FULL-YEAR REPORT INCORPORATING APPENDIX 4E

Santos Limited

Preliminary Final Report under ASX Listing Rule 4.3A for the year ended 31 December 2012.
This report is based on financial statements which have been audited.

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Devil Creek gas plant, Western Australia.

Santos
We have the energy.

Results for announcement to the market

Appendix 4E for the year ended 31 December 2012

				$million
Revenue from ordinary activities	Up	18%	to	3,299
Profit from ordinary activities after tax attributable to members	Down	31%	to	519
Net profit for the period attributable to members	Down	31%	to	519

Dividends	Amount per security	Franked amount per security at 30% tax
2012 Interim Dividends Ordinary securities	15¢	15¢
2012 Final Dividends Ordinary securities	15¢	15¢
Record date for determining entitlements to the 2012 final dividend	7 March 2013	

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About Santos

An Australian energy pioneer since 1954, Santos is one of the country's leading gas producers, supplying Australian and Asian customers.

Santos has been providing Australia with natural gas for more than 40 years. The company today is one of the largest producers of natural gas to the Australian domestic market, supplying 15% of the nation's gas needs.

Santos has also developed major oil and gas liquids businesses in Australia and operates in all mainland Australian states and the Northern Territory.

From this base, Santos is pursuing a transformational liquefied natural gas ("LNG") strategy with interests in four LNG projects.

These include the PNG LNG project in Papua New Guinea and the GLNG project in Queensland which are under construction and due to start up in 2014 and 2015 respectively. Also in Santos' LNG portfolio are Bonaparte LNG, which is in the conceptual design phase, and Darwin LNG, which began production in 2006.

Santos has production in four Asian countries and is further developing its Asian business through development projects and exploration investment.

Santos has about 3300 employees working across its operations in Australia and Asia.

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Directors' Report

The Directors present their report together with the consolidated financial report of the consolidated entity, being Santos Limited ("Santos" or "the Company") and its controlled entities, for the financial year ended 31 December 2012, and the auditor's report thereon. Information in the Annual Report referred to in this report, including the Remuneration Report, or contained in a note to the Financial Statements referred to in this report forms part of, and is to be read as part of, this report.

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Directors, Directors' Shareholdings and Directors' Meetings

Directors and Directors' Shareholdings

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

Surname	Other Names	Shareholdings in Santos Limited
Borda	Kenneth Charles	74,320
Coates	Peter Roland (Chairman)	37,104
Dean	Kenneth Alfred	16,349
Franklin	Roy Alexander	3,547
Goh	Hock	-
Harding	Richard Michael	2,643
Hemstritch	Jane Sharman	14,000
Knox	David John Wissler (Managing Director)	85,141
Martin	Gregory John Walton	10,750

The above named Directors held office during and since the end of the financial year with the exception of Mr Hock Goh, who was appointed on 22 October 2012 and has held office since that date. There were no other persons who acted as Directors at any time during the financial year and up to the date of this report.

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

At the date of this report, Mr DJW Knox holds 257,512 options and 556,506 share acquisition rights ("SARs"). Details of the options and SARs granted to Mr Knox during the year are set out in the Remuneration Report on page 10 and in Notes 30-31 to the Financial Statements.

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

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Directors' Meetings

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

TABLE OF DIRECTORS' MEETINGS

Director		Directors' Meeting[2]		Audit Committee		Environment Health & Safety Committee		People & Remuneration Committee		Finance Committee		Nomination Committee	
		Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Borda	Kenneth Charles	11	10	-	-	-	-	-	-	5	5	5	5
Coates	Peter Roland	11	11	-	-	-	-	5	5	5	5	5	5
Dean	Kenneth Alfred	11	11	4	4	-	-	-	-	5	5	-	-
Franklin	Roy Alexander	11	11	-	-	4	4	5	5	-	-	-	-
Goh[3]	Hock	3	3	-	-	-	-	-	-	-	-	-	-
Harding	Richard Michael	11	11	4	2	4	4	-	-	-	-	5	5
Hemstritch	Jane Sharman	11	10	4	3	-	-	5	4	-	-	-	-
Knox	David John Wissler	11	11	-	-	4	4	-	-	-	-	-	-
Martin	Gregory John Walton	11	11	-	-	4	4	5	5	-	-	-	-

1 Reflects the number of meetings held during the time the Director held office, or was a member of the Committee, during the year.
2 In addition to formal meetings, the Directors participated in site visits to Gladstone in June and Narrabri/Gunnedah in December 2012.
3 Appointed on 22 October 2012.

Principal Activities

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

Review and Results of Operations

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

Summary of results table	**2012**	2011	Variance
	mmboe	mmboe	%
Production volume	52.1	47.2	10
Sales volume	61.0	58.7	4
	$million	$million	
Product sales	3,220	2,721	18
EBITDAX[2]	1,880	2,126	(12)
Exploration and evaluation expensed	(165)	(167)	(1)
Depreciation and depletion	(773)	(641)	21
Net impairment loss	(106)	(127)	(17)
EBIT[2]	836	1,191	(30)
Net finance income	79	91	(13)
Taxation expense	(397)	(531)	(25)
Net profit for the period	518	751	(31)
Net loss attributable to non-controlling interest	(1)	(2)	(50)
Net profit attributable to equity holders of Santos[1]	519	753	(31)
Underlying profit for the period[2]	606	453	34

1 *Net profit attributable to the equity holders of Santos for the year of $519 million is $234 million lower than 2011, primarily due to lower gains on sale of non-current assets, largely as a result of the sale of 15% of the GLNG project in 2011, combined with higher cost of sales, offset by higher sales revenue. Please refer to page 6 for further details.*

2 *EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. Please refer to page 6 for the reconciliation from net profit to underlying profit for the period. The non-IFRS financial information is unaudited however the numbers have been extracted from the audited financial statements.*

Production and sales

Santos' 2012 production was up 10% to 52.1 million barrels of oil equivalent ("mmboe"). Production from new assets such as Reindeer in Western Australia and Chim Sao in Vietnam, combined with strong Cooper Basin oil production, drove the increase. Consistent delivery of Santos' strategy has positioned the company for further growth, with production expected to reach over 80 mmboe by 2020.

Sales volumes grew by 4% in 2012 to 61 mmboe, reflecting higher production partially offset by lower overall third party product sales.

Sales revenue grew by 18% to a record $3,220 million, driven by a 33% increase in crude oil production and higher third party crude oil sales. The average realised oil price was A$113.78 per barrel, marginally lower than 2011, while the average gas price of A$5.14 per gigajoule was 9% higher.

Eastern Australia

Eastern Australia Business Unit EBITDAX was $668 million, 3% higher than 2011.

Santos' share of Cooper Basin gas production of 66.6 petajoules (PJ) during 2012 was 1% higher than 2011, with improvements in field and plant downtime partially offset by lower upstream capacity due to the project backlog caused by wet weather impacting the 2010-11 drilling campaigns. Santos' share of condensate production was 1 million barrels ("mmbbl"), in line with 2011. Santos' share of gas production from the Surat/Bowen/Denison areas in Queensland and the Otway Basin offshore Victoria was 30.6 PJ, 8% lower than 2011 primarily due to the shut-in of the non-operated Northern Denison field.

Santos produced 3.2 mmbbl of oil from the Cooper Basin in 2012, its highest production since 2009. Driving the increase was the prior year drilling campaigns in the Zeus and Cook fields, improved access to field infrastructure following the 2010-11 floods and strong performance from the Charo wells brought on line in the second half of 2012.

Santos achieved a significant milestone in the second half of 2012 with the commencement of Australia's first commercial production of gas from a shale well. The Moomba-191 well was commissioned in late September 2012 and produced a first month average flow rate of 2.7 million standard cubic feet per day ("mmscf/d"), exceeding expectations, with gas composition consistent with that historically produced in the Moomba Big Lake area. As at the end of the year, the well was flowing at 2.5 mmscf/d. Following this success, Santos will expand its shale development program in 2013, with four exploration wells targeting Moomba shale and the Nappamerri Trough basin centred gas plays.

WA & NT

Western Australia and Northern Territory Business Unit EBITDAX was $801 million, 17% lower than 2011 primarily due to the sale of the Evans Shoal asset in 2011.

Santos' Western Australia gas production increased by over 40% in 2012 to a record 65.0 PJ, driven by the Reindeer and Spar fields brought on line in 2011. With partner Apache Energy, Santos processes gas through the Varanus Island and Devil Creek facilities in the Carnarvon Basin, and supplies it to domestic resource and industrial customers. Santos' share of Western Australia condensate production of 635,600 barrels was 27% higher than 2011 due to higher production from the Reindeer and Spar fields.

Santos' share of WA oil production of 2.8 mmbbl was 11% lower than 2011 primarily due to lower output from the Stag field. The Fletcher Finucane oil project is on track for first oil by midyear 2013 and will provide a boost to Santos' production in the region.

Santos' share of gas production from the Darwin LNG plant of 14.4 PJ was in line with 2011. The plant had a scheduled maintenance shutdown in the first half of 2012 and has performed strongly since the shutdown.

In November 2012, Santos made a significant gas discovery at the Crown exploration well in WA-274-P, located between the Poseidon and Ichthys fields in the Browse Basin offshore Western Australia. The well was drilled to a total depth of 5,301 metres and intersected 61 metres of net gas pay in the Jurassic-aged Montara, Plover and

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Malita reservoirs. Following on from the success at Crown, the Dufresne and Bassett-West prospects are planned to be drilled in 2013, targeting gas and associated liquids in the neighbouring permit WA-408-P.

In June 2012, Santos and partner ConocoPhillips signed an agreement with South Korea's SK E&S to progress the appraisal of the Caldita Barossa gas fields offshore northern Australia. Under the agreement, SK E&S will fund up to US$520 million in carry obligations and contingent payments with planning for a three-well appraisal program currently underway.

Asia Pacific

Asia Pacific Business Unit EBITDAX was $371 million, 132% higher than 2011 mainly due to a full year of production from the Chim Sao asset in Vietnam and commencement of production from the Wortel asset in Indonesia.

The Chim Sao asset offshore Vietnam performed strongly in 2012, with the gross oil production rate exceeding Santos' guidance of 25,000 barrels of oil per day ("bopd"). Santos' net entitlement to production was 2.9 mmbbl for the year. Building from the success at Chim Sao, the Dua oil project was sanctioned in August 2012. It involves a three-well subsea tie-back to Chim Sao, and is expected to produce at a gross rate of 10,000 bopd. First oil is expected in the first half of 2014.

Santos' net entitlement gas production in Indonesia of 28.1 PJ was 17% lower than 2011, primarily due to a lower net entitlement to Maleo gas following the favourable gas price review at the end of 2011 offset by the commencement of production from the Wortel asset in January 2012. Santos is planning to sanction the Peluang asset in 2013 which will be developed as a tie-back to Maleo with first production expected in the first half of 2014.

In Papua New Guinea, the PNG LNG project (Santos 13.5% interest) is over 70% complete and on track for first LNG in 2014. Operated by ExxonMobil, the project involves gas production and processing facilities in the Southern Highlands and Western Provinces of Papua New Guinea with capacity of 6.9 million tonnes of LNG per year. In November 2012, the operator completed a cost and schedule review for the project and advised that the project capital cost had increased to US$19 billion. This was primarily due to foreign exchange impacts, delays from work stoppages due to community disruptions and land access, and logistics and weather challenges. The operator also advised that the LNG plant capacity had increased from 6.6 million tonnes per annum ("mpta") to 6.9 mtpa, with discussions underway with potential parties for sales of additional volumes.

GLNG

Sanctioned in January 2011, the GLNG project (Santos 30% interest) is over 45% complete and on track for first LNG in 2015. The project involves developing coal seam natural gas fields in the Bowen and Surat Basins in south-western Queensland, a 420 kilometre underground gas transmission pipeline and a two-train LNG plant on Curtis Island at Gladstone.

The GLNG project is at the heart of Santos' vision to create a leading Asia Pacific exploration and production company, as it is key to the transformation of our east coast gas business through LNG export. With the sanction of the GLNG project, Santos opened a channel to the strong Asian demand for Australian LNG, providing access to the higher priced Asian market and unlocking our east coast resources and accelerating the conversion into reserves.

In June 2012, Santos announced that the gross capital cost estimate for the GLNG project had increased from US$16 billion to US$18.5 billion for the period from final investment decision until the end of 2015. This is based on foreign exchange rates which are consistent with the assumptions used at FID (A$/US$0.87 average over 2011-15). The increase was primarily due to accelerated upstream development in the Fairview and Roma fields such as additional wells, gas gathering and processing facilities, water handling facilities and other infrastructure.

GLNG Business Unit results include domestic gas production and sales from the GLNG coal seam gas fields in south-western Queensland. GLNG Business Unit EBITDAX was $11 million, 97% lower than 2011 mainly due to lower gains on sales of non-current assets in 2012, compared to the sale of 15% of the GLNG project in 2011.

Santos' share of GLNG gas production in 2012 was 10.8 PJ, 20% higher than 2011.

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Net Profit

The 2012 net profit attributable to equity holders of Santos Limited of $519 million is $234 million lower than in 2011. This decrease is primarily due to a $529 million before tax ($408 million after tax) gain on sale of non-current assets during 2011, combined with higher cost of sales, offset by higher sales revenue driven by higher liquids volumes and higher gas prices in the current period.

Net profit includes items before tax of $96 million ($87 million after tax), as referred to in the reconciliation of net profit to underlying profit below.

Reconciliation of Net Profit to Underlying Profit[1]

	2012 $million			2011 $million		
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Net profit after tax attributable to equity holders of Santos Limited			**519**			**753**
Add/(deduct) the following:						
Net gains on sales of non-current assets	(11)	3	**(8)**	(529)	121	**(408)**
Impairment losses	106	(29)	**77**	127	(25)	**102**
Foreign exchange losses/(gains)	2	(1)	**1**	(18)	5	**(13)**
Fair value adjustments on embedded derivatives and hedges	(7)	2	**(5)**	5	(2)	**3**
Remediation costs for incidents net of related insurance recoveries	2	(1)	**1**	-	-	**-**
Other expense/(income) items	4	(1)	**3**	(3)	2	**(1)**
Tax adjustments relating to prior years	-	17	**17**	-	17	**17**
Other tax adjustments	-	1	**1**	-	-	-
	96	(9)	**87**	(418)	118	**(300)**
Underlying Profit[1]			**606**			**453**

[1] *Underlying profit is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited however the gross numbers presented above have been extracted from the audited financial statements. 'Other (expense)/income items' in 2012 comprises amounts recognised for restructuring provision.*

Significant Changes in the State of Affairs

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

> Carbon Tax

On 1 July 2012 the Australian Government's Clean Energy legislation was introduced. This legislation requires Santos to surrender, to the Government, one carbon permit for each tonne of carbon dioxide equivalent ("CO2e") emitted from its affected facilities. The price set by the Government for the first compliance year of the scheme is $23 per tonne of CO2e.

The cost of carbon for Santos in the 12 months from 1 July 2012 is forecast to be in the range of $45-$65 million. Santos expects to recoup the majority of these carbon costs via cost pass through in domestic sales agreements and an allocation of free carbon permits that will be issued under the Jobs and Competitiveness program of the legislation for LNG operations.

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Dividends

On 22 February 2013, the Directors resolved to pay a fully franked final dividend of 15 cents per fully paid ordinary share on 28 March 2013 to shareholders registered in the books of the Company at the close of business on 7 March 2013 ("Record Date"). This final dividend amounts to approximately $144 million. The Board also resolved that the Dividend Reinvestment Plan ("DRP") will continue to be in operation for this dividend. Shares issued under the DRP will be allocated at the arithmetic average of the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Record Date less a 2.5% discount ("DRP Price"). The last election date for the DRP is the Record Date.

A fully franked final dividend of $142 million (15 cents per fully paid ordinary share) was paid on 30 March 2012 in respect of the year ended 31 December 2011, as disclosed in the 2011 Annual Report. In addition, a fully franked interim dividend of $143 million (15 cents per fully paid ordinary share) was paid to members on 28 September 2012. The DRP was in operation for both of these dividends and shares were allocated based on the DRP Price.

Environmental Regulation

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

During the financial year, the consolidated entity received $9,200 in fines: three Infringement Notices issued pursuant to the Environmental Protection At 1994 (Qld), one pursuant to the Waste Reduction and Recycling Act 2011 (Qld) and two issued pursuant to the Protection of the Environment Operations Act 1997 (NSW). The consolidated entity undertook corrective measures in respect of the infringements to preclude re-occurrences.

The consolidated entity received three other environmental regulatory instruments, two pursuant to the Environmental Protection Act 1994 (Qld) and one pursuant to the Petroleum and Geothermal Energy Act 2000 (South Australia), for which it was not fined and no penalty was issued.

Santos is continuing to cooperate with a NSW Department of Trade and Investment, Regional Infrastructure and Services investigation into a loss of CSG water from the Eastern Star Gas ("ESG") operations in mid-2011 (prior to Santos taking control of ESG, now known as Santos NSW) at the Bibblewindi Water Management Facility located in the Pilliga Forest near Narrabri in NSW.

Post Balance Date Events

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

> On 22 February 2013, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2012 financial year. The dividend has not been provided for in the 31 December 2012 financial statements. Refer to note 22 of the Financial Statements for dividends declared after 31 December 2012.

Likely Developments

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

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

Shares Under Option and Unvested Share Acquisition Rights

Options

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

Date options granted	Expiry date	Issue price of shares[1]	Number of options
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	61,100
24 October 2006	24 October 2016	$10.48	372,700
4 May 2006	3 May 2016	$11.36	2,500,000
1 July 2007	30 June 2017	$14.14	203,900
1 July 2007	30 June 2017	$14.14	47,400
3 September 2007	2 September 2017	$12.81	100,000
3 May 2008	2 May 2018	$15.39	483,348
3 May 2008	2 May 2018	$15.39	249,630
28 July 2008	27 July 2018	$17.36	81,948
02 March 2009	2 March 2019	$14.81	54,621
			4,162,997

[1] *This is the exercise price payable by the option holder.*

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

Unvested SARs

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

Date SARs granted	Number of shares under unvested SARs
2 March 2010	206,317
15 November 2010	40,000
4 January 2011	273,439
1 March 2011	633,875
1 March 2011	224,271
4 July 2011	303,392
4 January 2012	39,024
1 March 2012	1,425,873
3 May 2012	205,339
2 July 2012	439,937
3 January 2013	59,398
	3,850,865

No amount is payable on the vesting of SARs. SARs do not confer an entitlement to participate in a bonus or rights issue, prior to the vesting of the SAR. Further details regarding the SARs (including when they will lapse) are contained in the Remuneration Report commencing on page 10 of this report and in Note 30 to the Financial Statements.

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Shares Issued on the Exercise of Options and on the Vesting of SARs

Options

No ordinary shares of Santos Limited were issued during the year ended 31 December 2012 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan.

Vested SARs

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2012 on the vesting of SARs granted under the Santos Employee Equity Incentive Plan ("SEEIP") (formerly known as the Santos Employee Share Purchase Plan ("SESAP")) and ShareMatch Plan ("ShareMatch"). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares issued
2 March 2009	130,446
2 March 2009	81,726
2 March 2010	13,477
22 November 2010	15,000
4 January 2011	8,883
1 March 2011	1,218
1 March 2011	7,820
4 July 2011	6,187
2 July 2012	3,251
	268,008

Since 31 December 2012, the following ordinary shares of Santos Limited have been issued on the vesting of SARs granted under the SEEIP and ShareMatch.

Date SARs granted	Number of shares issued
4 January 2011	1,285
4 July 2011	750
4 January 2012	402
2 July 2012	1,624
	4,061

Directors' and Senior Executives' Remuneration

Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and senior management (including shares, options and SARs granted during the financial year) are set out in the Remuneration Report commencing on page 10 of this report and in Notes 30-31 to the Financial Statements.

2012 Remuneration Report

The Directors of Santos Limited present this Remuneration Report for the consolidated entity for the year ended 31 December 2012. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) ("Corporations Act") and forms part of the Directors' Report.

