

working in partnership

sustainability report 2011





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 our Annual Report 2011.

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

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 Sao	●	No	Oil, gas
		Dua, Chim Sao 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.

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.



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CEO's message

Delivering strong performance in 2011.



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Environment

Reducing our emissions intensity, improving conservation of water resources and biodiversity, and minimising or avoiding waste and incidents.



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Community

Engaging communities and indigenous groups, maintaining our reputation, and recognising our achievements.

Cover: Mark Rodgers, Santos, with landholder David Ronald on his farm near Tamarang in NSW, where an exploration corehole was drilled in 2010.

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

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

report contents



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Our people

Continuing our commitment to corporate governance, our people, safety, health and wellbeing.



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Economic

Delivering strong financial performance, business partnerships, supply chain performance, risk management and security practices.

Fold out

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CEO's message

Sustainability is a concept that encapsulates our approach to doing business in partnership with the communities in which we operate.

For me, sustainability is more than triple bottom line reporting, it is about integrated thinking and planning to ensure we drive and measure our performance against metrics that go beyond traditional economic measures.

Assessing the environmental, social and economic impacts of our company's activities guides the way in which we plan and make business decisions. This ensures we do business in a way that is sustainable – improving outcomes for our shareholders, employees, business partners and the communities in which we operate.

KEY CHALLENGES

Our most important challenge over the short to medium term is to ensure we continue to successfully deliver from our base businesses and, in parallel, deliver our transformational LNG projects safely and sustainably.

Key sustainability issues for us in 2012 include: maintaining our focus on personal and process safety; water and greenhouse gas emissions management; and successful community and landholder relationships.

I am committed to meeting or exceeding the highest legislative, ethical, environmental and social standards – it is both the right thing to do and will help us deliver our projects on time and on budget.

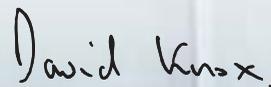
Santos' organisational and governance structure is designed to support growth and build functional excellence. The operating model has three key elements: business units that drive performance; technical disciplines that drive excellence; and a corporate centre that ensures alignment with our overall strategy. All three are managed by the Santos Leadership Team.

MEASURING PERFORMANCE

Updates on our sustainability performance are formally reported to me quarterly via the Environment, Health, Safety and Sustainability Board Committee.

I am pleased to report that in 2011 we maintained our strong performance across our 24 key sustainability indicators.

I invite you to read this report to find more detail on our approach to sustainability and our performance in 2011. Our Annual Report 2011 is designed to complement this Sustainability Report, and provides further detail about Santos' business strategy and financial performance.



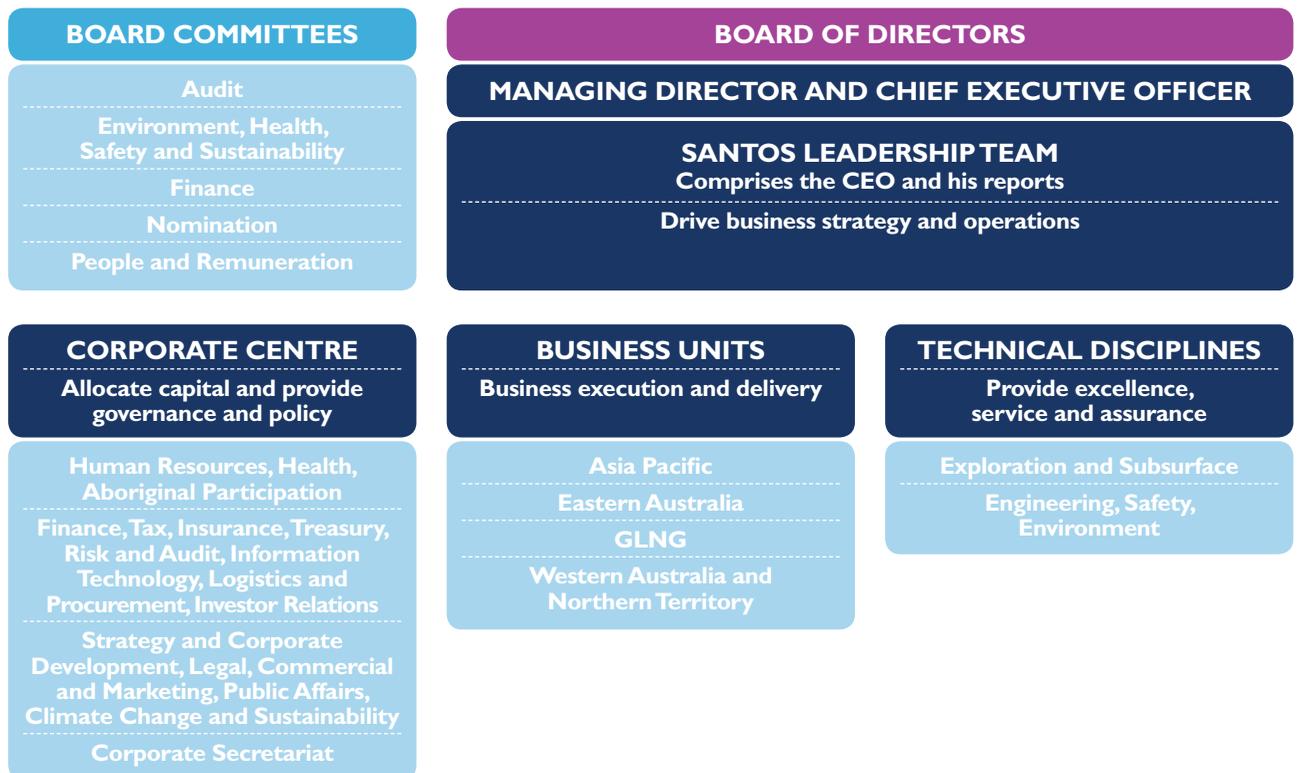
David Knox
Chief Executive Officer
and Managing Director



organisation & leadership team



Santos Leadership Team: James Baulderstone, Petrina Coventry, John Anderson, Trevor Brown, Peter Cleary, David Lim, David Knox, Diana Hoff, Mark Macfarlane, Christian Paech, Martyn Eames and Andrew Seaton.



about this report



This Sustainability Report is a complementary document to the Santos Annual Report 2011, available at www.santos.com.

We value your feedback, so please take the time to complete our online survey at www.santos.com/sustainability.

SUSTAINABILITY REPORTING

This report provides a summary of Santos' sustainability performance in 2011. We launched our first sustainability report in 2004 and now publish a report in March each year as a complementary document to our annual report.

The Annual Report 2011 provides detailed analysis of financial performance and governance, while this Sustainability Report focuses on environmental performance, community engagement and our people. It provides an overview of our company, identifies our key stakeholders and addresses their concerns, summarises our sustainability materiality assessment, and provides an overview of our sustainability scorecard.

We have identified our 24 material sustainability indicators, with six indicators for each of the following four domains:

- environment
- community
- our people
- economic.

This report provides a detailed discussion of our management approach and performance during 2011 for each of these domains. Accompanying data for each indicator are provided on pages 50–54.

The report concentrates on sites operated by Santos globally, and data presented are for these sites unless otherwise stated.

We also provide information on significant joint venture development projects, such as PNG LNG.

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

TRANSPARENT APPROACH

Sustainability reporting is becoming increasingly important as investors become more sophisticated in their analysis of

performance and seek increased clarity on the approach of businesses to sustainability.

Basing our sustainability reporting on the Global Reporting Initiative (GRI) guidelines ensures we assess our performance across widely accepted sustainability indicators and provides a consistent suite of data against which performance can be assessed.

A GRI G3.1 Content Index is available at www.santos.com/sustainability/gri.

The most material sustainability issues for Santos include greenhouse gas emissions management, water use and disposal, and community engagement, particularly with regard to coal seam gas (CSG) development.

ASSURANCE

We commission external assurance of our sustainability reports, sustainability scorecard and greenhouse emissions report. Assurance of this report was undertaken in accordance with AA1000AS (2008).

INTEGRATING SUSTAINABILITY

For Santos, sustainability is not just about reporting – it is about integrating environmental and social considerations into the way we do business.

New development projects require early engagement with stakeholders and careful assessment and management of social and environmental impacts. Good relations with local communities, governments and suppliers are critical to our success and we seek to build lasting relationships with these stakeholders and positive legacy assets in the community.

Santos' sustainability performance is driven by our scorecard indicator owners, who manage and monitor performance against our policies and standards. Improvement targets are reviewed annually and progress is reported quarterly to our Environment, Health, Safety and Sustainability Board Committee.

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

ABOUT SANTOS

Established in 1954, 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.

We are 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.

We have also developed significant oil and liquids businesses in Australia, Indonesia and Vietnam, with recent developments including the Chim São oil project in Vietnam delivered in 2011.

We are pursuing a transformational liquefied natural gas (LNG) strategy and have interests in four LNG projects, including the two-train Santos GLNG Project in Gladstone, Australia. Through our interest in the Darwin LNG project, we have been exporting LNG to Asia since 2006. First LNG shipments are expected from PNG LNG in 2014 and from GLNG in 2015. Our 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, our Australian exploration and production acreage is the largest by area of any company.

We have 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.

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

OUR VALUES

We are a team that:

Discovers

by opening our minds to new possibilities, thinking creatively and having the courage to learn from successes and failures, to take on new challenges, to capture opportunities and to resolve problems.

Delivers

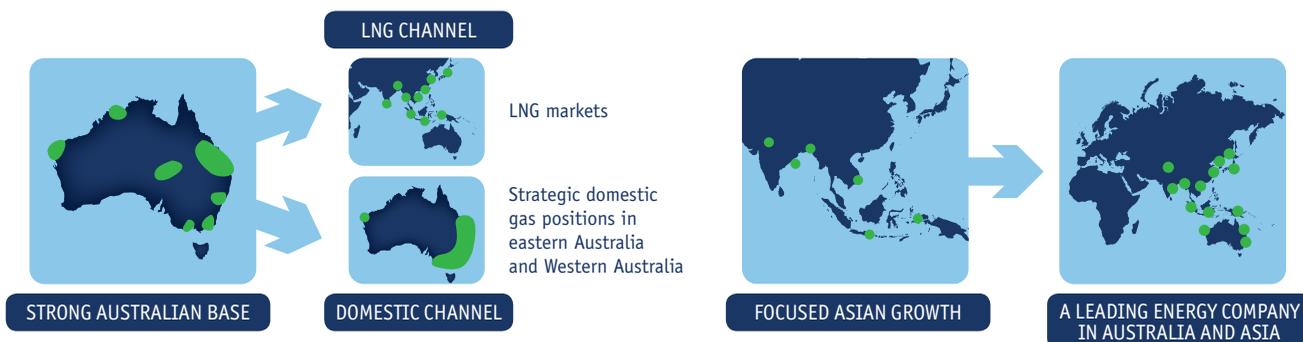
by taking personal responsibility and pride in our work to deliver timely, quality results that benefit Santos and help achieve our vision and strategy.

Collaborates

by recognising the value and power in diversity of thought and communicating openly to understand the perspectives of others; demonstrating leadership by sharing what we know and respectfully challenging each other to achieve the best results for all.

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.



stakeholders & materiality

Dialogue with stakeholders is important to us and we have identified all of our stakeholder groups. The frequency and format of our engagement is tailored to meet business and community needs, and stakeholder feedback is used to guide our business approach.

To guide the focus of this report, we evaluated issues that were material to Santos and of concern to our stakeholders in 2011. A materiality assessment of all 24 of our sustainability indicators

was conducted by an internal working group that rated: stakeholder dialogue; reporting by peers and competitors; regulations; scientific research; opportunities and risks of strategic significance to the company; alignment with our values and core competencies; and contribution to our business strategy.

We understand that all indicators are important, and we are committed to continuous improvement across each of them.

stakeholder group	how we engage	key topics and concerns
Aboriginal groups	Face-to-face meetings, cultural heritage plans, education, training and development programs, sponsorship activities	<ul style="list-style-type: none"> • Business, employment, training and education • Protection of cultural heritage
Customers	Client liaison managers	<ul style="list-style-type: none"> • Reliable supply • Product quality, cost and delivery
Employees, contractors and their trade unions	Intranet, CEO blog, webcast employee sessions, company magazine, employee surveys, annual performance and career development reviews, conferences, health and wellbeing programs, collective workplace agreements	<ul style="list-style-type: none"> • Health and safety • Career development • Communication • Remuneration and benefits • Fair and equitable conditions • Workforce diversity • Our business
Government and industry associations	Publication of submissions on website, face-to-face briefings, active engagement	<ul style="list-style-type: none"> • Government policy • Regulatory and social licences to operate • Corporate social responsibility
Joint venture partners	Project joint operating agreements	<ul style="list-style-type: none"> • Risk mitigation • Security • Financial performance
Local communities, including landholders, non-government organisations and media	Community consultation forums, investment and sponsorship, employee participation and volunteering, educational initiatives, surveys and research, freecall telephone numbers, regional offices, newsletters, company and project websites	<ul style="list-style-type: none"> • Social impacts (including infrastructure, wellbeing, cost of living and employment opportunities) • Land and water resource access and impacts • Community investment and sponsorship • Consultation and communication • Transparency and disclosure
Shareholders and providers of capital	Company website, investor briefings, annual general meeting, annual and sustainability reports, shareholder newsletters, announcements, ASX and press releases	<ul style="list-style-type: none"> • Value creation and distribution • Financial and non-financial risk mitigation • Reserve replacement • Joint venture performance
Suppliers and contractors	Service quality meetings	<ul style="list-style-type: none"> • Supply chain opportunities

We have a strong 50-year track record of safe, sustainable operations, and are committed to working with our stakeholders.

our sustainability indicators

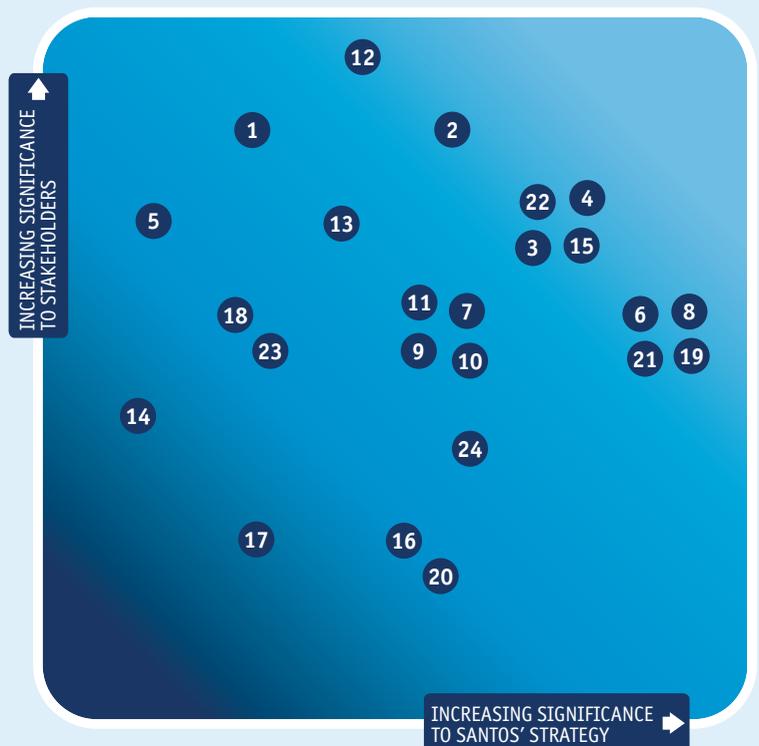
materiality assessment

- 1 Air quality page 10
- 2 Biodiversity and land disturbance
- 3 Climate change management
- 4 Incidents and spills
- 5 Waste management
- 6 Water resources

- 7 Community wellbeing page 20
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- 9 Indigenous rights and cultural heritage
- 10 Product responsibility and reputation
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- 21 New project development and acquisitions
- 22 Risk management
- 23 Security
- 24 Supply chain performance



how we measure performance

ROBUST FRAMEWORK

Santos has developed a company-specific sustainability framework that is based around the assessment of sustainability performance across four interrelated domains: environment, community, our people and economic.

The framework aims to provide a comprehensive and consistent set of tools to assess sustainability performance, integrate sustainability into the way we operate and drive improvement across the business. It has been used to assess performance since 2005 and is reviewed periodically to ensure it remains relevant to stakeholder expectations.

SUSTAINABILITY SCORECARD

Santos' sustainability scorecard is the principal tool that we use to measure our sustainability performance (see page 57). A company-wide assessment is conducted annually on a calendar year basis.

