS
Zhibek Resources Ltd[1]	GBR
Santos (JBJ1) Pty Ltd	AUS
Controlled entities of Santos (JBJ1) Pty Ltd	
Santos (JBJ2) Pty Ltd	AUS
Controlled entity of Santos (JBJ2) Pty Ltd	
Shaw River Power Station Pty Ltd	AUS
Santos (JPDA 06-104) Pty Ltd	AUS
Santos (JPDA 91-12) Pty Ltd	AUS
Santos (NARNL Cooper) Pty Ltd[2]	AUS
Santos (N.T.) Pty Ltd	AUS
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Ltd	AUS
Santos Offshore Pty Ltd[2]	AUS
Santos Petroleum Pty Ltd[2]	AUS
Santos QNT Pty Ltd[2]	AUS
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd[2]	AUS
Santos Petroleum Operations Pty Ltd	AUS
TMOC Exploration Pty Ltd	AUS
Santos QNT (No. 2) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Moonie Oil Pty Ltd	AUS
Petromin Pty Ltd	AUS
Santos (299) Pty Ltd *(in liquidation)*	AUS
Santos Exploration Pty Ltd	AUS
Santos Gnuco Pty Ltd	AUS
Santos Upstream Pty Ltd	AUS
Santos TPC Pty Ltd	AUS
Santos Wilga Park Pty Ltd	AUS
Santos Resources Pty Ltd	AUS
Santos (TGR) Pty Ltd	AUS
Santos Timor Sea Pipeline Pty Ltd	AUS
Sesap Pty Ltd	AUS
Vamgas Pty Ltd[2]	AUS

24. CONSOLIDATED ENTITIES (CONTINUED)

Notes

1. *Beneficial interests in all controlled entities are 100%, except:*
   - *CJSC South Petroleum Company (70%); and*
   - *Zhibek Resources Ltd (75%).*
2. *Company is party to a Deed of Cross Guarantee. Refer note 37.*
3. *Company acquired during the year. Refer note 25.*
4. *Company incorporated during the year.*
5. *Company sold 8 February 2012.*

Country of incorporation

AUS – Australia
GBR – United Kingdom
KGZ – Kyrgyz Republic
NLD – Netherlands
PNG – Papua New Guinea
SGP – Singapore
USA – United States of America

25. ACQUISITION OF SUBSIDIARIES

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

Name of entity	Date of acquisition	Beneficial interest %	Purchase consideration $million	Contribution to consolidated profit since acquisition $million
Eastern Star Gas Limited Group*	28 Oct 2011	**100**	**722**	**(2)**

* *Eastern Star Gas Limited and its controlled entities are included at note 24.*

On 28 October 2011, Santos obtained control of Eastern Star Gas Limited ("ESG") through the acquisition of the remaining 79.1% of ESG's outstanding ordinary shares via a Scheme of Arrangement ("the Scheme"). As a result, the Group's equity interest in ESG increased from 20.97% to 100%. ESG is focussed on the exploration of coal seam gas in Australia. At the time of acquisition, ESG's main activity was the Narrabri Gas Project, which is located in Petroleum Exploration Licence ("PEL") 238 adjacent to the township of Narrabri in New South Wales. At the time of acquisition ESG held a 65% interest in PEL 238, with the Group holding the remaining 35%. If the acquisition had occurred on 1 January 2011 the Group's revenue would have increased by $5 million and the net profit attributable to equity holders of Santos Limited would have reduced by $20 million. This acquisition has been provisionally accounted for at reporting date, as the fair value of the net assets acquired has not been finally determined.

25. ACQUISITION OF SUBSIDIARIES (CONTINUED)	Carrying amounts $million	Fair value adjustments $million	Recognised values $million
The following summarises the recognised amounts of assets acquired and liabilities aswsumed at the acquisition date:			
Cash and cash equivalents	35	–	35
Receivables	4	–	4
Prepayments	10	(10)	–
Petroleum maintenance inventory	4	–	4
Other financial assets	–	1	1
Exploration and evaluation assets	166	739	905
Other land, buildings, plant and equipment	28	(2)	26
Payables	(12)	–	(12)
Other financial liabilities	–	(8)	(8)
Interest-bearing liabilities	(11)	–	(11)
Employee provisions	(1)	–	(1)
Restoration provision	(10)	–	(10)
Deferred tax asset/(liability)	202	(220)	(18)
Net identifiable assets and liabilities	415	500	915
Fair value of Santos equity interest in ESG before acquisition (refer note 26)			(193)
			722

Acquisition-date fair value of consideration transferred:

	$million
Shares issued	673
Share-based payments	14
Cash paid	35
Total consideration transferred	722

The consideration transferred was $722 million and comprised an issue of equity instruments and cash. The Group issued 53,202,520 Santos ordinary shares to ESG shareholders. Of these, 50,883,633 shares were recognised at fair value of $13.20 per share, based on the quoted price of the shares of Santos Limited at acquisition date (refer note 20(A)) and the remaining 2,318,887 shares relate to restricted shares under the ESG employee incentive plan. These shares were valued using a Monte Carlo simulation method at $14 million (refer note 30(C)).

Reconciliation to cash (inflow)/outflow from payments for acquisition of controlled entities:

	$million
Cash paid	35
Net cash acquired	(35)
Total cash paid for current year acquisition	–
Consideration received for previous acquisition*	(3)
Net consolidated cash inflow	(3)

* *An amount of $3 million was received during 2011 from the completion of the 2010 Santos Sangu Field Ltd acquisition.*

During the year ended 31 December 2010, the Group acquired 100% beneficial interest in Santos Sangu Field Ltd for $1 million.

26. INVESTMENT IN AN ASSOCIATE

			Ownership interest			
Company	**Country**	**Principal activity**	**2011 %**	2010 %	**2011 $million**	2010 $million
Eastern Star Gas Limited	Australia	Oil and gas	**100**	20.97	**–**	208

On 28 October 2011, Santos obtained control of Eastern Star Gas Limited ("ESG") through the acquisition of the remaining 79.1% of ESG's outstanding ordinary shares via a Scheme of Arrangement. As a result, the Group's equity interest in ESG increased from 20.9% to 100% (refer note 25).

	2011 $million	2010 $million
Movement in the carrying amount of the Group's investment in an associate		
Balance at 1 January	**208**	177
Purchase of investment in associate	**–**	33
Share of net losses, after tax	**(9)**	(2)
Fair value adjustment for step-up acquisition from associate to subsidiary	**(6)**	–
Consideration for step-up acquisition from associate to subsidiary (refer note 25)	**(193)**	–
Balance at 31 December	**–**	208

Fair value of the Group's investment in listed associate

Market value of the Group's investment in ESG based on the closing share price on 31 December	**–**	173

Summarised financial information

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

	2011 $million	2010 $million
The Group's share of the associate's statement of financial position		
Total assets	**–**	212
Total liabilities	**–**	(4)
Net assets	**–**	208
The Group's share of the associate's income statement		
Revenue	**1**	1
Net loss after tax	**(9)**	(2)

27. INTERESTS IN JOINT VENTURES

(A) JOINT VENTURE ASSETS

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

Joint venture	Cash-generating unit	Principal activities	Interest 2011 %	Interest 2010 %
Oil and gas assets – Producing assets				
Bayu-Undan	Bayu-Undan	Gas and liquids production	**11.5**	11.4
Casino	Casino	Gas production	**50.0**	50.0
Chim Sao[1]	Vietnam (Block 12)	Oil and gas production	**31.9**	31.9
Fairview	GLNG	Gas production	**22.8**	34.2
Halyard/Spar[1]	Varanus Island	Gas production	**45.0**	45.0
John Brookes	Varanus Island	Gas production	**45.0**	45.0
Madura Offshore PSC (Maleo)	Madura PSC	Gas production	**67.5**	67.5
Mereenie	Mereenie	Oil and gas production	**100.0**	65.0
Mutineer-Exeter	Mutineer-Exeter	Oil production	**33.4**	33.4
Reindeer[1]	Reindeer	Gas production	**45.0**	45.0
Roma	GLNG	Gas production	**30.0**	45.0
SA Fixed Factor Area	Cooper Basin	Oil and gas production	**66.6**	66.6
Sampang PSC (Oyong, Wortel)	Sampang PSC	Oil and gas production	**45.0**	45.0
Sangu	Sangu PSC	Gas production	**100.0**	75.0
Stag	Stag	Oil and gas production	**66.7**	66.7
SWQ Unit	Cooper Basin	Gas production	**60.1**	60.1
Oil and gas assets – Assets in development				
GLNG Downstream	GLNG	LNG facilities in development	**30.0**	45.0
Kipper	Kipper	Gas development	**35.0**	35.0
PNG LNG	PNG LNG	Gas and liquids development	**13.5**	13.5
Exploration and evaluation assets				
Caldita/Barossa	–	Contingent gas resource	**40.0**	40.0
Evans Shoal[2]	–	Contingent gas resource	**–**	40.0
PEL1 and 12[3]	–	Contingent gas resource	**65.0**	25.0
Petrel, Tern & Frigate	–	Gas development	**40.0**	40.0
PEL238 and PAL2[3]	–	Contingent gas resource	**80.0**	35.0
PEL238 and PAL2[3]	–	Contingent gas resource	**69.2**	–

1. *Assets transferred from oil and gas assets in development to oil and gas assets in production during the year.*
2. *Interest in Evans Shoal sold in 2011.*
3. *Acquisition of ESG refer note 25.*

27. INTERESTS IN JOINT VENTURES (CONTINUED)

(B) JOINTLY CONTROLLED ENTITIES

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

Joint venture entity	**Interest 2011 %**	Interest 2010 %
CJSC KNG Hydrocarbons	**54.0**	54.0
Darwin LNG Pty Ltd	**11.5**	11.4
Easternwell Drilling Services Holdings Pty Ltd	**50.0**	50.0
GLNG Operations Pty Ltd	**30.0**	60.0
GLNG Property Pty Ltd	**30.0**	–
Lohengrin Pty Ltd	**50.0**	50.0
Papua New Guinea Liquefied Natural Gas Global Company LDC	**13.5**	13.5