It outlines the Company's key remuneration activities in 2012 and remuneration information pertaining to the Company's Directors, Chief Executive Officer and Managing Director ("CEO") and Senior Executives who are the key management personnel ("KMP") of the consolidated entity for the purposes of the Corporations Act and the Accounting Standards.

Remuneration at a Glance

In 2012:

Fixed Remuneration	The CEO's and Senior Executives' total fixed remuneration ("TFR") increased by an average of 4.0% in this year's annual remuneration review, slightly below the rest of the Company's workforce who received 4.9% on average.
Short-term Incentive ("STI")	The Company met or exceeded a number of its operational and financial targets, but did not fully meet others. This performance, as assessed by the Board, resulted in an average STI award of 68% of maximum.
Long-term Incentive ("LTI")	The Company's three year total shareholder return was -15.7% which ranked at the 33rd percentile against the ASX 100. This failure to achieve superior returns for shareholders resulted in none (0%) of the performance-tested Share Acquisition Rights ("SARs") granted to the CEO and Senior Executives vesting.
LTI program changes	As foreshadowed in the 2011 remuneration report, changes in 2012 included: > "deferred rights" that is, LTI awards that are subject to a condition consisting only of a period of service, were discontinued as part of the regular LTI program for Senior Executives. Unlike previous years, the annual LTI grant to the Senior Executives in 2012 was solely performance-based ensuring alignment with the interests of shareholders. The CEO grant continued to be entirely performance-based; > the number of SARs awarded were determined according to their fair value instead of a volume weighted average price. This resulted in a larger number of SARs granted, however these SARs are entirely at risk (no deferred rights were offered) and will not vest if the Company does not achieve superior shareholder returns.
2012-2015 Four Year Strategy Grant ("CEO Strategy Grant")	In accordance with shareholders' approval at the May 2012 Annual General Meeting ("AGM"), an additional long-term equity grant was made to the CEO for the 2012-2015 period. The grant is aligned with long-term growth in shareholder returns as the SARs will only vest if long-term strategic targets in relation to production, reserves growth, GLNG first cargo delivery, GLNG capital expenditure and environment, health and safety are achieved.
Non-executive Directors	No increases have been made to non-executive Directors' fees since they were last adjusted in October 2011.

Realised Remuneration

In keeping with the Company's practice since 2009, the following table shows the remuneration "actually realised" by the CEO and Senior Executives in respect of 2012 performance. This is in addition and different to the disclosures required by the Corporations Act and Accounting Standards, particularly in relation to LTI. As a general principle, the Accounting Standards require a value to be placed on LTI based on probabilistic calculations at the time of grant (that is, before the SARs or Options vest and even if ultimately, they do not vest because the performance hurdles are not met, as was the case in 2012). By contrast, this table values the LTI, in the case of SARs, only if the SARs vest and shares are issued to the executive, on the basis of their closing price on the date of vesting. In the case of Options, a value is attributed only if the Options vest and are exercised resulting in the issue of shares to the executive, calculated on the basis of the difference between the exercise price and the market price on the date of exercise of the Options.

The Company believes that the additional information provided in this table is useful to investors as recognised by the Productivity Commission in its Report on Executive Remuneration in Australia. The Commission noted that the usefulness of remuneration reports to investors was diminished by complexity and omissions and in particular recommended that the report should include reporting of pay "actually realised" by the executives named in the report.

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Table 1: Realised Remuneration (non-IFRS)

	Year	Fixed remuneration[1]	STI[2]	LTI[3]	Other[4]	Total
		$	$	$	$	$
DJW Knox Chief Executive Officer and Managing Director	2012	2,351,250	1,598,850	0	0	3,950,100
	2011	2,250,000	1,552,500	0	0	3,802,500
JH Anderson Vice President Western Australia and Northern Territory	2012	642,098	253,100	62,478	0	957,676
	2011	610,301	235,000	0	0	845,301
JL Baulderstone Vice President Eastern Australia	2012	689,484	250,100	75,804	0	1,015,388
	2011	648,340	235,000	0	0	883,340
T Brown[5] Vice President Queensland	2012	639,567	248,200	44,385	6,892	939,044
	2011	N/A	N/A	N/A	N/A	N/A
PJ Cleary Vice President Strategy and Corporate Development	2012	652,695	200,800	N/A	0	853,495
	2011	627,000	205,000	N/A	1,400	833,400
MEJ Eames Vice President Asia Pacific	2012	684,404	203,400	67,020	77,754[6]	1,032,578
	2011	662,908	215,000	0	0	877,908
MS Macfarlane[7] President GLNG Operations	2012	662,964	200,400	62,238	14,804	940,406
	2011	642,185	208,000	0	23,215	873,400
AJ Seaton Chief Financial Officer	2012	705,500	246,300	59,181	0	1,010,981
	2011	622,500	235,000	0	0	857,500

1 "Fixed Remuneration" comprises base salary and superannuation.

2 "STI" represents the amount of the STI or bonus that will be paid to the executive for 2012 performance.

3 For the value of share-based payments calculated in accordance with the Accounting Standards, see Table 8 on page 20. The figures in this "LTI" column show:

- *for 2012, the pre-tax vested value of service-based SARs which vested on 2 March 2012 at a closing share price of $13.68; no 2010-2012 performance SARs vested and no Options were exercised in 2012; and*
- *for 2011, zero values as all KMP elected to receive their 2009-2011 deferred grant as Options, and no Options were exercised in 2011.*

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

4 "Other" comprises ad hoc payments treated as remuneration, such as assignment allowance and foreign service premium.

5 Mr Brown became a KMP on 6 August 2012 when he was appointed to the role of Vice President Queensland. Mr Brown was formerly Vice President Exploration and Subsurface. Remuneration for the entire year is included here for Mr Brown.

6 The role of Vice President Asia Pacific was relocated to Santos' new Singapore office in January 2012. Mr Eames commenced an expatriate assignment at this time, and will receive compensatory remuneration including foreign service premium for the duration of his assignment. The "Other" figure shown above for Mr Eames is the net value of the applicable allowances excluding the significant taxation related adjustments required due to the overseas assignment. The gross values inclusive of tax are shown in Table 8. Assignment-related payments are made in accordance with the standard policy applied to all Santos employees.

7 Mr Macfarlane ceased to be a KMP on 5 August 2012 when he commenced in the role of Vice President GLNG Operations. Remuneration for the entire year is included here for Mr Macfarlane.

The total remuneration amounts determined in accordance with the requirements of the Corporations Act are set out in Table 8 (see page 20).

Remuneration Policy and Framework

The Company's remuneration practices have been designed to promote long-term growth in shareholder returns by:

> aligning remuneration outcomes with strategic, operational and financial goals;

> rewarding performance fairly and reasonably; and

> striking a balance between short-term and long-term growth-related objectives, and providing an incentive for superior performance without encouraging irresponsible risk taking.

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

Remuneration Governance

People and Remuneration Committee

The People and Remuneration Committee ("Committee") oversees and formulates recommendations to the Board on the remuneration policies and practices of the Company generally, including the remuneration of non-executive Directors, the CEO and Senior Executives.

The Committee's Charter can be viewed or downloaded from www.santos.com. In 2012, the Committee comprised the following non-executive Directors, including Mr PR Coates, the Chairman of the Board:

GJW Martin	*Committee Chair*
PR Coates	
RA Franklin	*(from 15 Feb 2012)*
RM Harding	*(until 14 Feb 2012)*
JS Hemstritch	

The CEO attends parts of Committee meetings that do not involve discussion of his own arrangements. Other executives may also attend Committee meetings to provide management support.

External advisors and remuneration advice

In performing their roles, the Board and the Committee directly commission and receive information, advice and recommendations from independent external advisors. This assists the Directors to make informed decisions when considering the Company's remuneration policies and practices.

The Board has adopted a protocol to formally record the process for engaging and seeking advice from remuneration consultants, which ensures remuneration recommendations in relation to KMP are free from undue influence by management.

PricewaterhouseCoopers ("PwC") and Aon Hewitt ("Aon") were approved by the Committee as remuneration consultants and during the year were engaged in accordance with the Board approved protocol to provide remuneration recommendations. The terms of PwC and Aon's engagements were finalised by the Chairman of the Committee and all remuneration recommendations were provided directly to the Committee Chairman.

The Board is satisfied that the remuneration recommendations received from PwC and Aon during the year were free from undue influence. All communications between the Company and PwC and Aon in relation to the remuneration recommendations were subject to strict guidelines, including that information provided to PwC and Aon must not be selective or unbalanced, or imply that future work is contingent on PwC or Aon giving particular recommendations. In addition, PwC and Aon provided a declaration to the Committee that the remuneration recommendations they made were free from any undue influence by the Company's KMPs.

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The following table shows the fees payable to PwC and Aon in respect of 2012.

Table 2: Remuneration consultants

Remuneration Consultant	Advice and/or services provided	Fees
PricewaterhouseCoopers	Remuneration recommendations (CEO remuneration)	$60,000
	Other remuneration related work (benchmarking and market practice data)	$53,000
	Other non-remuneration related work including taxation, assurance and consulting fees	$4,114,000
Aon Hewitt	Remuneration recommendations (senior executive remuneration)	$40,000
	Other remuneration related work (benchmarking and market practice data)	$12,000

Link between Performance and Remuneration

Short-term Incentives ("STI")

The Company sets stretch operational and financial targets to be achieved annually. These short-term targets are chosen to encourage outcomes and behaviours that support the safe operation and delivery of the base business while pursuing long-term growth in shareholder value. Below are the targets used in 2012 to measure performance for the purposes of STI and an explanation of the reason they were chosen.

Table 3: STI scorecard

Strategic Driver	STI Measure	Rationale
Environment, Health and Safety	> Personnel Safety - measured by the number of injuries per million hours worked and the average severity of these injuries. > Process Safety - measured by the number of Tier 1 incidents of loss of containment of hydrocarbons and the level of Safety Critical Maintenance performed on plant & equipment. > Environmental Incidents – measured by the number of environmental incidents of moderate or greater consequence.	The Company takes safety and the environment very seriously. The integrated targets represent the Company's holistic approach, the objective being to reduce the number of injuries to our employees and contractors, as well as the likelihood of low frequency but high impact incidents such as fires and explosions, and significant environmental incidents. Strong safety and environmental performance provides the Company with its "licence to operate". The Company strives to maintain a strong track record in relation to its safety and environmental performance.
Profitability	> Production > Cost of production > Net profit after tax ("NPAT")	Production and the cost of production are critical to the Company's profitability, which is a key measure of the Company's performance and underpins annual earnings and cash flow for distribution to shareholders and re-investment for future growth.
Corporate Sustainability	> Corporate Sustainability - measured by the Company's performance in an international Sustainability Index which covers a variety of areas including corporate governance, disclosure, environmental performance, risk management, human capital development, stakeholder engagement and social reporting.	Corporate Sustainability is integral to the creation of long-term shareholder value by ensuring that opportunities are captured in an economic, environmental and socially responsible manner.
Growth	> Project Delivery - progress against milestones in key projects including GLNG, PNG LNG, Fletcher Finucane, Gunnedah and other opportunities are identified and measured.	Project delivery underpins future production and growth. In the current climate of rising costs and large capital expenditure commitments, it is essential that the Company delivers its long term projects on time and within budget to achieve future production.
	> Reserves Replacement - the volume of "proven and probable" (2P) reserves added by the Company organically (through exploration and exploitation efforts as opposed to acquisitions) compared to the volume of reserves used in production.	The Company's ability to replace the reserves it runs down in production is critical to the long-term future of the Company.

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Long-term Incentives ("LTI")

The Board believes that relative total shareholder return ("TSR") performance against the ASX 100 effectively aligns the interests of individual executives with that of the Company's shareholders. TSR is a fair measure of shareholder returns and the ASX 100 represents the companies in which most of the Company's shareholders would invest as an alternative to Santos.

2012 Performance

In 2012, the Company met or exceeded a number of its operational and financial targets, but did not meet others: fully met injury severity, process safety, environment, profitability, reserves and sustainability targets; partially met production and project deliverability targets; and did not meet the injury frequency target. This performance, as assessed by the Board, resulted in an average STI award of 68% of maximum.

The Company's three-year TSR was -15.7% which ranked at the 33rd percentile against the ASX 100. This resulted in none (0%) of the performance-tested SARs granted to the CEO and Senior Executives vesting.

More details about how performance targets are set and tested for the purposes of STI and LTI awards are set out in the section "Detailed Information about Linking Company Performance to Incentives" on pages 23-24.

Table 4 sets out the Company's performance over the past five years in respect of several key financial and non-financial indicators and the STI and LTI awards during this period.

Table 4: Key metrics of Company performance 2008-2012

	2008	2009	2010	2011	2012
Injury Frequency (total recordable case frequency rate)	5.8	3.6	3.3	3.3	5.0
Production (mmboe)	54.4	54.4	49.9	47.2	52.1
Reserve replacement rate - 2P organic (%)	517	965	330	173	136
Net profit after tax $m	1,650	434	498	751	518
Dividends per ordinary share (cents) [1]	42	42	42	30	30
Share Price – closing price on first trading day of year	$14.32	$14.67	$14.29	$13.19	$12.34[2]
TSR percentile ranking relative to ASX100 – three year performance to 31 December	88th	88th [3]	87th	39th	33rd
LTI performance (% vesting) – shown against final year of performance period	100%	100%	83%	0%	0%
Average STI paid (% of maximum)	80%	80%	78%	69%	68%

1 The following capital returns were made in the 2008 – 2012 period:
- *On 6 October 2008, the Company bought back 18,487,305 fully paid ordinary shares, representing 3.07% of fully paid shares on issue at that date, at a price of $16.23 per share.*
- *On 30 September 2009, the Company redeemed the 6,000,000 Franked Unsecured Equity Listed Securities ("FUELS") on issue at the price of $100 each.*

2 Closing share price at 31 December 2012 was $11.10.

3 In respect of the 2007 LTI Grant (with performance period ending 31 December 2009) Santos' TSR performance was measured against a comparator group of Australian and international energy and production (E&P) companies. Relative TSR performance against this E&P group is shown for 2009.

Over the last 10 years Santos' TSR performance has exceeded that of the S&P/ASX 100 Index, as shown in Figure 1 below.

Figure 1: 10 year company performance history

CEO Remuneration

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

Overview of earnings

Fixed Remuneration	
What was the increase in the CEO's fixed remuneration?	Mr Knox's TFR, including base salary and superannuation, was increased from $2,250,000 to $2,351,250 in 2012.
How was the remuneration increase determined?	This increase was determined by the Board in consideration of Mr Knox's performance, the performance of Santos and the remuneration provided to CEOs of companies in the market comparator groups outlined above.
Short-term Incentives	
What is the maximum STI that the CEO can receive?	Mr Knox has a maximum potential STI opportunity of 100% of his TFR, subject to delivery of strategic milestones and performance targets set by the Board (detailed in the section "Detailed Information about Linking Company Performance to Incentives" on pages 23-24. For 2012, this was a maximum value of $2,351,250.
How much STI will the CEO receive in respect of 2012 performance?	The Board has determined that $1,598,850, or 68% of the maximum STI payable, will be paid to Mr Knox for 2012 performance. This reflects the recommendation from the Committee after reviewing the Company's performance in 2012.
How is overall performance assessed for STI purposes?	Whilst the Board ultimately retains the discretion to take other factors into account, Mr Knox's performance is effectively assessed against the Company scorecard (see Table 3 on page 13 and the section "Detailed Information about Linking Company Performance to Incentives" on pages 23-24). Mr Knox's interests are therefore aligned with the Company's and shareholders' interests.
Long-term Incentives	
How much annual LTI was granted to the CEO in 2012?	In relation to the annual LTI grant, Mr Knox was granted 193,935 SARs with a face value of $2,750,000, as approved by shareholders at the 2011 AGM. This grant was issued on the terms of the annual LTI program outlined in the section "Detailed Information about Linking Company Performance to Incentives" on pages 23-24. Mr Knox also received the CEO Strategy Grant as detailed below.
What proportion of prior year LTI grants vested in 2012?	The CEO's annual LTI grant for 2009 with a performance period 1 January 2009 to 31 December 2011 was tested in early 2012. As the performance hurdle was not achieved, there was no vesting and the entire grant was forfeited. The testing of the 2010 LTI grant with a performance period 1 January 2010 to 31 December 2012 occurred in early 2013. As the performance hurdle was not achieved, again there was no vesting and the entire grant was forfeited.
What was the size of the CEO Strategy Grant?	Shareholders approved the grant of SARs with a fair value of $2,000,000 at the 2012 AGM. This resulted in 205,339 SARs being granted to the CEO. These SARs are at risk and will not vest if the strategic performance goals are not achieved.
What are the performance conditions for the CEO Strategy Grant?	Vesting is subject to achievement of specific goals that are integral to the Company's performance over the next four years. As described more fully in the Notice of Meeting to the 2012 AGM, the award is split into five equal tranches with separate performance targets that relate to: > GLNG Start-Up – loading of first LNG cargo on or before 30 June 2015; > GLNG Cost – project cost within or under budget; > Production Growth – targeting 77 mmboe or more by 31 December 2015; > Reserves Growth – targeting 2P reserve/production cover of 18 years or more at 31 December 2015; and > Operations Integrity – maintaining an annual score of 90% or more against various environmental, health and safety metrics while ensuring no High Impact or Critical Environment incidents occur over the 2012-2015 period. Where targets are not fully achieved the Board has discretion to determine an appropriate level of pro rata vesting. For example, if the first LNG cargo target of 30 June 2015 is missed by a few months, it will be reasonable for the CEO to receive an appropriate proportion. But, if the target was missed by a year, for example, it is likely that the CEO would get zero for that tranche. The Board intends to only reward performance that is consistent with shareholder expectations and reserves the right to lapse all of a tranche if performance does not meet or exceed the relevant target.

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At risk remuneration

A higher proportion of the CEO's total package is "at risk" relative to other Senior Executives because he has the greatest scope to personally influence the Company's performance. In 2012, this weighting further increased reflecting the addition of the CEO Strategy Grant.

Table 5: Relative weightings of remuneration components for CEO[1]

	Fixed Remuneration	STI	LTI
2012	25%	25%	50%
2011	33%	33%	33%

1 These figures do not reflect the actual relative value derived by the CEO from each of the components, which is dependent on actual performance against targets for the "at risk" components. The figures represent the maximum potential of each component

Service agreement and termination entitlements

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

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

The Company may terminate the CEO's employment without notice at any time for cause. No payment in lieu of notice, or any payment in respect of STI or LTI is payable under the agreement in this circumstance.

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

Mr Knox's termination arrangements were approved at the Company's AGM in May 2012.

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Senior Executive Remuneration

Overview of earnings

Fixed Remuneration	
What was the fixed remuneration increase for Senior Executives in 2012?	As a result of market benchmarking, the annual TFR review increase for Senior Executives was between 3.0% and 5.0% in 2012, with an average increase of 3.8%. Remuneration details for each individual are provided in Table 8.
How were remuneration increases determined?	Senior Executives' TFR increases were determined with reference to the market for similar roles in comparable companies and in consideration of individuals' skills and experience.
Short-term Incentives	
What is the maximum STI that the Senior Executives can receive?	All Senior Executives have a maximum potential STI opportunity of 50% of their TFR.
How are STI payments calculated?	To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 70% of their STI is based on Company performance. The remaining 30% is based on their individual performance.
How is performance assessed for STI purposes?	Company performance is assessed by the Committee against the overall Company annual scorecard (see Table 3 on page 13 and the section "Detailed Information about Linking Company Performance to Incentives" on page 23). The individual performance of Senior Executives is assessed by the CEO by considering progress against targets set within each executive's own area of responsibility, for example the delivery of key project milestones for those Senior Executives with responsibility for growth LNG businesses, and production and cost targets for those managing operating assets.
How much STI will Senior Executives receive in respect of 2012 performance?	Company performance against the measures in 2012 resulted in an average STI of 68% of maximum payable to all eligible employees. 2012 STI awards made to individual Senior Executives range from 59% to 78% of maximum, depending on individual performance assessments (see Table 8 on page 20). The CEO's proposed STI payments for Senior Executives are reviewed and endorsed by the Committee. The difference between actual STI paid and maximum STI will not be carried forward.
Long-term Incentives	
How much annual LTI was granted in 2012?	All Senior Executives have a maximum LTI value of 60% of their TFR. This is an increase from the 2011 LTI opportunity when the maximum LTI value was 52.5% of TFR.
Why were annual LTI grants increased?	In 2011, the Board engaged PwC to conduct a review of the Company's Senior Executive incentive arrangements. The results identified that Senior Executives' maximum LTI values were significantly lower than market competitors and, unlike typical market practice, SARs were allocated based on "face value" not a "fair value" which further reduced the true value from an executive's perspective because it did not take into consideration the probability of the SAR vesting. The Board determined that to be more market competitive, it was appropriate to increase the allocation of LTI for Senior Executives and apply "fair value" in determining grant size. The increased "at risk" LTI with a long-term performance focus further aligns Senior Executives' interests with those of shareholders, without increasing fixed remuneration. Whilst the number of LTI instruments granted has increased, they remain at risk and will not vest if superior shareholder returns are not delivered, as was the case in 2011 and 2012. This increase was coupled with the removal of deferred rights which had previously been granted subject to an executive's continuous service only.
Were any "deferred rights" issued to Senior Executives in 2012?	"Deferred rights" that is, LTI awards that are subject to a condition consisting only of a period of service and which were awarded to encourage retention, are no longer granted as part of the regular LTI program. Annual LTI grants to the Senior Executives are now solely performance-based.