A set of 24 indicators, spread evenly across the four sustainability domains, forms the basis of these assessments. The indicators are based on the GRI G3.1 Guidelines and have been tailored to address sustainability issues that are material to Santos and our stakeholders. The indicators are simplified measures that represent a key element (or elements) of a complex system.

The scorecard is used to assess the status of systems and performance for each indicator according to a challenging and consistent self-assessed 10-point rating system.

We have a detailed reference table for each indicator that describes performance requirements for achieving respective sustainability scores from 'one', indicating poor performance, through to 'eight', indicating high performance, and 'ten', indicating recognised leadership. This scoring system enables comparison of performance across our broad range of indicators.

Annual targets and improvement plans are developed for each indicator to drive improvements in our sustainability performance.

AN INTEGRATED APPROACH

As well as being used for assessing company-wide performance, our scorecard can be applied to the assessment of acquisitions, new country entry and project development.

Our sustainability framework establishes the critical link between the executives responsible for determining and guiding our strategic direction and the people responsible for executing and supporting those strategies.

In addition to the scorecard, we have developed a suite of sustainability management guidelines to raise awareness and drive improvement across our global operations.

environment

2011 target

- Achieve zero environmental incidents of major or greater consequence
- Identify beneficial use opportunities for formation water
- Ensure business preparedness for carbon pricing

2011 performance

- Zero environmental incidents of major or greater consequence achieved
- Beneficial use projects implemented in Queensland
- Carbon pricing systems embedded

Future focus

- Achieve zero environmental incidents of major or greater consequence in 2012
- Implement a centralised system for collection of water, waste and biodiversity data
- Conduct energy efficiency audits of all major facilities by 2015

community

2011 target

- Continue investments in education, health, arts and culture, community wellbeing and the environment
- Deliver mutually beneficial agreements with indigenous groups
- Continue to consult stakeholders and disclose reliable and timely information

2011 performance

- \$15 million invested in organisations, events and initiatives that are valued by and enrich the communities in which we work
- Three new agreements with Aboriginal groups established
- Reliable and timely stakeholder-specific information disclosed

Future focus

- Continue investments in education, health, arts and culture, community wellbeing, the environment and indigenous employment
- Continue to consult stakeholders and disclose reliable and timely information

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

IMPROVED PERFORMANCE

In 2011, we delivered improved sustainability performance in water resources management and safety, while maintaining performance across all other sustainability indicators.

These increased scores represent improvements in management approach and on-ground performance.

In 2011, we improved our water data systems, implemented innovative formation water beneficial use projects, and demonstrated our commitment to transparency, accountability and environmental excellence through the launch of an online water portal (see page 17).

These initiatives drove a sustainability score increase from six to seven for our water resources indicator.

We recorded no high-impact process safety incidents in 2011, and equalled our record low injury rate achieved in 2010. This was

achieved despite a significant 44% increase in work hours in 2011 (see page 37). Combined with effective systems and policies, this high performance drove a sustainability score increase from seven to eight for our safety indicator.

Our climate change sustainability score was maintained at nine, indicating that the implemented policy and procedures are effective and that we are achieving continuous improvement in this space. Our carbon pricing systems were embedded in 2011, and independent audits were conducted on our greenhouse gas data systems and reporting, as well as on our preparedness for a carbon price. Our energy efficiency projects will deliver an estimated annual energy saving of 4.8 PJ (see page 14).

Our biodiversity and land disturbance sustainability performance was rated at seven again this year. This performance was delivered through the ongoing

implementation of systems to minimise and measure disturbance, continued commitment to multi-pad drilling to reduce the number of well pads required, and the ongoing commitment to revegetation and biodiversity offset projects, including the Witchelina Station private nature reserve and our significant offset program in Eastern Queensland. We continue to report and measure land disturbance and rehabilitation progress through our detailed GIS database.

Our 2011 sustainability scorecard assessment has been verified as part of the Sustainability Report 2011 assurance process (see page 56), and is graphically represented on page 57.

Further discussion on our 2011 sustainability performance is provided in the following sections of this report. Detailed performance data are provided on pages 50–54.

our people

2011 target

- Achieve safety TRCFR of less than 3.5
- Continue workforce planning, training and personal development
- Review Santos Code of Conduct

2011 performance

- Safety TRCFR of 3.3 achieved
- Training programs reviewed and refreshed
- Santos Code of Conduct reviewed and policies revised accordingly

Future focus

- Achieve safety TRCFR of less than 3.5 in 2012
- Continue to ensure workforce capability meets the needs of company strategy
- Conduct employee commitment survey in 2012
- Roll out training and awareness programs around the Code of Conduct and associated policies

economic

2011 target

- Significantly advance transformational LNG strategy
- Continue improvement across the supply chain and logistics
- Achieve production guidance of 47 to 50 mmbob

2011 performance

- GLNG final investment decision made
- Zero material supply interruptions achieved
- 47.2 mmbob produced

Future focus

- Deliver LNG projects on time
- Measure participation of Aboriginal enterprises in our supply chain
- Achieve 2012 production guidance of 51 to 55 mmbob

- > **Innovative projects implemented for beneficial use of formation water**
- > **Online water portal launched, demonstrating commitment to transparency, accountability and environmental excellence**
- > **Santos' National Greenhouse and Energy Report independently audited for the third consecutive year**

↓87kt

Reduction in annual greenhouse gas emissions (Scope-1)
86,567 tCO₂e

\$880k

Funding committed to Namoi Catchment Water Study
\$880,000

1.3m

Chinchilla white gums under irrigation in beneficial reuse project
1.3 million

Field Engineer, Paul Michell, near Tirrawarra in the Cooper Basin in South Australia's remote north.



environment

Santos' environmental vision is to lighten our footprint and reduce the carbon intensity of our products.

Our Environment, Health and Safety Management System is applied across all activities to enable us to achieve the objectives detailed in our Environment and Climate Change Policies.

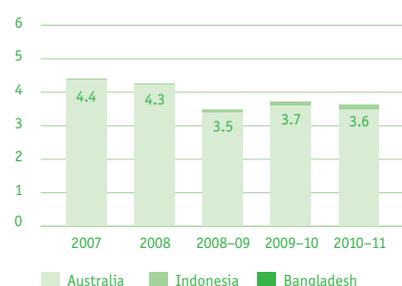
We believe that environmental stewardship is both a management obligation and the responsibility of every employee.



climate change

GREENHOUSE GAS EMISSIONS FROM SANTOS OPERATED ASSETS

million tonnes CO₂e (Scope-1)



Greenhouse gas assurance statement

Total Scope-1 and Scope-2 greenhouse gas emissions for Santos' Australian and international operations for the financial year ended 30 June 2011 were 3,619,880 tonnes of carbon dioxide equivalent (tCO₂e).

Total Scope-2 emissions were 40,466 tCO₂e.

Emissions were determined in accordance with the federal government's *National Greenhouse and Energy Reporting Act 2007* (NGER), *National Greenhouse and Energy Reporting Regulations 2008* and *National Greenhouse and Energy Reporting (Measurement) Determination 2008* as amended on 30 June 2010.

Our emissions profile has been subject to independent limited assurance by Ernst & Young in accordance with International Standard on Assurance Engagements ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. See www.santos.com/sustainability for the Independent Limited Assurance Report (Greenhouse).

COMMITTED TO ACTION ON CLIMATE CHANGE

As a global energy player, we recognise that one of our most important social and environmental responsibilities is to pursue strategies that address our greenhouse gas emissions footprint.

Our approach to reducing the carbon intensity of our operations and products is detailed in our Climate Change Policy. We are committed to publicly disclosing our greenhouse gas emissions profile, identifying energy efficiency opportunities, understanding climate change risk and developing appropriate adaptation strategies for our business.

Santos employees must be conversant with these commitments and are encouraged to drive the implementation of climate change initiatives. Progress against these commitments was reviewed quarterly in 2011 by the Environment, Health, Safety and Sustainability Committee of the Board.

UNDERSTANDING OUR EMISSIONS PROFILE

We have a strong track record of greenhouse gas emissions reporting. We have publicly reported our emissions volume since 2004 and our greenhouse reports are independently audited.

Our emissions sources include fuel use to run vehicles and equipment, flaring and venting, and fugitive emissions. Fugitive emissions include minor losses of gas from flanges, valves and other equipment linkages, and are calculated based on legislated emissions factors.

Santos' policy commitment is to avoid flaring and venting of gas where practicable. Our first priority is to capture gas and send it via pipeline to market.

However, flaring is an important safety mechanism that allows gas to be safely combusted when required for routine maintenance or incident management response.

WELLS



2.7% of emissions

Extraction of unprocessed oil and gas from wells.

Greenhouse gas sources include:

- Fuel use to run plant equipment and power facilities
- Flaring and venting of carbon dioxide and other greenhouse gases
- Minor fugitive emissions.



FIELD PIPELINES



2.8% of emissions

Transport of oil and gas typically by pipeline, but may be by truck, to production facilities.

Greenhouse gas sources include:

- Fuel use to move the oil and gas along the pipeline
- Minor fugitive emissions from pipeline connections, which are calculated via a standard industry emissions factor.



Flaring of gas produces fewer greenhouse gas emissions than venting, as vented methane (CH₄) has a global warming potential of 21. However, when it is combusted (flared) and converted to carbon dioxide (CO₂) it has a significantly lower global warming potential of 1.

Santos' Scope-1 emissions total for our operated facilities is inclusive of emissions from fuel use, flaring, venting and fugitives. We also report our Scope-2 emissions (indirect emissions from purchased electricity) for these facilities.

Emissions are also generated when our products are used; for example, when natural gas is combusted to generate electricity, or when used for residential heating and cooking. These emissions are known as Scope-3 or end-use emissions. Santos Scope-3 emissions are approximately 16.6 mtCO₂e (assumes that all products are combusted).

LOW CARBON ECONOMY

The introduction of a carbon price in Australia from 1 July 2012 is a significant step and provides an opportunity to begin the transition to a low-carbon economy.

Santos is well advanced in its preparations for the carbon price. We have a fully audited greenhouse gas emissions inventory and have integrated a carbon price into our planning processes.

As a leading Australian oil and gas company, we are focused on the emissions efficiency of our product, both in producing it for sale and its end-use. We believe that natural gas has a strong role to play in the global effort to reduce greenhouse gas emissions, through switching from higher emission sources of energy to those that have a lower greenhouse footprint.

Gas-fired power stations produce fewer emissions than coal power stations and together with renewable energy will be fundamental in underpinning this transition.

Upstream emissions – those associated with the extraction and processing of oil and gas – account for less than 18% of the lifecycle emissions of our product.

These emissions percentage calculations are based on Santos' facility data and reallocated to approximate emissions by lifecycle activity. Emission factors have been applied as per the National Greenhouse Factors (2010).

With gas-fired power stations significantly more efficient (0.4 tCO₂e/MWh) than black coal-fired power stations (0.8 tCO₂e/MWh) this means that, even on a lifecycle basis, natural gas is a better low-carbon alternative.

PROCESSING PLANTS



12% of emissions

Separation of oil and gas into saleable products (e.g. methane, ethane, condensate) and removal of water and carbon dioxide.

Greenhouse gas sources include:

- Fuel use to run plant equipment and power facilities
- Flaring and venting of carbon dioxide and other GHGs.



TRANSMISSION PIPELINES



0.2% of emissions

Transport of oil and gas from our facilities to our customers.

Greenhouse gas sources include:

- Fuel use to move the oil and gas along the pipeline
- Minor fugitive emissions from pipeline connections, which are calculated via a standard industry emissions factor:



CUSTOMER USE



82.3% of emissions

Typically, gas is used either to produce electricity or to directly fuel residential heating or cooking.

Emissions associated with the use of our product by our customers are known as Scope-3 emissions.

ENERGY EFFICIENCY OPPORTUNITIES ASSESSMENT LOCATIONS



Assessments conducted by Santos, as operator, on behalf of our joint venture participants. Details of participation can be found in our Annual Report 2011 at www.santos.com.

SUMMARY OF ENERGY USE COVERED BY OUR EEO REPORT¹

Site assessed	Energy use ² 2010–2011
Moomba plant	9.9 PJ
Cooper Basin fields	7.3 PJ
Ballera gas plant	2.9 PJ
Fairview	3.9 PJ
Port Bonython	1.6 PJ
Mereenie	0.5 PJ
Mutineer-Exeter	0.3 PJ
Total assessed	26.4 PJ
Santos total (Australia)	27.3 PJ
Total assessed as a percentage of Santos total (Australia)	97%

¹ Santos' Australian operated assets.

² PJ = 1 joule x 10¹⁵; TJ = 1 joule x 10¹²; GJ = 1 joule x 10⁹

Energy data accuracy is ±20%. Given the nature of our operations, energy use is not measured to an accuracy of ±5%. This is due to a number of factors, including the use of our own product for fuel (thereby negating requirements for fiscal metering) and the age of many assets that were developed at a time when energy metering was not standard.

SAVING ENERGY

Saving energy makes sense for Santos, both by reducing emissions and conserving our product.

We have completed energy efficiency opportunities assessments at each of our major Australian sites. Many of the identified efficiency projects have been completed or are in the process of implementation.

These projects will deliver an estimated annual energy saving of 4.8 PJ (~247,000 tCO₂e). Projects progressed in 2010–2011 will contribute 0.2 PJ (~10,000 tCO₂e) to this total. Further efficiency projects are under review.

The assessments have been based on two broad approaches:

- Energy efficiency measures associated with fuel use (efficiencies of equipment such as turbines, engines, heat exchangers, compressors and process plant operational procedures).
- Energy recovery measures associated with reducing loss of hydrocarbon to flaring and venting.

Further detail on these assessments is provided in our Energy Efficiency Opportunity (EEO) Report, which can be downloaded from our website.

Our energy efficiency assessments have been conducted by a multi-disciplinary team. In addition, we have a dedicated Cooper Basin energy efficiency team whose role is to actively pursue energy efficiency optimisation opportunities and capital projects at the Moomba plant, Cooper Basin fields, Ballera gas plant and Port Bonython plant. The team currently has 120 initiatives at different phases of development.

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.

We also have a centralised carbon team, which drives corporate greenhouse and energy policy and standards. The carbon team stewards Santos' executive review of energy efficiency reports and presents on progress to the Board.

ALTERNATIVE ENERGY

Santos is an upstream oil and gas company and is not a retail provider of hydrocarbon or renewable electricity.

We endeavour to continuously improve the efficiency of operations and therefore the emissions intensity of our product.

As part of this approach, we have installed solar photovoltaic cells at many of our remote field locations to power well site telemetry and have identified energy efficiency abatement projects that will, when implemented, reduce our emissions liability.

We will also continue to review the flexibility of alternative low-carbon energy projects and geosequestration.

ADAPTING TO THE PHYSICAL EFFECTS OF CLIMATE CHANGE

Climate change is the change in the average pattern of weather over a long period of time. The potential physical impacts of climate change continue to be documented by organisations such as the Intergovernmental Panel Convention on Climate Change (IPCCC) and the Australian Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Potential risks include rising sea levels, the increasing frequency and severity of extreme weather events, and changes in local weather. For example, this includes an increase in the number of days over 40°C at our operations in central Australia.

Extreme heat also results in an increased demand for our product, which represents both an opportunity and a challenge to ensure security of supply.

To address these risks, we have integrated climate change into our corporate risk assessment process, reviewed our engineering standards and, where appropriate, adopted mitigation strategies to manage these events.

For example, all employees working in the field are required to complete heat stress awareness training and are encouraged to adopt preventive strategies such as creating shaded working environments and increasing water intake.



Solar-powered telemetry

Solar-powered telemetry is used to monitor well production in remote onshore locations in Australia.

116 kW

Total installed capacity of renewable energy for self-generation

70 ktCO₂e/mmboe

Emissions intensity target

250 ktCO₂e

Annual savings from energy efficiency projects completed or in the process of implementation

water resources

Our Water Resources Environmental Hazard Standard specifies the requirements for the sustainable use and protection from degradation of watercourses, lakes, springs, overland flows, groundwater aquifers and other natural ecosystems associated with these water resources. We monitor our activities to ensure we comply with this standard, our licence conditions and our management plans.

Oil and gas operations, unlike many industries, consume comparatively little water. Our focus is on the management of naturally occurring formation water (also known as produced formation water, associated water or incidental water).

Formation water is the water that has accumulated underground with oil and/or gas deposits and is brought to the surface from our wells, where it is separated from our products.

We recognise that formation water management is one of the most important issues associated with the development of the industry. We need to understand, monitor and address potential impacts on soil and regional water resources.

UNDERSTANDING THE SCIENCE

In addition to independent reviews conducted by third parties, including state and federal regulators, we invest in detailed studies of our potential impact on water resources.