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities, which are included in the consolidated financial statements using the proportionate consolidation method of accounting, are as follows:

	2011 $million	2010 $million
Current assets	**570**	109
Non-current assets	**822**	468
Total assets	**1,392**	577
Current liabilities	**507**	43
Non-current liabilities	**713**	350
Net assets	**172**	184
Revenue	**362**	290
Expenses	**(326)**	(250)
Profit before income tax	**36**	40

(C) JOINT VENTURE COMMITMENTS

The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:

Capital expenditure commitments	**4,458**	1,692
Minimum exploration commitments	**126**	140

28. NOTES TO THE STATEMENT OF CASH FLOWS	2011 $million	2010 $million
(A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after income tax	**751**	498
Add/(deduct) non-cash items:		
Depreciation and depletion	**641**	600
Exploration and evaluation expensed	**58**	46
Net impairment loss on exploration and evaluation assets	**13**	24
Net impairment loss on oil and gas assets	**118**	98
Net impairment loss on other land, buildings, plant and equipment	**1**	13
Net (reversal)/impairment loss on receivables	**(9)**	22
Net losses on fair value hedges	**13**	7
Share-based payment expense	**13**	9
Unwind of the effect of discounting on provisions	**43**	38
Change in fair value of financial assets designated as at fair value through profit or loss	**(8)**	–
Defined benefit plan expense	**2**	2
Foreign exchange (gains)/losses	**(18)**	10
Net gain on sale of exploration and evaluation assets	**(200)**	(59)
Net gain on sale of oil and gas assets	**(329)**	(255)
Net loss on sale of other land, buildings, plant and equipment	**–**	1
Fair value adjustment for step-up acquisition from associate to subsidiary	**6**	–
Share of net loss in an associate	**9**	2
Amortisation of prepaid loan transaction costs	**3**	1
Net cash provided by operating activities before changes in assets or liabilities	**1,107**	1,057
(Deduct)/add change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
Decrease/(increase) in trade and other receivables	**60**	(14)
(Increase)/decrease in inventories	**(17)**	13
Increase in other assets	**(49)**	(45)
Increase/(decrease) in net deferred tax liabilities	**52**	(46)
Increase in current tax liabilities	**126**	260
(Decrease)/increase in trade and other payables	**(46)**	42
Increase in provisions	**20**	6
Net cash provided by operating activities	**1,253**	1,273
(B) NON-CASH FINANCING AND INVESTING ACTIVITIES		
Santos Dividend Reinvestment Plan	**108**	34
Consideration for acquisition of Eastern Star Gas	**687**	–
(C) TOTAL TAXATION PAID		
Income taxes received/(paid)		
Cash (outflow)/inflow from operating activities	**(200)**	71
Cash outflow from investing activities	**(248)**	(67)
Royalty-related taxation paid		
Cash outflow from operating activities	**(157)**	(139)
	(605)	(135)
(D) TOTAL BORROWING COSTS PAID		
Cash outflow from operating activities	**(81)**	(67)
Cash outflow from investing activities	**(132)**	(6)
	(213)	(73)

29. EMPLOYEE BENEFITS

(A) DEFINED BENEFIT PLAN

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

	2011 $million	2010 $million
Amount recognised in the statement of financial position		
Deficit in plan recognised in non-current provisions (refer note 18)	**50**	32
Non-current receivables (refer note 8)	**(23)**	(10)
	27	22
Movements in the liability for net defined benefit obligations recognised in the statement of financial position		
Liability at 1 January	**22**	25
Expense recognised in income statement	**2**	2
Amount capitalised in oil and gas assets	**1**	1
Amount recognised in retained earnings	**14**	1
Employer contributions	**(12)**	(7)
Liability at 31 December	**27**	22
Expense recognised in the income statement		
Service cost	**2**	2
Interest cost	**3**	2
Expected return on plan assets	**(3)**	(2)
	2	2
The expense is recognised in the following line item in the income statement:		
Cost of sales	**2**	2
Amounts recognised in other comprehensive income		
Actuarial loss in the year	**(14)**	(1)
Tax effect	**4**	–
Net actuarial loss in the year	**(10)**	(1)
Cumulative actuarial loss recognised in other comprehensive income, net of tax	**(23)**	(13)

Historical information for the current and previous periods

	2011 $million	2010 $million	2009 $million	2008 $million	2007 $million
Present value of defined benefit obligations	**192**	173	170	175	162
Fair value of plan assets	**(142)**	(141)	(136)	(113)	(146)
Deficit in plan	**50**	32	34	62	16
Experience adjustments loss/(gain) on plan assets	**12**	5	(9)	43	(4)
Experience adjustments gain on plan liabilities	**(2)**	(3)	(7)	(14)	(1)

29. EMPLOYEE BENEFITS (CONTINUED)	2011 $million	2010 $million
(A) DEFINED BENEFIT PLAN (CONTINUED)		
Reconciliation of the fair value of plan assets		
Opening fair value of plan assets	**141**	136
Expected return on plan assets	**10**	9
Actuarial loss	**(12)**	(5)
Employer contributions	**12**	10
Contributions by plan participants	**5**	5
Benefits paid	**(11)**	(12)
Taxes and premiums paid	**(4)**	(3)
Transfers in	**1**	1
Closing fair value of plan assets	**142**	141
Reconciliation of the present value of the defined benefit obligations		
Opening defined benefit obligations	**173**	170
Service cost	**7**	7
Interest cost	**9**	8
Contribution by plan participants	**5**	5
Actuarial (gain)/loss	**13**	(3)
Benefits paid	**(11)**	(12)
Taxes and premiums paid	**(4)**	(3)
Transfers in	**–**	1
Closing defined benefit obligations	**192**	173

	2011 %	2010 %
Plan assets		
The percentage invested in each asset class at the reporting date:		
Australian equity	**28**	28
International equity	**29**	27
Fixed income	**12**	14
Property	**10**	11
Other	**13**	10
Cash	**8**	10

Fair value of plan assets

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

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

	2011 $million	2010 $million
Actual return on plan assets		
Actual return on plan assets – (loss)/gain	**(1)**	3

Expected rate of return on plan assets

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

29. EMPLOYEE BENEFITS (CONTINUED)	2011 % p.a.	2010 % p.a.

(A) DEFINED BENEFIT PLAN (CONTINUED)

Principal actuarial assumptions at the reporting date (expressed as weighted average)		
Discount rate	**3.4**	4.8
Expected rate of return on plan assets	**7.3**	7.0
Expected average salary increase rate over the life of the plan	**6.0**	6.0

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

Expected contributions

The Group expects to contribute $5 million to the defined benefit superannuation plan in 2012.

(B) DEFINED CONTRIBUTION PLANS

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $8 million (2010: $9 million).

30. SHARE-BASED PAYMENT PLANS

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS

The Company operated two general employee share plans in 2011:

- Share1000, governed by the Santos Employee Share Acquisition Plan rules ("Share1000 Plan"); and
- ShareMatch, governed by the ShareMatch Plan rules ("ShareMatch Plan").

Broadly, the Share1000 Plan and the ShareMatch Plan provide for Australian-resident permanent eligible employees to be entitled to acquire shares under the plans. Eligible employees have the option to participate in either the Share1000 Plan or the ShareMatch Plan. Members of the Santos Leadership Team, Directors of the Company, casual employees, employees on fixed-term contracts and employees on international assignment are excluded from participating in the Share1000 Plan and the ShareMatch Plan.

Share1000 Plan

The Share1000 Plan was introduced in 2010 with the first issue of shares pursuant to the plan being made in 2011. The Share1000 Plan provides for grants of fully paid ordinary shares in the capital of the Company up to a value determined by the Board, being $1,000 per annum per eligible employee. A trustee funded by the Group acquires the shares directly from the Company. The trustee holds the shares on behalf of the participants in the plan until the shares are no longer subject to restrictions.

The employee's ownership of shares allocated under the Share1000 Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the three-year restriction period and the time when he or she ceases to be an employee. During the restriction period, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

The following shares were issued pursuant to the Share1000 Plan during the period:

	2011	
Date	**Issued shares Number**	**Fair value per share $**
4 January 2011	**82,200**	**13.1974**
4 July 2011	**89,550**	**13.3026**
	171,750	

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the Australian Securities Exchange ("ASX") during the week up to and including the date of issue of the shares.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

The amounts recognised in the financial statements of the Group in relation to the Share1000 Plan during the year were:

	2011 $000	2010 $000
Employee expenses	2,275	–
Issued ordinary share capital	2,275	–

ShareMatch Plan

The ShareMatch Plan was also introduced in 2010 as an alternative to the Share1000 Plan with the first issue of shares pursuant to the plan being made in 2011. The ShareMatch Plan provides an opportunity for eligible employees to purchase shares through salary sacrifice, up to a maximum value of $5,000, and to receive a matched Share Acquisition Right ("SAR") at a ratio set by the Board and with vesting subject to conditions of service. The salary sacrifice is repayable over a maximum twelve-month period. In 2011, the ratio was one matched SAR for each share purchased.

The employee's ownership of shares allocated under the ShareMatch Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period (which will be approximately three, five or seven years from the date of the offer, depending on any election made by the employee) and the time when he or she ceases to be an employee. During the restriction period, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

The following shares were issued pursuant to the ShareMatch Plan during the period:

	2011	
Date	Issued shares Number	Fair value per share $
4 January 2011	307,401	13.1974
4 July 2011	332,019	13.3026
	639,420	

359 shares issued in the 4 January 2011 tranche were forfeited and reallocated in the 4 July 2011 tranche.

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the ASX during the week up to and including the date of issue of the shares.