What are the applicable performance conditions?	The 2012 LTI grant has a performance period from 1 January 2012 to 31 December 2014, with vesting based on the Company's TSR performance relative to the ASX 100. See the vesting schedule provided in the section "Detailed Information about Linking Company Performance to Incentives" on pages 23-24.
What proportion of prior year LTI grants vested in 2012?	The annual LTI grant from 2009 with a performance period 1 January 2009 to 31 December 2011 was tested in early 2012. As the performance hurdle was not achieved, there was no vesting of the performance component of the grant, and this was forfeited. The testing of the 2010 LTI grant with a performance period 1 January 2010 to 31 December 2012 occurred in early 2013. As the performance hurdle was not achieved, again there was no vesting of the performance portion of the grant and this was forfeited. Grants of deferred rights awarded in 2009 vested in 2 March 2012 and are shown in Tables 1, 8 and 10 on pages 11, 20 and 21 respectively.

At risk remuneration

In 2012, the "at risk" portion of the remuneration of Senior Executives increased, reflecting the larger LTI grant outlined above.

Table 6: Relative weightings of remuneration components for Senior Executives[1]

	Fixed Remuneration	STI	LTI
2012	47.5%	24%	28.5%
2011	49%	25%	26%

1 These figures do not reflect the actual relative value derived by the Senior Executives from each of the components, which is dependent on actual performance against targets for the "at risk" components. The figures represent the maximum potential of each component.

Service agreements and termination entitlements

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

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Non-executive Director Remuneration

Remuneration policy

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

Maximum aggregate amount

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

Remuneration

Non-executive Directors' fees were last adjusted on 1 October 2011. No increases to gross non-executive Directors' fees were made in 2012. Remuneration details for the non-executive Directors are provided at Table 12 on page 22.

Fee structure

Table 7: Non-executive Directors' fees per annum[1]

	Chair[2]	Member
Board	$480,030	$160,030
Audit Committee	$42,000	$21,000
Environment, Health, Safety and Sustainability Committee	$22,000	$15,000
Finance Committee	$22,000	$15,000
Nomination Committee[2]	N/A	$10,000
People and Remuneration Committee	$30,000	$16,000

1 Fees are shown exclusive of superannuation.
2 The Chairman of the Board does not receive any additional fees for serving on or chairing any Board committee. The Chairman of the Board is the Chairman of the Nomination Committee, in accordance with its Charter.

Superannuation and retirement benefits

Superannuation contributions are made on behalf of non-executive Directors in accordance with the requirements of the Company's statutory superannuation obligations. Non-executive Directors are not entitled to retirement benefits (other than mandatory statutory entitlements).

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Detailed Remuneration Information

Table 8 presents summarised details of the remuneration for the CEO and Senior Executives in 2011 and 2012 as required under the Corporations Act.

Table 8: 2011 and 2012 Senior Executive remuneration details

		Short-term employee benefits			Post-employment	Share-based payments[1,2]								
		Base salary	STI[3]	Other	Superannuation contributions	SARs	Options	Cash based	Total share-based payments	Termination	Other long term benefits (long service)[4]	Total	*% Total "at risk"*	*% Total in SARs and options*
		$	$	$	$	$	$	$	$	$	$	$		
D J Knox	2012	2,335,128	1,598,850	-	16,122	1,783,865	119,358	15,660	1,918,883[5]	-	67,690	5,936,673	*59%*	*32%*
	2011	2,234,513	1,552,500	-	15,487	842,402	283,793	41,768	1,167,963	-	60,399	5,030,862	*54%*	*22%*
J H Anderson	2012	625,976	253,100	-	16,122	292,987	-	527	293,514	-	9,335	1,198,047	*46%*	*24%*
	2011	594,814	235,000	-	15,487	207,671	8,180	4,888	220,739	-	29,973	1,096,013	*42%*	*20%*
J L Baulderstone	2012	673,362	250,100	-	16,122	386,547	-	640	387,187	-	22,743	1,349,514	*47%*	*29%*
	2011	632,853	235,000	-	15,487	295,981	7,487	5,139	308,607	-	17,635	1,209,582	*45%*	*25%*
T J Brown[6]	2012	267,967	100,365	6,892	6,641	110,636	-	-	110,636	-	4,056	496,557	*42%*	*22%*
	2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*	*n/a*
PJ Cleary	2012	636,573	200,800	-	16,122	270,769	-	-	270,769	-	10,752	1,135,016	*42%*	*24%*
	2011	601,059	205,000	1,400	25,941	129,595	-	-	129,595		10,670	973,665	*34%*	*13%*
M E Eames[7]	2012	668,282	203,400	193,166	16,122	311,893	-	566	312,459	-	12,207	1,405,636	*37%*	*22%*
	2011	647,421	215,000	-	15,487	226,535	9,640	5,595	241,770	-	31,522	1,151,200	*40%*	*21%*
M S Macfarlane[8]	2012	384,134	119,364	8,835	9,481	201,192	-	525	201,717	-	8,146	731,677	*44%*	*27%*
	2011	389,220	128,789	9,084	9,615	155,481	-	2,310	157,791	-	22,046	716,545	*40%*	*22%*
A J Seaton	2012	689,378	246,300	-	16,122	275,808	-	988	276,796	-	27,889	1,256,485	*42%*	*22%*
	2011	607,013	235,000	-	15,487	172,187	-	5,218	177,405	-	39,773	1,074,678	*38%*	*16%*

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

2 *"Share-based payments" consists of SARs, Options and a cash settled component as a consequence of the rights issue in May 2009. The cash settled amount only becomes payable on conversion of applicable SARs and Options to shares. This is further discussed in note 30 to the Financial Statements.*

3 *This amount represents the STI performance award for 2012 which will be paid in March 2013.*

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

5 *Mr Knox's share-based payment values for 2012 represent the combined fair value of the CEO's 2012 LTI grant and the CEO Strategy Grant, determined in accordance with AASB 2 Share-based Payments. The fair value per instrument as at grant date of 10 April 2012 and 21 June 2012, respectively, was $10.45 and $10.57. Further details are provided in note 30 to the Financial Statements.*

6 *Mr Brown became a KMP on appointment to the role Vice President Queensland, effective 6 August 2012 and figures shown are from this date to 31 December 2012.*

7 *Mr Eames became eligible for expatriate benefits, including Foreign Service Premium, as a result of his international assignment to Singapore when the position of Vice President Asia Pacific was relocated in January 2012 (reflected as "Other" short-term employee benefits). Assignment-related payments are made in accordance with the standard policy applied to all Santos employees, and include significant taxation related adjustments.*

8 *Mr Macfarlane ceased to be a KMP on 5 August 2012 when he commenced in the role of Vice President GLNG Operations. Figures shown for 2012 are for the period 1 January 2012 to 5 August 2012. Figures shown for 2011 are for the period 20 May 2011 to 31 December 2011 while Mr Macfarlane was in a KMP role.*

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Table 9 contains details of the number and value of SARs and Options granted, vested and lapsed for Mr Knox in 2012.

Table 9: 2012 SARs and Options outcomes for CEO

	Granted		Vested		Lapsed	
	Number[1]	Maximum Value[2]	Number	Value	Number	Value
SARs[3]	399,274	$4,197,054	-	-	(50,403)	($625,501)
Options[4]	-	-	-	-	(131,976)	($999,058)

1 *The SARs granted to Mr Knox during the year constitute his full LTI awards for the 2012 financial year, in respect of both his standard LTI grant and the CEO Strategy Grant.*

2 *Maximum value represents the combined fair value of the CEO's 2012 LTI grant and the CEO Strategy Grant, determined in accordance with AASB 2 Share-based Payments. The fair value per instrument as at grant date of 10 April 2012 and 21 June 2012, respectively, was $10.45 and $10.57. Details of the assumptions underlying the valuations are set out in note 30 to the Financial Statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.*

3 *No SARs vested in respect of the performance period ended 31 December 2012, and consequently all were lapsed by the Board on 20 February 2013. The value of lapsed SARs is based on the closing share price at the end of the performance period of $11.10 plus the value of a forfeited ex gratia payment of $1.31 per SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements.*

4 *No Options vested in respect of the performance period ended 31 December 2012 and consequently all were lapsed by the Board on 20 February 2013. The value of Options shown is based on the difference between the closing share price of $11.10 on the date of the end of the performance period and the exercise price of $17.36, plus the value of the forfeited ex gratia payment of $1.31 per vested Option as an adjustment to the value of unvested Options at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements.*

Table 10 contains details of the number and value of SARs received by Senior Executives in 2012. No Senior Executives had any Options granted, vested or lapsed in 2012. No Options were exercised in 2012.

Table 10: 2012 SARs outcomes for Senior Executives

	Granted SARs		Vested SARs		Lapsed SARs	
	Number[1]	Maximum Value[2]	Number	Value[3]	Number	Value[3]
JH Anderson	40,274	$401,532	4,168	$62,478	(13,359)	($165,785)
JL Baulderstone	42,737	$426,088	5,057	$75,804	(13,450)	($166,915)
TJ Brown[4]	-	-	-	-	-	-
PJ Cleary	40,843	$407,205	-	-	-	-
MEJ Eames	42,777	$426,487	4,471	$67,020	(15,744)	($195,383)
MS Macfarlane[4]	41,447	$413,227	4,152	$62,238	(13,481)	($167,299)
AJ Seaton	44,302	$441,691	3,948	$59,181	(5,982)	($74,237)
Total	**252,380**	**$2,516,230**	**21,796**	**$326,721**	**(62,016)**	**($769,619)**

1 *The grants made to the Senior Executives during the year constitute their full LTI awards for the 2012 financial year.*

2 *Maximum value represents the fair value of the SARs as at the grant date of 10 April 2012, determined in accordance with AASB 2 Share-based Payments. The fair value per instrument at the grant date was $9.97. Monte Carlo simulation was used to determine the value of the SARs granted. Details of the assumptions underlying the valuation are set out in note 30 to the Financial Statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.*

3 *These figures show the value of performance-based SARs in respect of the performance period ended 31 December 2012 at the closing share price on that date of $11.10, for which nil vesting was effected by the Board on 20 February 2013, plus service-based SARs which vested on 2 March 2012 at a closing share price of $13.68. These figures also include the value of an ex gratia payment of $1.31 per SAR as an adjustment to the value of unvested SARs at the time of the 2009 rights issue, detailed further at note 30 to the Financial Statements.*

4 *Remuneration disclosed for Mr Brown is for the period from 6 August 2012 when he became a KMP and for Mr Macfarlane for the period until 5 August 2012 after which time he ceased to be a KMP.*

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Table 11 outlines the LTI grants that were still in progress or were tested during 2012.

Table 11: LTI grants to Senior Executives

Grant year	Grant type	Vesting condition(s)	Performance/vesting period	Status
2009	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2009 to 31 December 2011	Testing completed. Resulted in 0% of the grant vesting on 15 February 2012.
	Deferred Award	Continuous service	2 March 2009 to 1 March 2012	Vested in full to Senior Executives who met the continuous service condition.
2010	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2010 to 31 December 2012	Testing completed. Resulted in 0% of the grant vesting on 20 February 2013.
	Deferred Award	Continuous service	2 March 2010 to 1 March 2013	In progress.
2011	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2011 to 31 December 2013	In progress.
	Deferred Award	Continuous service	2 March 2011 to 1 March 2014	In progress.
2012	Performance Award	Relative TSR performance against ASX 100 companies	1 January 2012 to 31 December 2014	In progress.

1 *Full details of all grants made prior to 2012 can be found in at note 30 to the Financial Statements and in prior remuneration reports.*

Details of the fees and other benefits paid to non-executive Directors during 2012 are set out in Table 12 below. No share-based payments were made to any non-executive Directors.

Table 12: 2011 and 2012 non-executive Director remuneration details

Director	Year	Short-term benefits			Retirement benefits	Share-based payments	Total
		Directors' fees (incl. Committee Fees)[1]	Fees for special duties or exertions	Other	Superannuation[1]		
		$	$	$	$	$	$
KC Borda	2012	192,551	-	-	16,123	-	208,674
	2011	186,369	-	-	15,487	-	201,856
PR Coates	2012	480,551	-	-	16,123	-	496,674
	2011	462,744	-	-	15,487	-	478,231
KA Dean	2012	217,551	-	-	16,123	-	233,674
	2011	209,869	-	-	15,487	-	225,356
RA Franklin	2012	204,299	-	-	1,212	-	205,511
	2011	184,119	-	-	736	-	184,855
H Goh[2]	2012	34,105	-	-	134	-	34,239
	2011	-	-	-	-	-	-
RM Harding	2012	215,518	-	-	16,123	-	231,641
	2011	221,869	-	-	15,487	-	237,356
JS Hemstritch	2012	197,551	-	-	16,123	-	213,674
	2011	189,869	-	-	15,487	-	205,356
GJW Martin	2012	205,551	-	-	16,123	-	221,674
	2011	193,369	-	-	15,487	-	208,856

1 *Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin and Mr Goh only in relation to days worked in Australia.*
2 *Mr Goh was appointed on 22 October 2012.*

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Detailed Information about Linking Company Performance to Incentives

Short-term incentives

How are the Company's short-term performance targets determined?	The Company's short-term performance targets comprise a combination of strategic, financial and operational targets, all of which are agreed with the Board and directly related to Santos' strategic plan. These are captured in the Company's annual performance scorecard.
What is measured in the Company's annual performance scorecard?	The Company scorecard includes a range of Company performance measures used to drive balanced business performance. These measures include lagging indicators to assess the Company's past performance, as well as forward-looking indicators to ensure the Company is positioning itself effectively for future growth. As described in Table 3 on page 13, the areas covered by the scorecard include: > Environment, health and safety > Profitability, including production, cost of production and NPAT > Corporate sustainability > Growth, including project delivery and reserves replacement The Board believes that this scorecard is balanced and focusses CEO and Senior Executive attention on achieving the key conditions and milestones necessary to deliver Santos' strategic plan.
How is Company performance assessed?	Company performance is formally assessed by the Committee against the overall Company scorecard at the end of each financial year and this forms the basis of a recommendation to the Board. Each metric is assessed against an agreed target and assigned a percentage weighting of the total scorecard. The actual versus target performance of each metric is assigned a score between 0% and 100%. The weightings are then applied to these scores to derive a rating for that metric. The sum of each metric's rating is used to determine the Company's overall performance score. The Board believes the above method of assessment is rigorous and provides a balanced assessment of the Company's performance.
How does Company performance impact the STI program?	Firstly, the Company's overall performance score sets the actual budget available for STI allocations across the organisation in respect of that performance year. This is calculated by applying the percentage performance score to the maximum potential STIs of all eligible employees. Secondly, the Company's overall performance score contributes to the actual STI payment made to individuals in a given year. For the CEO, this Company performance outcome is the sole input for determining STI payment. For Senior Executives, the Company performance outcome determines 70% of their STI payment. The other 30% is determined through their individual performance assessment.

Long-term incentives

How are long-term incentives linked to Company performance?	LTI aligns the rewards received by the CEO and Senior Executives with the longer term performance of Santos relative to other ASX 100 companies. Recipients also have the opportunity to grow the long-term value of their LTI by delivering results for the Company that increase the share price. All 2012 LTI grants are now solely performance-based, ensuring further alignment with the interests of shareholders.
How is LTI awarded?	All LTI grants are delivered in the form of SARs, i.e. a conditional entitlement to a fully paid ordinary share at zero price, subject to satisfaction of the performance condition. Nothing is payable by executives if and when SARs vest. For LTI awards granted in 2012, the Board has discretion to settle SARs in cash.
What is the performance period?	SARs issued under the annual LTI program for 2012 have a three year performance period from 1 January 2012 to 31 December 2014. This period has been chosen as an appropriate balance between providing a genuine and foreseeable incentive to Senior Executives and fostering a long-term view of shareholder interests.
What performance hurdles are applied to the LTI?	Vesting of the 2012 grant is based on the Company's relative TSR against ASX 100 companies as at 1 January 2012. The Board has discretion to adjust the comparator group, for instance to take account of takeovers, mergers and demergers that occur during the performance period. Relative TSR performance is tested by an independent third party and reviewed by the Board prior to vesting.

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Why has relative TSR been chosen as the company's LTI performance hurdle?	The Board believes that relative TSR effectively aligns the interests of individual executives with that of the Company's shareholders, as TSR is a fair measure of shareholder returns, and the ASX 100 represents the companies in which most of the Company's shareholders could invest as an alternative to Santos.
How is vesting determined?	Vesting will be in accordance with the following schedule:

TSR percentile ranking	% of grant vesting
<50th percentile	0%
=50th percentile	50%
51st to 74th percentile	Further 2% for each percentile improvement above the 50th percentile
75th to 100th percentile	100%

This vesting scale is applied consistently to both the CEO and Senior Executives' annual LTI grants.

There is no re-testing of the performance condition. SARs that do not vest upon testing of the performance condition will lapse.

When can vested SARs be traded?	Upon vesting of SARs, shares will automatically be allocated to the executive. Shares will be allocated without restrictions unless the executive has elected an extended restriction period. Restricted shares cannot be traded until the earlier of five/seven years from the grant date (depending on the period elected by the executive) or cessation of employment, whichever is earlier.

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Directors' Report (continued)

Indemnification

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

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

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain senior executives of the consolidated entity. The indemnities operate to the full extent permitted by law and are not subject to a monetary limit. Santos is not aware of any liability having arisen, and no claims have been made, during or since the financial year ending 31 December 2012 under the Deeds of Indemnity.

During the year, the Company paid premiums in respect of Directors' and Officers' Liability and Legal Expenses insurance contracts for the year ended 31 December 2012 and since the end of the year the Company has paid, or agreed to pay, premiums in respect of such contracts for the year ending 31 December 2013. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company and its controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

Non-Audit Services

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

Taxation services	$89,000
Assurance services	$541,000
Other services	$9,000

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

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 26.

Rounding

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

This report is made out on 22 February 2013 in accordance with a resolution of the Directors.