Our groundwater modelling in Queensland indicates that the impact of our CSG production will be manageable.

As part of one of the most comprehensive groundwater monitoring programs in Australia, we are installing more than 40 new groundwater bores, automated monitoring facilities on more than 40 existing farm bores and several deep multi-level pressure sensors. We are also converting conventional oil and gas wells to deep basement groundwater monitoring locations.

Through this program, we will be aware of groundwater changes in advance of their appearance in local aquifers, and will be able to take appropriate action to modify water management in the area.



Roma aquifer recharge

Groundwater pressure in the Gubbermunda sandstone aquifer, which currently supplies Roma in Queensland, has declined over the past 100 years due to urban, industrial and stock watering usage. We are working with the CSIRO and local environment and planning bodies to conduct a trial that will inject treated formation water into the aquifer. A successful trial will lead to a full-scale managed aquifer scheme in the Roma area, which will restore groundwater pressure, mitigate potential draw down from formation water production, and improve water security for the region.



First CSG irrigation project

At Fairview near Injune in Queensland, Santos has established a large forestry plantation, where up to two million native Chinchilla white gums (*Eucalyptus agrophloia*) will create potential opportunities for commercial timber harvesting as well as carbon sequestration. We are also drip-irrigating 234 hectares of forage crops for use by local farmers to increase beef production.



Mount Hope Station pilot project

In 2011, we entered our first partnership with a private landholder in an irrigation trial using treated formation water. The Mount Hope Station near Roma is using a sub-surface drip irrigation system to produce 72 hectares of high-protein forage crops for a 700-strong herd.

'We've done this because we want to be completely open and accountable with the community on the impact of CSG activities on water quality and groundwater levels.'

Santos GLNG President **Mark Macfarlane**, speaking about the Santos Water Portal

In 2011, following a baseline inventory of more than 350 bores and an extensive sampling program, water management plans were approved by the Department of Environment and Resource Management for our Arcadia Valley, Fairview and Roma operations in Queensland.

In the Gunnedah Basin in New South Wales, we are collecting data from privately owned agricultural bores within two kilometres of our exploration core holes and pilot wells, and undertaking a separate process to test methane levels. The samples are independently analysed and the findings are provided to landholders and are also contributing to a larger study by the Namoi Catchment Management Authority.

We are providing \$880,000 in funding to this scientific study, which will model the possible effects on local groundwater and surface water of future coal mining and coal seam gas extraction. The study will create an invaluable asset for future planning by agribusiness and resource operators.

SANTOS WATER PORTAL

In October 2011, we launched an online portal to make publicly available all water quality and bore level testing results from our CSG operations in Queensland's Surat and Bowen Basins.

Members of the community can now view results of Santos' regular surface water and groundwater monitoring. Information on water quality test results for aquifers and water bore levels is updated quarterly, and can be accessed at www.santoswaterportal.com.au.

TURNING A WASTE PRODUCT INTO A WATER RESOURCE

Our Produced Water Management Environmental Hazard Standard defines what is required to minimise the environmental impacts of the formation water produced during our operations.

The quality of formation water varies between wells, and may require treatment to produce water of suitable quality for beneficial use applications. We treat and manage water in accordance with strict environmental licence conditions and give priority to using it for purposes such as irrigation, stock watering, boosting local supplies and recharging aquifers.

Indeed, finding sustainable uses for formation water is part of the comprehensive water strategy in place for our activities in Queensland. We are developing practical opportunities to use this water in ways that are beneficial to the community and environment, providing a new water resource for rural areas and agricultural industries. Our approach in Queensland will inform our water management in New South Wales.

WATER QUALITY	
Source	TDS ¹ (parts per million)
Rainwater	15–22
Desalinated water	180
Brisbane tap water	240
Average Fairview groundwater bore	300
Roma tap water	800
Amended CSG formation water	1,800
Average CSG formation water	1,500–3,000
Livestock watering	5,000
Saltwater swimming pool	6,000
Seawater	35,000

The quality of formation water varies between wells and may require desalination or amendment to produce water of quality suitable for beneficial use applications (see page 47).

¹ Total dissolved solids.

biodiversity, waste & incident management



Protecting native animals

An innovative fauna refuge and release system to protect native animals during pipeline construction has been developed in a collaborative effort between Santos and the Australian Reptile Research and Breeding Centre in South Australia.

The new system, which will go on trial in the Cooper Basin in 2012, provides a secure refuge and safe removal system for small marsupials and reptiles that may get trapped in trench lines created for pipeline construction.

It consists of a sturdy yet lightweight and ventilated refuge that is placed in the open trench at any stage of the construction process.

This complements the natural behaviour of small fauna seeking refuge. A remotely operated closure enables them to be removed safely from the work zone with minimum manual handling.

This greatly reduces stress on the animals and makes it easier for them to be relocated and released. It's a cost-effective procedure for significantly reducing fauna mortality and, in conjunction with appropriate training and awareness, is significantly safer for personnel.

BIODIVERSITY

Santos takes great care to avoid, minimise or mitigate disturbance to vegetation, ecological values, wildlife and stock. All our activities are governed by our Biodiversity and Land Disturbance and Pest, Plants and Animals Environmental Hazard Standards, as well as relevant legislation and regulatory conditions.

Our employees and on-site contractors are made aware of these requirements during their induction. Information on the plants and native fauna in our operational areas is available to both employees and the broader community in field handbooks and posters on our website.

For land that is to be significantly disturbed by petroleum activities, the top layer of the soil profile is removed, stockpiled and later returned during rehabilitation.

Our hazard standard requires that plans for rehabilitation of disturbed areas are implemented for all operations, and that rehabilitation work is undertaken as soon as practicable once operations are completed. We aim to return land disturbed by petroleum activities to a state that is consistent with or better than pre-existing land use.

We constantly seek new knowledge and technologies to lighten our footprint. Directional drilling technology, which significantly reduces land disturbance, is now routinely used in our coal seam gas activities and is being trialled in the Cooper Basin.

WASTE

At Santos, we recognise that efficient waste management can present opportunities to improve environmental outcomes, increase product recovery and reduce operating costs. Our Waste Management Hazard Standard defines the minimum acceptable standards for managing waste generation, transportation, storage and disposal at all

our operations and for all our activities. We also work closely with our suppliers to reduce waste in our supply chains.

In 2011, we entered into new waste management contracts that incorporate incentives to encourage the reuse, recycling and recovery of waste. Initiatives include receptacles to enable segregation of waste at source, training and education of our employees and additional signage.

Following a successful pilot, the temporary sludge treatment plant at Moomba, which enables oil and water to be extracted from process waste and reused, will be replaced in 2012 with a more efficient, fully enclosed permanent facility. The remaining solids will continue to be shipped to a licensed facility for treatment and disposal.

MANAGING INCIDENTS

Santos achieved the 2011 target of zero environmental incidents of major or greater consequence.

We have detailed systems in place, including our Environment, Health and Safety Management System (EHSMS), designed to prevent incidents. Our Incident Management System is used by our employees and contractors to report any incidents, near misses and hazards that occur, and to assign and track corrective actions to prevent recurrence.

Our Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation. Applicable legislation and requisite environmental licences are specified in our Environment, Health and Safety (EHS) Compliance Database, which forms part of our EHSMS. Compliance performance is monitored on a regular basis and in various forms, including environmental audits conducted by regulatory authorities and by Santos, either through internal or external resources.

We proactively pursue the identification of all environmental hazards and eliminate or, if not possible, manage the risk to as low as reasonably practicable.

Eastern Star Gas

We are cooperating with investigations by the New South Wales regulators into a number of environmental incidents from Eastern Star Gas' operations.

Santos acquired Eastern Star Gas on 17 November 2011. There were a number of environmental incidents that had occurred prior to that date and some had not been reported. These incidents related mainly to discharges and leaks of untreated formation water from the Bibblewindi Water Management Facility located in the Pilliga Forest near Narrabri in New South Wales.

We have provided a report on these matters to the New South Wales Government and this is publicly available on our website.

We will continue to cooperate with the investigations and will work with the relevant agencies to ensure that the impacted areas are remediated. We have committed to invest \$20 million to upgrade the Eastern Star Gas sites, equipment and processes to ensure the operations meet best practice standards.

Port Bonython

In 2008, Santos' routine environmental monitoring identified the presence of hydrocarbons in groundwater at our Port Bonython facility. Santos has complied with all conditions in the Site Contamination Assessment Order to the satisfaction of the South Australian Environment Protection Authority. Compliance with the remediation plan is ongoing.

Fairview CSG Field

In August 2011, we applied to the Queensland Department of Environment and Resources Management to extend our licence to discharge formation water from the Fairview CSG field to Hutton and Baffle Creeks until 1 November 2013. Although this extension was denied, the Department issued an Environmental Protection Order, which now permits formation water releases until 1 November 2012.

Curtis Island

In 2011, our contractors cleared, without authorisation, approximately 14.5 hectares of vegetation at the GLNG plant construction site on Curtis Island near Gladstone in Queensland. The Queensland Government has commenced a formal investigation into potential breaches of the Environmental Authority. We regret this incident and will work cooperatively with the Queensland Government and our contractors throughout the investigation. We will also implement appropriate prevention measures.

INFRINGEMENT NOTICES

In 2011, Santos received \$12,000 in fines relating to six Infringement Notices issued pursuant to the *Environmental Protection Act 1994* (Qld). No other fines or penalties were issued.

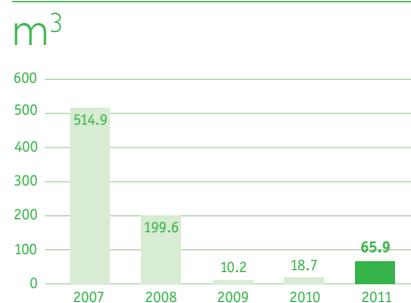
FORWARD FOCUS

In response to the growth of our operations and the increasing complexity of environmental legislation, during 2011 we aligned environmental responsibilities with functional areas and approved a new compliance register, which allows our performance against compliance obligations to be recorded on a single register.

Furthermore, in 2012 we will:

- Review integrity and environmental improvement plans.
- Continue detailed incident investigation and implementation of corrective measures.
- Improve sharing of learnings between business units.
- Undertake a company-wide review of oil spill preparedness.
- Review our EHSMS to ensure its effectiveness is maintained.

OIL SPILL VOLUMES



- > Continued investment in education, health, arts and culture, community wellbeing, the environment and Aboriginal employment
- > Increased employee participation and fundraising in community programs
- > Open and timely disclosure of reliable information

\$15m

Community sponsorships, investments and education partnerships

2,895

Employee volunteer hours

277

Organisations and events supported



The Aboriginal Power Cup, one of our key indigenous sponsorships, encourages Aboriginal students in their studies using their love of Australian Rules football as motivation. More than 300 students from 23 schools across South Australia participated in the 2011 tournament. Our employees volunteered as goal umpires, staffed careers expos, and shared their experiences at a leadership workshop.

community

Maintaining strong and mutually beneficial relationships with the communities in which we operate is vital for maintaining our social licence to operate.

We actively listen to community concerns and expectations and integrate them into our business planning. We believe in being transparent about our financial performance, business activities and risks.



community engagement

Community engagement and stakeholder relationships are a relevant and visible part of Santos' business strategy and operations. We value our reputation as a responsible, trusted company that provides cleaner energy for Australia and Asia by operating in an environmentally sustainable and socially responsible manner.

We actively listen to community concerns and expectations and integrate them into our business planning.

MUTUAL BENEFITS

Embedded in our Community Policy is our commitment to establish and maintain enduring and mutually beneficial relationships with the communities in which we operate. We want our activities to generate positive economic and social benefits for, and in partnership with, these communities.

To achieve this, we share information about our activities, identify the potential social impacts of our operations and seek to manage these while delivering our business outcomes.

To ensure open and appropriate channels of communication, we have developed project-specific community engagement plans for our major operations.

For all major projects, we undertake assessments to guide our work to mitigate our social impacts, identify the social benefits we can deliver and guide our community investment strategies. These social benefits and investments have included employment and training, use of local suppliers, provision of health and essential services and sponsorship of community events and programs.

We aim to invest in organisations, events and initiatives that are valued by and

enrich the communities in which we work, and we encourage employees to get involved in community activities. We monitor, measure and report on the outcomes of these activities, and identify and act on areas for improvement.

SUPPORTING COMMUNITIES

Our community support strategy focuses on health, education and youth, the environment, indigenous programs, community wellbeing and the arts – organisations and events that make a difference and provide real value.

We contribute to communities in every region in which we operate and work closely with governments, non-government organisation (NGOs) and local organisations to determine infrastructure and other community development needs.



Boosting local economies

The 2011 Santos Tour Down Under provided a welcome boost to South Australia's economy, and attracted the biggest crowd in the event's 13-year history, with 782,000 people lining the roads of Adelaide and surrounding regions. The event's indirect community contribution included:

- \$43.3 million injection into the South Australian economy.
- \$154.3 million media coverage and 284 hours of television broadcast.



Energising the arts

Santos and the OzAsia Festival won Partnership of the Year at the Australia Business Arts Foundation's (AbaF) national awards, Australia's highest accolade for partnerships between business and the arts. In previous years, Santos has won AbaF awards for our support for the Adelaide Symphony Orchestra, Shakespeare WA, Adelaide Festival and Queensland Art Gallery/Gallery of Modern Art.



Funding health

Santos has contributed \$100,000 to the new Gunnedah Rural Health Centre for IT and video conferencing facilities that will allow local medical practitioners and students to consult with other medical facilities.

We also funded a public campaign by Asthma Foundation SA, in addition to our annual contribution as principal partner; to build awareness of the condition and the support available to sufferers.

'Santos is a great corporate citizen and we value their partnership. They are making a massive contribution to the wellbeing of South Australia.'

South Australian Premier, **the Hon Jay Weatherill MP**

THE POWER OF EDUCATION

Santos believes in the power of education to alleviate poverty.

In Australia, we are a major supporter of The Smith Family, funding and participating in education and mentoring programs through its Learning for Life program.

Under the Learning for Life umbrella, we hosted a group of Adelaide students in the Next Steps program, which aims to help high school students make the transition from school to work. Our employees were also involved in Learning for Life's iTrack online mentoring program.

In Indonesia, we work closely with fishing communities in the small islands of Giligenting and Giliraja in the coastal area of Madura's Sumenep Regency. In 2011, we

provided funds to repair and upgrade the elementary school in Giligenting village. We also provided scholarships for high school graduates from fishing families to enable them to pursue a college degree at the fisheries academy in Surabaya. Since the program started in 2007, Santos has provided tuition, books and other learning materials, accommodation and meals for students.

In Bangladesh, our Australian employees donated over 1,500 books, as well as soccer balls, to preschools in the province of Chittagong, in addition to a number of other contributions to the wellbeing of the local community.

In Papua New Guinea, we have contributed to the establishment of a number of children's libraries set up by an independent charity based in Port Moresby, known as Buk Bilong Pikinini (pidgin: book belongs

to children). With the opening of each new library, more and more children are able to borrow books every morning and enjoy daily story-time with the library coordinators.

ENCOURAGING OUR PEOPLE TO CONTRIBUTE TO THE COMMUNITY

Santos' Employee Participation Policy provides a framework for our approach to employee participation in our community investment activities. Opportunities are provided for employees to participate in community events and with organisations sponsored by the company. This allows them to connect with the broader community and promote Santos.

With the depth and variety of skills, knowledge and expertise in our organisation, we recognise that our employees have much to contribute for the public good.



Meeting infrastructure needs

In Roma, because of our business needs and in response to a community requirement for better infrastructure, we provided the Maranoa Regional Council and state government with \$4 million to upgrade the Roma Airport terminal, improve community and allied health services and increase housing support in the region.



Helping combat homelessness

In South Australia, through Common Ground, Santos is providing \$3 million over five years to meet the needs of disadvantaged people by helping to establish an affordable accommodation and services hub in Adelaide's Light Square and in Port Augusta. In Western Australia, we support the Homeless Connect project, an initiative offering Perth's homeless a range of goods and services from food and clothing to dental and medical checks.



Conserving our country

Santos' contributions to the Witchelina Station in central South Australia, part of our obligation under the *Native Vegetation Act 1991*, support ecological research of arid environments, biological surveys, feral goat control programs and an upgrade of the homestead precinct.

community & aboriginal engagement

In 2011, we also introduced a Corporate Volunteer Policy to provide support for those who wish to do work for a not-for-profit or community-based organisation of their choice, or for one of our community partnerships.