The amounts recognised in the financial statements of the Group in relation to the shares issued under the ShareMatch Plan during the year were:

	2011 $000	2010 $000
Cash and cash equivalents	6,263	–
Loan receivable	2,215	–
Issued ordinary share capital	8,478	–

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

During the financial year, the Company granted 639,779 (2010: nil) matched SARs to eligible employees as set out below. Shares allocated to an employee upon the vesting of matched SARs will be subject to restrictions on dealing until the same restriction date as that which applies to the shares allocated under the ShareMatch Plan (effectively a maximum four-year restriction period from the date the shares are allocated following vesting of the matched SARs). No amount is payable on grant or vesting of the matched SARs.

Grant	Year of grant	End of vesting period	Beginning of the year Number	Granted during the year Number	Lapsed Number	Vested Number	End of the year Number
2011							
R01 – R03	2011	31 Dec 2013	**–**	**307,401**	**(8,141)**	**(1,512)**	**297,748**
R04 – R06	2011	3 Jul 2013	**–**	**332,378**	**(5,414)**	**(375)**	**326,589**
Total			**–**	**639,779**	**(13,555)**	**(1,887)**	**624,337**

The fair value of services received in return for matched SARs granted is measured by reference to the fair value of matched SARs granted. The estimate of the fair value of the services received is measured by discounting the share price on the grant date using the assumed dividend yield for the term of the matched SAR.

	2011	
Matched SARs grant	**R01 – R03**	**R04 – R06**
Fair value at grant date ($)	**12.47**	**12.61**
Share price on grant date ($)	**13.19**	**13.47**
Exercise price ($)	**–**	**–**
Right life (weighted average, years)	**2.5**	**3.0**
Expected dividends (% p.a.)	**2.3**	**2.2**

The amounts recognised in the financial statements of the Group during the financial year in relation to matched SARs issued under the ShareMatch Plan were:

	2011 $000	2010 $000
Employee expenses	**2,196**	–
Retained earnings	**2,196**	–

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME

The Company's Executive Long-term Incentive ("LTI") Programme provides for invitations to be extended to eligible executives selected by the Board. The Programme is governed by the Santos Employee Share Purchase Plan rules in respect of offers of SARs and the Santos Executive Share Option Plan rules in respect of offers of options.

The Santos Executive Share Option Plan rules have been in force since 1997 and the Santos Employee Share Purchase Plan rules have been used as a basis of executive compensation since 2003. Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance or service conditions, on terms and conditions determined by the Board.

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

Upon cessation of employment, unvested SARs and options will in general lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in other circumstances approved by the Board, then a proportion of the unvested SARs or options may vest (and in the case of options become exercisable).

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

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

The 2010 and 2011 LTI Programme offer consisted only of SARs, and eligible executives were granted both Performance Awards and Deferred Awards.

The Remuneration Report outlines changes that have or will be made to the LTI Programme in 2012.

Vesting of Performance Awards

All Performance Awards are subject to hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a three-year performance period to the end of the vesting period. There is no retesting of performance conditions. Each tranche of the Performance Awards vest in accordance with the following vesting schedule, relative to the TSR condition:

TSR percentile ranking	Grants I4 – I6 % of grant vesting	Grants F3 – F5 % of grant vesting
< 50th percentile	–	–
= 50th percentile	50	37.5
51st to 75th percentile	Further 2.0% for each percentile	Further 1.5% for each percentile
≥ 75th percentile	100	Further 1.0% for each percentile

TSR percentile ranking	All other grants % of grant vesting
< 50th percentile	–
= 50th percentile	33.33
51st to 100th percentile	Further 1.33% for each percentile

Vesting of Deferred Awards

Each tranche of the Deferred Awards vests based on continuous service to the vesting date.

During the financial year, the Company granted 1,012,010 (2010: 1,015,166) SARs under the Executive Long-term Incentive Programme to eligible executives as set out below. Shares allocated on vesting of SARs granted in 2011 may be subject to further restrictions on dealing for five or seven years after the original grant date, depending on whether the executive elected to extend the trading restrictions period beyond the vesting date. Shares allocated on the vesting of SARs that were granted prior to 2011 will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Grant	Year of grant	End of vesting period	Beginning of the year Number	Granted during the year Number	Lapsed Number	Vested Number	End of the year Number
2011							
Performance							
I1 – I3	2011	31 Dec 2013	–	577,721	(33,535)	–	544,186
I4 – I6	2011	31 Dec 2013	–	157,232	–	–	157,232
H7	2010	31 Dec 2012	10,000	–	(10,000)	–	–
H4	2010	31 Aug 2013	40,000	–	–	–	40,000
H3	2010	31 Dec 2012	10,000	–	(10,000)	–	–
H1	2010	31 Dec 2012	590,942	–	(101,434)	(7,510)	481,998
G1	2009	31 Dec 2011	378,491	–	(88,549)	(34,663)	255,279
F5	2008	31 Dec 2012	50,403	–	–	–	50,403
F4	2008	31 Dec 2011	50,403	–	–	–	50,403
F3	2008	31 Dec 2010	35,973	–	(4,676)	(31,297)	–
F1	2008	31 Dec 2010	124,305	–	(21,545)	(102,760)	–
Deferred							
DI1 – DI3	2011	1 Mar 2013	–	277,057	(17,747)	–	259,310
H6	2010	7 Nov 2011	15,000	–	–	–	15,000
H5	2009	1 Mar 2012	15,000	–	–	(15,000)	–
H2	2010	7 Nov 2012	290,964	–	(36,629)	(5,051)	249,284
G3	2009	1 Mar 2012	114,377	–	(31,706)	–	82,671
G2	2009	1 Mar 2012	159,155	–	(18,020)	(8,850)	132,285
F2	2007	30 Jun 2010	67,883	–	(3,308)	(64,575)	–
			1,952,896	1,012,010	(377,149)	(269,706)	2,318,051
2010							
Performance							
H7	2010	31 Dec 2012	–	10,000	–	–	10,000
H4	2010	31 Aug 2013	–	40,000	–	–	40,000
H3	2010	31 Dec 2012	–	10,000	–	–	10,000
H1	2010	31 Dec 2012	–	619,008	(21,693)	(6,373)	590,942
G1	2009	31 Dec 2011	399,516	–	(16,000)	(5,025)	378,491
F5	2008	31 Dec 2012	50,403	–	–	–	50,403
F4	2008	31 Dec 2011	50,403	–	–	–	50,403
F3	2008	31 Dec 2010	35,973	–	–	–	35,973
F1	2008	31 Dec 2010	131,119	–	(753)	(6,061)	124,305
E1	2007	31 Dec 2009	331,500	–	–	(331,500)	–
E2	2007	31 Dec 2009	50,000	–	–	(50,000)	–
Deferred							
H6	2010	7 Nov 2012	–	15,000	–	–	15,000
H5	2010	7 Nov 2011	–	15,000	–	–	15,000
H2	2010	1 Mar 2013	–	306,158	(10,035)	(5,159)	290,964
G3	2009	1 Mar 2012	114,377	–	–	–	114,377
G2	2009	1 Mar 2012	170,621	–	(7,739)	(3,727)	159,155
F2	2008	2 May 2011	71,625	–	(309)	(3,433)	67,883
GA1	2007	30 Jun 2010	319,700	–	(5,326)	(314,374)	–
			1,725,237	1,015,166	(61,855)	(725,652)	1,952,896

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

The Company has not granted options over unissued shares under the Executive Long-term Incentive Programme in the past two financial years. The information as set out below relates to options issued under the Executive Long-term Incentive Programme before 2010:

Grant	Year of grant	End of vesting period	Beginning of the year Number	Lapsed Number	Exercised Number	End of the year Number	Exercisable at end of the year Number
2011							
Performance							
G1	2009	31 Dec 2012	**197,959**	**(21,834)**	**–**	**176,125**	**–**
F5	2008	31 Dec 2012	**131,976**	**–**	**–**	**131,976**	**–**
F4	2008	31 Dec 2011	**131,976**	**–**	**–**	**131,976**	**–**
F3	2008	31 Dec 2010	**94,193**	**(12,245)**	**–**	**81,948**	**81,948**
F1	2008	31 Dec 2011	**620,445**	**(137,097)**	**–**	**483,348**	**483,348**
Deferred							
G2	2009	1 Mar 2012	**65,717**	**(8,528)**	**(2,568)**	**54,621**	**–**
F2	2008	1 May 2011	**271,694**	**(22,064)**	**–**	**249,630**	**249,630**
Vested in prior years			**3,381,350**	**(24,800)**	**(63,100)**	**3,293,450**	**3,293,450**
			4,895,310	**(226,568)**	**(65,668)**	**4,603,074**	**4,108,376**
Weighted average exercise price ($)			**12.79**	**15.28**	**10.65**	**12.69**	**12.28**
2010							
Performance							
G1	2009	31 Dec 2012	207,988	(10,029)	–	197,959	–
F5	2008	31 Dec 2012	131,976	–	–	131,976	–
F4	2008	31 Dec 2011	131,976	–	–	131,976	–
F3	2008	31 Dec 2010	94,193	–	–	94,193	–
F1	2008	31 Dec 2011	641,791	(21,346)	–	620,445	10,657
GA2	2007	31 Aug 2010	100,000	–	–	100,000	100,000
Deferred							
G2	2009	1 Mar 2012	67,896	(2,179)	–	65,717	2,568
F2	2008	1 May 2011	281,573	(9,879)	–	271,694	3,416
GA1	2007	30 Jun 2010	59,800	–	–	59,800	59,800
Vested in prior years			3,247,218	–	(25,668)	3,221,550	3,221,550
			4,964,411	(43,433)	(25,668)	4,895,310	3,397,991
Weighted average exercise price ($)			12.80	15.23	10.60	12.79	11.28

The options outstanding at 31 December 2011 have an exercise price in the range of $9.76 to $17.71, and a weighted average remaining contractual life of 5.1 years (2010: 6.1 years).