Director **Director**

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Auditor's Independence Declaration to the Directors of Santos Limited

In relation to our audit of the financial report of Santos Limited for the year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

T S Hammond
Partner
Adelaide
22 February 2013

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under Professional Standards Legislation

Consolidated Income Statement
for the year ended 31 December 2012

	Note	**2012 $million**	2011 $million
Product sales	3	3,220	2,721
Cost of sales	4	(2,089)	(1,737)
Gross profit		1,131	984
Other revenue	3	79	82
Other income	3	16	545
Other expenses	4	(390)	(411)
Finance income	5	138	190
Finance costs	5	(59)	(99)
Share of net losses of an associate	26	–	(9)
Profit before tax		915	1,282
Income tax expense	6	(322)	(440)
Royalty-related taxation expense	6	(75)	(91)
Total taxation expense		(397)	(531)
Net profit for the period		518	751
Net profit/ (loss) attributable to:			
Owners of Santos Limited		519	753
Non-controlling interests		(1)	(2)
		518	751
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic earnings per share	23	54.4	84.8
Diluted earnings per share	23	54.1	84.4
Dividends per share ($)			
Paid during the period	22	0.30	0.30
Declared in respect of the period	22	0.30	0.30

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

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Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

	Note	**2012 $million**	2011 $million
Net profit for the period		518	751
Other comprehensive income, net of tax:			
Exchange (loss)/gain on translation of foreign operations		(89)	6
Tax effect	6	(12)	–
	21	(101)	6
Gain/(loss) on foreign currency loans designated as hedges of net investments in foreign operations		46	(20)
Tax effect	6	(14)	6
	21	32	(14)
Impairment of available-for-sale financial assets reclassified to the income statement		–	4
Tax effect	6	–	(1)
	21	–	3
Gain/(loss) on derivatives designated as cash flow hedges		11	(23)
Tax effect	6	(3)	7
	21	8	(16)
Actuarial gain/(loss) on the defined benefit plan	29	2	(14)
Tax effect	6	(1)	4
	21	1	(10)
Other comprehensive loss, net of tax		(60)	(31)
Total comprehensive income		458	720
Total comprehensive income/ (loss) attributable to:			
Owners of Santos Limited		459	722
Non-controlling interests		(1)	(2)
		458	720

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

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Consolidated Statement of Financial Position as at 31 December 2012

	Note	2012 $million	2011 $million
Current assets			
Cash and cash equivalents	7	2,151	3,332
Trade and other receivables	8	514	899
Prepayments		263	200
Inventories	9	321	283
Other financial assets	10	3	6
Tax receivable		6	24
Total current assets		3,258	4,744
Non-current assets			
Receivables	8	17	25
Prepayments		30	16
Other financial assets	10	254	192
Exploration and evaluation assets	11	1,510	1,386
Oil and gas assets	12	11,675	9,068
Other land, buildings, plant and equipment	13	268	241
Deferred tax assets	15	23	142
Total non-current assets		13,777	11,070
Total assets		17,035	15,814
Current liabilities			
Trade and other payables	16	950	1,005
Deferred income		48	60
Interest-bearing loans and borrowings	17	15	169
Current tax liabilities		121	109
Provisions	18	173	135
Other financial liabilities	19	4	2
Total current liabilities		1,311	1,480
Non-current liabilities			
Deferred income		45	47
Interest-bearing loans and borrowings	17	3,689	3,092
Deferred tax liabilities	15	934	977
Provisions	18	1,652	1,173
Other financial liabilities	19	39	82
Total non-current liabilities		6,359	5,371
Total liabilities		7,670	6,851
Net assets		9,365	8,963
Equity			
Issued capital	20	6,608	6,392
Reserves	21	(412)	(351)
Retained earnings	21	3,174	2,926
Equity attributable to owners of Santos Limited		9,370	8,967
Non-controlling interests		(5)	(4)
Total equity		9,365	8,963

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

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Consolidated Statement of Cash Flows for the year ended 31 December 2012

	Note	2012 $million	2011 $million
Cash flows from operating activities			
Receipts from customers		3,364	2,876
Interest received		155	208
Overriding royalties received		10	9
Insurance proceeds received		1	–
Pipeline tariffs and other receipts		87	149
Income taxes refunded		26	43
Royalty-related taxation refunded		2	14
Payments to suppliers and employees		(1,554)	(1,387)
Exploration and evaluation – seismic and studies		(131)	(113)
Royalty and excise paid		(85)	(48)
Borrowing costs paid		(19)	(81)
Income taxes paid		(50)	(243)
Overriding royalty costs		(4)	(3)
Royalty-related taxation paid		(144)	(171)
Net cash provided by operating activities	28	1,658	1,253
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		(200)	(171)
Oil and gas assets		(2,767)	(2,583)
Other land, buildings, plant and equipment		(60)	(48)
Acquisitions of exploration and evaluation assets		(68)	–
Acquisitions of oil and gas assets		(52)	(18)
Acquisition of controlled entities, net of cash received		–	3
Restoration		(31)	(42)
Receipts from loans to related entities		3	3
Proceeds from:			
Disposal of exploration and evaluation assets	3	51	653
Disposal of oil and gas assets	3	223	444
Disposal of controlled entities		2	–
Disposal of other land, buildings, plant and equipment	3	–	3
Disposal of available-for-sale financial assets	3	1	–
Income taxes paid on disposal of non-current assets		(124)	(248)
Borrowing costs paid		(175)	(132)
Refundable deposit received		9	–
Refundable deposit paid		(7)	–
Other investing activities		(3)	(6)
Net cash used in investing activities		(3,198)	(2,142)
Cash flows from financing activities			
Dividends paid		(159)	(155)
Drawdown of borrowings		627	354
Repayments of borrowings		(190)	(385)
Proceeds from issues of ordinary shares		88	96
Net cash provided by/ (used in) financing activities		366	(90)
Net decrease in cash and cash equivalents		(1,174)	(979)
Cash and cash equivalents at the beginning of the period		3,332	4,319
Effects of exchange rate changes on the balances of cash held in foreign currencies		(7)	(8)
Cash and cash equivalents at the end of the period	7	2,151	3,332

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

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Consolidated Statement of Changes in Equity for the year ended 31 December 2012

		Equity attributable to owners of Santos Limited							
	Note	Issued capital $million	Translation reserve $million	Fair value reserve $million	Hedging reserve $million	Retained earnings $million	Total equity $million	Non-controlling interests $million	Total equity $million
Balance at 1 January 2011		5,514	(329)	(3)	2	2,421	7,605	(2)	7,603
Profit for the period		–	–	–	–	753	753	(2)	751
Other comprehensive income/(loss) for the period		–	(8)	3	(16)	(10)	(31)	–	(31)
Total comprehensive income/(loss) for the period		–	(8)	3	(16)	743	722	(2)	720
Transactions with owners in their capacity as owners:									
Issue of shares related to acquisition	20	683	–	–	–	–	683	–	683
Shares issued	20	195	–	–	–	–	195	–	195
Dividends to shareholders	22	–	–	–	–	(263)	(263)	–	(263)
Share-based payment transactions	30	–	–	–	–	25	25	–	25
Balance at 31 December 2011		6,392	(337)	–	(14)	2,926	8,967	(4)	8,963
Balance at 1 January 2012		6,392	(337)	–	(14)	2,926	8,967	(4)	8,963
Profit for the period		–	–	–	–	519	519	(1)	518
Other comprehensive income/(loss) for the period		–	(69)	–	8	1	(60)	–	(60)
Total comprehensive income/(loss) for the period		–	(69)	–	8	520	459	(1)	458
Transactions with owners in their capacity as owners:									
Shares issued	20	216	–	–	–	–	216	–	216
Dividends to shareholders	22	–	–	–	–	(285)	(285)	–	(285)
Share-based payment transactions	30	–	–	–	–	13	13	–	13
Balance at 31 December 2012		6,608	(406)	–	(6)	3,174	9,370	(5)	9,365

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

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1. Significant Accounting Policies

The consolidated financial report of Santos Limited ("the Company") for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors on 22 February 2013.

The consolidated financial report of the Company for the year ended 31 December 2012 comprises the Company and its controlled entities ("the Group"). Santos Limited (the parent) is a company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange ("ASX") and is the ultimate parent entity in the Group. The Group is a for-profit entity for the purpose of preparing the financial statements. The nature of the operations and principal activities of the Group are described in the Directors' Report.

(a) Statement of compliance

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

(b) Basis of preparation

The consolidated financial report is presented in Australian dollars.

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

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

Adoption of new accounting standards and interpretations

The following amendments to standards, which became applicable from 1 January 2012, have been adopted by the Group. These amendments have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the consolidated financial report:

- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets;* and
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax Recovery of Underlying Assets.*

The Group has not elected to apply any pronouncements before their effective date for the annual reporting period ended 31 December 2012.

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1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013 and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

- AASB 9 *Financial Instruments* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9.*

  AASB 9 introduces new requirements for the classification, measurement and derecognition of financial assets and financial liabilities. Application of AASB 9 is not expected to have a significant impact on the Group's accounting for financial assets and financial liabilities. AASB 9 is effective for annual periods beginning on or after 1 January 2015, and is available for early adoption.

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*.

  In August 2011, the AASB issued a suite of six new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The standards are effective for annual periods beginning on or after 1 January 2013.

  AASB 10 replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 12 *Consolidation – Special Purpose Entities*. AASB 10 includes a new definition of control that focusses on the need to have both power and rights or exposure to variable returns. A review of all entities in the Group which are less than 100% owned has been completed to assess the impact of AASB 10. The review determined that AASB 10 is not expected to have a significant impact on the composition of investments currently consolidated into the Group's results.

  AASB 11 replaces AASB 131 *Interests in Joint Ventures* and uses the definition of control in AASB 10 to introduce a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. The joint arrangement will be classified as either a joint operation or a joint venture. Parties to a joint operation recognise their share of assets, liabilities, income and expenses in relation to their interest in a joint operation. Joint venturers will be required to apply the equity method of accounting for their investment in a joint venture.

  The majority of the Group's joint arrangements are in the form of joint operations and the application of AASB 11 from 1 January 2013 will have no impact on these. At 31 December 2012, the Group has interests in seven jointly controlled entities which are currently accounted for using the proportionate consolidation method. These jointly controlled entities have been assessed as meeting the classification of joint ventures under AASB 11. From 1 January 2013, the Group will be required to retrospectively apply the equity method of accounting to these entities. As a result, the Group will no longer recognise its proportionate share of the revenue, expenses, assets, liabilities and associated cash-flows of these operations. Instead, the Group will recognise its share of net assets on a single line in the Consolidated Statement of Financial Position, its share of net profit on a single line in the Consolidated Income Statement and its share of dividends received in the Consolidated Statement of Cash Flows.

  The application of AASB 11 will result in the following adjustment at 1 January 2012:

  - Derecognition of assets of $71 million;
  - Recognition of liabilities of $20 million;
  - Derecognition of losses of non-controlling interests of $1 million; and
  - Recognition of equity accounted investment of $92 million.

  If AASB 11 had applied for the year ended 31 December 2012 there would be no significant impact on net profit after tax or earnings per share in the current year.

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1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

***New standards and interpretations not yet adopted* (continued)**

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

  AASB 13 establishes a single source of guidance for fair value measurements and disclosures. The standard defines fair value, establishes a framework for measuring fair value and requires more extensive disclosures than the current standards.

  AASB 13 is effective for annual periods beginning on or after 1 January 2013.

- Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119*

  These amendments require all actuarial gains and losses to be recognised immediately in other comprehensive income, which is consistent with the Group's current policy. The expected return on plan assets will be calculated based on the rate used to discount the defined benefit obligation. The standard also introduces a number of additional disclosures for defined benefit assets and liabilities.

  AASB 119 is effective for annual reporting periods beginning on or after 1 January 2013.

There are no other standards that are not yet effective that are expected to have a material impact on the Group's consolidated financial statements in the current or future reporting periods.

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

During the year, the Group reassessed its accounting treatment of certain Cooper Basin arrangements relating to crude oil purchases and sales that have previously been recorded as trading income. From 1 January 2012, these arrangements have been recorded as product sales and third party purchases on a gross basis rather than as trading income which was previously disclosed on a net basis. Comparatives for the year ended 31 December 2011 have been restated to reflect this change, resulting in an increase in product sales revenue of $191 million, an increase in cost of sales of $175 million and a decrease in trading revenue of $16 million. Corresponding adjustments are reflected in the Consolidated Statement of Cash Flows, note 2 and note 37. There is no impact on net profit, net assets or earnings per share in the comparative financial year as a consequence of this change.

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1. Significant Accounting Policies (continued)

(c) Basis of consolidation

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

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

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

If the Group loses control over a subsidiary it will:

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

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

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

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

Non-controlling interests

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

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1. Significant Accounting Policies (continued)

(c) Basis of consolidation (continued)

Jointly controlled assets

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

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

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

Jointly controlled entities

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

Investment in an associate

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

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

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

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

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1. Significant Accounting Policies (continued)

(d) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

On 1 January 2011, Gladstone LNG ("GLNG") entities with an Australian dollar functional currency changed their functional currency to US dollars. The change in functional currency was applied prospectively from this date. An additional GLNG entity changed its functional currency from Australian dollars to US dollars on 1 April 2012, with the change being applied prospectively from this date.

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

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

(e) Derivative financial instruments

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

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

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

Embedded derivatives

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

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1. Significant Accounting Policies (continued)

(f) Hedging

Hedge effectiveness

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

Fair value hedge

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

Cash flow hedge

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

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

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in a foreign operation

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

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1. Significant Accounting Policies (continued)

(g) Acquisition of assets

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

Business combinations

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

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

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

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

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

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

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1. Significant Accounting Policies (continued)

(h) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

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

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

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

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

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

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1. Significant Accounting Policies (continued)

(i) Oil and gas assets

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

Assets in development

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

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

Producing assets

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

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

Ongoing exploration and evaluation activities

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

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

(j) Land, buildings, plant and equipment

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

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

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

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1. Significant Accounting Policies (continued)

(k) Depreciation and depletion

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

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

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

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

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

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

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

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

(l) Available-for-sale financial assets

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

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

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

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1. Significant Accounting Policies (continued)

(m) Inventories

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

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

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

(n) Trade and other receivables

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

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

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

(o) Cash and cash equivalents

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

(p) Impairment

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

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

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

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

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

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1. Significant Accounting Policies (continued)

(p) Impairment (continued)

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

Calculation of recoverable amount

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

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

Reversals of impairment

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

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

(q) Provisions

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

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

Restoration

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

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1. Significant Accounting Policies (continued)

(q) Provisions (continued)

Restoration (continued)

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

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

Remediation

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

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

Carbon tax

The Group estimates its emissions liability in accordance with the *Clean Energy Act 2011* (Cth) and associated pronouncements, based on covered emissions arising from facilities for which the Group has operational control.

The determination of covered emissions includes both measured and estimated data based on operational activities and judgement in regard to the expected liable facilities for the relevant compliance period under the legislation.

Carbon permits are purchased when the provision for carbon is required to be settled. The carbon provision is derecognised from the statement of financial position when purchased permits are delivered to the Australian government in settlement of the liability.

The estimated impact of carbon tax on the Group's cash-generating units has been included in determining cash flow projections when assessing impairment of oil and gas assets and other land, buildings, plant and equipment as described in note 1(af).

The carrying amount of the provision for carbon is disclosed in note 18.

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1. Significant Accounting Policies (continued)

(r) Employee benefits

Wages, salaries, annual leave and sick leave

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

Long-term service benefits

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

Defined contribution plans

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

Defined benefit plan

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

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

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

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

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

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

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1. Significant Accounting Policies (continued)

(r) Employee benefits (continued)

Share-based payment transactions

Santos executive share-based payment plans

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

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

SARs issued under the Santos Employee Equity Incentive Plan ("SEEIP") allow eligible executives to receive SARs upon the satisfaction of set non-market performance conditions. The fair value of the SARs granted under this plan is measured by discounting the share price on the grant date using the assumed dividend yield for the term of the SAR. The amount recognised as an expense is adjusted each reporting period based on an estimate of the likelihood of achieving the performance conditions.

Cash-settled share-based payment plans

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

General employee share plans

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

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1. Significant Accounting Policies (continued)

(r) Employee benefits (continued)

Share-based payment transactions (continued)

General employee share plans (continued)

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

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

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

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

Santos Eastern Star Gas Limited Employee Incentive Plan

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

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

(s) Interest-bearing borrowings

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

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

(t) Borrowing costs

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

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

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1. Significant Accounting Policies (continued)

(u) Deferred income

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

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

(v) Trade and other payables

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

(w) Share capital

Ordinary share capital

Ordinary share capital is classified as equity.

Dividends

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

Transaction costs

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

(x) Revenue

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

Sales revenue

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

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

Dividends

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

Overriding royalties

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

Pipeline tariffs and processing tolls

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

Trading revenue

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

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1. Significant Accounting Policies (continued)

(y) Interest income

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

(z) Other income

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

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

(aa) Leases

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

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

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

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

(ab) Carbon tax

Carbon costs are recognised as an operating expense in the Income Statement as emissions are incurred.

Carbon costs that are recovered from customers are recognised as sales revenue in the income statement in accordance with note 1(x).

(ac) Goods and services tax

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

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

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

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

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1. Significant Accounting Policies (continued)

(ad) Taxation

Income tax

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. For Petroleum Resource Rent Tax ("PRRT") purposes, the impact of future augmentation on expenditure is included in the determination of future taxable profits when assessing the extent to which a deferred tax asset can be recognised in the statement of financial position. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

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

Royalty-related taxation

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

From 1 July 2012, the existing PRRT regime was extended to apply to all Australian petroleum production sourced from projects located onshore, in territorial waters and the North West Shelf project area. On transition to the extended PRRT regime, a starting tax base is immediately available to be deducted against the relevant project profits, giving rise to a potential deferred tax asset. The recoverability of a deferred tax asset arising from transition to the extended PRRT regime has been assessed as described above.

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1. Significant Accounting Policies (continued)

(ae) Discontinued operations and non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

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

(af) Significant accounting judgements, estimates and assumptions

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

Estimates of reserve quantities

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

Exploration and evaluation

The Group's policy for exploration and evaluation expenditure is discussed in note 1(h). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off in the income statement. The carrying amount of exploration and evaluation assets and the assumptions used in the estimation of recoverable amount are disclosed in notes 11 and 14 respectively.

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1. Significant Accounting Policies (continued)

(af) Significant accounting judgements, estimates and assumptions (continued)

Provision for restoration

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

The carrying amount of the provision for restoration is disclosed in note 18.

Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of oil and gas assets and the assumptions used in the estimation of recoverable amount are discussed in notes 12 and 14 respectively.

Impairment of other land, buildings, plant and equipment

The Group assesses whether other land, buildings, plant and equipment is impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The carrying amount of other land, buildings, plant and equipment and the assumptions used in the estimation of recoverable amount are discussed in notes 13 and 14 respectively.

Royalty-related taxation

From 1 July 2012, the Petroleum Resource Rent Tax ("PRRT") was extended to all Australian onshore oil and gas production licences. Accounting for the implementation of PRRT legislation involves judgement around application of the legislation including the combination of production licences into PRRT projects, the taxing point of projects and the measurement of the starting base of projects. In assessing the recoverability of deferred tax assets, estimates are required in respect of future augmentation of expenditure and the probable cash flows used in determining the recoverability of deferred tax assets. The key assumptions used on accounting for the transition to the extended PRRT regime are discussed in note 1(ad).

In October 2012, following the Full Federal Court's decision in *Esso Australia Resources Pty Ltd v Commissioner of Taxation* ("Esso Case"), the Commissioner of Taxation released a decision impact statement indicating that, inter alia, the outcome of the Esso Case may mean that contract liabilities cannot be apportioned under the PRRT regime and therefore are only deductible if they are incurred wholly in relation to the relevant project. In this respect, in addition to those assumptions identified above, the Group has applied judgement in respect of its assessment of the applicability of the decision in the Esso Case to the projects subject to PRRT in which it holds an interest. Based on the information available to the Group as at the reporting date, the Esso Case has had no significant impact on the amounts recorded in respect of the Group's royalty-related income tax expense, assets or liabilities in the consolidated financial report for the year ended 31 December 2012.

The Australian Government ("Government") issued an announcement on 14 December 2012 that stipulated that the result of the Esso Case is inconsistent with the policy intent of the PRRT regime and the way it has been administered since its commencement in 1987. The Government has undertaken to introduce amendments to the legislation that will maintain the policy intent of the PRRT and remove the uncertainty on taxpayers' ability to deduct contract expenditures which are apportioned between projects. As at the date of this report, the Government has yet to introduce these amendments.

Assuming that changes to the legislation are introduced and enacted there will be no significant impact on the amounts recorded in respect of the Group's royalty-related income tax expense, assets or liabilities in the consolidated financial report.

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2. Segment information

The Group has identified its operating segments to be the four business units of Eastern Australia; Western Australia and Northern Territory ("WA & NT"); Asia Pacific; and Gladstone LNG ("GLNG"), based on the different geographical regions and the similarity of assets within those regions. This is the basis on which internal reports are provided to the Chief Executive Officer for assessing performance and determining the allocation of resources within the Group.