As a result of these policies, in 2011:

- 599 employees donated 2,895 hours of their time and were involved in 23 Santos-sponsored events supporting charities and events including the Starlight Children's Foundation and the Cancer Council SA.
- Over 100 Santos employees contributed skills and 422 hours through 10 different Santos-sponsored education focused programs, helping over 280 children. In addition, 320 students participated

in the Aboriginal Power Cup careers expos staffed by 13 Santos employees.

- Over \$200,000 was raised by our employees for charities such as the Royal Flying Doctor Service and the Australian Red Cross Japan and Pacific Disaster Appeal.

ABORIGINAL ENGAGEMENT

Santos is committed to working with Aboriginal communities to establish strong relationships that bring mutual benefits.

Our Aboriginal Engagement Policy sets out the values and principles we apply for reaching agreement with Aboriginal groups. It establishes an effective framework for engagement on matters connected with native title and cultural heritage. Importantly, it outlines our commitment to

provide training, employment and enterprise opportunities for Aboriginal people and build community capacity.

In 2011, this framework was successfully used to develop Cultural Heritage Management Plans through negotiation with the Dieri, Boonthamurra and Yandruwandha Yawarrawarka peoples of the Cooper Basin. The framework also informed the successful negotiation of 'Right to Negotiate' agreements with four native title parties in south-west Queensland.

PROTECTING CULTURAL HERITAGE

Santos includes traditional owner groups in the protection of Aboriginal cultural heritage through agreement on protection and management, and engagement of Cultural Heritage Officers.



Generating change through education

Santos is funding the secondary education of 12 Aboriginal students as boarders at Adelaide's Scotch College. The scholarships, worth \$790,000, are part of the successful Yalari program, which offers Aboriginal children from regional, rural and remote communities the opportunity for a first-class secondary education. The aim is to provide the foundation for improved employment and training outcomes.



The power of sport

As a measure of the Aboriginal Power Cup's success, Santos now employs two school-based female apprentices in Adelaide who previously participated in the Cup. Santos has committed \$750,000 over three years to this state government initiative, which engages young people at risk, using sport to encourage them to continue with their education and to make positive lifestyle choices.



Helping young men succeed

In Western Australia, we are supporting the development of young Aboriginal men through a new three-year partnership launched in 2011 with the Clontarf Foundation. The foundation partners with local schools and uses sport and other activities to improve the education, discipline, life skills and employment prospects of Aboriginal students.

'I am pleased to say that we have been able to work through the difficulties and now have an agreement which I believe will be good, not only for Santos but for the Dieri People as well.'

Shane Kemp, chair of the Dieri Aboriginal Corporation

In 2011, we introduced a comprehensive and auditable Cultural Heritage Management System to support compliance with legislation and agreements with traditional owners.

An internal audit commenced in 2011 considered further safeguards to protect cultural heritage. Recommendations to be implemented in 2012 include improved cultural heritage awareness training for employees and contractors.

Any impacts to cultural heritage sites or issues of non-compliance with Cultural Heritage Management Plans were addressed through mitigation and management strategies developed and agreed to in consultation with traditional owners.

CREATING OPPORTUNITIES

Our Manager of Aboriginal Participation, Kerryne Liddle – an Arrernte woman from central Australia, says:

'Major concerns among Aboriginal groups include the protection of cultural heritage and the opportunity to benefit from Santos' activities, through jobs, training or the creation of Aboriginal businesses.'

In 2011, Santos created new roles to improve our support of Aboriginal communities, particularly in the area of employment and training.

We have set a target of creating up to 500 Aboriginal employment opportunities within Santos and our contractor companies,

300 of which will be linked to Queensland coal seam gas activities.

Santos sponsors employment and training and a range of educational initiatives for young people, and is creating opportunities for Aboriginal workforce participation through cadetships, trade apprenticeships and school-based apprenticeships.

Five Aboriginal field assistants, who operate and maintain irrigation equipment at Fairview, will complete their 12-month traineeships in 2012.

In 2011, consultation began on ensuring our commitment to Aboriginal participation is understood by suppliers of goods and services.



Inspired in Arnhem Land

A unique art and cultural exhibition *Djalkiri: We are standing on their names, Blue Mud Bay* was held at the Santos Museum of Economic Botany in the Botanic Gardens of Adelaide in October 2011.

The exhibition was the product of a vibrant and intensive cross-cultural workshop in Blue Mud Bay, Arnhem Land, between five esteemed Yithuwa Madarrpa traditional artists and four renowned artists.



Showcasing Aboriginal talent

Leading Aboriginal and Torres Strait Islander artists from the Northern Territory performed in the annual Santos Concert, which opened the Darwin Festival again in 2011. More than 3,000 concert goers enjoyed energetic and entertaining performances of reggae, soul and rock by a range of bands. We have been involved with the festival since 1996 and in 2011 announced a further three-year partnership.



Art of the Desert Country

The first exhibition to chart the 40-year evolution of the internationally acclaimed Australian desert painting movement, representing desert regions of South Australia, the Northern Territory and Western Australia, was launched on a two-year national tour in May 2011. The Santos-funded exhibition was drawn from the Art Gallery of South Australia's extensive Aboriginal and Torres Strait Islander collection, of which Santos is a long-term supporter.

reputation & disclosure



In 2011, we continued our advertising campaign to support our CSG activities in Queensland and New South Wales. Press advertisements and a television commercial, themed *Our actions speak for us*, featured landholders talking about their experiences working with Santos. The advertisements reflected the many strong relationships that we have with the landholders upon whose land we operate.

Santos is committed to open and timely disclosure of information to enable stakeholders to make informed decisions about our company.

We believe in being transparent about our financial performance, business activities and risks.

Both our willingness to disclose this information and our compliance with regulations are vital to our reputation.

KEEPING INVESTORS AND THE COMMUNITY INFORMED

We have clear policies and systems in place to ensure immediate disclosure of all new material information. This information is released to the market through the Australian Securities Exchange and made available on the company website (www.santos.com) along with news announcements, annual and sustainability reports, notices of meetings and material presented at investor briefings.

Importantly, our social licence to operate is based on our reputation as a good corporate citizen and our actions that support this reputation. These actions include compliance with all relevant legislation.

It also means operating in a responsible manner, being accountable to our stakeholders and keeping them informed, and consulting and cooperating with those impacted by our activities.

We have a variety of avenues through which people can contact the company with questions or concerns about our operations. These include one-on-one engagement, community meetings, telephone hotlines and our websites and email addresses.

REPUTATION FOUNDED ON OUR ACTIONS

The foundations of our company are built on respectful relationships with landholders, responsible stewardship of the environment and water resources, and enduring partnerships with our host communities.

This is extremely important in relation to our growing CSG business in Queensland and New South Wales.

Our communications aim to educate people about natural gas as an energy source and how the CSG industry operates. Where the economic, social and carbon benefits of the industry are understood and achieved, we see support for CSG development. We are working to bring transparency and facts to the CSG dialogue.

Santos' positions on CSG development, energy policy and carbon policy are a matter of public record, documented in public submissions and Senate committee hearings. These are consistent with our stated policies, sustainability goals and other public positions.

OUR CUSTOMERS AND PRODUCTS

In 2011, there were no legal actions, significant fines or non-monetary sanctions relating to anti-competitive behaviours, anti-trust or monopoly practices and their outcomes.

As a gas and oil company engaged in exploration and upstream production, Santos does not have a retail customer base. We resolve any operational issues or grievances directly with our commercial customers.

Sales and transportation of our oil and gas are conducted with strict adherence to industry health and safety standards.

'We have checked Santos' sustainability reporting and have confirmed it to be GRI Application Level A+.'

Net Balance, Santos sustainability auditors

We observe detailed standards in our internal Environment, Health and Safety Management System and conduct a formal review of this system annually.

In 2011, we had no reported incidents of non-compliance with regulations or voluntary codes concerning marketing communications or the health and safety impact of our products and services.

As part of our ongoing risk assessment process, all business units were analysed for risks related to corruption. All business units were also monitored to confirm that no grievances related to human rights were reported.



CARBON DISCLOSURE PROJECT



EXTERNAL RECOGNITION

Finance

- CFO Dealbook Awards – Hybrid Issue of the Year

Supply chain

- Chartered Institute of Purchasing and Supply – Best Supplier Partnership

Information systems

- Red Hat Summit – Santos' TurboVNC project, Global Innovator of the Year

Governance

- Australasian Reporting Awards – Gold Award

Human resources

- Asia Pacific LearnX E-learning and Training Awards – Platinum Award for Best Blended Learning Solution and Gold Award for Best Employee Induction Training Program

Community partnerships

- Australia Business Arts Foundation Awards – Santos and OzAsia Festival, Partnership of the Year
- Australian Event Awards – Santos Tour Down Under, Best Tourism Event (third consecutive year) and Australian Event of the Year; Santos and OzAsia Festival, Best Achievement in Marketing, Communication or Sponsorship
- South Australian Tourism Awards Hall of Fame – Santos Tour Down Under
- Surat Basin Community Engagement Award winner – for leadership commitment and a 'best practice' approach to improving the social wellbeing of regional communities

INTERNAL RECOGNITION

The annual Santos Directors' Environment, Health and Safety Awards recognise and celebrate outstanding achievements and valuable innovation in environment, health and safety.

In 2011, 42 submissions were received from Santos' employees and contractors for 2010 performance and innovations.

Environment award recipients

- Patricia-Baleen for reduction of environmental risks in the areas of water resources, climate change management and air quality
- Eastern Australia Drilling and Petroleum Engineering for diversion of plastic thread protectors from landfill
- Coal Seam Gas Drilling and Completions for recycling drilling fluids, thereby reducing water consumption and liquid waste volumes

Health and safety award recipients

- Support Services and Facilities for improved safety performance through effective contractor management and risk mitigation
- Coal Seam Gas Drilling and Completions for significant improvement in safety performance, including a 71% decrease in recordable injuries from 2009
- Eastern Australia Brownfields Projects for engineering a safer method for inspection of a regeneration gas heater, eliminating the requirement for confined space entry

- > **Record employee participation in corporate health and wellbeing events**
- > **Significant investment in high school and university programs to help address industry skills shortage**
- > **Best practice approach confirmed in review of the Santos Code of Conduct**

1.4

Employee Total Recordable Case Frequency Rate

25

Employees commenced Santos MBA program

94%

Uptake of employee share plan



Vice President Technical & Engineering, Diana Hoff, with Graduate Geologist, Emma Hissey, in the core laboratory in the Santos Centre, Adelaide. The lab, in which core samples from across our operations are analysed, is set in the heart of the building in recognition of the significance of geology to our operations.

our people

Santos is committed to the highest standards of corporate governance.

We have a range of human resources policies and guidelines to help create a productive, cooperative workplace environment.

We are committed to conducting our business in a manner that prevents injury or illness to employees, contractors, customers and the public.



governance and policy



This section provides a snapshot of our governance approach. For further detail, please refer to our Annual Report 2011 available at www.santos.com.

We have effective, efficient systems in place to ensure there are checks and balances across the company – not only to meet compliance but also because we believe that as a corporate citizen it is our responsibility always to do the right thing.

In addition to these systems, we have a set of well-established corporate policies, practices and procedures that meet the requirements of the *Corporations Act 2001* (Cth), the Australian Securities Exchange's Listing Rules and the ASX Corporate Governance Principles and Recommendations with Amendments (ASX Principles).

These are regularly reviewed and updated to meet changing regulatory requirements and community expectations.

Further information on these policies and procedures is available in the corporate governance sections of the Santos Annual Report 2011 and on our website.

SANTOS BOARD

Santos has a unitary Board structure with an independent Chairman. We have eight Board members: seven men and one woman. The Board composition is determined in accordance with our constitution and Board Guidelines. The Board has adopted the definition of independence in the ASX Principles, and all Board members, except the CEO, are independent.

Directors' details and information about Board committees are set out in our Annual Report 2011. Information on sustainability governance and reporting to the Board appears on page 5 of this report.

The Board's guidelines, policies and charters cover risk management, business and ethical conduct, dealing in securities, shareholder communications and market disclosure.

BOARD COMMITTEES

The Board has established a number of Committees to assist with the effective discharge of its duties. All Committees are chaired by and comprise only non-executive, independent Directors, except for the Environment, Health, Safety and Sustainability Committee, which includes the CEO.

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

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

Our organisational and governance structure is designed to support growth and build functional excellence (see page 3).

SOUND GOVERNANCE SYSTEMS

Santos' governance objectives and business systems are documented in our *How Santos Works* publication. This document outlines our management principles, key assurance activities and the framework in which we set out our policies and ensure that our business systems, behaviour and performance align with our vision, values and strategy.

To achieve our vision of becoming a leading energy company in Australia and Asia, we must meet the highest standards of corporate governance across our operations.

INTERNAL AUDITING

Our Internal Audit provides objective assurance to the Board to ensure that key controls over the highest areas of risk to the business are in place and operating effectively. This process evaluates and improves the effectiveness of risk management, controls and governance procedures. Our Internal Audit has no responsibility for operational business management, which helps ensure the integrity and objectivity of its reviews.

EXTERNAL AUDITING

Santos ensures the independence and impartiality of our external auditor. We require that services that are considered to be in conflict with the role of the statutory auditor are not performed by our external auditor.

CONTINUOUS DISCLOSURE

Santos provides information necessary for investors to make informed decisions about investment in the company.

Management and directors are aware of and fulfil their obligations in relation to timely disclosure of material price-sensitive information.

Company 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.

CONTINUOUS IMPROVEMENT

In 2011, we updated our Anti-Corruption Policy and associated guidelines to further inform employees on acceptable conduct. Selected Santos employees have been nominated to complete a mandatory online training program on detecting and avoiding bribery and corruption.

Additional face-to-face training on the policy is being scheduled in 2012 to provide information and guidance on our risk management and compliance framework. Key issues to be covered include detecting and avoiding bribery, dealing with public officials, and facilitation payments. No incidents of corruption were reported in 2011.

TRACKING COMPLIANCE

In September 2011, Santos approved a new Compliance Policy, which established a single compliance register for our significant compliance obligations. This provides reminder and escalation mechanisms to alert management of unmet obligations, and an auditable record of compliance.

Having this single compliance register and approach will make it easier for asset/business owners to manage compliance obligations. It reduces the risk of significant non-compliance and gives Santos the opportunity to establish an 'organisational memory' with regard to compliance management.

SANTOS POLICIES

Our policies include:

Environment and community

- Aboriginal Engagement
- Climate Change
- Community
- Environmental
- Health and Safety
- Human Rights

Workplace and employment

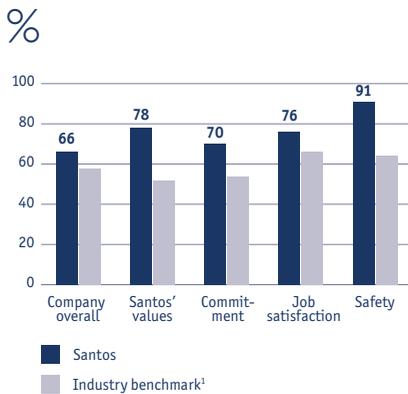
- Annual Leave
- Conditions of Employment
- Counselling and Discipline
- Diversity
- Employee Assistance
- Equal Opportunity
- Information Systems
- Issue Resolution
- Performance Management
- Recruitment and Selection
- Remuneration, Superannuation and Benefits
- Training, Development and Study Assistance

Ethical business conduct

- Anti-Corruption
- Compliance
- Confidentiality
- Conflict of Interest
- Corporate Entertainment
- Corporate Identity
- Enterprise-wide Risk Management
- Finance Code of Conduct
- Financial Governance
- Gifts and Benefits
- Local Industry Participation
- Privacy
- Procurement and Logistics
- Reporting Misconduct
- Securities Trading
- Shareholder Communication and Market Disclosure
- Sponsorship and Donations

our workforce

EMPLOYEE CULTURE



BUSINESS CONDUCT

Everyone at Santos shares responsibility for practising high standards of ethical conduct and corporate governance. All must comply with the legal requirements of the areas in which we operate. Our Code of Conduct sets out what is expected of directors, employees, contractors and agents acting on Santos' behalf.

The Code of Conduct is consistent with, and elaborates on, Santos' values. These values are the guiding principles that inform our decision-making and define the way our business is conducted and what we stand for as a company.

Compliance with the Code and the underlying policies, procedures and standards, including our Human Rights Policy, is mandatory. During induction, all new employees complete online learning that explains the Code in clear, simple language.

We acknowledge that there are times when our people will face commercial, moral or ethical dilemmas in their working lives. The Code provides guidance on how to behave in these circumstances. In an industry as complex and diverse as ours, it will never be possible to predict all the dilemmas they may face. However, by using the principles in our Code as a guide, our people can help ensure that they don't make a decision that would compromise their own or the company's integrity or jeopardise Santos' long-term sustainability.