During the year 65,668 (2010: 25,668) options were exercised. The weighted average share price at the dates of exercise was $12.06 (2010: $13.37).

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

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

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

	2011 **$000**	2010 $000
Issued ordinary share capital	**699**	272

Valuation of SARs – Performance Awards

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received for the Performance Awards are measured based on a Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into a Monte Carlo simulation method. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

The following table includes the valuation assumptions used for Performance Awards SARs granted during the current and prior years:

	2011		2010			
Performance Awards	**I1 – I3**	**I4 – I6**	H1	H3	H4	H7
Fair value at grant date ($)	**10.23**	**12.08**	6.46	6.37	5.97	5.81
Share price on grant date ($)	**16.28**	**16.28**	13.40	13.18	13.18	12.65
Exercise price ($)	**–**	**–**	–	–	–	–
Expected volatility (weighted average, % p.a.)	**46.6**	**46.6**	44.9	44.0	44.0	44.0
Right life (weighted average, years)	**3.0**	**3.0**	2.8	2.1	2.8	2.1
Expected dividends (% p.a.)	**2.3**	**2.3**	3.2	3.2	3.2	3.3
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	**5.1**	**5.1**	4.8	5.1	5.1	4.9

Valuation of SARs – Deferred Awards

The estimate of the fair value of the services received for the Deferred Awards are measured by discounting the share price on the grant date using the assumed dividend yield for the term of the SAR.

The following table includes the valuation assumptions used for Deferred Awards SARs granted during the current and prior years:

	2011	2010		
Deferred Awards	**DI1 – DI3**	H2	H5	H6
Fair value at grant date ($)	**15.25**	11.92	12.30	11.91
Share price on grant date ($)	**16.28**	13.40	12.69	12.69
Exercise price ($)	**–**	–	–	–
Right life (weighted average, years)	**3.0**	3.0	1.0	2.0
Expected dividends (% p.a.)	**2.3**	3.2	3.3	3.3

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Financial statement effect

The amounts recognised in the financial statements of the Group during the financial year in relation to equity-settled share-based payment grants issued under the Executive Long-term Incentive Programme were:

	2011 $000	2010 $000
Employee expenses:		
SARs	**8,011**	6,128
Options	**861**	2,594
Total employee expenses	**8,872**	8,722
Retained earnings	**8,872**	8,722

Cash-settled share-based payments

As a result of the 2009 Entitlement Offer, issued at a 26.9% discount to the closing price of the shares before the announcement of the Entitlement Offer, the Board determined that for every unvested SAR and option as at the time of the Entitlement Offer, eligible senior executives would be entitled to a payment of $1.31 per SAR and option if and when those applicable SARs and options are converted to shares.

The amounts recognised in the financial statements of the Group during the financial year in relation to cash-settled share-based payment grants issued under the Executive Long-term Incentive Programme were:

	2011 $000	2010 $000
Balance of liability at 1 January	**2,112**	2,084
Employee expenses	**367**	828
Revaluation	**(107)**	135
Cash payments	**(321)**	(935)
Balance of liability at 31 December	**2,051**	2,112
Intrinsic value of vested liability	**1,543**	506

(C) SANTOS EASTERN STAR GAS LIMITED EMPLOYEE INCENTIVE PLAN

Under the Eastern Star Gas Limited ("ESG") employee incentive plan eligible ESG employees were granted shares in ESG with interest-free loans extended for terms of up to five years. The shares issued ranked equally with other issued ordinary shares and were not quoted on the ASX as they were subject to trading restrictions while there were loans outstanding ("ESG Plan Shares").

As part of the acquisition of ESG (refer note 25), Santos issued Santos ESG Plan Shares in respect of the ESG Plan Shares for the same consideration as ordinary ESG shares (i.e. 0.06881 Santos shares for each unquoted ESG Plan Share). These Santos ESG Plan Shares are subject to the same terms and conditions as the ESG Plan Shares including trading restrictions until repayment of the loan balance and are not quoted on the ASX while there are loans outstanding. Should the employees not repay the interest-free loans during the term period, they forfeit the shares, which will then be sold on-market. The loans therefore have not been recognised as receivables. Employees are entitled to dividends on these shares while the interest-free loans are outstanding.

Financial statement effect

On 17 November 2011, 2,002,362 shares were granted to eligible ESG employees at a weighted average exercise price of $7.82. In the period from 17 November 2011 to 31 December 2011, employee loans in respect of 1,061,634 shares were repaid at a weighted average exercise price of $7.40, resulting in trading restrictions being lifted on those shares and an increase in the Company's share capital. During the year a total of $10 million employee loans were repaid. At 31 December 2011, loans were still outstanding in respect of 940,728 shares at a weighted average exercise price of $8.28. The weighted average remaining contractual life for the outstanding employee loans in respect of these shares is 1.2 years. The range of exercise prices for shares outstanding at the end of the year was $4.65 to $15.26.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(C) SANTOS EASTERN STAR GAS LIMITED EMPLOYEE INCENTIVE PLAN (CONTINUED)

Santos has recognised share-based payments of $14 million on granting of these shares, which is accounted for as part of the acquisition of ESG (refer note 25).

Valuation of Santos ESG Plan Shares

The fair value of services received in return for shares and interest-free loans granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the services received for these shares and interest-free loans are measured based on a Monte Carlo simulation method. The contractual life of the interest-free loan is used as an input into this model. Expectations of early exercise are incorporated into a Monte Carlo simulation method. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility based on publicly available information.

The following table includes the valuation assumptions used for shares and interest-free loans granted as part of the ESG acquisition:

Santos ESG Plan Shares	**2011**
Grant date	**28 Oct 2011**
Share price on grant date ($)	**13.20**
Expected volatility (weighted average, % p.a.)	**41.0**
Expected dividends (% p.a.)	**2.7**
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	**3.9 – 4.3**

(D) LEGACY PLAN – GENERAL EMPLOYEES

SESAP

The SESAP, governed by the Santos Employee Share Acquisition Plan Rules (“SESAP Rules”), was replaced by the Share1000 Plan (also governed by the SESAP Rules) and the ShareMatch Plan in 2010. No shares have been issued pursuant to the SESAP since 2009.

The SESAP provided for permanent eligible employees with at least a minimum period of service determined by the Directors as at the offer date (one year completed service) to be entitled to acquire shares under the plan. Senior Executives who reported directly to the CEO and Managing Director, participants in the Executive Long-term Incentive Programme, casual employees and Directors of the Company were excluded from participating in this plan. Employees were not eligible to participate under the plan while they were resident overseas unless the Board decided otherwise.

The SESAP provided for the grants of fully paid ordinary shares in the capital of the Company up to a value decided by the Board, being $1,000 per annum per eligible employee. A trustee funded by the Group acquired shares directly from the Company. The trustee holds the shares on behalf of the participants in the plan until the shares are no longer subject to restrictions. Current restrictions on remaining shares held in trust for SESAP will end in 2012.

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

At 31 December 2011, the total number of shares acquired under the plan since its commencement was 2,408,566.

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(E) LEGACY PLAN – EXECUTIVES

Santos Executive Share Plan

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

At the beginning of the financial year there were 83,000 SESP shares on issue. No SESP shares were converted to ordinary shares during the year. During 2010, 5,000 SESP shares were fully paid and $18,450 was received by the Company.

As at 31 December 2011 there were 83,000 (2010: 83,000) plan shares outstanding.

Santos Executive Share Purchase Plan

The Santos Executive Share Purchase Plan ("SESEP") operated in 2003 and 2004, governed by the executive long-term component of the Santos Employee Share Purchase Plan rules. No shares have been issued under the SESEP since 2004. At 31 December 2011, the total number of shares acquired under SESEP since its commencement was 220,912.

The shares allocated pursuant to the SESEP were allotted to a trustee at no cost to participants, to be held on their behalf.

In general, the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board, in its discretion, could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. The shares remain on trust until December 2013 or July 2014, applicable to the 2003 and 2004 grants respectively. During this time, the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. During the period the shares are held on trust, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

(F) NON-EXECUTIVE DIRECTOR SHARE PLAN

In accordance with shareholder approval given at the 2007 Annual General Meeting, the Non-executive Director ("NED") Share Plan was introduced in July 2007. In 2010 and earlier years, Directors who participated in the NED Share Plan elected to sacrifice all or part of their fees in return for an allocation of fully paid ordinary shares of equivalent value. The NED Share Plan therefore did not involve any additional remuneration for participating Directors.