The Asia Pacific operating segment includes operations in Indonesia, Papua New Guinea, Vietnam, India and Bangladesh.

The Chief Executive Officer monitors the operating results of its business units separately for the purposes of making decisions about allocating resources and assessing performance. The basis of measurement of segment performance has changed from the previous financial report. From 1 January 2012, royalty-related taxation is no longer included in the measurement of segment performance, consistent with a change in information provided to the Chief Executive Officer. Segment performance is measured based on earnings before interest, tax, impairment, exploration and evaluation, and gains or losses on sale of non-current assets and controlled entities ("EBITX"). Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

The Group operates primarily in one business: the exploration for, and development, production, transportation and marketing of, hydrocarbons. Revenue is derived primarily from the sale of gas and liquid hydrocarbons and the transportation of crude oil.

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2. Segment information (continued)

	Note	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
		2012 $million	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million
Revenue													
Sales to external customers		1,614	1,504	1,065	958	497	230	44	28	–	1	3,220	2,721
Inter-segment sales		–	–	–	–	–	–	38	64	(38)	(64)	–	–
Other revenue from external customers		46	65	4	1	10	(1)	3	5	16	12	79	82
Total segment revenue	3	1,660	1,569	1,069	959	507	229	85	97	(22)	(51)	3,299	2,803
Results													
Earnings before interest, tax, exploration and evaluation, impairment and gains/(losses) on sale of non-current assets and controlled entities ("EBITX")		286	276	574	614	256	95	(18)	(18)	(2)	(11)	1,096	956
Depreciation and depletion		380	357	218	177	116	62	29	16	30	29	773	641
Gains/(losses) on sale of non-current assets and controlled entities	3	2	14	9	172	(1)	3	–	340	1	–	11	529
Earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment ("EBITDAX")		668	647	801	963	371	160	11	338	29	18	1,880	2,126
Depreciation and depletion	4	(380)	(357)	(218)	(177)	(116)	(62)	(29)	(16)	(30)	(29)	(773)	(641)
Exploration and evaluation expensed	4	–	–	–	–	–	–	–	–	(165)	(167)	(165)	(167)
Net impairment (loss)/reversal		–	(51)	(64)	(1)	(42)	(83)	–	–	–	8	(106)	(127)
Earnings before interest and tax ("EBIT")		288	239	519	785	213	15	(18)	322	(166)	(170)	836	1,191
Net finance income	5									79	91	79	91
Profit before tax												915	1,282
Income tax expense	6									(322)	(440)	(322)	(440)
Royalty-related taxation expense	6	20	8	(96)	(99)	–	–	1	–	–	–	(75)	(91)
Net profit for the period												518	751

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2. Segment information (continued)

	Note	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
		2012 $million	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:													
Gain on sale of exploration and evaluation assets	3	–	–	–	152	–	3	–	45	–	–	–	200
Gain on sale of oil and gas assets	3	2	14	9	20	–	–	–	295	–	–	11	329
Gain on sale of controlled entities	3	–	–	–	–	–	–	–	–	1	–	1	–
Loss on sale of available-for-sale financial assets	3	–	–	–	–	(1)	–	–	–	–	–	(1)	–
Restructuring provision		(4)	–	–	–	–	–	–	–	–	–	(4)	–
Transaction costs on acquisition of subsidiaries		–	(11)	–	–	–	–	–	–	–	–	–	(11)
Remediation costs for incidents, net of related insurance recoveries		(2)	–	–	–	–	–	–	–	–	–	(2)	–
Non-refundable deposit received		–	–	–	15	–	–	–	–	–	–	–	15
Finalisation of redetermination		–	–	–	5	–	–	–	–	–	–	–	5
Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets):													
Exploration and evaluation assets	11	152	998	96	55	25	54	5	19	–	–	278	1,126
Oil and gas assets	12	616	427	525	477	878	820	1,463	1,312	–	–	3,482	3,036
Other land, buildings, plant and equipment	13	–	27	2	–	1	–	2	8	58	42	63	77
		768	1,452	623	532	904	874	1,470	1,339	58	42	3,823	4,239

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2. Segment Information (continued)	Note	2012 $million	2011 $million
Revenue from external customers by geographical location of production			
Australia		2,792	2,575
Other countries		507	228
Total revenue	3	3,299	2,803
During the year revenue from two separate customers amounted to $1,127 million (2011: $558 million from one customer), arising from sales from all segments of the Group.			
Non-current assets (other than financial assets and deferred tax assets) by geographical location			
Australia		10,897	8,558
Papua New Guinea		2,025	1,330
Other countries		531	807
		13,453	10,695

3. Revenue and Other Income

Product sales:		
Gas, ethane and liquefied gas	1,319	1,252
Crude oil	1,401	994
Condensate and naphtha	321	304
Liquefied petroleum gas	179	171
Total product sales*	3,220	2,721
Other revenue:		
Overriding royalties	12	9
Pipeline tariffs and processing tolls	34	56
Other	33	17
Total other revenue	79	82
Total revenue	3,299	2,803
Other income:		
Insurance recoveries	1	–
Net gain on sale of exploration and evaluation assets	–	200
Net gain on sale of oil and gas assets	11	329
Net gain on sale of controlled entities	1	–
Net loss on sale of available-for-sale financial assets	(1)	–
Non-refundable deposit received	–	15
Other	4	1
Total other income	16	545

** Total product sales include third party product sales of $527 million (2011: $486 million).*

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3. Revenue and Other Income (continued)	2012 $million	2011 $million
Net gain on sale of non-current assets		
Proceeds on disposals	23	1,332
Recoupment of current year exploration and evaluation expenditure	–	(3)
Proceeds after recoupment of current year exploration and evaluation expenditure	23	1,329
Book value of oil and gas assets disposed	(11)	(360)
Book value of other land, buildings, plant and equipment disposed	–	(3)
Recoupment of prior year exploration and evaluation expenditure	–	(451)
Book value of working capital disposed	(1)	18
Transaction costs	–	(4)
Total net gain on sale of non-current assets	11	529
Comprising:		
Net gain on sale of exploration and evaluation assets	–	200
Net gain on sale of oil and gas assets	11	329
	11	529
Reconciliation to cash inflow from proceeds on disposal of non-current assets		
Proceeds after recoupment of current year exploration and evaluation expenditure	23	1,329
Foreign currency changes on settlement	–	(2)
Amounts to be received in the future	–	(238)
Amounts received from current year disposals	23	1,089
Amounts received from prior year disposals	252	11
Total proceeds on disposal of non-current assets	275	1,100
Comprising:		
Proceeds from disposal of exploration and evaluation assets	51	653
Proceeds from disposal of oil and gas assets	223	444
Proceeds from disposal of available-for-sale financial assets	1	–
Proceeds from disposal of other land, buildings, plant and equipment	–	3
	275	1,100

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4. Expenses	Note	2012 $million	2011 $million
Cost of sales:			
Cash cost of production:			
Production costs:			
Production expenses		576	491
Production facilities operating leases		84	65
Total production costs		660	556
Other operating costs:			
Pipeline tariffs, processing tolls and other		117	115
Royalty and excise		88	54
Carbon costs		26	–
Total other operating costs		231	169
Total cash cost of production		891	725
Depreciation and depletion		768	636
Third party product purchases		465	388
Increase in product stock		(35)	(12)
Total cost of sales		2,089	1,737
Other expenses:			
Selling		23	31
Corporate		96	94
Depreciation		5	5
Foreign exchange losses/(gains)*		2	(18)
Losses/(gains) from change in fair value of derivative financial assets designated as at fair value through profit or loss		1	(8)
Fair value hedges, (gains)/losses:			
On the hedging instrument		(57)	(135)
On the hedged item attributable to the hedged risk		49	148
Exploration and evaluation expensed		165	167
Net impairment loss on exploration and evaluation assets	14(a)	5	13
Net impairment loss on oil and gas assets	14(b)	101	118
Net impairment loss on other land, buildings, plant and equipment	14(c)	–	1
Net impairment reversal on receivables		–	(9)
Net impairment loss on available-for-sale financial assets		–	4
Total other expenses		390	411

* *The foreign exchange losses for the year ended 31 December 2012 include the following significant amounts in relation to foreign functional currency subsidiaries: $17 million gain (2011: $30 million loss) relating to the effects of foreign exchange on Australian dollar denominated tax bases and $17 million loss (2011: $30 million gain) on foreign functional currency intercompany loans.*

Profit before tax includes the following:

Depreciation and depletion:			
Depletion of subsurface assets		404	341
Depreciation of plant and equipment		368	299
Depreciation of buildings		1	1
Total depreciation and depletion		773	641
Minimum lease payments		85	82

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5. Net Finance (Income)/ Costs	2012 $million	2011 $million
Finance income:		
Interest income	138	190
Total finance income	138	190
Finance costs:		
Interest expense:		
Interest paid to third parties	197	192
Deduct borrowing costs capitalised	183	136
	14	56
Unwind of the effect of discounting on provisions	45	43
Total finance costs	59	99
Net finance income	79	91

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6. Taxation Expense	2012 $million	2011 $million
Recognised in the income statement:		
Income tax expense		
Current tax expense		
Current year	163	380
Adjustments for prior years	17	29
	180	409
Deferred tax expense		
Origination and reversal of temporary differences	142	40
Adjustments for prior years	–	(9)
	142	31
Total income tax expense	322	440
Royalty-related taxation expense		
Current tax expense		
Current year	158	125
Adjustments for prior years	3	5
	161	130
Deferred tax expense		
Origination and reversal of temporary differences	(86)	(43)
Adjustments for prior years	–	4
	(86)	(39)
Total royalty-related taxation expense	75	91
Numerical reconciliation between tax expense and pre-tax net profit:		
Profit before tax	915	1,282
Prima facie income tax at 30% (2011: 30%)	274	385
Increase in income tax expense due to:		
Foreign losses not recognised	24	50
Non-deductible expenses	10	11
Change in tax bases of assets as a result of change in use	–	(25)
Tax adjustments relating to prior years	17	17
Other	(3)	2
Income tax expense	322	440
Royalty-related taxation expense	75	91
Total taxation expense	397	531
Deferred tax charged/ (credited) directly to equity:		
Net exchange loss on translation of foreign operations	12	–
Net loss/(gain) on foreign currency loans designated as hedges of net investments in foreign operations	14	(6)
Impairment of available-for-sale financial assets reclassified to the income statement	–	1
Net loss/(gain) on derivatives designated as cash flow hedges	3	(7)
Actuarial loss/(gain) on defined benefit plan	1	(4)
	30	(16)

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7. Cash and Cash Equivalents	2012 $million	2011 $million
Cash at bank and in hand	265	282
Short-term deposits	1,886	3,050
	2,151	3,332

The carrying amounts of cash and cash equivalents represent fair value. Bank balances and short-term deposits earn interest at floating rates based upon market rates.

The Group's usual cash management process includes investing cash in short-term deposits. As at 31 December 2012, $49 million (2011: $1,532 million) was placed in term deposits with original maturities greater than three months and up to nine months. All deposits are held with financial institutions approved by the Board and are readily convertible to cash with commensurate interest adjustments if required.

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, has cash and cash equivalents at 31 December 2012 of US$16 million (2011: US$13 million) which can only be repatriated to Australia with the permission of the Internal Revenue Commission of Papua New Guinea in accordance with the financing plan submitted in respect of PDL 3.

At 31 December 2012, $8 million (2011: $3 million) was held in short-term deposits to support the issue of bank guarantees.

8. Trade and Other Receivables	2012 $million	2011 $million
Current		
Trade receivables	349	318
Other receivables	165	581
Allowance for impairment loss on other receivables	–	–
	514	899
Non-current		
Other receivables	17	25
Ageing of trade and other receivables at the reporting date:		
Trade and other receivables not yet due	466	877
Past due not impaired:		
Less than one month	33	11
One to three months	17	10
Three to six months	8	8
Six to twelve months	7	10
Greater than twelve months	–	8
Considered impaired:		
Greater than twelve months	–	–
	531	924
Movement in provision for impairment loss:		
Balance at 1 January	–	22
Impairment loss	–	–
Reversal of impairment loss	–	(9)
Release of provision	–	(13)
Balance at 31 December	–	–

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8. Trade and Other Receivables (continued)

Trade receivables are non-interest bearing and settlement terms are generally within 30 days. Trade receivables that are neither past due nor impaired relate to a number of independent customers for whom there is no recent history of default.

Impaired receivables

An allowance for impairment loss is recognised when there is objective evidence that an individual trade or other receivable is impaired. No impairment loss (2011: $9 million impairment reversal) was recognised by the Group during the year.

9. Inventories

	2012 $million	2011 $million
Petroleum products	180	151
Drilling and maintenance stocks	141	132
Total inventories at lower of cost and net realisable value	321	283
Inventories included above that are stated at net realisable value	9	35

10. Other Financial Assets

Current		
Receivables due from other related entities	3	3
Interest rate swap contracts	–	3
	3	6
Non-current		
Interest rate swap contracts	182	178
Cross-currency swap contracts	41	–
Embedded derivatives	7	8
Available-for-sale financial assets	10	2
Receivables due from other related entities	–	3
Other	14	1
	254	192

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11. Exploration and Evaluation Assets	2012 Subsurface assets $million	2012 Plant and equipment $million	2012 Total $million	2011 Subsurface assets $million	2011 Plant and equipment $million	2011 Total $million
Cost	1,519	28	1,547	1,395	28	1,423
Less impairment	(37)	–	(37)	(37)	–	(37)
Balance at 31 December	1,482	28	1,510	1,358	28	1,386
Reconciliation of movements						
Balance at 1 January	1,358	28	1,386	750	212	962
Acquisition of controlled entities	–	–	–	890	15	905
Acquisitions of exploration and evaluation assets	68	–	68	14	–	14
Additions	210	–	210	197	10	207
Disposals and recoupment	–	–	–	(370)	(86)	(456)
Exploration and evaluation expensed	(41)	–	(41)	(58)	–	(58)
Impairment losses	(1)	–	(1)	(13)	–	(13)
Transfer to oil and gas assets in development	(81)	–	(81)	(36)	(123)	(159)
Transfer to oil and gas assets in production	(30)	–	(30)	(16)	–	(16)
Exchange differences	(1)	–	(1)	–	–	–
Balance at 31 December	1,482	28	1,510	1,358	28	1,386
Comprising:						
Acquisition costs	1,195	7	1,202	1,006	28	1,034
Successful exploration wells	251	21	272	229	–	229
Exploration and evaluation assets pending determination of success	36	–	36	123	–	123
	1,482	28	1,510	1,358	28	1,386

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12. Oil and Gas Assets	2012 Subsurface assets $million	2012 Plant and equipment $million	2012 Total $million	2011 Subsurface assets $million	2011 Plant and equipment $million	2011 Total $million
Cost	10,061	11,913	21,974	9,060	9,508	18,568
Less accumulated depreciation, depletion and impairment	(6,019)	(4,280)	(10,299)	(5,565)	(3,935)	(9,500)
Balance at 31 December	4,042	7,633	11,675	3,495	5,573	9,068
Reconciliation of movements						
Assets in development						
Balance at 1 January	508	2,533	3,041	573	1,080	1,653
Acquisition of oil and gas assets	22	–	22	–	–	–
Additions	377	1,975	2,352	307	1,953	2,260
Disposals	(8)	(3)	(11)	–	–	–
Transfer from exploration and evaluation assets	81	–	81	36	123	159
Transfer to oil and gas assets in production	–	–	–	(386)	(653)	(1,039)
Impairment losses	–	–	–	(9)	(20)	(29)
Exchange differences	(9)	(78)	(87)	(13)	50	37
Balance at 31 December	971	4,427	5,398	508	2,533	3,041
Producing assets						
Balance at 1 January	2,987	3,040	6,027	2,611	2,650	5,261
Acquisitions of oil and gas assets	27	3	30	33	10	43
Additions	529	549	1,078	469	264	733
Transfer from exploration and evaluation assets	30	–	30	16	–	16
Transfer from oil and gas assets in development	–	–	–	386	653	1,039
Disposals	–	(2)	(2)	(102)	(269)	(371)
Depreciation and depletion	(404)	(336)	(740)	(341)	(267)	(608)
Net impairment losses	(68)	(33)	(101)	(85)	(4)	(89)
Impairment of exploration and evaluation pending commercialisation	(4)	–	(4)	–	–	–
Exchange differences	(26)	(15)	(41)	–	3	3
Balance at 31 December	3,071	3,206	6,277	2,987	3,040	6,027
Total oil and gas assets	4,042	7,633	11,675	3,495	5,573	9,068
Comprising:						
Exploration and evaluation expenditure pending commercialisation	26	–	26	39	–	39
Other capitalised expenditure	4,016	7,633	11,649	3,456	5,573	9,029
	4,042	7,633	11,675	3,495	5,573	9,068

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13. Other Land, Buildings, Plant and Equipment	2012 Land and buildings $million	2012 Plant and equipment $million	2012 Total $million	2011 Land and buildings $million	2011 Plant and equipment $million	2011 Total $million
Cost	84	462	546	72	427	499
Less accumulated depreciation and impairment	(8)	(270)	(278)	(6)	(252)	(258)
Balance at 31 December	76	192	268	66	175	241
Reconciliation of movements						
Balance at 1 January	66	175	241	45	156	201
Acquisition of controlled entities	–	–	–	25	1	26
Additions	11	52	63	–	51	51
Disposals	–	(3)	(3)	(3)	–	(3)
Impairment	–	–	–	–	(1)	(1)
Depreciation	(1)	(32)	(33)	(1)	(32)	(33)
Balance at 31 December	76	192	268	66	175	241

14. Impairment of Non-current Assets

(a) Exploration and evaluation assets

At 31 December 2012 the Group reassessed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the Group's accounting policy (refer note 1(h)). As a result, the recoverable amounts of some specific exploration and evaluation assets were formally reassessed, resulting in an impairment loss of $5 million (2011: $13 million). Estimates of recoverable amounts of exploration and evaluation assets are based on the asset's fair value less costs to sell.

Area of interest	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2012					
Carnarvon Basin	WA & NT	Exploration area	4	–	4
Tajikistan	Asia Pacific	Exploration area	1	–	1
Total impairment of exploration and evaluation assets			5	–	5
2011					
Bangladesh	Asia Pacific	Exploration area	13	–	13
Total impairment of exploration and evaluation assets			13	–	13

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14. Impairment of Non-current Assets (continued)

(b) Oil and gas assets

At 31 December 2012 the Group reassessed the carrying amount of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. As a result, the recoverable amounts of cash-generating units and some specific oil and gas assets were formally reassessed, resulting in an impairment loss of $101 million (2011: $118 million).

Estimates of recoverable amounts of oil and gas assets are based on either fair value less costs to sell or value in use, determined by discounting each asset's estimated future cash flows at asset-specific discount rates. The pre-tax discount rates applied were equivalent to post tax discount rates between 8.0% and 14.7% (2011: 8.3% and 14.4%), depending on the nature of the risks specific to each asset.

Cash-generating unit	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2012					
Impairment/ (reversal) of CGUs:					
Thevenard	WA & NT	Oil field	34	27	61
Legendre	WA & NT	Oil field	(4)	–	(4)
Jabiru/Challis	WA & NT	Oil field	6	–	6
Elang Kakatua	WA & NT	Oil field	(3)	–	(3)
Sangu	Asia Pacific	Gas PSC	26	–	26
Sampang	Asia Pacific	Oil and gas PSC	10	6	16
SE Gobe	Asia Pacific	Oil and gas field	(1)	–	(1)
Total impairment of oil and gas assets			68	33	101
2011					
Impairment/ (reversal) of CGUs:					
Legendre	WA & NT	Oil field	6	–	6
Airlie	WA & NT	Oil field	4	–	4
Thevenard	WA & NT	Oil field	(5)	–	(5)
Mutineer Exeter	WA & NT	Oil field	(4)	–	(4)
Kipper	Eastern Australia	Gas field	9	20	29
Moonie	Eastern Australia	Oil field	9	5	14
Sangu	Asia Pacific	Gas PSC	66	–	66
Impairment/ (reversal) of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Oil and gas field	7	–	7
Cooper Basin	Eastern Australia	Pipeline	–	(1)	(1)
Other Surat	Eastern Australia	Gas field	2	-	2
Total impairment of oil and gas assets			94	24	118

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14. Impairment of Non-current Assets (continued)

(c) Other land, buildings, plant and equipment

At 31 December 2012 the Group reassessed the carrying amount of its other land, buildings, plant and equipment assets for indicators of impairment. As a result, the recoverable amounts of some specific other land, buildings, plant and equipment assets were formally reassessed. No impairment loss was recognised by the Group during the year (2011: $1 million). Estimates of recoverable amounts of other land, buildings, plant and equipment assets are based on its fair value less costs to sell.