In 2011, the St James Ethics Centre conducted a comprehensive review of the Santos Code of Conduct. While the review found that its general coverage was in line with best practice, we have nevertheless introduced a number of new policies, including Career Breaks and Flexible Work, and updated others, including Parental Leave. Our updated Parental Leave Policy now includes the option of taking 32 weeks at half pay, as an alternative to taking 16 weeks at full pay.

The new and revised policies will be introduced in 2012.

In 2012, we will also introduce mandatory online training on the Santos Code of Conduct and associated policies.

ENGAGING WITH OUR PEOPLE

CEO David Knox regularly updates employees on company news, events and performance via his blog 'David's Update' on the Santos intranet. He also holds all-employee sessions twice a year in Adelaide that are webcast live to all Santos locations, and include live question-and-answer sessions.

Employee surveys are conducted every two years to gain a thorough understanding of our employee culture and commitment. Our 2010 survey was completed by 86% of employees – the best response to date. It covered a number of themes, including job satisfaction, employee involvement, integrity, culture, safety and values. Notably, we learnt that our employees:

- Had a high regard for our safety systems and commitment to safety (91%).
- Appreciated our company values and the manner in which we uphold them (78%).
- Were satisfied with their jobs (76%).
- Expressed commitment (70%).

Employee commitment is defined as the extent to which employees are rationally and emotionally committed to the company and correlates closely with productivity, employee retention, customer satisfaction, shareholder return and sales growth. It is pleasing to report that with our score of 70%, we maintained our place in the best employer category.

Importantly, the survey identified areas in which we can continue to improve. These included communication, effectively managing change and further employee development. Progress in these areas will be measured in our 2012 employee survey.

¹ Aon Hewitt employment benchmark.

We value diversity and create an environment in which everyone is empowered to succeed.

Individual feedback is provided to all Santos employees via regular performance and career development reviews that encourage continuous positive dialogue between leaders and employees.

Collective workplace agreements cover approximately 12.3% of Santos' employees. The four union agreements in place are the Santos Ltd Cooper Basin Workplace Agreement, the Santos Petroleum Management Collective Workplace Agreement, Eastern Star Gas Limited Collective Workplace Agreement 2009, and the AGR Asia Pacific Pty Ltd Patricia Baleen Gas Plant Employee Collective Agreement 2011.

EQUAL OPPORTUNITY

Santos' Equal Opportunity Policy outlines our commitment to providing and maintaining a non-discriminatory and harassment-free work environment. It ensures employees, contractors and consultants are aware of their rights and obligations in this regard. The policy has been communicated to all employees.

DIVERSITY

Santos is committed to providing an inclusive workplace and culture that embraces diversity and provides support for indigenous education and employment, broad-based equal opportunity programs, multicultural awareness and representation, and women in technical roles and management.

Our Diversity Policy applies to all employees, contractors, directors and officers at all Santos locations.

Santos believes improving gender balance makes good business sense. To this end, we are an industry partner in the Gender Equality Project (GEP), an initiative of the Centre for Ethical Leadership at Melbourne Business School. GEP is a networked organisation of industry and research partners and associates collaborating in

pursuit of the common mission to produce a significant and sustainable improvement in the gender balance in leadership roles of participating organisations.

The underlying assumption is that a more balanced representation of men and women in leadership and decision-making roles will mean that organisations make better use of the full range of available talent and better meet the needs of men and women at work. Through our involvement with GEP, we expect to generate new tailored solutions to the problem of gender inequality in leadership roles in the company.

The CEO and Chief Human Resources Officer monitor and report annually to the Board's People and Remuneration Committee on the progress and effectiveness of our diversity efforts.

ACHIEVING WORK-LIFE BALANCE

Our value of 'Cares' states that we provide a supportive and challenging environment in which everyone has the opportunity to develop their full potential while pursuing a balanced life.

We understand the increasing importance of flexible work options in maintaining a diverse and adaptable workforce and helping employees in the transition to retirement.

We also recognise that happier, healthier and more resilient employees, and a supportive workplace culture, result in better business performance.

We have a range of policies that allow our people to job share, work from home, take parental leave, work part time, buy additional leave and work flexible hours.



Our Parental Leave Policy

Our Parental Leave Policy provides a range of leave options for our employees, including 16 weeks paid leave for primary care givers.

Above: Amy Matthews, Corporate Lawyer

WORKFORCE GENDER PROFILE 2011



Our approach to a sustainable work-life balance is governed by two simple principles:

- Any proposed flexible arrangements must be mutually acceptable to the business and the employee.
- There are clear expectations about working arrangements and how performance will be measured.

HUMAN RIGHTS

Our recognition of, and respect for, the human rights of our employees, contractors, their families and the communities in which we work includes understanding the broad range of individual and cultural differences in the company and the countries in which we operate.

Our Code of Conduct commits to upholding the spirit of the Universal Declaration of Human Rights and other key international human rights documents to which Australia is a signatory. This applies in every country in which we do business.

INVESTING IN THE SKILLS NEEDED FOR A SUSTAINABLE INDUSTRY

Having identified significant skills gaps in the energy industry in Australia and around the world, we invest heavily in programs in high schools and universities that encourage young people to take up a career in the sector.

Key to this is our partnership with the University of Adelaide. The School of Petroleum Engineering is Australia's preeminent centre for education, training and research in petroleum geoscience, engineering and management. Santos' \$25-million donation over a 14-year period enabled the building of a new school and the recruitment of academics and experts from around the world. They present training programs on new concepts, as well as focusing on the practical needs of the oil and gas industry for engineers and managers.

The establishment of University College London's School of Energy and Resources Australia was also made possible by a \$10 million contribution from Santos over seven years. The school's world-leading approach, which combines academic research with hands-on experience, is giving students a broad, deep understanding of the complexities of the industry, as well as the specialised technical knowledge to enable them to shape the energy and resources sector of the future.

Our ongoing campaign to encourage more young women into the coal seam gas industry included sponsorship of the 2011 Queensland Mineral and Energy Academy's forums for girls from communities in the Surat Basin. Santos representatives shared their career experiences with 160 Year 10 students, their teachers and career counsellors.

To further increase the knowledge and skills base of the growing coal seam gas industry, Santos has committed to working with the University of Queensland to create a Centre for Coal Seam Gas. The centre aims to be the preeminent global authority on CSG, drawing on the capabilities of universities internationally.

RECRUITMENT

Attracting and retaining talented employees in a tight labour market is a challenge for Australian resources companies. In 2011, we improved our online employment presence in response to internal feedback and to ensure we stand out among our peers.

This work involved benchmarking our recruitment systems against other companies and the best contemporary models. The result was a redesigned website with information on jobs, our strategy and ethos, potential career pathways, locations, employment opportunities and videos of employee experiences with Santos.

Attracting the right people, maximising their contribution to the business and rewarding their performance are all vital ingredients to Santos' ongoing success.

Santos representatives attended international industry conferences and resources hubs to promote the company on the world stage and attract the best technical people to support our growth strategy and boost our identity as a major player in the Asia Pacific energy sector. This international work complemented our efforts in Australia, where we try to recruit, and develop and retain employment opportunities in the communities in which we operate.

LEARNING AND DEVELOPMENT

Every Santos employee is given the opportunity to create a development plan that helps deliver the results that matter most, encourages personal and professional growth and ensures individuals stay in touch with the organisation's needs.

Our internal training program, which focuses on leadership, capability and personal effectiveness development, was externally validated in 2011 and acknowledged as being best practice (see page 27).

Another highlight in 2011 was Santos' Geoscience and Engineering Conference, which incorporated presentations from employees across our technical community, including geosciences, subsurface engineering and, for the first time, drilling and completions, surface and facilities engineering, and projects.

The year also saw the introduction of the Santos Master of Business Administration (MBA), a landmark collaboration between Santos, University College London (UCL) and University of South Australia (UniSA). Twenty-five employees commenced the program in 2011 and will graduate with a Graduate Certificate in Energy and Resources from UCL and an MBA from UniSA. We are proud to offer a program that is the only one of its type in Australia and is tailored to meet specific industry development needs.

REMUNERATION

Santos has in place a robust remuneration system, which is applied equitably across the company and benchmarked against the market and industry. Our integrated approach ensures that we are market competitive and that individual performance is recognised and rewarded. Reviews are conducted regularly.

We provide a number of financial and non-financial benefits to employees. Acknowledging that employees have differing priorities and needs, we allow them to structure their benefits to suit their circumstances. Employee benefits include:

- Superannuation: We contribute 10.5% of notional base salary towards each Australian employee's superannuation fund. Employees in the Asia Pacific are offered 'providence benefits', which are commensurate with market expectations and the legislation of the countries of operation.
- Performance bonuses: Santos offers a performance incentive scheme based on company and individual performance, including consideration of alignment of behaviour with Santos values.
- Share plan options: Australian employees have the opportunity to own shares in Santos via SHAREPLUS. Ninety-four percent of eligible employees participated in the 2011 share plan.



Apprentice of the Year Awards

Three school-based trainees and 14 apprentices were accepted into our apprenticeship and trainee program in 2011.

At our 2011 Apprentice of the Year Awards ceremony, apprentices Ignazio Gaudio, Max Fountain and Warwick Kendall were congratulated by General Manager Onshore Gas Business, Nick Lagonik; Manager Port Bonnython, Warren Kruger; CEO and Managing Director, David Knox; and Manager Operations Strategy, Dennis Vail.

health & wellbeing



The health and lifestyle hub

The health and lifestyle hub is the central place for the promotion and education of health and wellbeing at the Santos Centre in Adelaide, Australia. It is a fully functioning gym, supplied for the use of Santos employees and contractors.

Santos seeks to create an environment that encourages employees and contractors to maintain a healthy lifestyle and fitness for work. We believe that taking a proactive approach to our people's health and wellbeing, as well as early intervention, makes for a more sustainable company.

During 2011, 85% of employees participated in one or more elements of our program, which again focused on nutrition, exercise and weight management.

TAKING A PROACTIVE APPROACH

Santos consults with employees and promotes active participation in the management of their own health and wellbeing. We do this through education and awareness sessions, by supporting their participation in community fitness events, and by providing health coaching, counselling, gyms and tailored-fitness programs.

Sandra Waters, winner of our 2011 Health and Wellbeing Rewards Program, says:

'The health and wellbeing programs have been relevant in all parts of my life. Learning healthier eating options, stress management techniques, and undergoing regular health checks have enabled me to better manage my work-life balance.'

We also run free, biannual, 30-minute health-check programs for Australian-based employees. These voluntary checks screen for existing health issues, and give each participant a basic understanding of their current state of health, their risk profile and a plan of action for better health. The program not only provides a useful overview of employees' health, it helps guide the direction of future health interventions throughout the company.

In 2011, 1,179 employees chose to participate in the health checks. This represents about 45% of our employees, a 16% increase over 2009. Employees who participated in health assessments in both 2009 and 2011 showed an overall improvement in health status and health-risk factors.

In addition, 382 employees participated in programs aimed at improving employee resilience.

TARGETED INTERVENTION

In 2011, we continued to provide targeted support for employees who, in our 2009 health checks, were identified to have a high number of health risks. Targeted interventions have reduced the average number of health-risk factors by two risks per person for this group.

ADOPTING A SUPPORTIVE APPROACH

Santos recognises that a person's fitness for work may be affected by fatigue, stress, alcohol and other drugs, medical conditions and an individual's emotional state.

We aim to provide employees and contractors with the knowledge and skills to make informed decisions about drugs and alcohol and ensure a safe work environment. To this end, we set clear guidelines and provide training and information. Random drug and alcohol testing is conducted at all field and office locations to ensure this is effective.

EMPLOYEE ASSISTANCE PROGRAM

Our employee assistance program aims to assist employees to resolve or better cope with personal or work problems that may be affecting performance, productivity and a sense of wellbeing. Free, confidential and professional counselling may be accessed for a broad range of reasons, both personal and work related. Where appropriate, immediate family members may also make use of the sessions. In 2011, 112 employees accessed the program.

workplace safety

Santos strives for the highest standard of occupational health and safety and is committed to a workplace that is free from injuries.

In 2011, Santos recorded no high-impact process safety incidents and a total recordable case frequency rate (TRCFR) of 3.3 per million hours worked, equalling the record rate achieved in 2010. It is notable that this sustained performance was achieved despite a significant 44% increase in employee and contractor work hours in 2011.

Our average TRCFR for the past three years is 3.4, a step down from an average of 5.8 for the three years prior to that – a 41% step change improvement.

BALANCED FOCUS ON PERSONNEL AND PROCESS SAFETY

Process safety is measured by compliance with systems and standards that apply to the prevention of low-frequency, high-impact events such as fire and explosion in process plant and equipment. It is addressed across the full lifecycle of assets, from project design, development and operational integrity through to diligence in decommissioning.

During 2011, Santos audited the process safety of the operations in Bangladesh, Indonesia, and at Port Bonython in South Australia, and conducted a process safety gap analysis of CSG operations in New South Wales, acquired in 2011 from Eastern Star Gas. We continued to progress actions from 2008 and 2010 audits of Moomba, Patricia-Baleen and eastern Queensland.

Our focus on proactive checks and tests to confirm the condition of key equipment has delivered a long-term upward trend in our safety critical maintenance compliance. Santos encourages the reporting of process safety exceptions, and our workforce continues to grow its understanding and awareness of process safety. These initiatives have delivered a real improvement in our process safety culture.

WORKING WITH CONTRACTORS TO IMPROVE SAFETY

A highlight in 2011 was our contractors collectively delivering a TRCFR of 4.3 – their lowest TRCFR on record.

We have continued to engage with our contractors on the importance of safety performance, and in 2011 conducted an extensive review of our contractor management system. This led to revisions of the system. These included clarifying guidelines for contractors and developing additional tools to assist with contractor management processes.

The revised system will be implemented in 2012, along with further training for those responsible for managing contracts.

PROGRAMS THAT BRING CHANGE

A program called Personal Safety Values was piloted in our Eastern Australia Business Unit in 2011 and will be introduced to parts of the business in 2012. This program explores perceptions and beliefs around safety and helps define the behaviour we need for a strong, open and robust safety culture.

We are also reviewing our existing systems and conducting training to enable us to comply with changes required by the Australian model work health and safety laws. A key change is the definition of due diligence requirements for people in senior company roles to personally help meet safety obligations and facilitate improvements.

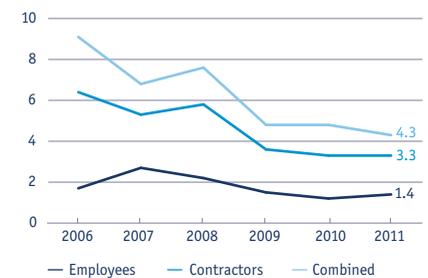
In 2011, we prepared clear due diligence guides for each of the roles and provided training and awareness sessions.

In addition to ensuring compliance, we are using this as an opportunity to strengthen safety leadership behaviours and develop renewed company and personal focal points for safety.

In 2011, the safety lifesavers program continued to deliver increased awareness and effective internal reviews of processes for managing 10 high-priority workplace safety hazards.

TOTAL RECORDABLE CASE FREQUENCY RATE

recordable injuries per million hours worked



- > **GLNG final investment decision made**
- > **Employment, training and career opportunities for indigenous Australians generated through our supply chain**
- > **Production of 47.2 mmboe within guidance of 47 to 50 mmboe**

↑ **14%**

Sales revenue
\$2,530 million

0

Material supply
interruptions

100%

Business units assessed
for major risks

A nighttime photograph of a city skyline reflected in water. Several tall buildings are illuminated, and bright blue laser beams project from the tops of some buildings into the dark sky. The lights and beams are reflected in the rippling water in the foreground.

More than 185,000 people attended the 2011 Santos City of Lights – a spectacular light show that formed the centrepiece of the Brisbane Festival. Along with our major partnerships with the Queensland Art Gallery and Gallery of Modern Art, our sponsorship of this show contributes to our significant support of the arts in Queensland and recognises the growth of our activities in the region.

economic

Santos is pursuing a transformational LNG strategy, underpinned by our reliable base business.

We are also growing our business through development projects and exploration investment in six Asian countries.

We have mature systems and procedures in place to manage and mitigate risk, and are committed to ensuring the security of our people, assets and operations.