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

The NED Share Plan was suspended in 2011 and accordingly no Non-executive Directors participated in the NED Share Plan in 2011 and no shares were allocated under the plan (2010: 3,544). The amounts recognised in the financial statements of the Group in relation to the NED Share Plan during the year were:

	2011 $000	2010 $000
Employee expenses	–	47
Issued ordinary share capital	–	47

30. SHARE-BASED PAYMENT PLANS (CONTINUED)

(G) AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

The amounts recognised in the financial statements of the Group during the financial year in relation to shares issued under employee share plans are as follows:

	Note	2011 $000	2010 $000
Statement of financial position:			
Current general employee share plans – ShareMatch Plan	30(A)	**8,478**	–
Executive long-term incentive programme:			
Share options	30(B)	**699**	272
Cash-settled	30(B)	**(260)**	(963)
Acquisition of Eastern Star Gas Limited	30(C)	**13,767**	–
		22,684	(691)
Issued capital:			
Current general employee share plans:			
Share1000 Plan	30(A)	**2,275**	–
ShareMatch Plan	30(A)	**8,478**	–
Executive long-term incentive programme – share options	30(B)	**699**	272
		11,452	272
Retained earnings:			
Current general employee share plans – matched SARs	30(A)	**2,196**	–
Executive long-term incentive programme – equity-settled	30(B)	**8,872**	8,722
Acquisition of Eastern Star Gas Limited	30(C)	**13,767**	–
		24,835	8,722
Employee expenses:			
Current general employee share plans:			
Share1000 Plan	30(A)	**(2,275)**	–
Matched SARs	30(A)	**(2,196)**	–
Executive long-term incentive programme:			
Equity-settled	30(B)	**(8,872)**	(8,722)
Cash-settled	30(B)	**(260)**	(963)
		(13,603)	(9,685)
		22,684	(691)

31. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION

	2011 $000	2010 $000
Short-term employee benefits	**10,547**	10,317
Post-employment benefits	**234**	245
Other long-term benefits	**223**	314
Termination benefits	**–**	518
Share-based payments	**2,521**	2,615
	13,525	14,009

(B) LOANS TO KEY MANAGEMENT PERSONNEL

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

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL

Options and SARs holdings

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

Name	Balance at beginning of the year	Granted[1]	Options exercised/ rights vested[2]	Other changes[3]	Sold/ transferred	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
2011									
Options									
Directors									
Knox, David John Wissler	544,974	–	–	(23,510)	–	521,464	257,512	257,512	–
Executives									
Anderson, John Hugh	123,637	–	–	(5,944)	–	117,693	117,693	117,693	–
Baulderstone, James Leslie	91,678	–	–	(5,440)	–	86,238	86,238	86,238	–
Cleary, Peter John	–	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	78,667	–	–	(7,005)	–	71,662	71,662	71,662	–
Macfarlane, Mark Stuart	–	–	–	102,684	–	102,684	102,684	102,684	–
Seaton, Andrew John	–	–	–	22,213	–	22,213	22,213	22,213	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–	–
Total	838,956	–	–	82,998	–	921,954	658,002	658,002	–
SARs									
Directors									
Knox, David John Wissler	136,779	157,232	(31,297)	(4,676)	–	258,038	–	–	–
Executives									
Anderson, John Hugh	41,087	23,953	–	–	–	65,040	–	–	–
Baulderstone, James Leslie	62,303	25,503	–	–	–	87,806	–	–	–
Cleary, Peter John	20,000	24,084	–	–	–	44,084	–	–	–
Eames, Martyn Edward James	46,458	25,015	–	–	–	71,473	–	–	–
Macfarlane, Mark Stuart	–	–	–	84,278	–	84,278	–	–	–
Seaton, Andrew John	–	22,929	–	22,940	–	45,869	–	–	–
Wilkinson, Richard John	61,874	23,776	(15,751)	(69,899)	–	–	–	–	–
Total	368,501	302,492	(47,048)	32,643	–	656,588	–	–	–

1. *SARs granted to executives were granted on 1 March 2011.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of SARs.*
3. *Other changes include:*
   - *(i) Options and SARs which did not vest due to non-fulfilment of vesting conditions and were forfeited during the year.*
   - *(ii) Mr MS Macfarlane held 102,684 options and 84,278 SARs when he was appointed as a key management person on 20 May 2011.*
   - *(iii) Mr AJ Seaton held 24,784 options and 22,940 SARs when he was appointed as a key management person on 1 January 2011; 2,661 of these options were subsequently forfeited.*
   - *(iv) Mr RJ Wilkinson ceased to be a key management person on 3 July 2011.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 30(B).

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Name	Balance at beginning of the year	Granted[1]	Options exercised/ SARs vested[2]	Other changes[3]	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
2010								
Options								
Directors								
Knox, David John Wissler	544,974	–	–	–	544,974	100,000	100,000	–
Executives								
Anderson, John Hugh	123,637	–	–	–	123,637	78,100	78,100	–
Baulderstone, James Leslie	91,678	–	–	–	91,678	50,000	50,000	–
Cleary, Peter John	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	78,667	–	–	–	78,667	25,000	25,000	–
Macfarlane, Mark Stuart	108,682	–	–	(108,682)	–	–	–	–
Wasow, Peter Christopher	–	–	–	–	–	–	–	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–
Total	947,638	–	–	(108,682)	838,956	253,100	253,100	–
SARs								
Directors								
Knox, David John Wissler	186,779	–	(50,000)	–	136,779	–	–	–
Executives								
Anderson, John Hugh	44,527	23,560	(27,000)	–	41,087	–	–	–
Baulderstone, James Leslie	43,107	43,796	(24,600)	–	62,303	–	–	–
Cleary, Peter John	–	20,000	–	–	20,000	–	–	–
Eames, Martyn Edward James	52,215	26,243	(32,000)	–	46,458	–	–	–
Macfarlane, Mark Stuart	44,633	22,456	(27,000)	(40,089)	–	–	–	–
Wasow, Peter Christopher	93,845	41,188	(37,000)	(98,033)	–	–	–	–
Wilkinson, Richard John	65,650	24,424	(28,200)	–	61,874	–	–	–
Total	530,756	201,667	(225,800)	(138,122)	368,501	–	–	–

1. *SARs granted to executives were granted on 2 March 2010 and 15 November 2010.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of SARs.*
3. *(i) Due to a Company restructure, Mr MS Macfarlane ceased to be a key management person on 29 August 2010.*
   (ii) Mr PC Wasow's holding of 98,033 SARs has been removed from the key management personnel disclosure as a result of his retirement from the Company on 31 December 2010.

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 30(B).

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Share holdings

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

Name	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Sold	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2011							
Ordinary shares – fully paid							
Directors							
Borda, Kenneth Charles	68,835	–	2,000	–	1,697	72,532	–
Coates, Peter Roland	27,121	–	4,330	–	534	31,985	–
Dean, Kenneth Alfred	15,583	–	–	–	373	15,956	–
Franklin, Roy Alexander	–	–	–	–	–	–	–
Harding, Richard Michael	2,519	–	–	–	61	2,580	–
Hemstritch, Jane Sharman	14,000	–	–	–	–	14,000	–
Knox, David John Wissler	53,664	31,297	8,700	–	88	93,749	–
Martin, Gregory John Walton	10,750	–	–	–	–	10,750	–
Executives							
Anderson, John Hugh	53,626	–	–	–	–	53,626	–
Baulderstone, James Leslie	24,600	–	–	–	–	24,600	–
Cleary, Peter John	1,971	–	–	(1,971)	–	–	–
Eames, Martyn Edward James	61,780	–	–	–	–	61,780	–
Macfarlane, Mark Stuart	–	–	–	–	38,207	38,207	–
Seaton, Andrew John	–	–	–	–	16,841	16,841	–
Wilkinson, Richard John	93,288	15,751	–	–	(109,039)	–	–
Total	427,737	47,048	15,030	(1,971)	(51,238)	436,606	–

1. *Other changes include:*
   - *(i) Dividend Reinvestment Plan allocations.*
   - *(ii) Mr MS Macfarlane held 38,207 shares when he became a key management person on 20 May 2011.*
   - *(iii) Mr AJ Seaton held 16,789 shares when he became a key management person on 1 January 2011. A further 52 shares were acquired through the Dividend Reinvestment Plan.*
   - *(iv) Mr RJ Wilkinson ceased to be a key management person on 3 July 2011.*

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Name	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2010						
Ordinary shares – fully paid						
Directors						
Borda, Kenneth Charles	67,308	–	–	1,527	68,835	–
Coates, Peter Roland	19,714	–	7,000	407	27,121	–
Dean, Kenneth Alfred	11,638	–	–	3,945	15,583	–
Franklin, Roy Alexander	–	–	–	–	–	–
Harding, Richard Michael	2,441	–	–	78	2,519	–
Hemstritch, Jane Sharman	–	–	–	14,000	14,000	–
Knox, David John Wissler	3,550	50,000	–	114	53,664	–
Martin, Gregory John Walton	3,250	–	7,500	–	10,750	–
Executives						
Anderson, John Hugh	26,626	27,000	–	–	53,626	–
Baulderstone, James Leslie	–	24,600	–	–	24,600	–
Cleary, Peter John	–	–	–	1,971	1,971	–
Eames, Martyn Edward James	29,780	32,000	–	–	61,780	–
Macfarlane, Mark Stuart	11,207	27,000	–	(38,207)	–	–
Wasow, Peter Christopher	67,828	37,000	–	(104,828)	–	–
Wilkinson, Richard John	65,088	28,200	–	–	93,288	–
Total	308,430	225,800	14,500	(120,993)	427,737	–

1. *Other changes include:*
   - *(i) NED Share Plan and Santos Dividend Reinvestment Plan share allocations.*
   - *(ii) Due to a Company restructure, Mr MS Macfarlane ceased to be a key management person on 29 August 2010.*
   - *(iii) Mr PC Wasow's equity holding of 104,828 shares has been removed from the key management personnel disclosure as a result of his retirement from the Company on 31 December 2010.*
   - *(iv) Ms JS Hemstritch held 14,000 shares when appointed as a Director on 16 February 2010.*
   - *(v) A related party of Mr PJ Cleary held 1,971 shares on the date he was appointed as a key management person.*

32. RELATED PARTIES

Identity of related parties

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

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

- note 10 as to amounts owing from other related entities;
- notes 17 and 36 as to Santos Limited's parent company financial guarantees provided for its controlled entities;
- note 24 as to its controlled entities;
- note 26 as to interests in an associate;
- note 27 as to interests in joint ventures; and
- note 31 as to disclosures relating to key management personnel.