Cash-generating unit	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2011					
Other plant and equipment	Corporate	Aircraft	–	1	1
Total impairment of other land, buildings, plant and equipment			–	1	1

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15. Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
	2012 $million	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Exploration and evaluation assets	–	–	(477)	(455)	(477)	(455)
Oil and gas assets	–	–	(213)	(155)	(213)	(155)
Other land, buildings, plant and equipment	16	20	–	–	16	20
Available-for-sale financial assets	–	2	–	–	–	2
Trade receivables	1	–	–	(2)	1	(2)
Other receivables	–	–	(7)	(9)	(7)	(9)
Inventories	–	–	(2)	(3)	(2)	(3)
Derivative financial instruments	–	–	(69)	(42)	(69)	(42)
Other assets	–	–	(36)	(24)	(36)	(24)
Equity-raising costs	6	11	–	–	6	11
Interest-bearing loans and borrowings	–	–	(26)	(32)	(26)	(32)
Other liabilities	26	–	–	(20)	26	(20)
Provisions	243	237	–	–	243	237
Royalty-related taxes	–	–	(371)	(361)	(371)	(361)
Other items	–	–	(1)	(16)	(1)	(16)
Tax value of carry-forward losses recognised	–	14	(1)	–	(1)	14
Tax assets/(liabilities)	292	284	(1,203)	(1,119)	(911)	(835)
Set-off of tax	(269)	(142)	269	142	–	–
Net tax assets/(liabilities)	23	142	(934)	(977)	(911)	(835)

	2012 $million	2011 $million
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences in relation to investments in subsidiaries	2,939	1,550
Deductible temporary differences relating to royalty-related taxation (net of income tax)	3,625	–
Other deductible temporary differences	269	239
Tax losses	349	347
	7,182	2,136

Deferred tax assets have not been recognised in respect of these items because it is not probable that the temporary differences will reverse in the future and that there will be sufficient future taxable profits against which the benefits can be utilised. Tax losses of $67 million (2011: $66 million) will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

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16. Trade and Other Payables

	2012 $million	2011 $million
Trade payables	786	764
Non-trade payables	164	241
	950	1,005

17. Interest-bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 38.

Current		
Finance leases	1	1
Bank loans – unsecured	14	17
Long-term notes	–	151
	15	169
Non-current		
Finance leases	1	2
Bank loans – secured	1,168	695
Bank loans – unsecured	170	77
Medium-term notes	107	105
Long-term notes	846	868
Subordinated notes	1,397	1,345
	3,689	3,092

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.61% as at 31 December 2012 (2011: 5.86%).

All secured interest-bearing loans and borrowings, with the exception of the finance leases, are borrowed through Santos Finance Ltd, which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings by Santos Finance Ltd are guaranteed by Santos Limited. All borrowings are unsecured, with the exception of the secured bank loans and finance leases.

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17. Interest-bearing Loans and Borrowings (continued)

Details of major credit facilities

(a) Bank loans – secured

Secured assets	Year of maturity	Currency	Effective interest rate 2012 %	Effective interest rate 2011 %	2012 $million	2011 $million
PNG LNG	2024/2026	USD	4.61	4.59	1,168	695

PNG LNG

Loan facilities for the PNG LNG project in which Santos entities hold an equity interest of 13.5%, were entered into by the joint venture participants on 15 December 2009 and are provided by 17 commercial banks and six export credit agencies, bear fixed and floating rates of interest and have estimated final maturity dates (subject to the date of practical completion of the PNG LNG project) of December 2024 and December 2026 respectively. As at 31 December 2012, US$557 million (A$537 million) of the facility limit remains undrawn.

The facilities include security over assets and entitlements of the participants in respect of the project. The carrying values of the Group's assets pledged as security are:

	2012 $million	2011 $million
Trade and other receivables	94	35
Oil and gas assets in development	2,041	1,308
	2,135	1,343

The coordinated development and operating agreement is the key commercial agreement for the project and includes a "mandatory default step-up" provision under which prior to first cargo:

(i) parties which have not defaulted in the payment of a cash call for a licence area within the project are required to pay a pro-rata share of cash calls not paid by the defaulting parties; and

(ii) if a licence area fails to collectively remedy a payment default, non-defaulting project participants from other licence areas are required to pay a pro-rata share of the amounts not paid by the defaulting licence area.

Where non-defaulting parties make "mandatory default step-up" payments they are entitled to dilute the equity interests of defaulting parties at a penalty rate of 20%.

(b) Bank loans – unsecured

Term bank loans

Year of maturity	Currency	Effective interest rate 2012 %	Effective interest rate 2011 %	2012 $million	2011 $million
2012 to 2017	USD	0.82	0.62	75	94

Term bank loans bear interest at the relevant interbank reference rate. The amount outstanding at 31 December 2012 is US$78 million (A$75 million) (2011: US$95 million (A$94 million)).

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17. Interest-bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(b) Bank loans – unsecured (continued)

Export Credit Agency supported loan facilities

At 31 December 2012, the Group had loan facilities of US$1,200 million (A$1,157 million) supported by various export credit agencies, which have estimated maturity dates (subject to the date of practical completion of the GLNG project) between 2016 and 2024.

		Effective interest rate			
Year of maturity	**Currency**	**2012 %**	2011 %	**2012 $million**	2011 $million
2016 to 2024	USD	3.64	–	109	–

Export credit agency loans bear interest at the relevant interbank reference rate plus a margin. The principal outstanding at 31 December 2012 is US$130 million (A$126 million) (2011: nil).

(c) Medium-term notes

The Group has a $1,000 million (2011: $1,000 million) Australian medium-term note programme under which the following were issued in 2005:

		Effective interest rate			
Year of issue	**Year of maturity**	**2012 %**	2011 %	**2012 $million**	2011 $million
2005	2015	4.74	5.66	107	105

(d) Long-term notes

The Group has issued long-term notes in the US Private Placement market with varying maturities. The Group has the following long-term notes on issue:

		Effective interest rate			
Year of issue	**Year of maturity**	**2012 %**	2011 %	**2012 $million**	2011 $million
2000	2010 to 2015	2.05	1.82	57	82
2002	2010 to 2022	1.92	2.73	162	296
2007	2017 to 2027	1.06	0.90	627	641
				846	1,019

Long-term notes bear interest at 5.95% to 8.44% (2011: 5.85% to 8.44%) fixed rate interest, which have been swapped to floating rate commitments. The principal outstanding at 31 December 2012 is US$688 million (A$663 million) (2011: US$839 million (A$828 million)).

17. Interest-bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(e) Subordinated notes

The Group has issued €1,000 million in subordinated notes, which mature after 60 years but which can be redeemed at the Group's option on or after 22 September 2017.

		Effective interest rate			
Year of issue	**Year of maturity**	**2012 %**	2011 %	**2012 $million**	2011 $million
2010	2070	6.46	7.26	1,397	1,345

The subordinated notes accrue fixed coupons at a rate of 8.25% (2011: 8.25%) per annum for the first seven years, and thereafter on a floating rate basis plus a 6.85% margin. The subordinated notes are not convertible into Santos Limited ordinary shares.

(f) Bilateral bank loan facility

As at 31 December 2012 the Group had bilateral bank loan facilities of A$1,050 million (2011: A$1,450 million) and US$1,100 million (A$1,060 million) (2011: US$500 million (A$493 million)) which mature between 2015 and 2018. The facilities are undrawn at 31 December 2012.

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18. Provisions	2012 $million	2011 $million
Current		
Employee benefits	89	84
Restoration	53	46
Remediation	7	3
Carbon	20	–
Other	4	2
	173	135
Non-current		
Employee benefits	12	9
Defined benefit obligations (refer note 29)	40	50
Restoration	1,589	1,106
Remediation	5	8
Carbon	6	–
	1,652	1,173

Movement in provisions

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

	Total restoration $million	Total remediation $million	Total carbon $million	Total $million
Balance at 1 January 2012	1,152	11	–	1,163
Provisions made during the year	169	3	26	198
Provisions used during the year	(23)	(2)	–	(25)
Unwind of discount	45	–	–	45
Change in discount rate	273	–	–	273
Exchange differences	26	–	–	26
Balance at 31 December 2012	1,642	12	26	1,680

Restoration

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

Remediation

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

Carbon

Provisions for carbon costs are recognised when there is a present obligation to settle the Group's emissions of carbon dioxide equivalent.

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19. Other Financial Liabilities

	2012 $million	2011 $million
Current		
Other	4	2
	4	2
Non-current		
Cross-currency swap contracts	–	47
Other	39	35
	39	82

20. Issued Capital

961,184,172 (2011: 944,469,750) listed ordinary shares, fully paid	6,608	6,392
54,500 (2011: 83,000) ordinary shares, paid to one cent	–	–
	6,608	6,392

In accordance with changes to applicable corporations legislation effective from 1 July 1998, the shares issued do not have a par value and there is no limit on the authorised share capital of the Company.

	Note	2012 Number of shares	2011 Number of shares	2012 $million	2011 $million
Movement in fully paid ordinary shares					
Balance at 1 January		944,469,750	874,991,455	6,392	5,514
Shares issued in Eastern Star Gas Limited ("ESG") acquisition	20(a)	–	51,200,158	–	673
Santos ESG Employee Incentive Plan	20(a)	–	2,002,362	5	10
Santos Dividend Reinvestment Plan ("DRP")	20(b)	10,274,438	8,629,248	126	108
DRP underwriting agreement	20(b)	5,509,612	6,498,096	77	75
Santos Employee Share1000 Plan	30(a)	142,008	171,750	2	2
Santos Employee ShareMatch Plan	30(a)	491,856	639,420	6	9
Shares issued on exercise of options	30(b)	–	65,668	–	1
Shares issued on vesting of Share Acquisition Rights	30(a,b)	268,008	271,593	–	–
Santos Executive Share Plan	30(f)	28,500	–	–	–
Balance at 31 December		961,184,172	944,469,750	6,608	6,392

Fully paid ordinary shares carry one vote per share, which entitles the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. The market price of the Company's ordinary shares on 31 December 2012 was $11.10 (2011: $12.24).

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20. Issued Capital (continued)

(a) Shares issued in Eastern Star Gas Limited Acquisition

Santos acquired Eastern Star Gas Limited ("ESG") in 2011. The consideration included the issue of 0.06881 Santos Limited shares for each ESG share on issue. On completion of the Scheme of Arrangement on 17 November 2011, 51,200,158 fully paid ordinary shares were issued and $673 million was credited to the Company's capital account. In addition, 2,002,362 restricted shares were issued to ESG employees to replace their existing ESG employee incentive plan shares. During 2012, $5 million was received in respect of repayment of loans in relation to these shares (2011: $10 million).

Refer note 30(c) for further details.

(b) Santos Dividend Reinvestment Plan

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the arithmetic average of the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Dividend Record Date. At this time, the Board has determined that a 2.5% discount will apply to the Santos Dividend Reinvestment Plan on the final dividend for the year ended 31 December 2012. The last date for the receipt of an election notice to participate in the Santos Dividend Reinvestment Plan is the record date, 7 March 2013. The Santos Dividend Reinvestment Plan was fully underwritten for the 2011 final dividend.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, allowing returns to shareholders and benefits for other stakeholders to be maintained, and to retain an efficient capital structure. In order to optimise the capital structure, the Group may adjust its dividend distribution policy, return capital to shareholders, issue new shares, draw or repay debt or undertake other corporate initiatives consistent with its strategic objectives.

In applying these objectives, the Group aims to:

- minimise the weighted average cost of capital whilst retaining appropriate financial flexibility;
- ensure ongoing access to a range of debt and equity markets; and
- maintain an investment grade credit rating.

A range of financial metrics are used to monitor the capital structure including ratios measuring Gearing, Funds from Operations to Debt ("FFO-to-Debt") and Debt over Earnings before Interest, Tax, Depreciation and Amortisation ("Debt-to-EBITDA"). The Group monitors these capital structure metrics on both an actual and forecast basis.

During 2012, Santos Limited maintained a corporate credit rating of BBB+ from Standard & Poor's. The credit rating was placed on "negative outlook" in January 2011 following the Group's announcement of the final investment decision on the Gladstone LNG project and this rating outlook remains in place.

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21. Reserves and Retained Earnings

	Translation Reserve $million	Fair value Reserve $million	Hedging Reserve $million	Total $million
Reserves				
Balance at 1 January 2011	(329)	(3)	2	(330)
Net exchange gain on translation of foreign operations	6	–	–	6
Net loss on foreign currency loans designated as hedges of net investments in foreign operations	(14)	–	–	(14)
Impairment of available-for-sale financial assets reclassified to the income statement	–	3	–	3
Net loss on derivatives designated as cash flow hedges	–	–	(16)	(16)
Balance at 31 December 2011	(337)	–	(14)	(351)
Balance at 1 January 2012	(337)	–	(14)	(351)
Net exchange loss on translation of foreign operations	(101)	–	–	(101)
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	32	–	–	32
Net gain on derivatives designated as cash flow hedges	–	–	8	8
Balance at 31 December 2012	(406)	–	(6)	(412)

Nature and purpose of reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different from the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the financial asset is derecognised.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Retained earnings

	2012 $million	2011 $million
Balance at 1 January	2,926	2,421
Net profit after tax	519	753
Net actuarial gain/(loss) on the defined benefit plan	1	(10)
Share-based payments	13	25
Dividends paid	(285)	(263)
Balance at 31 December	3,174	2,926

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22. Dividends

Dividends recognised during the year

Dividends recognised during the year by the Company are:

	Dividend per share $	Total $million	Franked/ Unfranked	Payment Date
2012				
Interim 2012 ordinary	0.15	143	Franked	28 Sep 2012
Final 2011 ordinary	0.15	142	Franked	30 Mar 2012
	0.30	285		
2011				
Interim 2011 ordinary	0.15	132	Franked	30 Sep 2011
Final 2010 ordinary	0.15	131	Franked	31 Mar 2011
	0.30	263		

Franked dividends paid during the year were franked at the tax rate of 30%.

Dividends declared in respect of the year

Dividends declared in respect of the year by the Company are:

	Dividend per share $	Total $million	Franked/ Unfranked	Payment Date
2012				
Final 2012 ordinary*	0.15	144	Franked	28 Mar 2013
Interim 2012 ordinary	0.15	143	Franked	28 Sep 2012
	0.30	287		
2011				
Final 2011 ordinary	0.15	142	Franked	30 Mar 2012
Interim 2011 ordinary	0.15	132	Franked	30 Sep 2011
	0.30	274		

* *After the reporting date, the final 2012 ordinary dividend of $0.15 per share was proposed by the Directors. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 31 December 2012 and will be recognised in subsequent financial reports.*

	2012 $million	2011 $million
Dividend franking account		
30% franking credits available to the shareholders of Santos Limited for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December	993	994

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by $62 million (2011: $61 million).

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23. Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Santos Limited by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Santos Limited by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows:

	2012 $million	2011 $million
Earnings used in the calculation of basic and diluted earnings per share	519	753

The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

	2012 Number of shares	2011
Basic earnings per share	954,590,328	888,464,970
Partly paid shares	53,854	63,885
Executive share options	237,610	498,386
Share acquisition rights	3,993,374	2,777,746
Diluted earnings per share	958,875,166	891,804,987

	2012 ¢	2011 ¢
Earnings per share attributable to the equity holders of Santos Limited		
Basic earnings per share	54.4	84.8
Diluted earnings per share	54.1	84.4

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan and Share Acquisition Rights ("SARs") issued to eligible executives and employees have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2012. The number of shares included in the calculation is that assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price. The weighted average number of shares used for the purposes of calculating diluted earnings per share in 2011 was retrospectively adjusted for the effect of a 2.5% discount applicable to the Dividend Reinvestment Plan in respect of the 2010 final dividend and 2011 interim dividend (refer note 20(b)).

During the year nil (2011: 65,668) options, 268,008 (2011: 271,593) SARs and 28,500 (2011: nil) partly paid shares were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 88,829 (2011: 72,138).

During the year 308,101 (2011: 226,568) options and 679,939 (2011: 390,704) SARs lapsed. The diluted earnings per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options and SARs lapsed. The weighted average number included is 275,241 (2011: 154,202).

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24. Consolidated Entities

Name	Country of incorporation
Santos Limited (Parent Company)[1]	AUS
Controlled Entities	
Alliance Petroleum Australia Pty Ltd[2]	AUS
Basin Oil Pty Ltd[2]	AUS
Bridgefield Pty Ltd	AUS
Bridge Oil Developments Pty Ltd[2]	AUS
Bronco Energy Pty Ltd	AUS
Canso Resources Pty Ltd	AUS
Doce Pty Ltd	AUS
Fairview Pipeline Pty Ltd	AUS
Farmout Drillers Pty Ltd	AUS
Gidgealpa Oil Pty Ltd	AUS
Kipper GS Pty Ltd	AUS
Controlled entities of Kipper GS Pty Ltd	
Santos Carbon Pty Ltd	AUS
Controlled entity of Santos Carbon Pty Ltd	
SB Jethro Pty Ltd	AUS
Moonie Pipeline Company Pty Ltd	AUS
Reef Oil Pty Ltd[2]	AUS
Santos Asia Pacific Pty Ltd	AUS
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Sampang) Pty Ltd	AUS
Santos (Warim) Pty Ltd	AUS
Santos Australian Hydrocarbons Pty Ltd	AUS
Santos (BOL) Pty Ltd[2]	AUS
Controlled entity of Santos (BOL) Pty Ltd	
Bridge Oil Exploration Pty Ltd	AUS
Santos Browse Pty Ltd[5]	AUS
Santos CSG Pty Ltd	AUS
Santos Darwin LNG Pty Ltd[2]	AUS
Santos Direct Pty Ltd	AUS
Santos Facilities Pty Ltd	AUS
Santos Finance Ltd	AUS
Santos GLNG Pty Ltd	AUS
Controlled entity of Santos GLNG Pty Ltd	
Santos GLNG Corp	USA
Santos (Globe) Pty Ltd	AUS
Santos International Holdings Pty Ltd	AUS
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Ltd	PNG
CJSC South Petroleum Company[1]	KGZ
Lavana Ltd	PNG
Sanro Insurance Pte Ltd	SGP
Santos Americas and Europe Corporation	USA
Controlled entities of Santos Americas and Europe Corp	
Santos TPY Corp	USA
Controlled entities of Santos TPY Corp	
Santos Queensland Corp	USA
Santos TOG Corp	USA
Controlled entities of Santos TOG Corp	
Santos TOGA Pty Ltd	AUS
Santos TPY CSG Corp	USA
Santos Bangladesh Ltd	GBR
Santos Baturaja Pty Ltd[3]	AUS
Santos (BBF) Pty Ltd	AUS
Controlled entities of Santos (BBF) Pty Ltd	
Santos (SPV) Pty Ltd	AUS
Controlled entity of Santos (SPV) Pty Ltd	
Santos (Madura Offshore) Pty Ltd	AUS
Santos Belida Pty Ltd[3]	AUS
Santos (Donggala) Pty Ltd	AUS
Santos Egypt Pty Ltd	AUS
Santos EOM Pty Ltd	AUS
Santos Hides Ltd	PNG
Santos International Pte Ltd	SGP
Santos International Operations Pty Ltd	AUS
Santos International Ventures Pty Ltd	AUS
Controlled entities of Santos International Holdings Pty Ltd (cont)	
Santos Netherlands B.V.[3]	NLD
Santos Niugini Exploration Ltd	PNG
Santos OIG Pty Ltd	AUS
Santos (Papalang) Pty Ltd	AUS
Santos Petroleum Ventures B.V.	NLD
Santos (Popodi) Pty Ltd	AUS
Santos Sangu Field Ltd	GBR
Santos Vietnam Pty Ltd	AUS
Zhibek Resources Ltd[1]	GBR
Santos (JBJ1) Pty Ltd	AUS
Controlled entities of Santos (JBJ1) Pty Ltd	
Santos (JBJ2) Pty Ltd	AUS
Controlled entity of Santos (JBJ2) Pty Ltd	
Shaw River Power Station Pty Ltd	AUS
Santos (JPDA 06-104) Pty Ltd	AUS
Santos (JPDA 91-12) Pty Ltd	AUS
Santos (NARNL Cooper) Pty Ltd[2]	AUS
Santos NSW Pty Ltd[4,5]	AUS
Controlled entities of Santos NSW Pty Ltd	
Santos NSW (Betel) Pty Ltd[5]	AUS
Santos NSW (Hillgrove) Pty Ltd[5]	AUS
Santos NSW (Holdings) Pty Ltd[5]	AUS
Controlled entities of Santos NSW (Holdings) Pty Ltd	
Santos NSW (LNGN) Pty Ltd[5]	AUS
Santos NSW (Pipeline) Pty Ltd[5]	AUS
Santos NSW (Sales) Pty Ltd[5]	AUS
Santos NSW (Narrabri Energy) Pty Ltd[5]	AUS
Controlled entities of Santos NSW (Narrabri Energy) Pty Ltd	
Santos NSW (Eastern) Pty Ltd[5]	AUS
Santos NSW (Sulu) Pty Ltd[5]	AUS
Santos NSW (Tooncomet) Pty Ltd[5]	AUS
Santos NSW (Narrabri Power) Pty Ltd[5]	AUS
Santos NSW (Operations) Pty Ltd[5]	AUS
Santos (N.T.) Pty Ltd	AUS
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Ltd	AUS
Santos Offshore Pty Ltd[2]	AUS
Santos Petroleum Pty Ltd[2]	AUS
Santos QLD Upstream Developments Pty Ltd[3]	AUS
Santos QNT Pty Ltd[2]	AUS
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd[2]	AUS
Santos Petroleum Operations Pty Ltd	AUS
TMOC Exploration Pty Ltd	AUS
Santos QNT (No. 2) Pty Ltd[2]	AUS
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Moonie Oil Pty Ltd	AUS
Petromin Pty Ltd	AUS
Santos (299) Pty Ltd (in liquidation)	AUS
Santos Exploration Pty Ltd	AUS
Santos Gnuco Pty Ltd	AUS
Santos Upstream Pty Ltd	AUS
Santos TPC Pty Ltd	AUS
Santos Wilga Park Pty Ltd	AUS
Santos Resources Pty Ltd	AUS
Santos (TGR) Pty Ltd	AUS
Santos Timor Sea Pipeline Pty Ltd	AUS
SESAP Pty Ltd	AUS
Vamgas Pty Ltd[2]	AUS