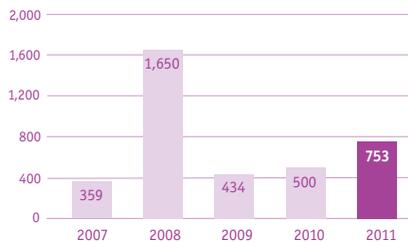
financial performance

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

Santos' Annual Report 2011 provides a more detailed review of our financial performance and our business strategy. The report can be downloaded from our website.

NET PROFIT AFTER TAX

\$753 million



Net profit after tax was up 51%, driven by higher commodity prices and the sell-down of a 15% interest in the GLNG project and our entire interest in Evans Shoal.

EARNINGS & DIVIDENDS PER SHARE

85c and 30c



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

PRODUCTION VOLUME

47.2 mmmboe



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

2P RESERVES

1,364 mmmboe



We booked solid reserves in the Cooper Basin to underpin our base business and transformational growth strategy.

SALES REVENUE

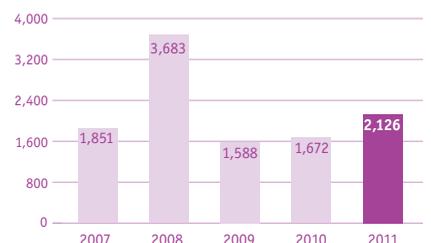
\$2,530 million



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

EBITDAX

\$2,126 million



A continued cost focus will ensure we are able to maintain our revenue margins, while delivering our major development projects.

development strategy

TRANSFORMATIONAL LNG GROWTH

Underpinned by our reliable base business, Santos is pursuing a transformational liquefied natural gas (LNG) strategy with interests in four exciting LNG projects.

This strategy is led by the cornerstone GLNG project in Queensland – a leading project in converting coal seam gas into LNG. This US\$16 billion project is a joint venture between Santos (operator and 30% equity holder), PETRONAS of Malaysia, Total of France and KOGAS of South Korea. First exports are expected in 2015.

In addition to our GLNG partnership, we have a 13.5% interest in PNG LNG, which is operated by ExxonMobil. This US\$15.7 billion project includes the development of gas and condensate resources in the Southern Highlands and Western provinces of Papua New Guinea, construction of gas production, processing, liquefaction and storage facilities and construction of more than 7,000 kilometres of pipeline to connect the facilities. The project is on target for first LNG exports in 2014.

Also in Santos' LNG portfolio are the GDF SUEZ-operated Bonaparte proposed floating LNG project in the Timor Sea (40% interest), and Darwin LNG, Santos' first LNG venture (11.5% interest), which began production in 2006 and is operated by ConocoPhillips.

Smooth and efficient project development will be achieved through early consultation with stakeholders and careful management of environmental and social impacts.

FOCUSED ASIAN GROWTH

Santos has built a strong and reliable production business in Indonesia and is further developing its south-east Asian business through development projects and exploration investment in six countries.

Our Indonesia business today provides 13% of our overall production.

Indonesia

The Wortel development, our third producing asset in Indonesia after Maleo and Oyong, was delivered in January 2012. Located in East Java, Wortel is a tie-in to our Oyong facilities.

To leverage the CSG expertise we have developed in Australia and the operating experience we have in Indonesia, in August 2011 we signed an agreement with Indonesia's Sugico for two coal seam gas licences in South Sumatra. Drilling will begin in 2012. We are also seeking to sanction the Peluang project in late 2012, which is a tie-back to Santos' Maleo platform.

Vietnam

We have been active in Vietnam since 2006. Our first oil project, Chim São, was delivered in October 2011. Gas produced from this field will be sent via a subsea pipeline to existing domestic power generation infrastructure.

In 2012, we will drill an exploration well in the north-west of the Chim São field, and will work with our partners to plan the development concept for the discovered Dua gas resource. We also have interests in the Phu Khanh Basin.

Bangladesh

In late 2011, we began an exploration program in the Bengal Basin to target short- to long-term gas production, which will supply the growing Bangladesh domestic gas market.

Central Asia

Santos continues to explore for oil in the Fergana Basin in Central Asia. In 2011, we acquired an option to hold a 70% interest in Somon Oil, which is undertaking exploration in Tajikistan. Following a 2D seismic program in the Kyrgyz Republic, we are now preparing to exit the country.



Cooper gas growth program

The Cooper Basin in South Australia has long been Santos' heartland, and after 40 years of production continues to be an integral part of our business growth strategy.

With existing infrastructure and large resource positions, we are well placed to take advantage of the changing dynamic of the east coast Australian gas market.

The region will be the primary source of the 750 petajoules of gas that Santos has agreed to send to the GLNG project in Queensland. That deal will accelerate the Cooper's next stage of development and provide the catalyst for longer-term investment.

The Cooper's potential will be further realised with infill drilling and emerging new technology such as our Advanced Technology Double Rigs, which are designed with a focus on operational efficiency and safety. These state-of-the-art drilling rigs were purpose-built for Santos' Cooper Basin operations and will open up some of the region's most significant potential through infill development drilling to unlock previously uncommercial gas resources.

supply chain

Santos recognises that excellence in procurement and logistics is a key ingredient of good business performance.

It involves working in partnership with suppliers to ensure delivery of the right goods or service to the right place, at the right time, in the right configuration.

Comprehensive prequalification and consultation processes are conducted before suppliers are engaged. Our suppliers must comply with the Santos Code of Conduct, which incorporates our environmental, health and safety policies and management systems, our Human Rights Policy and guidance for what we view as ethical conduct.

Regular supplier performance meetings are held with our contracted service providers. Based on an assessment of risk and contractor performance, the meetings are held monthly, quarterly or six-monthly. The standard agenda includes a review of environmental, health and safety performance, activity levels and forecasting, quality planning and review, and reliability.

MEASURING PERFORMANCE

We measure our supply chain performance through a range of indicators, including the receipt of materials into the field against required delivery times. It is pleasing to report that in 2011 we again achieved our target of zero material supply interruptions.

Another performance measure is reduction in inventory. In 2011, we achieved a reduction of 4.3%.

REPORTING MISCONDUCT

In 2011, we extended our Reporting Misconduct Policy to enable third-party contractors and suppliers to report misconduct without fear of reprisal or discrimination. The policy is administered by an independent third party.

All Santos employees with procurement responsibilities are required to complete anti-corruption training and competition and consumer protection training. This ensures widespread understanding of required behavioural standards and acceptable practices.

INCREASING COMMERCIAL ACUMEN

The Communities of Practice initiative, which informally links our procurement and logistics teams with people across the business who are involved in the supply chain, is well established. During 2011, it was extended to our operations in Indonesia and Bangladesh, improving collaboration between Australian and Asian teams.

During 2011, we began rolling out a training program to increase the commercial acumen and contract management skills of employees who manage suppliers/contractors. The course covers performance management, contracting risks and mitigation, negotiation, compliance with Santos' processes, and extracting increased, sustainable value from contracting activities.

We are also piloting a new procurement process that simplifies contracts for low-risk, low-value services.

GREENING THE SUPPLY CHAIN

In 2011, we entered into new waste management contracts that incentivise suppliers to increase the percentage of waste recycled. Initiatives include provision of receptacles to enable segregation of waste at source, training and education of our employees and additional signage. In the Cooper Basin, a dedicated waste segregation facility will be built between the operation and the landfill to maximise the capture of recyclable waste.

ABORIGINAL ENGAGEMENT

We have begun work to ensure our Aboriginal Engagement Policy commitments are understood by suppliers of goods and services. The policy intent will be embedded within our supply chain in 2012 to expand opportunities for employment, training and career options for indigenous Australians.

USING LOCAL SUPPLIERS

In accordance with our Local Industry Participation Policy, we provide full, fair and reasonable opportunities for local industry to contribute to our activities, subject to satisfying Santos' relevant prequalification requirements. We also work with governments, industry bodies and communities to improve local industry participation, capability and competitiveness, and ensure that local capabilities are considered when work is being scoped.

Local industry participation plans, created specifically for each major project, outline the approach to engaging and using competitive local suppliers.

From 2013, we aim to report expenditure by supplier location for the regions in which we operate.

ROMA LOGISTICS HUB

Construction of a new logistics hub on the outskirts of Roma has begun. This purpose-built facility will be completed in 2012 and will replace the existing two Roma facilities, which cannot meet projected future demand. The new facility will incorporate provisions for state-of-the-art technology designed to boost operational efficiency.

The new location has been selected so that road trains and trucks will no longer need to travel through the Roma township. Further, we have upgraded the Kimbler Lane/Carnarvon Highway intersection to ensure safety for trucks accessing the new hub and for the motoring public.

risk & security

MANAGING RISK

Successful risk management not only ensures long-term sustainability, but can also create a competitive advantage.

The risks Santos faces include environmental, health, safety, fraud, security, climate change, operability, supplier selection, joint ventures, financial, project execution, commercial, investment and divestment risks.

We manage these by:

- Assuring a robust framework for managing risks.
- Ensuring risk management is part of our governance framework.
- Annually reviewing risks critical to our strategic goals.
- Educating and providing risk management training for our employees.
- Reporting to the Board on the processes we have in place.

A SYSTEMS-BASED APPROACH

Santos' processes are compliant with ISO 31000: Risk Management – Principles and Guidelines, which defines risk as 'effect of uncertainty on objectives'.

The overall aim of our systematic approach is to identify, avoid and mitigate the impact of events that could have a material impact. Specific management approval is required for acceptance of risks above certain levels.

We use online risk management software to record and monitor all significant risk assessments undertaken by the company.

INSURANCE COVERAGE

We review all risks that can be transferred commercially or financially, including environmental and pollution exposures.

We maintain insurances that are appropriate for a company of our market capitalisation.

Financial modelling is used to understand our capacity to retain financial risks where the cost of transferring the risk to an insurer is not beneficial.

Our insurable risk register – part of our broader group of risk registers – is reviewed annually.

MANAGING SECURITY

We work collaboratively with governments and communities to detect, deter and mitigate potential security risks. Our approach to managing these is documented in the Security Hazard Standard under our Environment, Health and Safety Management System.

All our sites comply with relevant domestic and international regulations for maritime, aviation and land transport security.

Our security procedures comply with the Voluntary Principles on Security and Human Rights, which provides guidance to extractive companies on maintaining the security of their operations in a manner that respects human rights and fundamental freedoms.

Our internal online security portal provides employees a single source for plans, procedures, handbooks and guidance on our security practices. Topics include travel assistance and safety, critical facilities, physical security, pandemic planning, international operations, site security, travel security, human rights, the protection of our physical assets, and protection against kidnap and extortion.



Santos Centre,
Adelaide, South Australia.

- 
- > **Santos is one of the coal seam gas industry's most experienced operators**
 - > **We have safely and sustainably explored for and produced natural gas in Australia for 50 years and undertaken coal seam gas operations in Queensland for 15 years**
 - > **Australia has the opportunity to be a world leader in the supply of LNG to Asia's rapidly growing economies and industries**

5,000

Construction jobs to be created by GLNG

79%

Proportion of Queensland gas production represented by CSG

\$3bn

Royalty payments to New South Wales expected from our CSG operations \$3 billion



An operating CSG well in the Scotia field, Queensland. Santos has responsibly produced CSG from this region for more than 15 years and we continue to work in partnership with local communities and landholders, demonstrating that agriculture and CSG activities can sustainably coexist.

CSG in focus

We are listening to and acknowledge the concerns held about the expansion of the coal seam gas industry – and we know we will not be successful unless these concerns are addressed.

This section of our report provides a focus on our sustainable approach to coal seam gas development.





Our commitments:

- Treat all landholders with respect and acknowledge land and amenity disturbance.
- Seek access to land through the informed agreement of the landholder and act reasonably at all times.
- Undertake activities in a manner that preserves the environment and co-exists with current land use.
- Work with governments in support of strong effective regulation.
- Sustain and enhance community support through our actions.

CSG IS NATURAL GAS

Coal seam gas (CSG) is simply natural gas located within a coal deposit (coal seam).

It is predominantly methane (CH₄) and is contained within the coal seam with water. The pressure of water traps the gas within the coal seam.

To extract the natural gas, we need to pump out this associated water. As the amount of water in the coal seam decreases, the gas flow rate from the well increases. The quality and quantity of this water will vary between wells and regions, but is typically brackish, with this salinity limiting its use. To manage water, we have implemented a detailed program which is designed to manage potential environmental impacts and optimise beneficial reuse (see pages 16-17).

SIGNIFICANT CSG RESERVES

In Australia, large coal resources lie in geological basins across eastern Australia, extending approximately 2,000 kilometres from Townsville to Sydney.

The Bowen and Surat Basins in Queensland have Australia’s largest identified onshore reserves of CSG; enough to adequately supply growing local demand and LNG export opportunities, and ensure the long-term supply of competitively priced gas in Australia.

COMMITTED TO MINIMISING IMPACT

Our business planning is based on an understanding that food security, water security and energy security are inextricably linked, and that this link will become more pronounced in the future. With CSG, farmers can continue to work their land while we extract gas from coal seams hundreds of metres below the surface.

To minimise surface impacts, we routinely use directional drilling to drill several CSG wells from a single well pad. Multi-well pad drilling means that far fewer pads are required, reducing the area required per well and reducing the number of pipelines and access roads required.

We work with landholders to locate infrastructure. Every reasonable attempt is made to locate surface facilities in areas not visible from roads or homesteads, and to locate access roads and pipelines along fence lines and property boundaries. To prevent access by livestock and wildlife, and as a safety precaution, well sites are fenced.

At the end of its productive life, a well is plugged with cement and the surrounding land rehabilitated, with effectively no surface impact remaining.

OUR OPERATIONS

Our CSG operations draw water from coal seams 300 to 1,800 metres below the surface – well beyond stock or domestic bores and separated from them by low permeability shales and sandstones.

In Queensland, our CSG operations are expected to produce 342 GL of water over the life of their operation. Our operations in New South Wales are expected to extract water at an average rate of approximately 5-7 GL per annum, compared to the estimated current total extraction from the Namoi Catchment of 540 GL per annum.

Independent assessment of the cumulative groundwater impact of the CSG industry on the Great Artesian Basin has concluded that water production from the Surat and Bowen Basins over the collective 70-year lifespan of the various projects is equivalent to extracting 0.04% of the groundwater currently stored in the Great Artesian Basin, or intercepting 5% of groundwater recharge to the Great Artesian Basin.

‘Santos looks after the people and the land. That’s why they’re always welcome on my place.’

Col Maunder, Wallumbilla, Queensland

RESPONSIBLE WATER MANAGEMENT

We have a comprehensive water strategy in place for our Queensland CSG projects that addresses the project’s impacts on soil and regional water resources. It focuses on developing long-term solutions that benefit both local communities and the environment.

Our CSG operations in New South Wales are at an earlier stage of development than in Queensland, with a focus on exploration and appraisal activities. We will apply the same level of rigour to our New South Wales operations as we have in Queensland, to identify and mitigate any perceived risk to water resources. We are committed to build on the significant body of knowledge of the hydrological conditions in which we are operating.

For all sites, we are investigating a range of sustainable uses for water that will benefit local communities and meet government regulations.

BENEFICIAL WATER REUSE

Potential beneficial uses of treated water include managed aquifer recharge, dust suppression, irrigation and industrial use.

We have identified a number of beneficial water reuse projects, including the Fairview irrigation project, the Roma managed aquifer recharge project and the Mount Hope Station irrigation project (see page 16).

Depending on the quality and intended use of the water, it is first treated using one of the following processes:

- **Desalination:** water that contains high levels of salt is treated using reverse osmosis technology. This technology separates the salts and organic compounds to produce desalinated water.
- **Amendment:** water with low to moderate concentrations of salt can be balanced via an amendment process. This process involves balancing the chemical make-up (e.g. pH) to ensure that water is suitable for beneficial use applications.

It is important that we manage the disposal of salt (brine) from our desalination facilities in a manner that manages any potential environmental impact. The Queensland Government has published a hierarchy of preferred brine disposal options, that gives preference to injection of brine into depleted underground reservoirs or layers of rock below the coal seam.

This approach has been implemented at Fairview, near Injune in Queensland, where we inject brine into reservoir rock strata (Timbury Hills Formation) below the coal seam.

Our understanding of reservoir geology and our early detection monitoring wells make this a low-risk and desirable option.

HYDRAULIC FRACTURE STIMULATION

Hydraulic fracture stimulation (commonly know as fraccing) is a highly-regulated, low-impact way to increase well productivity, thereby reducing the number of wells required and decreasing our overall land disturbance footprint.

This technique is common practice in the oil and gas industry and has been used to enhance hydrocarbon (and water) well production for more than 60 years.

The need for fraccing is dependent on the geology of the area – in many instances it is not required as gas production can be enhanced from drilling lateral or near-horizontal wells. At the end of 2011, less than 10% of our CSG wells in Queensland had undergone fraccing.