33. REMUNERATION OF AUDITORS

	2011 $000	2010 $000
The auditor of Santos Limited is Ernst & Young.		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
An audit or review of the financial report of the entity and any other entity in the Group	**1,600**	1,311
Other services in relation to the entity and any other entity in the Group:		
Other assurance services	**515**	953
Taxation	**77**	11
Other services	**19**	–
	2,211	2,275
Amounts received or due and receivable by overseas related practices of Ernst & Young (Australia) for:		
External audit	**166**	113
Other assurance services	**–**	20
Taxation	**22**	36
Other services	**–**	–
	188	169
Amounts received or due and receivable by overseas non-Ernst & Young audit firms for:		
Audit of financial reports for subsidiaries incorporated overseas	**8**	10

34. COMMITMENTS FOR EXPENDITURE

	2011 $million	2010 $million
The Group has the following commitments for expenditure:		
(A) CAPITAL COMMITMENTS		
Capital expenditure contracted for at reporting date for which no amounts have been provided in the financial statements, payable:		
Not later than one year	**2,346**	933
Later than one year but not later than five years	**1,896**	805
Later than five years	**256**	9
	4,498	1,747
(B) MINIMUM EXPLORATION COMMITMENTS		
Minimum exploration commitments for which no amounts have been provided in the financial statements or capital commitments, payable:		
Not later than one year	**69**	143
Later than one year but not later than five years	**203**	91
Later than five years	**–**	–
	272	234

The Group has certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure.

These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by the Group.

	2011 $million	2010 $million
(C) OPERATING LEASE COMMITMENTS		
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**124**	150
Later than one year but not later than five years	**379**	316
Later than five years	**165**	180
	668	646

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

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

During the year ended 31 December 2011 the Group recognised $82 million (2010: $79 million) as an expense in the income statement in respect of operating leases.

34. COMMITMENTS FOR EXPENDITURE (CONTINUED)	**2011 $million**	2010 $million
(D) FINANCE LEASE COMMITMENTS		
Finance lease commitments are payable as follows:		
Not later than one year	**1**	1
Later than one year but not later than five years	**2**	3
Later than five years	**–**	–
Total minimum lease payments	**3**	4

The Group has finance leases for various items of plant and equipment with a carrying amount of $2 million (2010: $2 million). The leases generally have terms of between three to twelve years with no escalation clauses and no option to renew. Title to the assets passes to the Group at the expiration of the relevant lease periods.

(E) REMUNERATION COMMITMENTS

	2011 $million	2010 $million
Commitments for the payment of salaries and other remuneration under the long-term employment contracts in existence at the reporting date but not recognised in liabilities, payable:		
Not later than one year	**6**	7

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

(F) COMMITMENT ON REMOVAL OF SHAREHOLDER CAP

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

- continue to make payments under its existing Social Responsibility and Community Benefits Programme specified in the deed totalling $60 million over a ten-year period from the date the legislation was enacted. As at 31 December 2011, approximately $32 million (2010: $39 million) remains to be paid over the remainder of the ten-year period through to 29 November 2017.
- continue to maintain the South Australian Cooper Basin asset's Head Office and Operational Headquarters together with other roles in South Australia for ten years subsequent to the date the legislation was enacted. At 31 December 2011, if this condition had not been met, the Company would have been liable to pay approximately $60 million (2010: $70 million) to the State Government of South Australia.

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

35. CONTINGENT LIABILITIES

Kipper gas field development joint venture

Under the Kipper Unit Joint Venture ("KUJV"), Santos has a 35% interest in the Kipper gas and liquids project in the Bass Strait. In October 2006, the parties to the KUJV entered into a "gas-processing agreement" with the Gippsland Basin Joint Venture ("GBJV").

There have been delays to the project and relevant gas production and processing facilities are not yet operational. There is also a dispute as to whether the GBJV parties have, since April 2011, been entitled to payment of a monthly fee under the gas processing agreement. The parties are in commercial discussions regarding the progress of the project.

Having regard to the project status, Santos considers it unlikely that a monthly fee will be payable for the financial year ended 31 December 2011.

Native title

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

36. PARENT ENTITY DISCLOSURES

Selected financial information of the ultimate parent entity in the Group, Santos Limited, is as follows:

	2011 $million	2010 $million
Net profit for the period	**348**	602
Total comprehensive income	**340**	601
Current assets	**3,642**	4,632
Total assets	**11,940**	12,237
Current liabilities	**1,327**	984
Total liabilities	**4,751**	6,028
Issued capital	**6,392**	5,514
Fair value reserve	**–**	(3)
Retained earnings	**797**	698
Total equity	**7,189**	6,209

(A) COMMITMENTS OF THE PARENT ENTITY

The parent entity's capital expenditure commitments and minimum exploration commitments are:		
Capital expenditure commitments	**144**	77
Minimum exploration commitments	**5**	13

(B) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

All interest-bearing loans and borrowings, as disclosed in note 17, with the exception of the finance leases, are arranged mainly through Santos Finance Ltd which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings are guaranteed by Santos Limited.

36. PARENT ENTITY DISCLOSURES (CONTINUED)

(C) CONTINGENT LIABILITIES OF THE PARENT ENTITY

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

37. DEED OF CROSS GUARANTEE

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

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

The subsidiaries subject to the Deed are:

- Alliance Petroleum Australia Pty Ltd;
- Bridge Oil Developments Pty Ltd;
- Reef Oil Pty Ltd;
- Santos (BOL) Pty Ltd;
- Santos Darwin LNG Pty Ltd;
- Santos (NARNL Cooper) Pty Ltd;
- Santos Offshore Pty Ltd;
- Santos Petroleum Management Pty Ltd;
- Santos Petroleum Pty Ltd;
- Santos QNT Pty Ltd;
- Santos QNT (No. 1) Pty Ltd;
- Santos QNT (No. 2) Pty Ltd; and
- Vamgas Pty Ltd.

37. DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the year ended 31 December 2011 of the Closed Group:

	2011 $million	2010 $million
Consolidated income statement		
Product sales	**2,248**	1,970
Cost of sales	**(1,735)**	(1,552)
Gross profit	**513**	418
Other revenue	**347**	130
Other income	**365**	139
Other expenses	**(542)**	(347)
Interest income	**184**	139
Finance expenses	**(234)**	(115)
Profit before tax	**633**	364
Income tax expense	**(124)**	(125)
Royalty-related taxation expense	**(51)**	(24)
Total taxation expense	**(175)**	(149)
Net profit for the period	**458**	215
Consolidated statement of comprehensive income		
Net profit for the period	**458**	215
Other comprehensive income, net of tax:		
Net exchange gains/(losses) on translation of foreign operations	**1**	(22)
Net actuarial loss on defined benefit plan	**(10)**	(1)
Total comprehensive income	**449**	192
Summary of movements in Closed Group's retained earnings		
Retained earnings at 1 January	**958**	1,085
Net profit for the period	**458**	215
Actuarial loss on defined benefit plan, net of tax	**(10)**	(1)
Dividends to shareholders	**(263)**	(350)
Share-based payment transactions	**25**	9
Retained earnings at 31 December	**1,168**	958

37. DEED OF CROSS GUARANTEE (CONTINUED)	2011 $million	2010 $million
Set out below is a consolidated statement of financial position as at 31 December 2011 of the Closed Group:		
Current assets		
Cash and cash equivalents	**3,143**	4,226
Trade and other receivables	**1,072**	891
Inventories	**252**	243
Other financial assets	**8**	3
Tax receivable	**12**	–
Total current assets	**4,487**	5,363
Non-current assets		
Receivables	**25**	11
Other financial assets	**3,237**	2,491
Exploration and evaluation assets	**617**	814
Oil and gas assets	**4,744**	4,402
Other land, buildings, plant and equipment	**147**	134
Deferred tax assets	**4**	4
Total non-current assets	**8,774**	7,856
Total assets	**13,261**	13,219
Current liabilities		
Trade and other payables	**550**	534
Deferred income	**38**	14
Tax liabilities	**95**	171
Provisions	**139**	54
Total current liabilities	**822**	773
Non-current liabilities		
Deferred income	**–**	2
Interest-bearing loans and borrowings	**3,699**	4,819
Deferred tax liabilities	**266**	429
Provisions	**926**	746
Other non-current liabilities	**6**	–
Total non-current liabilities	**4,897**	5,996
Total liabilities	**5,719**	6,769
Net assets	**7,542**	6,450
Equity		
Issued capital	**6,392**	5,514
Reserves	**(18)**	(22)
Retained earnings	**1,168**	958
Total equity	**7,542**	6,450

38. FINANCIAL RISK MANAGEMENT

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

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

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

(A) FOREIGN CURRENCY RISK

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

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

All foreign currency denominated borrowings of Australian dollar ("AUD") functional currency companies are either designated as a hedge of US dollar denominated investments in foreign operations (2011: US$1,001 million; 2010: US$1,021 million), or swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2011: US$1,344 million; 2010: nil). As a result, there were no net foreign currency gains or losses arising from translation of US dollar denominated borrowings recognised in the income statement in 2011.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation, are periodically restated to Australian dollar equivalents, and the associated gain or loss is taken to the income statement. The exception is foreign exchange gains or losses on foreign currency provisions for restoration at operating sites which are capitalised in oil and gas assets.

Based on the Group's net financial assets and liabilities at 31 December 2011, the following table demonstrates the estimated sensitivity to a ± 17 cent movement in the US dollar exchange rate (2010: ± 14 cent) and a ± 9 cent movement in the Euro exchange rate (2010: ± 9 cent) with all other variables held constant, on post-tax profit and equity:

	2011 $million	2010 $million
Impact on post-tax profit:		
AUD/USD +17 cents (2010: +14 cents)	**(26)**	(9)
AUD/USD –17 cents (2010: –14 cents)	**26**	9
AUD/EUR +9 cents (2010: +9 cents)	**–**	–
AUD/EUR –9 cents (2010: –9 cents)	**–**	–
Impact on equity:		
AUD/USD +17 cents (2010: +14 cents)	**(26)**	(9)
AUD/USD –17 cents (2010: –14 cents)	**26**	9
AUD/EUR +9 cents (2010: +9 cents)	**–**	–
AUD/EUR –9 cents (2010: –9 cents)	**–**	–

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The ± 17 cent sensitivity in the US dollar exchange rate and ± 9 cent sensitivity in the Euro exchange rate is the Group's estimate of reasonably possible changes over the following financial year, based on recent volatility experienced in the market.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) MARKET RISK

Cash flow and fair value interest rate risk

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

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes, long-term notes and subordinated debt, respectively. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes. At 31 December 2011, the Group had interest rate swaps with a notional contract amount of $859 million (2010: $856 million).