24. Consolidated Entities (continued)

Notes

1. Beneficial interests in all controlled entities are 100%, except:
   - CJSC South Petroleum Company (70%); and
   - Zhibek Resources Ltd (75%).
2. Company is party to a Deed of Cross Guarantee. Refer note 37.
3. Company incorporated during the year.
4. Company changed type from public to proprietary during the year.
5. The following companies changed name during the year:
   - Santos Browse Pty Ltd (*previously Coveyork Pty Ltd*);
   - Santos NSW Pty Ltd (*previously Eastern Star Gas Limited*);
   - Santos NSW (Betel) Pty Ltd (*previously Betel Gas Pty Ltd*);
   - Santos NSW (Eastern) Pty Ltd (*previously Eastern Energy Australia Pty Ltd*);
   - Santos NSW (Hillgrove) Pty Ltd (*previously Hillgrove Energy Pty Ltd*);
   - Santos NSW (Holdings) Pty Ltd (*previously Eastern Star Gas Holdings Pty Ltd*);
   - Santos NSW (LNGN) Pty Ltd (*previously Eastern Star Gas LNG Pty Ltd*);
   - Santos NSW (Narrabri Energy) Pty Ltd (*previously Narrabri Energy Pty Ltd*);
   - Santos NSW (Narrabri Power) Pty Ltd (*previously Narrabri Power Pty Ltd*);
   - Santos NSW (Operations) Pty Ltd (*previously Eastern Star Operations Pty Ltd*);
   - Santos NSW (Pipeline) Pty Ltd (*previously Eastern Star Gas Pipeline Pty Ltd*);
   - Santos NSW (Sales) Pty Ltd (*previously Eastern Star Gas Sales Pty Ltd*);
   - Santos NSW (Sulu) Pty Ltd (*previously Sulu Resources Pty Ltd*); and
   - Santos NSW (Tooncomet) Pty Ltd (*previously Tooncomet Pty Ltd*).

Country of incorporation

AUS	–	Australia
GBR	–	United Kingdom
KGZ	–	Kyrgyz Republic
NLD	–	Netherlands
PNG	–	Papua New Guinea
SGP	–	Singapore
USA	–	United States of America

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25. Acquisitions and Disposals of Subsidiaries

(a) Acquisitions

There were no acquisitions of controlled entities during 2012.

During 2011 the following controlled entities were acquired and the operating results included in the income statement from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest %	Purchase consideration $million	Contribution to consolidated profit from acquisition date to 31 December 2011 $million
Eastern Star Gas Limited Group*	28 Oct 2011	100	722	(2)

* *Eastern Star Gas Limited and its controlled entities changed names during the year. Refer to note 24.*

On 28 October 2011, Santos obtained control of Eastern Star Gas Limited ("ESG") through the acquisition of the remaining 79.03% of ESG's outstanding ordinary shares via a Scheme of Arrangement ("the Scheme"). As a result, the Group's equity interest in ESG increased from 20.97% to 100%. ESG is focussed on the exploration of coal seam gas in Australia. At the time of acquisition, ESG's main activity was the Narrabri Gas Project, which is located in Petroleum Exploration Licence ("PEL") 238 adjacent to the township of Narrabri in New South Wales. At the time of acquisition ESG held a 65% interest in PEL 238, with the Group holding the remaining 35%. If the acquisition had occurred on 1 January 2011, the Group's revenue for the year ended 31 December 2011 would have increased by $5 million and the net profit attributable to equity holders of Santos Limited would have reduced by $20 million.

This acquisition was provisionally accounted for at 31 December 2011, as the fair value of the net assets acquired had not been finally determined, however no adjustment to the fair value was required in 2012.

Acquisition-date fair value of consideration transferred:

	$million
Shares issued	673
Share-based payments	14
Cash paid	35
Total consideration transferred	722

(b) Disposals of controlled entities

On 8 February 2012, the Group disposed of its wholly-owned subsidiary Boston L.H.F. Pty Ltd for $2 million, resulting in a gain on sale of $1 million.

There were no disposals of controlled entities during 2011.

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26. Investment in an Associate

Company	Country	Principal activity	Ownership interest 2012 %	Ownership interest 2011 %	2012 $million	2011 $million
Eastern Star Gas Limited	Australia	Oil and gas	100	100	–	–

In 2011 Santos obtained control of Eastern Star Gas Limited ("ESG") through the acquisition of the remaining 79.03% of ESG's outstanding ordinary shares via a Scheme of Arrangement. As a result, the Group's equity interest in ESG increased from 20.97% to 100% (refer note 25).

Movement in the carrying amount of the Group's investment in an associate		
Balance at 1 January	–	208
Share of net losses, after tax	–	(9)
Fair value adjustment for step-up acquisition from associate to subsidiary	–	(6)
Consideration for step-up acquisition from associate to subsidiary	–	(193)
Balance at 31 December	–	–
The Group's share of the associate's income statement		
Revenue	–	1
Net loss after tax	–	(9)

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27. Interests in Joint Ventures

(a) Joint Venture Assets

The following are the significant joint ventures assets in which the Group is a joint venturer:

Joint venture	Cash-generating unit	Principal activities	Interest 2012 %	Interest 2011 %
Oil and gas assets – Producing assets				
Bayu-Undan	Bayu-Undan	Gas and liquids production	11.5	11.5
Casino	Casino	Gas production	50.0	50.0
Chim Sao	Vietnam (Block 12)	Oil and gas production	31.9	31.9
Fairview	GLNG	Gas production	22.8	22.8
Halyard/Spar	Varanus Island	Gas production	45.0	45.0
John Brookes	Varanus Island	Gas production	45.0	45.0
Madura Offshore PSC (Maleo)	Madura PSC	Gas production	67.5	67.5
Mutineer-Exeter[1]	Mutineer-Exeter	Oil production	41.6	33.4
Reindeer	Reindeer	Gas production	45.0	45.0
Roma	GLNG	Gas production	30.0	30.0
SA Fixed Factor Area	Cooper Basin	Oil and gas production	66.6	66.6
Sampang PSC (Oyong, Wortel)	Sampang PSC	Oil and gas production	45.0	45.0
Stag	Stag	Oil and gas production	66.7	66.7
SWQ Unit	Cooper Basin	Gas production	60.1	60.1
Oil and gas assets – Assets in development				
GLNG Downstream	GLNG	LNG facilities in development	30.0	30.0
Kipper	Kipper	Gas development	35.0	35.0
PNG LNG	PNG LNG	Gas and liquids development	13.5	13.5
Exploration and evaluation assets				
Caldita/Barossa	–	Contingent gas resource	25.0	40.0
Petrel, Tern & Frigate	–	Gas development	40.0	40.0
PEL1 and 12	–	Contingent gas resource	65.0	65.0
PEL238 and PAL2	–	Contingent gas resource	80.0	80.0
PEL238 and PAL2	–	Contingent gas resource	69.2	69.2

1. Acquired additional interest in December 2012, subject to customary approvals.

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27. Interests in Joint Ventures

(b) Jointly Controlled Entities

The Group recognises its interests in the following jointly controlled entities using the proportionate consolidation method of accounting:

Joint venture entity	**Interest 2012 %**	Interest 2011 %
CJSC KNG Hydrocarbons	54.0	54.0
Darwin LNG Pty Ltd	11.5	11.5
Easternwell Drilling Services Holdings Pty Ltd	50.0	50.0
GLNG Operations Pty Ltd	30.0	30.0
GLNG Property Pty Ltd	30.0	30.0
Lohengrin Pty Ltd	50.0	50.0
Papua New Guinea Liquefied Natural Gas Global Company LDC	13.5	13.5

The Group's share of the assets, liabilities, income and expenses of the jointly controlled entities, which are included in the consolidated financial statements using the proportionate consolidation method of accounting, are as follows:

	2012 $million	2011 $million
Current assets	824	570
Non-current assets	1,287	822
Total assets	2,111	1,392
Current liabilities	782	507
Non-current liabilities	1,189	713
Net assets	140	172
Revenue	375	362
Expenses	(379)	(326)
(Loss)/profit before income tax	(4)	36

(c) Joint Venture Commitments

The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:

Capital expenditure commitments	2,968	4,458
Minimum exploration commitments	139	126

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28. Notes to the Statement of Cash Flows	2012 $million	2011 $million
(a) Reconciliation of cash flows from operating activities		
Profit after income tax	518	751
Add/(deduct) non-cash items:		
Depreciation and depletion	773	641
Exploration and evaluation expensed	41	58
Net impairment loss on exploration and evaluation assets	5	13
Net impairment loss on oil and gas assets	101	118
Net impairment loss on other land, buildings, plant and equipment	–	1
Net reversal of impairment loss on receivables	–	(9)
Net (gains)/losses on fair value hedges	(8)	13
Share-based payment expense	15	13
Unwind of the effect of discounting on provisions	45	43
Change in fair value of financial assets designated as at fair value through profit or loss	1	(8)
Defined benefit plan expense	3	2
Foreign exchange losses/(gains)	2	(18)
Net gain on sale of exploration and evaluation assets	–	(200)
Net gain on sale of oil and gas assets	(11)	(329)
Net gain on sale of controlled entities	(1)	–
Net loss on sale of available-for-sale financial assets	1	–
Fair value adjustment for step-up acquisition from associate to subsidiary	–	6
Share of net loss in an associate	–	9
Amortisation of prepaid loan transaction costs	6	3
Net cash provided by operating activities before changes in assets or liabilities	1,491	1,107
Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
Decrease in trade and other receivables	10	60
Increase in inventories	(38)	(17)
Increase in other assets	(51)	(49)
Increase in net deferred tax liabilities	57	52
Increase in current tax liabilities	154	126
Decrease in trade and other payables	(15)	(46)
Increase in provisions	50	20
Net cash provided by operating activities	1,658	1,253
(b) Non-cash financing and investing activities		
Santos Dividend Reinvestment Plan	126	108
Consideration for acquisition of Eastern Star Gas Ltd	–	687
(c) Total taxation paid		
Income taxes paid		
Cash outflow from operating activities	(24)	(200)
Cash outflow from investing activities	(124)	(248)
Royalty-related taxation paid		
Cash outflow from operating activities	(142)	(157)
	(290)	(605)
(d) Total borrowing costs paid		
Cash outflow from operating activities	(19)	(81)
Cash outflow from investing activities	(175)	(132)
	(194)	(213)

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29. Employee Benefits

(a) Defined benefit plan

Defined benefit members of the Santos Superannuation Plan receive a lump sum benefit on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation-only benefits.

	2012 $million	2011 $million
Amount recognised in the statement of financial position		
Deficit in plan recognised in non-current provisions (refer note 18)	40	50
Non-current receivables	(16)	(23)
	24	27
Movements in the liability for net defined benefit obligations recognised in the statements of financial position		
Liability at 1 January	27	22
Expense recognised in income statement	3	2
Amount capitalised in oil and gas assets	2	1
Amount recognised in retained earnings	(2)	14
Employer contributions	(6)	(12)
Liability at 31 December	24	27
Expense recognised in the income statement		
Service cost	4	2
Interest cost	5	3
Expected return on plan assets	(6)	(3)
	3	2
The expense is recognised in the following line item in the income statement:		
Cost of sales	3	2
Amounts recognised in other comprehensive income		
Actuarial gain/(loss) in the year	2	(14)
Tax effect	(1)	4
Net actuarial gain/(loss) in the year	1	(10)
Cumulative actuarial loss recognised in other comprehensive income, net of tax	(22)	(23)

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29. Employee Benefits (continued)	**2012 $million**	2011 $million	2010 $million	2009 $million	2008 $million
(a) Defined benefit plan (continued)					
Historical information for the current and previous periods					
Present value of defined benefit obligations	190	192	173	170	175
Fair value of plan assets	(150)	(142)	(141)	(136)	(113)
Deficit in plan	40	50	32	34	62
Experience adjustments (gain)/loss on plan assets	(6)	12	5	(9)	43
Experience adjustments gain on plan liabilities	–	(2)	(3)	(7)	(14)

	2012 $million	2011 $million
Reconciliation of the fair value of plan assets		
Opening fair value of plan assets	142	141
Expected return on plan assets	10	10
Actuarial gain/(loss)	6	(12)
Employer contributions	9	12
Contributions by plan participants	4	5
Benefits paid	(19)	(11)
Taxes and premiums paid	(2)	(4)
Transfers in	–	1
Closing fair value of plan assets	150	142
Reconciliation of the present value of the defined benefit obligations		
Opening defined benefit obligations	192	173
Service cost	8	7
Interest cost	7	9
Contribution by plan participants	4	5
Actuarial loss	–	13
Benefits paid	(19)	(11)
Taxes and premiums paid	(2)	(4)
Closing defined benefit obligations	190	192

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29. Employee Benefits (continued)	2012 %	2011 %
(a) Defined benefit plan (continued)		
Plan assets		
The percentage invested in each asset class at the reporting date:		
Australian equity	26	28
International equity	29	29
Fixed income	19	12
Property	14	10
Other	5	13
Cash	7	8

Fair value of plan assets

The fair value of plan assets includes no amounts relating to:

- any of the Group's own financial instruments; or
- any property occupied by, or other assets used by, the Group.

	2012 $million	2011 $million
Actual return on plan assets		
Actual return on plan assets – gain/(loss)	10	(1)

Expected rate of return on plan assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for asset-based administration expenses has been deducted from the expected return.

Principal actuarial assumptions at the reporting date (expressed as weighted average)

	2012 % p.a.	2011 % p.a.
Discount rate	2.6	3.4
Expected rate of return on plan assets	nil	7.3
Expected average salary increase rate over the life of the plan	5.0	6.0

The expected rate of return on plan assets includes a reduction to allow for the administrative expenses of the plan.

Expected contributions

The Group expects to contribute $5 million to the defined benefit superannuation plan in 2013.

(b) Defined contribution plans

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $11 million (2011: $8 million).

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30. Share-based Payment Plans

(a) Current general employee share plans

The Company operated two general employee share plans in 2012:

- Share1000, governed by the Santos Employee Share Acquisition Plan rules ("Share1000 Plan"); and
- ShareMatch, governed by the ShareMatch Plan rules ("ShareMatch Plan").

Broadly, the Share1000 Plan and the ShareMatch Plan provide for Australian-resident permanent eligible employees to be entitled to acquire shares under the plans. Eligible employees have the option to participate in either the Share1000 Plan or the ShareMatch Plan. Members of the Santos Leadership Team, Directors of the Company, casual employees, employees on fixed-term contracts and employees on international assignment are excluded from participating in the Share1000 Plan and the ShareMatch Plan.

Share1000 Plan

The Share1000 Plan was introduced in 2010 with the first issue of shares pursuant to the plan being made in 2011. The Share1000 Plan provides for grants of fully paid ordinary shares up to a value determined by the Board, being $1,000 per annum per eligible employee. A trustee funded by the Group acquires the shares directly from the Company. The trustee holds the shares on behalf of the participants in the plan until the shares are no longer subject to restrictions.

The employee's ownership of shares allocated under the Share1000 Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the three-year restriction period and the time when he or she ceases to be an employee. During the restriction period, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

The following shares were issued pursuant to the Share1000 Plan during the period:

Date	Issued shares Number	Fair value per share $
2012		
4 January 2012	6,400	12.4090
2 July 2012	135,608	10.7600
	142,008	
2011		
4 January 2011	82,200	13.1974
4 July 2011	89,550	13.3026
	171,750	

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the Australian Securities Exchange ("ASX") during the week up to and including the date of issue of the shares.

The amounts recognised in the financial statements of the Group in relation to the Share1000 Plan during the year were:

	2012 $000	2011 $000
Employee expenses	1,539	2,275
Issued ordinary share capital	1,539	2,275

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30. Share-based Payment Plans (continued)

(a) Current general employee share plans (continued)

ShareMatch Plan

The ShareMatch Plan was also introduced in 2010 as an alternative to the Share1000 Plan with the first issue of shares pursuant to the plan being made in 2011. The ShareMatch Plan provides an opportunity for eligible employees to purchase shares through salary sacrifice, up to a maximum value of $5,000, and to receive a matched Share Acquisition Right ("SAR") at a ratio set by the Board and with vesting subject to conditions of service. The salary sacrifice deductions are made over a maximum twelve-month period. In 2011 and 2012, the ratio was one matched SAR for each share purchased.

The employee's ownership of shares allocated under the ShareMatch Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period (which will be approximately three, five or seven years from the date of the offer, depending on any election made by the employee) and the time when he or she ceases to be an employee. During the restriction period, participants are entitled to receive dividends, participate in bonus and rights issues and exercise voting rights.

The following shares were issued pursuant to the ShareMatch Plan during the period:

Date	Issued shares Number	Fair value per share $
2012		
4 January 2012	39,248	12.4090
2 July 2012	452,608	10.7600
	491,856	
2011		
4 January 2011	307,401	13.1974
4 July 2011	332,019	13.3026
	639,420	

The following shares were issued in one tranche and subsequently forfeited and reallocated in a new tranche:

Number of shares	Original tranche	Re-allocated tranche
982	4 July 2011	4 January 2012
500	4 July 2011	2 July 2012
378	4 January 2011	2 July 2012

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the ASX during the week up to and including the date of issue of the shares.