Fraccing involves pumping sand and fluids (about 99% water and sand; 1% fluid additives) down a well and into a coal seam to wedge open existing cracks in the coal. These fractures are propped open by the permeable sand, which allows flow of natural gas back to the well and improves the efficiency of gas recovery.

TRANSPARENT APPROACH TO MONITORING

Groundwater

Great Artesian Basin	Local bores
----------------------	-------------

Surface water

Springs	Creeks
---------	--------

Soil

To ensure our water management programs are working effectively, we are implementing one of the most significant groundwater monitoring programs in Australia. Through this program, we will be aware of groundwater changes in advance of their appearance in local aquifers, and will be able to take appropriate action to modify water management in the area.

Santos monitors all its CSG fields and water treatment facilities using sophisticated tools that allow remote data collection 24 hours a day.

We have also completed a baseline inventory of 350 bores in the Roma, Fairview and Arcadia Valley regions.

In the Gunnedah Basin in New South Wales, we are collecting data from privately owned agricultural bores within two kilometres of our exploration core holes and pilot wells, and contributing to a larger study by the Namoi Catchment Management Authority (see page 17).

We are transparent in our approach and publish results of our monitoring at www.santoswaterportal.com.au.

CSG PHASES

EXPLORATION

Vertical coreholes (100 to 300mm diameter) are drilled to determine the coal quality, depth, gas content and permeability. Steel casing, cemented to the side of the hole, ensures the integrity of the well and isolates any intersected aquifers. The drilling process used is similar to that for domestic and irrigation bores.

Well pad: 100 x 100m (maximum)

PILOT TESTING

If exploration indicates potential for producing gas, pilot wells are drilled to gather additional information such as permeability, reservoir pressure, and gas and water production rates and composition. Typically, up to five production-sized wells are drilled, spaced one kilometre apart, and water and gas are extracted and tested.

Well pad: 100 x 100m (maximum)

PRODUCTION

If testing indicates viability, production wells are drilled. These are typically 500m to 1.5km apart, or further where multi-pad drilling is used. Water and gas are extracted from these wells and transported via underground pipelines to compression and water management facilities.

Construction well pad: 100 x 100m
Production well pad: 25 x 25m (typical)

FRACCCING FLUIDS

Fluid additives are used to keep the sand suspended in the fluid. They are water-based, not petroleum-based. Santos does not use BTEX (benzene, toluene, ethylbenzene, xylene) chemicals in our CSG fraccing operations. All chemicals we use for CSG fraccing are listed on our website and on the Queensland Government website.

At the completion of fraccing, the sand remains in the coal seam while the majority of the fluid flows back to the well and is pumped into lined containment pits or tanks on the surface. This fluid is then recycled and used for other fraccing operations or taken offsite for treatment in accordance with our licence conditions.

PROTECTION OF GROUNDWATER DURING FRACCCING

All CSG wells are lined with steel casing, which is cemented in place to isolate aquifers overlying the target coal seam and helps ensure that fraccing fluids remain within our well and targeted coal seam.

Before fraccing is conducted, the integrity of the cement bond between the casing and rock is verified. Geological and geo-mechanical measurements are used to understand the properties of the coal seam and surrounding rock.

Monitoring methods also provide quality control on the fracture design and fracture growth, to help ensure the fractures extend only in the target coal seams. The fracture orientation and extent are modelled, and measurements taken at the time of fraccing are analysed and used to confirm the design model.

Through delivery of our monitoring programs and attention to well design and integrity, we believe that fraccing will not compromise the isolation of deep coal seams or surface aquifers. This is consistent with the CSIRO's finding that:

*'hydraulic fracturing (fraccing), when conducted correctly, is unlikely to introduce hazardous chemicals into groundwater or to create connections between fresh and coal-containing aquifers.'*¹

It is also in our economic interest to ensure high quality isolation of any aquifers, as any cross-flow would negatively impact the production of gas from a well or field.

OUR ENERGY FUTURE

The growth of the CSG industry represents a major opportunity for Australia.

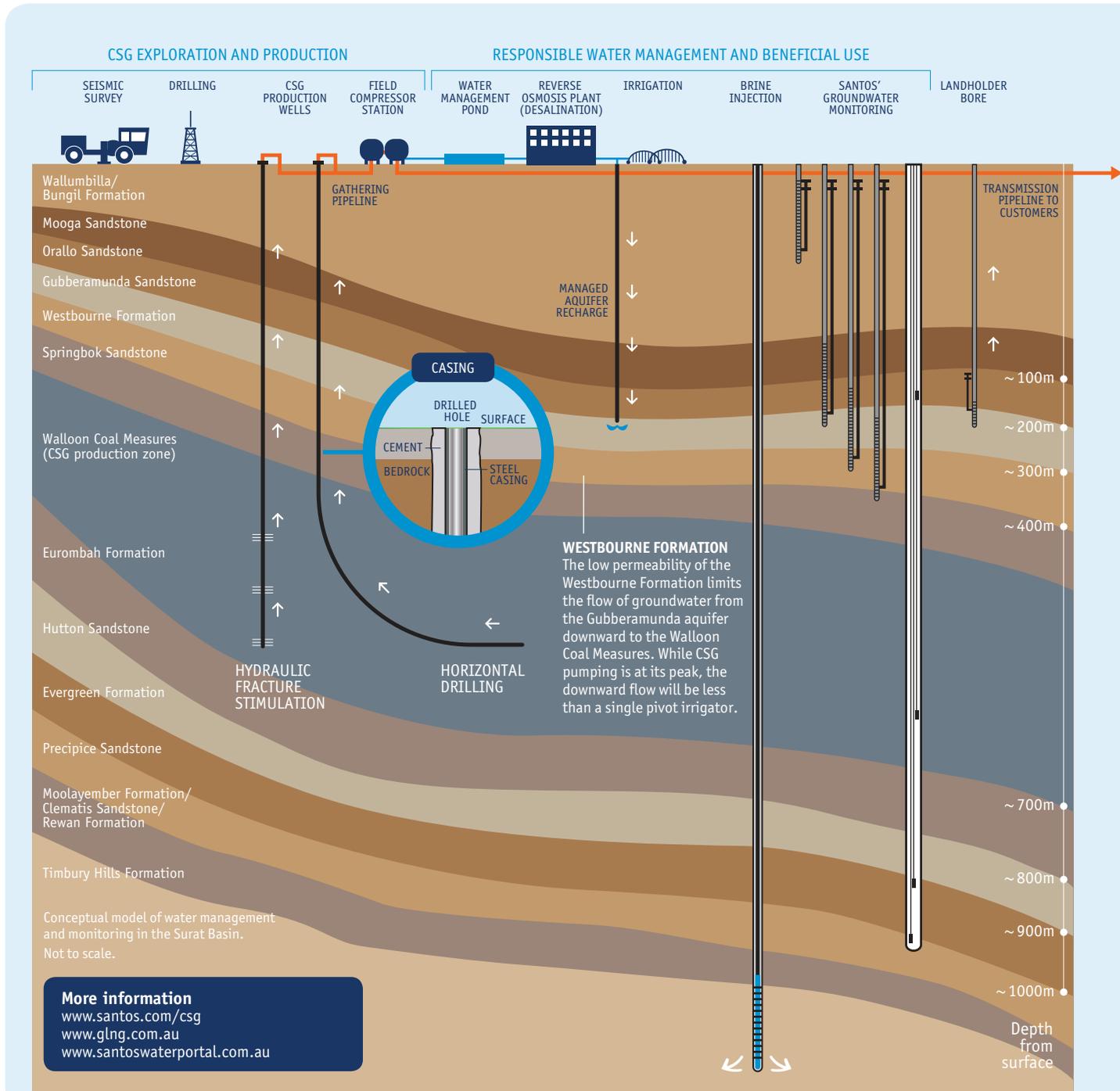
Delivery of Santos' CSG projects is forecast to generate more than \$40 billion in federal tax payments, \$6 billion in royalties to Queensland, \$3 billion in royalties to New South Wales, and thousands of employment opportunities, largely in regional areas.

Santos is at the forefront of the CSG industry's growth, as a leader building on more than 50 years of responsible natural gas exploration and production in Australia.

Our leadership stems from respectful relationships with landholders, responsible stewardship of the environment and enduring, mutually-beneficial partnerships with communities.

¹ CSIRO, December 2011, Hydraulic fracturing (fraccing) www.csiro.au/news/

CSG FIELDS AND UPSTREAM FACILITIES



performance data

ENVIRONMENT

Energy consumption and greenhouse gas emissions	2007	2008	2008–09	2009–10	2010–11
Direct energy consumption by primary source (PJ)	29	30	28	31	31
Indirect energy consumption by primary source (PJ)	-	-	-	0.18	0.20
Direct greenhouse gas emissions, operated sites (Scope-1, tCO ₂ e)	4,380,000	4,250,000	3,457,500	3,665,981	3,579,414
Indirect greenhouse gas emissions, operated sites (Scope-2, tCO ₂ e)	-	-	42,709	39,723	40,466
Total Scope-1 and Scope-2 greenhouse gas emissions, operated sites (tCO ₂ e)	-	-	-	-	3,619,880

Emissions inventory ¹ – Australian operations (tonnes)	2008	2009	2010
Arsenic and compounds	0.008	0.010	0.02
Benzene	59	50	17
Beryllium and compounds	0.005	0.006	0.01
Cadmium and compounds	0.039	0.048	0.05
Carbon monoxide	3,547	4,461	5,167
Chromium (III) compounds	0.041	0.051	0.1
Copper and compounds	0.062	0.075	0.1
Ethylbenzene	3.4	3.0	2
Ethylene glycol (1,2-ethanediol)	72	53	74
n-Hexane	104	49	101
Hydrogen sulphide	0.066	0.037	0.2
Lead and compounds	0.011	0.013	0.1
Mercury and compounds	0.005	0.006	0.01
Methanol	57	63	269
Nickel and compounds	0.075	0.092	0.06
Oxides of nitrogen (NO _x)	18,278	24,919	30,704
Particulate matter ≤ 2.5 microns	256	254	289
Particulate matter ≤ 10.0 microns	256	291	293
Phenol	50	59	52
Polycyclic aromatic hydrocarbons	0.118	0.133	0.06
Sulphur dioxide	27	32	28
Toluene (methylbenzene)	42	37	22
Total volatile organic compounds (VOCs)	4,469	4,632	9,694
Xylenes	29	27	15

Water resources ²	Water withdrawal by source (m ³)					Water discharge by destination (m ³)		
	Formation water	Groundwater bores ⁴	Surface water ⁵	Municipal supply	Evaporation ponds	Surface water ⁵	Beneficial use ⁶	Injection/reinjection ⁷
South Australia	5,944,085	1,265,116	0	96,965	6,691,619	7	0	44,693
Queensland	8,990,750	29,130	0	0	343,622	3,351,397	3,239,020	502,810
Northern Territory	3,279	17,489	0	0	3,279	0	0	0
Victoria	5,475	0	0	0	0	0	19,265 ⁸	0
Western Australia (offshore)	1,987,750	0	0	0	0	2,027,788	0	0
New South Wales	10,747	0	0	0	410	9,465	0	0
Indonesia	555,567	0	5,095,337	0	0	5,650,904	0	0
Bangladesh	20,136	12,509	0	11,329	0	29,640	0	0
Total	17,517,789	1,324,245	5,095,337	108,294	7,038,929	11,069,201	3,258,285	547,503

1 These data are reported mid-year to the Australian National Pollutant Inventory; 2011 data will be published in the Sustainability Report 2012.

2 We aim to continuously improve water data capture across all operated sites; this table represents an approximation of our water resource management at this time.

4 Used to source water for some drilling, processing plants and camp facilities. Reverse osmosis is used to generate water of a suitable quality for use in processing and camp facilities.

5 Includes wetlands, rivers, lakes and oceans.

6 Includes irrigation, dust suppression, road maintenance and stock watering; does not include managed aquifer recharge.

7 Includes enhanced oil recovery; does not include managed aquifer recharge.

8 Includes formation water and stormwater collected on site.

- Denotes data not included in previous sustainability reports.

Land	Area of tenements (ha)	Area of disturbance (ha)
South Australia	760,326	11,988
Queensland	7,184,285	12,520
Northern Territory	1,198,920	2,854
Victoria	212,447	110
Western Australia	2,089,030	1,299
New South Wales	6,271,999	344
Indonesia	2,513,671	94
Bangladesh	147,803	16
Vietnam	1,651,638	46
Papua New Guinea	102,314	21
Kyrgyz Republic	259,717	414
East Timor	66,734	22
India	1,653,606	0
Total	24,112,490	29,728

Biodiversity	High biodiversity value site ¹	Area of site (ha)	Area within Santos tenements (ha)
South Australia	Coongie Lakes Ramsar site	1,900,000	3,758
Queensland	Bulloo Floodplain Important Bird Area	924,236	9.5
	Lake Bindegolly Important Bird Area	31,778	13.4
Northern Territory	Lake Woods Important Bird Area	124,028	19.7
	Yinberrie Hills Important Bird Area	104,951	35.9
Western Australia	Lowendal Islands Important Bird Area	160	0.1
	Barrow Islands Important Bird Area	23,483	698.4
New South Wales	Goonoo Important Bird Area	103,449	1.6
	Mudgee-Wollar Important Bird Area	162,656	1.6
	Pilliga Important Bird Area	490,908	60

Waste management ²	Solid waste (tonnes)					Liquid waste (m ³)	
	Recycle	Recovery for energy use	Incineration	Landfill	Hydrocarbon waste ⁴	Product recovered	Liquid waste
Unregulated waste	2,798	37	39	6,999	0	0	0
Regulated waste	28	0	2	126	11,650	4,866	1,970
Total	2,826	37	41	7,125	11,650	4,866	1,970

Incidents and spills	2007	2008	2009	2010	2011
Uncontained hydrocarbon volume (m ³)	514.9	199.6	10.2	18.7	65.9
Total number of hydrocarbon spills (> 10L)	-	-	-	73	85
Number of fines for non-compliance with environmental regulations	-	-	1	3	6
Value of fines for non-compliance with environmental regulations (\$)	-	-	2,000	6,000	12,000

1 We define 'high biodiversity value sites' as: wetlands of international importance (according to the Ramsar Convention); important bird areas (defined by BirdLife International); and UNESCO World Heritage sites and Biosphere Reserves. There are no UNESCO World Heritage sites and Biosphere Reserves within our tenements.

2 Eight months of waste management data from Queensland sites was recorded in 2011 (May to December). Figures reported include an extrapolation of this data. 450 tonnes of waste was diverted from landfill but is not reflected in the waste management data for 2011. It has been stored on site pending transport to a recycling facility in 2012, and will be included in 2012 data in the Sustainability Report 2012.

4 Includes oily water and used cooking oil.

- Denotes data not included in previous sustainability reports.

COMMUNITY

2011 sponsorships (\$)¹	Education/youth	Community	Environment	Arts/culture	Indigenous	Health	Industry/ government	Total
South Australia	3,682,192	1,132,483	800,990	621,361	735,053	245,475	5,227	7,222,780
Queensland	8,432	4,160,017	72,727	708,500	276,272	1,006,136	99,883	6,331,967
Indonesia	48,524	324,716	33,825	0	0	20,093	28,398	455,556
Western Australia	1,000	120,268	200,000	59,550	23,000	0	21,934	425,753
Vietnam	0	0	71,802	0	0	108,068	0	179,870
New South Wales	12,243	8,382	2,409	24,456	22,727	42,000	2,000	114,218
Victoria	5,000	30,251	30,000	0	0	11,755	0	77,006
Northern Territory	200	0	0	50,000	0	0	0	50,200
United Kingdom	0	0	0	0	0	0	45,174	45,174
Bangladesh	0	165	3,696	0	0	931	11,330	16,121
Singapore	0	0	0	0	0	0	11,630	11,630
Japan	0	10,992	0	0	0	0	0	10,992
New Zealand	0	9,595	0	0	0	0	0	9,595
Papua New Guinea	5,000	0	0	0	0	0	3,092	8,092
Total	3,762,591	5,796,868	1,215,449	1,463,867	1,057,052	1,434,459	228,669	14,958,955

Extractive Industries Transparency Initiative

In June 2009, Santos became an EITI supporting company

ECONOMIC

Socioeconomic contribution	2007	2008	2009	2010	2011
Number of shareholders	77,498	78,933	107,138	112,145	113,173
Wages and salaries (\$million)	253	282	313	354	411
Materials, goods and services (\$million)	947	1,426	1,129	1,364	2,066
Royalties and taxes (\$million)	535	546	731	185	656
Sponsorship (\$million)	4	8	7	11	15
Payments to providers of capital (dividends and borrowing costs paid)	-	-	-	-	368
Financial performance as at 31 December	2007	2008	2009	2010	2011
Santos' average realised oil price (\$/bbl)	92.00	117.45	78.83	87.35	114.96
Financial performance (\$million)					
Product sales revenue	2,489	2,762	2,181	2,228	2,530
Net profit after income tax	359	1,650	434	500	753
Financial position (\$million)					
Total assets	7,320	9,802	11,361	13,769	15,814
Net debt (cash)	1,839	506	(605)	(1,201)	(205)
Total equity (shareholder funds)	3,093	4,478	6,967	7,604	8,963
Market capitalisation	8,274	8,696	11,721	11,506	11,560
Reserves and production (mmboe)					
Proven plus probable reserves (2P)	879	1,013	1,440	1,445	1,364
Production (mmboe)	59.1	54.4	54.4	49.9	47.2
Reserves replacement ratio (organic 2P, %)	198	517	965	330	173
Exploration					
Exploration wells drilled²	10	13	6	3	4
Expenditure (\$million)	150	233	181	90	151
Other capital expenditure (\$million)					
Delineation and development	955	1,290	1,204	1,684	2,769
Buildings, plant and equipment	202	105	172	107	149

1 Sponsorships are detailed on our community blog: www.santos.com/blog.

2 2010 data has been updated.