The net fair value of swaps at 31 December 2011 was $181 million (2010: $130 million), comprising assets of $181 million and liabilities of nil (2010: assets of $131 million and liabilities of $1 million). These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2011, taking into account interest rate swaps, it is estimated that if US London Interbank Offered Rate ("LIBOR") interest rates changed by ±0.42% (2010: ±0.09%), Euro Interbank Offered Rate ("EURIBOR") by ±0.61% (2010: ±0.07%) and Australian Bank Bill Swap reference rate ("BBSW") by ±0.65% (2010: ±0.86%), with all other variables held constant, the impact on post-tax profit and equity would be:

	2011 $million	2010 $million
Impact on post-tax profit as a result of changing interest rates:		
US +0.42%/EU +0.61%/AU +0.65% (2010: US +0.09%/EU +0.07%/AU +0.86%)	**8**	22
US –0.42%/EU –0.61%/AU –0.65% (2010: US –0.09%/EU –0.07%/AU –0.86%)	**(8)**	(22)
Impact on equity as a result of changing interest rates:		
US +0.42%/EU +0.61%/AU +0.65% (2010: US +0.09%/EU +0.07%/AU +0.86%)	**8**	22
US –0.42%/EU –0.61%/AU –0.65% (2010: US –0.09%/EU –0.07%/AU –0.86%)	**(8)**	(22)

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

The sensitivity analysis is based on the Group's reasonable estimate of changes in interest rates over the following financial year and reflects annual interest rate volatility. Changes in interest rates over the following year may be greater or less than the US LIBOR ±0.42%, EURIBOR ±0.61% and the Australian BBSW ±0.65% sensitivity employed in the estimates above.

Cash flow hedge accounting

The Group has issued €1,000 million subordinated notes with an average fixed interest rate of 8.25%.

In order to reduce the variability of the Australian dollar cash flows arising from the Euro principal and interest payments to September 2017, the Group entered into cross-currency interest rate swap contracts in March 2011, under which it has a right to receive interest at fixed Euro rates and pay interest at floating US dollar interest rates. These contracts are in place to cover all remaining principal and interest payments on €950 million of the subordinated notes. The Euro rates were fixed at 8.25% and the fixed US dollar margins range between 5.18% and 5.349%.

€50 million of the subordinated notes have been swapped to a fixed US dollar interest rate of 8.48% for seven years.

The cross-currency interest rate swap contracts are recognised at fair value and all gains and losses attributable to the hedged risks are recognised in the hedge reserve and reclassified into the income statement when the interest expense is recognised.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2011 $million	2010 $million
(B) MARKET RISK (CONTINUED)		
The movement in hedge reserve is as follows:		
Opening balance	**2**	–
Charged to comprehensive income	**(16)**	2
Closing balance	**(14)**	2

Commodity price risk exposure

The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil-price-linked contracts. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2011 the Group has no open oil price swap contracts (2010: nil), and therefore is not exposed to movements in commodity prices on financial instruments. The Group continues to monitor oil price volatility and to assess the need for commodity price hedging.

(C) CREDIT RISK

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

The Group controls credit risk by setting minimum creditworthiness requirements for counterparties, which for banks and financial institutions are based upon their long-term credit rating.

Rating	Approved counterparties	Total credit limit $million	Total exposure* $million	Exposure range $million
AA, AA–	5	9,800	4,695	0 – 1,750
A+, A, A–	12	3,800	929	0 – 314

* *The sum of all cash deposits plus accrued interest, bank account balances, undrawn credit facility limits and derivative mark-to-market gains.*

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

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

At the reporting date there were no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of counterparty default. The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group (excluding investments), which have been recognised on the statement of financial position.

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) LIQUIDITY RISK

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

The following table analyses the contractual maturities of the Group's financial liabilities, and financial assets held to manage liquidity risk. The relevant maturity groupings are based on the remaining period to the contractual maturity date, at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments. Estimated variable interest expense is based upon appropriate yield curves as at 31 December 2011.

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2011				
Financial assets held to manage liquidity risk				
Cash	**3,362**	**–**	**–**	**–**
Derivative financial assets				
Interest rate swap contracts	**41**	**32**	**52**	**25**
Non-derivative financial liabilities				
Trade and other payables	**(1,005)**	**–**	**–**	**–**
Obligations under finance leases	**(1)**	**(2)**	**–**	**–**
Bank loans	**(57)**	**(63)**	**(365)**	**(861)**
Medium-term notes	**(6)**	**(6)**	**(113)**	**–**
Long-term notes	**(202)**	**(44)**	**(230)**	**(702)**
Subordinated debt	**(105)**	**(105)**	**(316)**	**(1,383)**
Derivative financial liabilities				
Cross-currency swap contracts	**21**	**12**	**(36)**	**(143)**
	2,048	**(176)**	**(1,008)**	**(3,064)**
2010				
Financial assets held to manage liquidity risk				
Cash	4,463	–	–	–
Derivative financial assets				
Interest rate swap contracts	40	60	44	10
Non-derivative financial liabilities				
Trade and other payables	(754)	–	–	–
Obligations under finance leases	(1)	(1)	(2)	–
Bank loans	(40)	(43)	(185)	(547)
Medium-term notes	(371)	(6)	(13)	(106)
Long-term notes	(52)	(245)	(486)	(443)
Subordinated debt	(108)	(108)	(323)	(1,523)
Derivative financial liabilities				
Cross-currency swap contracts	(32)	–	(1)	–
	3,145	(343)	(966)	(2,609)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES

The financial assets and liabilities of the Group are all initially recognised in the statement of financial position at their fair value in accordance with the accounting policies in note 1. The fair values of receivables, payables, interest-bearing liabilities and other financial assets and liabilities which are not subsequently measured at fair value approximates their carrying value.

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

Available-for-sale financial assets

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

Derivatives

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

Financial liabilities

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

Interest rates used for determining fair value

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

	2011	2010
	%	%
Derivatives	**0.6 – 5.4**	0.3 – 6.3
Loans and borrowings	**0.6 – 4.8**	0.3 – 6.2

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

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

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

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

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(E) FAIR VALUES (CONTINUED)

The Group held the following financial instruments measured at fair value:

	Total $million	Level 1 $million	Level 2 $million	Level 3 $million
2011				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	**181**	**–**	**181**	**–**
Embedded derivatives	**8**	**–**	**8**	**–**
Available-for-sale financial assets:				
Equity shares	**2**	**2**	**–**	**–**
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	**(1,019)**	**–**	**(1,019)**	**–**
Medium-term notes	**(105)**	**–**	**(105)**	**–**
Cross-currency swap contracts	**(47)**	**–**	**(47)**	**–**
2010				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	131	–	131	–
Embedded derivatives	1	–	1	–
Available-for-sale financial assets:				
Equity shares	1	1	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(960)	–	(960)	–
Medium-term notes	(99)	–	(99)	–
Cross-currency swap contracts	(91)	–	(91)	–
Interest rate swap contracts	(1)	–	(1)	–
Embedded derivatives	(1)	–	(1)	–

During the reporting periods ended 31 December 2011 and 31 December 2010, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

39. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 17 February 2012, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2011 financial year. The dividend has not been provided for in the 31 December 2011 financial statements. Refer to note 22 for dividends declared after 31 December 2011.

Directors' Declaration
For the year ended 31 December 2011

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

1. In the opinion of the Directors:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

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

   (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(A); and

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 2011.

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

Dated this 17th day of February 2012

On behalf of the Board:

Director
Adelaide

Director

Independent Audit Report
to the members of Santos Limited

Report on the Financial Report

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(A), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the company a written Auditor's Independence Declaration, a copy of which is included on page 162 of the Annual Report and referred to in the Directors' Report.

Opinion

In our opinion:

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

   (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 59 to 74 of the Directors' Report for the year ended 31 December 2011. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Santos Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

T S Hammond
Partner
Adelaide
17 February 2012

Liability limited by a scheme approved under Professional Standards Legislation

Auditor's Independence Declaration
to the Directors of Santos Limited

In relation to our audit of the financial report of Santos Limited for the year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

T S Hammond
Partner
Adelaide
17 February 2012

Liability limited by a scheme approved under Professional Standards Legislation

Information for shareholders

NOTICE OF MEETING

The Annual General Meeting of Santos Limited will be held in Hall E at Adelaide Convention Centre, North Terrace, Adelaide, South Australia, on Thursday 3 May 2012 at 10:00 am.

FINAL DIVIDEND

The 2011 final ordinary dividend will be paid on 30 March 2012 to shareholders registered in the books of the Company at the close of business on 1 March 2012 in respect of fully paid shares held at record date.

SECURITIES EXCHANGE LISTING

Santos Limited. Incorporated in Adelaide, South Australia, on 18 March 1954. Quoted on the official list of the Australian Securities Exchange (ordinary shares code STO).

DIRECTORS

PR Coates (Chairman), DJW Knox (Managing Director), KC Borda, KA Dean, RA Franklin, RM Harding, GJW Martin, JS Hemstritch.

SECRETARY

DTJ Lim

CHANGE OF SHAREHOLDER DETAILS

Shareholders can access their current shareholding details and change many of these details online via the Santos Limited website, www.santos.com. The website requires you to quote your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) in order to access this information. Forms are also available to advise the Company of changes relating to change of address, direct crediting of dividends, Tax File Number and Australian Business Number, Annual Report and Sustainability Report mailing preferences and Dividend Reinvestment Plan participation by contacting Computershare Investor Services Pty Limited.