- Denotes data not included in previous sustainability reports.

OUR PEOPLE

Workforce by region and type ¹	Full-time		Part-time		Graduate/ trainee		Total Santos employees	Secondee		Contractors (on site)		External service providers (on site)		Total non- employee workforce
	M	F	M	F	M	F		M	F	M	F	M	F	
South Australia	1,068	238	16	74	45	29	1,470	0	0	122	32	1,493	207	1,854
Queensland	682	216	7	27	29	12	973	14	3	145	32	618	173	985
Northern Territory	24	0	0	0	0	0	24	0	0	2	0	5	1	8
Western Australia	37	12	2	3	1	1	56	0	0	10	15	72	12	109
New South Wales	29	7	1	1	1	0	39	0	0	0	0	5	4	9
Victoria	15	2	0	0	0	0	17	0	0	0	0	19	2	21
Indonesia	102	66	0	0	2	2	172	0	0	48	12	58	5	123
Bangladesh	54	13	0	0	0	0	67	0	0	0	0	2	0	2
United States of America	10	0	0	0	0	0	10	0	0	18	3	12	15	48
Papua New Guinea	2	0	0	0	1	0	3	0	0	0	0	0	1	1
India	1	1	0	0	0	0	2	0	0	0	0	3	0	3
Vietnam	1	2	0	0	0	1	4	0	0	1	0	4	4	9
Kyrgyz Republic	1	0	0	0	0	0	1	0	0	0	0	3	0	3
Philippines	5	0	0	0	0	0	5	0	0	1	0	2	0	3
Italy	2	0	0	0	0	0	2	0	0	0	0	10	1	11
Tajikistan	1	0	0	0	0	0	1	0	0	0	0	0	0	0
Yemen	1	0	0	0	0	0	1	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	6	0	6
Total	2,035	557	26	105	79	45	2,847	14	3	347	94	2,312	425	3,195

Workforce composition ²	< 30 yrs		> 30 yrs < 50 yrs		> 50 yrs		Total
	M	F	M	F	M	F	
Strategic Leader	0	0	5	2	5	1	13
Functional Leader/Manager	0	1	115	22	49	4	191
Team Leader/Supervisor	7	1	213	38	105	4	368
Technical Specialist	4	4	176	61	93	6	344
Team Member	232	164	765	355	371	44	1,931
Total	243	170	1,274	478	623	59	2,847
Non-Executive Director	0	0	0	0	6	1	7

Average number of training hours in 2011		
M	F	Weighted average
1	32	8
8	5	7
18	17	18
27	11	24
12	17	12
22	16	20

Employee turnover	2007	2008	2009	2010	2011
Voluntary employee turnover rate (%) ³	6.4	7.0	3.5	6.8	7.0

1 Headcount at year-end 2011.

2 2011 data includes all Santos employees. In previous years, only Australian-based employees were reported.

3 2011 data includes all Santos employees.

OUR PEOPLE (CONTINUED)

New employee hires	Employee departures											
	< 30 yrs		> 30 yrs < 50 yrs		> 50 yrs		< 30 yrs		> 30 yrs < 50 yrs		> 50 yrs	
	M	F	M	F	M	F	M	F	M	F	M	F
South Australia	30	25	96	32	20	9	5	6	40	15	26	4
Queensland	43	46	102	63	29	11	10	13	41	19	26	3
Northern Territory	1	0	3	0	0	0	0	0	0	0	0	0
Western Australia	1	1	6	2	1	0	0	0	0	0	0	0
New South Wales	0	0	2	2	8	1	0	0	0	0	1	0
Victoria	0	0	0	0	0	0	0	0	0	0	0	0
Indonesia	4	2	13	6	0	0	1	0	8	2	0	0
Bangladesh	2	2	6	0	0	0	1	0	2	1	3	0
United States of America	0	0	0	0	0	0	0	0	0	0	1	0
Papua New Guinea	0	0	0	0	0	0	0	0	0	1	0	0
India	0	0	0	0	0	0	0	0	1	0	0	0
Vietnam	0	0	0	0	0	0	0	0	0	0	0	0
Kyrgyz Republic	0	0	0	0	0	0	0	0	0	0	0	0
Total	81	76	228	105	58	21	17	19	92	38	57	7

Return to work and retention rate from parental leave	Employees entitled to parental leave ¹		Employees that accessed parental leave		Employees that returned to work after leave ²		Retention rate after parental leave (%)	
	M	F	M	F	M	F	M	F
South Australia	988	279	23	26	22	15	96	58
Queensland	557	142	14	24	13	10	93	42
Northern Territory	20	0	0	0	0	0	0	0
Western Australia	33	13	2	0	2	0	100	0
New South Wales	22	5	1	0	1	0	100	0
Victoria	15	2	0	0	0	0	0	0

Safety performance data	2007	2008	2009	2010	2011
Employee fatalities	0	0	0	0	0
Contractor fatalities	0	1	1	1	0
Employee TRCFR ³	2.7	2.2	1.5	1.2	1.4
Contractor TRCFR ³	6.8	7.6	4.8	4.8	4.3
High potential incidents	-	-	-	2	6
Absentee rate (%)	-	-	-	-	1.0
Recordable occupational disease ⁴ cases	-	-	-	0	0
Employee representation on health and safety committees (%)	-	-	-	90 ⁵	89

1 Data pertains to Australian employees only; Parental Leave Policy applies to all employees.

2 At the time of reporting, 27 employees were on parental leave.

3 First aid injuries are not covered by the TRCFR; Santos' injury rate is based on the APPEA (2005) Safety Incident Reporting Guidelines.

4 A disease arising from a work situation or activity.

5 2010 data has been updated.

- Denotes data not included in previous sustainability reports.

glossary

barrel (bbl)

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

biodiversity

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

boe

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

carbon dioxide equivalent (CO₂e)

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.

condensate

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

crude oil

A general term for unrefined liquid petroleum or hydrocarbons.

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.

exploration

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

formation water (produced formation water, associated water, incidental water, CSG water)

Water that has accumulated underground with oil and/or gas deposits and is brought to the surface from our wells, where it is separated from our products.

greenhouse gas

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

hazard

A source of potential harm.

hydraulic fracture stimulation (fracking)

A process used in wells to enhance productivity and reduce the number of wells required in a given area.

hydrocarbon

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

joules

The metric measurement unit for energy.

- A gigajoule (GJ) is equal to 1 joule x 10⁹
- A terrajoule (TJ) is equal to 1 joule x 10¹²
- A petajoule (PJ) is equal to 1 joule x 10¹⁵

liquid hydrocarbons (liquids)

A sales product in liquid form (e.g. condensate, LPG).

LNG

Liquefied natural gas. Natural gas that has been liquefied by refrigeration for storage or transportation. Generally, LNG comprises mainly methane.

lost-time injury frequency rate (LTIFR)

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

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 for storage or transportation. Generally, LPG comprises mainly propane and butane.

market capitalisation

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

medical treatment injury frequency rate (MTIFR)

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

megawatt hour (MWh)

A unit of energy equal to one million watts supplied over one hour.

mmboe

Million barrels of oil equivalent.

oil

A mixture of liquid hydrocarbons of different molecular weights.

proven plus probable reserves (2P reserves)

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.

Santos

Santos Limited and its subsidiaries.

seismic survey

A survey 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 our website at www.santos.com.

independent assurance statement

INDEPENDENT ASSURANCE STATEMENT

To the Board of Directors, Executive and stakeholders of Santos Limited:

Santos Limited (Santos) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance of the Santos Sustainability Report 2011 (the 'Report'). This statement provides a brief summary of the assurance outcomes. A full copy of the assurance statement is provided at www.santos.com/sustainability.

ASSURANCE STANDARD AND OBJECTIVES

The assurance process was undertaken in accordance with the AA1000 Assurance Standard (AA1000AS (2008)). The standard provides a comprehensive way of ensuring an organisation is responsible for the management, performance and reporting of its sustainability issues. This is achieved through evaluation of the organisation's adherence to the AA1000 AccountAbility Principles (2008) of Inclusivity, Materiality and Responsiveness, and by reviewing the accuracy and quality of disclosed sustainability performance information.

ASSURANCE TYPE, LEVEL AND SCOPE

Net Balance provided Type 2 moderate level assurance in accordance with the AA1000AS (2008). This included:

- Evaluation of Santos' adherence to the AA1000 AccountAbility Principles (2008) of Inclusivity, Materiality and Responsiveness.
- Review of the accuracy and quality of reported sustainability performance information using the Global Reporting Initiative (GRI) G3.1 Reporting Principles for Defining Quality.
- Review of the sustainability scores assigned to the indicators which make up Santos' Sustainability Scorecard.
- A Global Reporting Initiative (GRI) G3.1 Application Level Assessment.

FINDINGS AND CONCLUSIONS

Adherence to AA1000 Principles

Inclusivity:

The assurance process found that Santos has a range of formal and informal systems in place to collect and analyse stakeholder feedback. One of the key focus areas for Santos during 2011 was developing its coal seam gas (CSG) assets.

Net Balance reviewed Santos' stakeholder engagement mechanisms and processes related to CSG and found that in 2011, in response to stakeholder feedback, Santos' engagement has focused on water management, hydraulic fracture stimulation (commonly known as fracking) and land access.

Initiatives such as the Santos water portal, full-time community advisers and the development of beneficial use agreements have improved Santos' transparency on these issues and demonstrated an active approach to engagement, which has set the organisation apart from others in the Australian CSG industry.

It is recommended that Santos build on its project-specific approach to engagement to implement a framework which is applied to all operations. This approach and commitment to engagement could be more explicitly reflected in the organisation's Community Policy.

Materiality:

In 2011, Santos undertook a formal materiality process in order to determine which issues should be included within the Report. This has enabled Santos to appropriately address its key environmental, social and economic material issues.

In addition, the Report was found to provide balanced information about Santos' sustainability performance. It is recommended that Santos continues to use its materiality process to identify issues for inclusion in the Report and that the results are reviewed on an annual basis. Santos should also consider undertaking stakeholder engagement specifically in relation to the Report, in order to seek feedback on whether the Report addressed stakeholders' key issues. It is also recommended that on a less regular basis, Santos should continue to review the indicators included within its Sustainability Scorecard to ensure that they reflect the organisation's material risks.

Responsiveness:

Santos was found to be responsive to stakeholders' concerns and expectations. This was demonstrated through project-specific community engagement plans, community consultation forums and the Santos community blog. These demonstrated timely and accessible responses to stakeholder concerns.

Reliability of performance information

Overall, it is Net Balance's opinion that the information presented within the Report is fair in all material respects. The Report was found to present a reliable account of Santos' sustainability performance during the reporting period. The GRI application level check classified the Report as A+.

THE WAY FORWARD

To ensure continued improvement of Santos' sustainability performance reporting, Net Balance has provided recommendations for improvement in a more detailed report presented to Santos' management.

On behalf of the assurance team
7 March 2012
Melbourne, Australia



Kim Farrat
Associate Director, Net Balance & Lead CSAP



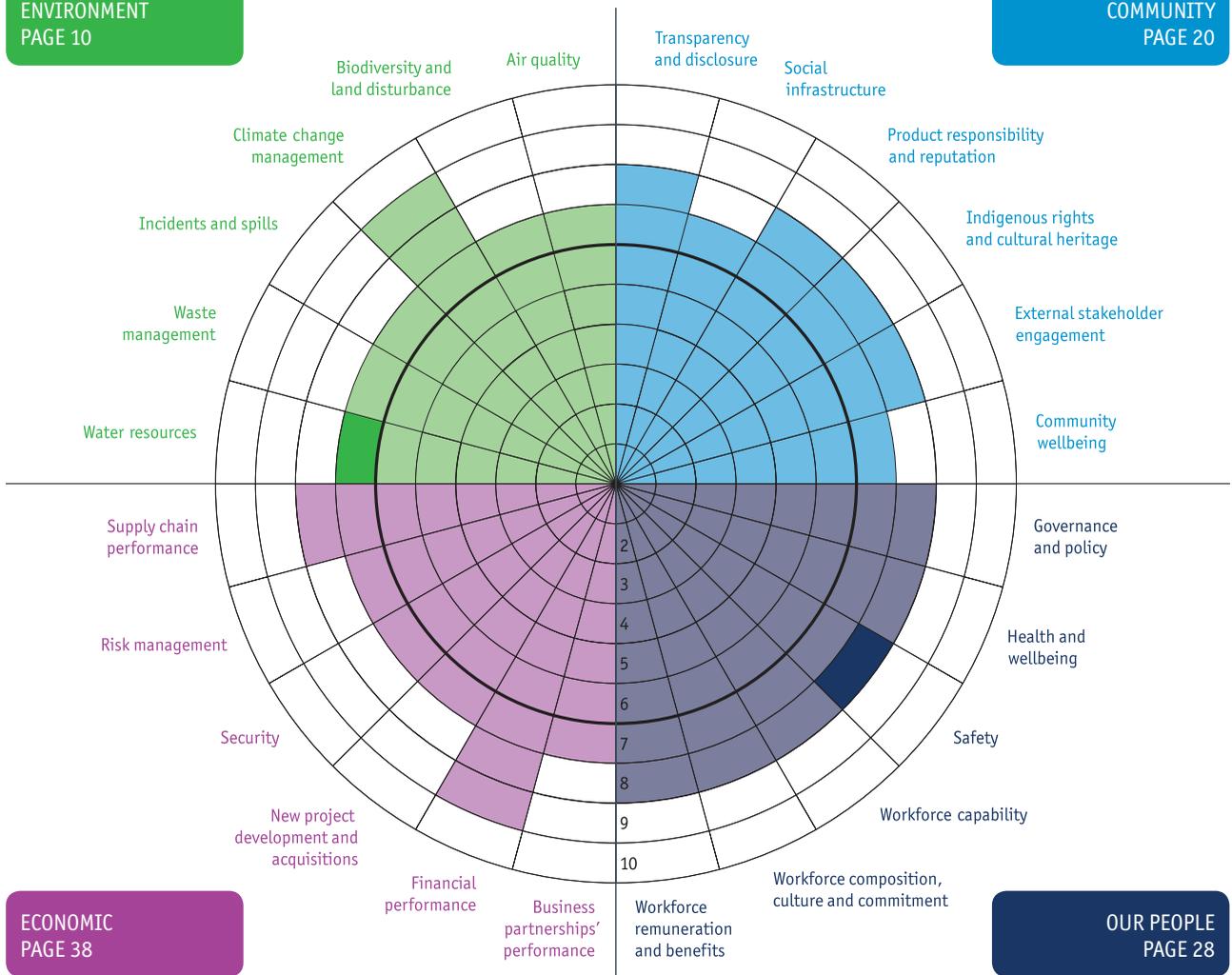
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2011 performance scorecard

ENVIRONMENT
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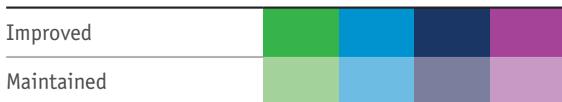
COMMUNITY
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ECONOMIC
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OUR PEOPLE
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2011 PERFORMANCE COMPARED TO 2010



SUSTAINABILITY SCORE

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

Santos

We have the energy.

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