INVESTOR INFORMATION AND SERVICES

Santos website

A wide range of information for investors is available from Santos' website, www.santos.com, including Annual Reports, Sustainability Reports, Full-Year and Interim Reports and Presentations, news announcements, Quarterly Activities Reports and current well information.

Comprehensive archives of these materials dating back to 1997 are available on the Santos website.

Other investor information available on the Santos website includes:

- webcasts of investor briefings;
- an email alert facility where people can register to be notified, free of charge, of Santos' News Announcements via email; and
- an RSS feed of Santos' News Announcements, which allows people to view these announcements using RSS reader software.

The Santos website provides a full history of Santos' dividend payments and equity issues. Shareholders can also check their holdings and payment history via the secure View Shareholding section.

Santos' website also provides an online Conversion Calculator, which instantly computes equivalent values of the most common units of measurement in the oil and gas industry.

Publications

The Annual Report, Interim Report and the Sustainability Report are the major sources of printed information about Santos. Printed copies of the reports are available from the Share Registry or Investor Relations.

SHAREHOLDER ENQUIRIES

Enquiries about shareholdings should be directed to:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, Victoria 3001
Phone: 1300 017 716 (within Australia) or +61 3 9938 4343 (outside Australia)

Email: web.queries@computershare.com

Investor information, other than that relating to a shareholding, can be obtained from:

Investor Relations, Santos Limited
GPO Box 2455
Adelaide, South Australia 5001
Telephone: 08 8116 5000
Email: investor.relations@santos.com

Electronic enquiries can also be submitted through the Contact Us section of the Santos website, www.santos.com.

SHAREHOLDERS' CALENDAR

2011 Full-Year Results announcement
17 February 2012

Ex-dividend date for 2011 full-year dividend
24 February 2012

Record date for 2011 full-year dividend
01 March 2012

Payment date for 2011 full-year dividend
30 March 2012

Annual General Meeting
03 May 2012

2012 Interim Results announcement
17 August 2012

Ex-dividend date for 2012 interim dividend
22 August 2012

Record date for 2012 interim dividend
28 August 2012

Payment date for 2012 interim dividend
28 September 2012

Dates may be subject to change.

QUARTERLY REPORTING CALENDAR

2012 First Quarter Activities Report
19 April 2012

2012 Second Quarter Activities Report
19 July 2012

2012 Third Quarter Activities Report
18 October 2012

2012 Fourth Quarter Activities Report
17 January 2013

Dates are subject to change and are published on the Santos website, www.santos.com.

Securities exchange and shareholder information

Listed on Australian Securities Exchange at 29 February 2012 were 942,493,280 fully paid ordinary shares. Unlisted were 41,500 partly paid Plan 0 shares, 41,500 partly paid Plan 2 shares, 656,459 fully paid ordinary shares issued pursuant to the ShareMatch Plan, 30,430 fully paid ordinary shares held on trust and issued pursuant to the Santos Executive Share Purchase Plan (SESEP), 850,866 restricted fully paid ordinary shares issued to eligible senior executives pursuant to the Santos Employee Share Purchase Plan (SESPP), 46,279 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan (NED Share Plan) and 447,258 restricted fully paid ordinary shares pursuant to the Eastern Star Gas Limited Employee Incentive Plan (ESG Plan).

There were 111,131 holders of all classes of issued ordinary shares (including 5 holders of Plan 0 shares; 5 holders of Plan 2 shares; 1,222 holders of ShareMatch shares; 6 beneficial holders of SESEP shares; 50 holders of restricted shares pursuant to the SESPP; 4 holders of NED Share Plan shares and 20 holders of ESG Plan shares). This compared with 110,382 holders of all classes of issued ordinary shares a year earlier.

On 29 February 2012 there were also 42 holders of 4,294,973 options granted pursuant to the Santos Executive Share Option Plan; 93 holders of 1,983,993 Share Acquisition Rights pursuant to the SESPP and 1,222 holders of 656,459 Share Acquisition Rights pursuant to the ShareMatch Plan.

The listed issued ordinary shares plus the ordinary shares issued pursuant to the SESPP, and the restricted shares issued pursuant to the SESPP, ShareMatch Plan, NED Share Plan and ESG Plan, represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 63.41% of the total voting power in Santos (57.99% on 28 February 2011). The largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 29 February 2012 were:

Name	Number of Shares	%
HSBC Custody Nominees (Australia) Limited	189,130,015	20.07
National Nominees Limited	131,016,416	13.90
J P Morgan Nominees Australia Limited	124,186,664	13.18
Citicorp Nominees Pty Limited	40,775,029	4.33
JP Morgan Nominees Australia Limited <Cash Income A/c>	24,648,671	2.62
AMP Life Limited	11,227,300	1.19
Cogent Nominees Pty Limited	10,868,528	1.15
Cogent Nominees Pty Limited <SL Non Cash Collateral A/c>	9,924,000	1.05
Australian Foundation Investment Company Limited	7,594,362	0.81
Bainpro Nominees Pty Limited	5,666,004	0.60
Cogent Nominees Pty Limited <SMP Accounts>	5,647,009	0.60
Citicorp Nominees Pty Limited <Colonial First State Inv A/c>	5,466,729	0.58
Neweconomy Com Au Nominees	5,050,000	0.54
Queensland Investment Corporation	4,481,724	0.48
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/c>	4,125,743	0.44
Credit Suisse Securities (Europe) Ltd <Collateral A/c>	4,080,000	0.43
Argo Investments Limited	4,009,122	0.43
Morgan Stanley Australia Securities (Nominee) Pty Limited <No 1 Account>	3,439,747	0.36
RTS Nominees Pty Limited	3,118,324	0.33
Mr John Charles Ellice-Flint	2,994,888	0.32
Total:	**597,450,275**	**63.41**

Analysis of Shares – Range of Shares Held

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1–1,000	48,864	43.97	2.53
1,001–5,000	49,475	44.52	12.21
5,001–10,000	8,288	7.46	6.21
10,001–100,000	4,351	3.91	9.33
100,001 and over	153	0.14	69.72
Total	**111,131**	**100.00**	**100.00**
Less than a marketable parcel of $500	2,403		

Substantial Shareholders as disclosed by notices received by the Company as at 29 February 2012:

Name	Number of voting shares held
National Australia Bank Limited	47,708,738

For Directors' Shareholdings see the Directors' Report as set out on page 49 of this Annual Report.

Voting Rights

Every member present in person or by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid ordinary share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

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Glossary

barrel/bbl
The standard unit of measurement for all oil and condensate production. One barrel = 159 litres or 35 imperial gallons.

boe
Barrels of oil equivalent.

carbon dioxide equivalent (CO_2e)
A measure of greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide) with the equivalent global warming potential as carbon dioxide when measured over a specific time.

the company
Santos Ltd and its subsidiaries.

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

contingent resources
Those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent Resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers

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

CSG
Coal seam gas. Predominantly methane gas stored within coal deposits or seams.

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

EBITDAX
Earnings before interest, tax, depreciation, depletion, exploration and impairment

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

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

- Scope 1 – direct greenhouse emissions.
- Scope 2 – indirect greenhouse emissions.

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

joules
Joules are the metric measurement unit for energy.

- A gigajoule (GJ) is equal to 1 joule × 10^9
- A terajoule (TJ) is equal to 1 joule × 10^{12}
- A petajoule (PJ) is equal to 1 joule × 10^{15}

liquid hydrocarbons (liquids)
A sales product in liquid form; for example, condensate and LPG.

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

lost-time injury
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.

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.

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.

mmbtu
Million British Thermal Units.

medical treatment injury
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.

proven reserves (1P)
Reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

proven plus probable reserves (2P)
Reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed Proven plus Probable reserves.

proven, probable plus possible reserves (3P)
Reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

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

Santos
Santos Limited 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 at www.santos.com

Major announcements made in 2011

06 January 2011	Santos pledges $500,000 to assist Queensland flood recovery
10 January 2011	Pre-FEED contracts awarded for Bonaparte LNG
12 January 2011	Santos pledges $50,000 to assist flood recovery in Carnarvon and the Gascoyne region
13 January 2011	GLNG project sanctioned
20 January 2011	2010 Fourth Quarter Activities Report
08 February 2011	Santos increases 2P reserves to 1,445 million barrels
17 February 2011	Santos lifts full-year net profit by 15% to $500 million; underlying net profit up 46% to $376 million
04 April 2011	Gas discovery at Zola in the Carnarvon Basin
19 April 2011	Santos celebrates 50 years of gas production in Roma
20 April 2011	First Quarter Activities Report
05 May 2011	Santos 2011 AGM address
18 May 2011	Santos extends partnership with Darwin Festival
25 May 2011	Santos discovers oil at Finucane South
27 May 2011	Prime Minister launches works on GLNG plant
01 June 2011	Evans Shoal divestment
02 June 2011	Halyard-1 gas comes on line
10 June 2011	Santos farms-in as operator to Carnarvon Basin permits
18 July 2011	Santos to acquire 100% of Eastern Star Gas
21 July 2011	Second Quarter Activities Report
02 August 2011	Appraisal drilling gets underway for Bonaparte LNG
09 August 2011	Santos submission to Senate inquiry into coal seam gas
19 August 2011	Santos lifts half-year net profit by 155% to $504 million; underlying net profit up 12% to $236 million
08 September 2011	Coal seam gas water to boost private farm output
10 October 2011	First oil from Chim Sáo in Vietnam
20 October 2011	Third Quarter Activities Report
28 October 2011	Santos sells interest in Evans Shoal for up to US$350 million
31 October 2011	Santos GLNG Water Portal breaks new ground in environmental excellence and accountability
04 November 2011	Santos secures new gas supply contract to Murrin Murrin
17 November 2011	Santos completes acquisition of Eastern Star Gas
01 December 2011	PNG LNG project update
06 December 2011	First gas from Reindeer/Devil Creek
23 December 2011	Santos secures US$1.2 billion in ECA debt facilities

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We have the energy.

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