During the year the Company issued $5 million (2011: $8 million) of share capital under the ShareMatch plan. Cash of $5 million (2011: $6 million) was received from employees under loan arrangements. The movement in loans receivable from employees during the year was:

	2012 $000	2011 $000
Employee loans at 1 January	2,215	–
Ordinary share capital issued during the year	5,379	8,478
Cash received during the year	(5,155)	(6,263)
Employee loans at 31 December	2,439	2,215

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30. Share-based Payment Plans (continued)

(a) Current general employee share plans (continued)

During the financial year, the Company granted 493,716 (2011: 639,779) matched SARs to eligible employees as set out below. Shares allocated to an employee upon the vesting of matched SARs will be subject to restrictions on dealing until the same restriction date as that which applies to the shares allocated under the ShareMatch Plan (effectively a maximum four-year restriction period from the date the shares are allocated following vesting of the matched SARs). No amount is payable on grant or vesting of the matched SARs.

Grant	Year of grant	End of vesting period	Beginning of the year Number	Granted during the year Number	Lapsed Number	Vested Number	End of the year Number
2012							
R07 – R09	2012	3 July 2014	–	40,230	(402)	–	39,828
R10 – R12	2012	1 July 2015	–	453,486	(4,202)	(3,251)	446,033
R01 – R03	2011	3 July 2013	297,748	–	(12,648)	(8,883)	276,217
R04 – R06	2011	3 July 2014	326,589	–	(14,594)	(6,187)	305,808
Total			624,337	493,716	(31,846)	(18,321)	1,067,886
2011							
RO1 – RO3	2011	3 July 2013	–	307,401	(8,141)	(1,512)	297,748
RO4 – RO6	2011	3 July 2014	–	332,378	(5,414)	(375)	326,589
Total			–	639,779	(13,555)	(1,887)	624,337

The fair value of services received in return for matched SARs granted is measured by reference to the fair value of matched SARs granted. The estimate of the fair value of the services received is measured by discounting the share price on the grant date using the assumed dividend yield for the term of the matched SAR.

	2012	
Matched SARs grant	R07 – R09	R010 – R012
Fair value at grant date ($)	11.93	10.06
Share price on grant date ($)	12.65	10.91
Exercise price ($)	–	–
Right life (weighted average, years)	2.5	3.0
Expected dividends (% p.a.)	2.4	2.8

	2011	
Matched SARs grant	R01 – R03	R04 – R06
Fair value at grant date ($)	12.47	12.61
Share price on grant date ($)	13.19	13.47
Exercise price ($)	–	–
Right life (weighted average, years)	2.5	3.0
Expected dividends (% p.a.)	2.3	2.2

The amounts recognised in the financial statements of the Group during the financial year in relation to matched SARs issued under the ShareMatch Plan were:

	2012 $000	2011 $000
Employee expenses	3,651	2,196
Retained earnings	3,651	2,196

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30. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme

The Company's Executive Long-term Incentive ("LTI") Programme provides for invitations to be extended to eligible executives selected by the Board. The Programme is governed by the Santos Employee Equity Incentive Plan (formerly known as the Employee Share Purchase Plan) rules in respect of offers of SARs and the Santos Executive Share Option Plan rules in respect of offers of options.

The Santos Executive Share Option Plan rules have been in force since 1997, however no new issues of options have been made under the plan since 2009. The Santos Employee Share Purchase Plan rules have been used as a basis of executive compensation since 2003 and were amended and renamed the Santos Employee Equity Incentive Plan in 2012. Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance or service conditions, on terms and conditions determined by the Board. The Board has the discretion to cash-settle SARs granted under the amended Santos Employee Equity Incentive Plan.

SARs and options carry no voting or dividend rights until the performance or service conditions are satisfied and, in the case of options, when the options are exercised or, in the case of SARs, when the SARs vest and are converted into shares.

Upon cessation of employment, unvested SARs and options will in general lapse and be forfeited. However, if cessation occurs due to death, disability or redundancy, or in other circumstances approved by the Board, then a proportion of the unvested SARs or options may remain on foot (i.e. remain in the plan and not lapse) or vest (and in the case of options become exercisable).

Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.

The 2011 and 2012 LTI Programme offers consisted only of SARs. Eligible executives were granted both Performance Awards and Deferred Awards in 2011 but deferred awards were then discontinued as part of the regular LTI Programme and none were granted in 2012. Performance Awards only were granted to eligible executives in 2012.

Vesting of Performance Awards

All Performance Awards are subject to hurdles based on the Company's Total Shareholder Return ("TSR") relative to the ASX 100 over a three-year performance period to the end of the vesting period. There is no retesting of performance conditions. Each tranche of the Performance Awards vest in accordance with the following vesting schedule, relative to the TSR condition:

TSR percentile ranking	Grants I4 – I6, J1 – J6 % of grant vesting	Grants F3 – F5 % of grant vesting
< 50th percentile	–	–
= 50th percentile	50	37.5
51st to 75th percentile	Further 2.0% for each percentile	Further 1.5% for each percentile
>= 75th percentile	100	Further 1.0% for each percentile over 75th

TSR percentile ranking	All other grants % of grant vesting
< 50th percentile	–
= 50th percentile	33.33%
51st to 100th percentile	Further 1.33% for each percentile

Vesting of Deferred Awards

Each tranche of the Deferred Awards vests based on continuous service to the vesting date.

During the financial year, the Company granted 1,558,946 (2011: 1,012,010) SARs under the LTI Programme to eligible executives as set out below. Shares allocated on vesting of SARs granted in 2011 and 2012 may be subject to further restrictions on dealing for five or seven years after the original grant date, depending on whether the executive elected to extend the trading restrictions period beyond the vesting date. Shares allocated on the vesting of SARs that were granted prior to 2012 will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

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30. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Grant	Year of grant	End of Vesting period	Beginning of the year Number	Granted during the year Number	Lapsed Number	Vested Number	End of the year Number
2012							
Performance							
J1 – J3	2012	31 Dec 2014	–	1,365,011	(133,073)	–	1,231,938
J4 – J6	2012	31 Dec 2014	–	193,935	–	–	193,935
I1 – I3	2011	31 Dec 2013	544,186	–	(66,325)	(1,218)	476,643
I4 – I6	2011	31 Dec 2013	157,232	–	–	–	157,232
H4	2010	31 Aug 2013	40,000	–	–	–	40,000
H1	2010	31 Dec 2012	481,998	–	(84,502)	–	397,496
G1	2009	31 Dec 2011	255,279	–	(255,279)	–	–
F5	2008	31 Dec 2012	50,403	–	–	–	50,403
F4	2008	31 Dec 2011	50,403	–	(50,403)	–	–
Deferred							
DI1 – DI3	2011	28 Feb 2014	259,310	–	(27,219)	(7,820)	224,271
H6	2010	7 Nov 2012	15,000	–	–	(15,000)	–
H2	2010	1 Mar 2013	249,284	–	(29,490)	(13,477)	206,317
G3	2009	1 Mar 2012	82,671	–	(945)	(81,726)	–
G2	2009	1 Mar 2012	132,285	–	(1,839)	(130,446)	–
			2,318,051	1,558,946	(649,075)	(249,687)	2,978,235
2011							
Performance							
I1 – I3	2011	31 Dec 2013	–	577,721	(33,535)	–	544,186
I4 – I6	2011	31 Dec 2013	–	157,232	–	–	157,232
H7	2010	31 Dec 2012	10,000	–	(10,000)	–	–
H4	2010	31 Aug 2013	40,000	–	–	–	40,000
H3	2010	31 Dec 2012	10,000	–	(10,000)	–	–
H1	2010	31 Dec 2012	590,942	–	(101,434)	(7,510)	481,998
G1	2009	31 Dec 2011	378,491	–	(88,549)	(34,663)	255,279
F5	2008	31 Dec 2012	50,403	–	–	–	50,403
F4	2008	31 Dec 2011	50,403	–	–	–	50,403
F3	2008	31 Dec 2010	35,973	–	(4,676)	(31,297)	–
F1	2008	31 Dec 2010	124,305	–	(21,545)	(102,760)	–
Deferred							
DI1 – DI3	2011	28 Feb 2014	–	277,057	(17,747)	–	259,310
H6	2010	7 Nov 2012	15,000	–	–	–	15,000
H5	2010	7 Nov 2011	15,000	–	–	(15,000)	–
H2	2010	1 Mar 2013	290,964	–	(36,629)	(5,051)	249,284
G3	2009	1 Mar 2012	114,377	–	(31,706)	–	82,671
G2	2009	1 Mar 2012	159,155	–	(18,020)	(8,850)	132,285
F2	2008	2 May 2011	67,883	–	(3,308)	(64,575)	–
			1,952,896	1,012,010	(377,149)	(269,706)	2,318,051

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30. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

The Company has not granted options over unissued shares under the Executive Long-term Incentive Programme since 2009. The information as set out below relates to options issued under the Executive Long-term Incentive Programme in 2009 and earlier:

Grant	Year of grant	End of vesting period	Beginning of the year Number	Lapsed Number	Exercised Number	End of the year Number	Exercisable at end of the year Number
2012							
Performance							
G1	2009	31 Dec 2011	176,125	(176,125)	–	–	–
F5	2008	31 Dec 2012	131,976	–	–	131,976	–
F4	2008	31 Dec 2011	131,976	(131,976)	–	–	–
Deferred							
G2	2009	1 Mar 2012	54,621	–	–	54,621	54,621
Vested in prior years			4,108,376	–	–	4,108,376	4,108,376
			4,603,074	(308,101)	–	4,294,973	4,162,997
Weighted average exercise price ($)			12.69	15.90	N/A	12.46	12.31
2011							
Performance							
G1	2009	31 Dec 2011	197,959	(21,834)	–	176,125	–
F5	2008	31 Dec 2012	131,976	–	–	131,976	–
F4	2008	31 Dec 2011	131,976	–	–	131,976	–
F3	2008	31 Dec 2010	94,193	(12,245)	–	81,948	81,948
F1	2008	31 Dec 2011	620,445	(137,097)	–	483,348	483,348
Deferred							
G2	2009	1 Mar 2012	65,717	(8,528)	(2,568)	54,621	–
F2	2008	1 May 2011	271,694	(22,064)	–	249,630	249,630
Vested in prior years			3,381,350	(24,800)	(63,100)	3,293,450	3,293,450
			4,895,310	(226,568)	(65,668)	4,603,074	4,108,376
Weighted average exercise price ($)			12.79	15.28	10.65	12.69	12.28

The options outstanding at 31 December 2012 have an exercise price in the range of $8.46 to $17.36, and a weighted average remaining contractual life of 3.95 years (2011: 5.1 years).

During the year nil (2011: 65,668) options were exercised.

The fair value of shares issued as a result of exercising options is the market price of shares of the Company on the ASX as at close of trading on their issue date.

The amounts recognised in the financial statements of the Group in relation to executive share options exercised during the financial year were:

	2012 $000	2011 $000
Issued ordinary share capital	–	699

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30. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Valuation of SARs – Performance Awards

The fair value of services received in return for SARs granted is measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received for the Performance Awards are measured based on a Monte Carlo simulation method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into a Monte Carlo simulation method. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

The following table includes the valuation assumptions used for Performance Awards SARs granted during the current and prior years:

	2012		2011	
Performance Awards	J1 – J3	J4 – J6	I1 – I3	I4 – I6
Fair value at grant date ($)	9.97	10.45	10.23	12.08
Share price on grant date ($)	14.08	14.08	16.28	16.28
Exercise price ($)	–	–	–	–
Expected volatility (weighted average, % p.a.)	29.8	30.1	46.6	46.6
Right life (weighted average, years)	3.0	3.0	3.0	3.0
Expected dividends (% p.a.)	2.1	2.1	2.3	2.3
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	3.3	3.7	5.1	5.1

Valuation of SARs – Deferred Awards

The estimate of the fair value of the services received for the Deferred Awards are measured by discounting the share price on the grant date using the assumed dividend yield for the term of the SAR.

The following table includes the valuation assumptions used for Deferred Awards SARs granted during 2011. No Deferred Awards SARs were granted during 2012.

	2011
Deferred Awards	DI1 – DI3
Fair value at grant date ($)	15.25
Share price on grant date ($)	16.28
Exercise price ($)	–
Right life (weighted average, years)	3.0
Expected dividends (% p.a.)	2.3

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30. Share-based Payment Plans (continued)

(b) Executive Long-term Incentive Programme (continued)

Financial statement effect

The amounts recognised in the financial statements of the Group during the financial year in relation to equity-settled share-based payment grants issued under the LTI Programme were:

	2012 $000	2011 $000
Employee expenses:		
SARs	8,983	8,011
Options	20	861
Total employee expenses	9,003	8,872
Retained earnings	9,003	8,872

Cash-settled share-based payments

As a result of the 2009 Entitlement Offer, issued at a 26.9% discount to the closing price of the shares before the announcement of the Entitlement Offer, the Board determined that for every unvested SAR and option as at the time of the Entitlement Offer, eligible senior executives would be entitled to a payment of $1.31 per SAR and option if and when those applicable SARs and options are converted to shares.

The amounts recognised in the financial statements of the Group during the financial year in relation to cash-settled share-based payment grants issued under the LTI Programme were:

	2012 $000	2011 $000
Balance of liability at 1 January	2,051	2,112
Employee expenses	49	367
Revaluation	(129)	(107)
Cash payments	(278)	(321)
Balance of liability at 31 December	1,693	2,051
Intrinsic value of vested liability	1,604	1,543

(c) Santos Eastern Star Gas Limited Employee Incentive Plan

Santos acquired Eastern Star Gas Limited ("ESG") in 2011. Under the ESG employee incentive plan, eligible ESG employees were granted shares in ESG with interest-free loans extended for terms of up to five years. The shares issued ranked equally with other issued ordinary shares and were not quoted on the ASX as they were subject to trading restrictions while there were loans outstanding ("ESG Plan Shares").

As part of the acquisition of ESG, Santos issued Santos ESG Plan Shares in respect of the ESG Plan Shares for the same consideration as ordinary ESG shares (i.e. 0.06881 Santos shares for each unquoted ESG Plan Share). These Santos ESG Plan Shares are subject to the same terms and conditions as the ESG Plan Shares including trading restrictions until repayment of the loan balance and are not quoted on the ASX while there are loans outstanding. Should the employees not repay the interest-free loans during the term period, they forfeit the shares, which will then be sold on-market. The loans therefore have not been recognised as receivables. Employees are entitled to dividends on these shares while the interest-free loans are outstanding.

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30. Share-based Payment Plans (continued)

(c) Santos Eastern Star Gas Limited Employee Incentive Plan (continued)

Financial statement effect

On 17 November 2011, 2,002,362 shares were granted to eligible ESG employees at a weighted average exercise price of $7.82. No further shares have been issued under this plan.

In the period from 17 November 2011 to 31 December 2011, employee loans in respect of 1,061,634 shares were repaid at a weighted average exercise price of $7.40, resulting in trading restrictions being lifted on those shares and an increase in the Company's share capital. During 2012 a total of $5 million employee loans were repaid (2011: $10 million). At 31 December 2012, loans were still outstanding in respect of 223,628 (2011: 940,728) shares at a weighted average exercise price of $11.37 (2011: $8.28). The weighted average remaining contractual life for the outstanding employee loans in respect of these shares is 2.2 years (2011: 1.2 years). The range of exercise prices for shares outstanding at the end of the year was $9.01 to $15.26 (2011: $4.65 to $15.26).

Valuation of Santos ESG Plan Shares

The fair value of services received in return for shares and interest-free loans granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the services received for these shares and interest-free loans are measured based on a Monte Carlo simulation method. The contractual life of the interest-free loan is used as an input into this model. Expectations of early exercise are incorporated into a Monte Carlo simulation method. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility based on publicly available information.

The following table includes the valuation assumptions used for shares and interest-free loans granted as part of the ESG acquisition:

Santos ESG Plan Shares	2011
Grant date	28 Oct 2011
Share price on grant date ($)	13.20
Expected volatility (weighted average, % p.a.)	41.0
Expected dividends (% p.a.)	2.7
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	3.9 – 4.3

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30. Share-based Payment Plans (continued)

(d) 2012-2015 Four-year Strategy Grant

During the financial year the Company granted 205,339 (2011: nil) SARs to the CEO under the Santos Employee Equity Incentive Plan ("SEEIP"), referred to as the 2012-2015 four-year strategy grant. The issue of SARs under this arrangement was approved by Shareholders at the 2012 Annual General Meeting.

As described more fully in the Notice of Meeting to the 2012 AGM, the award is split into five equal tranches with separate performance targets that relate to:

- GLNG Start-Up – loading of first LNG cargo on or before 30 June 2015;
- GLNG Cost – project cost within or under budget;
- Production Growth – targeting 77 mmboe or more by 31 December 2015;
- Reserves Growth – targeting 2P reserve/production cover of 18 years or more at 31 December 2015; and
- Operations Integrity – maintaining an annual score of 90% or more against various environmental health and safety metrics while ensuring no High Impact or Critical Environment incidents occur over the 2012-2015 period.

The SARs have been granted at no cost, and no amount is payable on vesting of the SARs if the performance conditions are met. Each SAR entitles the CEO to one fully paid ordinary share which will rank equally with shares in the same class or, at the discretion of the Board, cash to the same value. Performance testing will occur in 2016.

The SARs carry no voting or dividend rights unless and until they vest and are converted into shares.

Valuation of SARs

The estimate of the fair value of the services received for the award is measured by discounting the share price on the grant date using the assumed dividend yield for the term of the SARs.

The following table includes the valuation assumptions used for 2012-2015 four-year strategy grant granted during the current year:

2012-2015 four-year strategy grant	2012
Fair value at grant date ($)	10.57
Share price on grant date ($)	11.57
Exercise price ($)	–
Right life (weighted average, years)	3.5
Expected dividends (% p.a.)	2.59

The amounts recognised in the financial statements of the Group during the financial year in relation to the 2012-2015 four year Strategy Grant were:

	2012 $000	2011 $000
Employee expenses	375	–
Retained earnings	375	–

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30. Share-based Payment Plans (continued)

(e) Legacy Plan – general employees

SESAP

The SESAP, governed by the Santos Employee Share Acquisition Plan Rules ("SESAP Rules"), was replaced by the Share1000 Plan (also governed by the SESAP Rules) and the ShareMatch Plan in 2010. No shares have been issued pursuant to the SESAP since 2009.

The SESAP enabled permanent eligible employees with at least one year of completed service to acquire shares under the plan. Senior Executives who reported directly to the CEO and Managing Director, participants in the LTI Programme, casual employees and Directors of the Company were excluded from participating in this plan. Employees were not eligible to participate under the plan while they were resident overseas unless the Board decided otherwise.

The SESAP provided for the grants of fully paid ordinary shares up to a value of $1,000 per annum per eligible employee. A trustee funded by the Group acquired shares directly from the Company. The trustee held the shares on behalf of the participants in the plan until the shares were no longer subject to restrictions. Current restrictions on remaining shares held in trust for SESAP ended in 2012.

The employee's ownership of shares allocated under the SESAP, and his or her right to deal with them, were subject to restrictions until the earlier of the expiration of the restriction period determined by the Board (being three years) and the time when he or she ceases to be an employee. During the restriction period, participants were entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights. At the end of the restriction period, shares were transferred to eligible employees at no cost to the employee.

At 31 December 2012, the total number of shares acquired under the plan since its commencement was 2,408,566.

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30. Share-based Payment Plans (continued)

(f) Legacy Plan – executives

Santos Executive Share Plan

The Santos Executive Share Plan ("SESP") operated between 1987 and 1997, when it was discontinued. Under the terms of the SESP, shares were issued as partly paid to one cent. While partly paid, the plan shares are not transferable, carry no voting right and no entitlement to dividend but are entitled to participate in any bonus or rights issue. After a "vesting" period, calls could be made for the balance of the issue price of the shares, which varied between $2.00 and the market price of the shares on the date of the call being made. Shares were issued principally on: 22 December 1987; 7 February and 5 December 1989; and 24 December 1990.

At the beginning of the financial year there were 83,000 SESP shares on issue. During the financial year, 28,500 (2011: nil) SESP shares were fully paid and $87,690 (2011: nil) was received by the Company. During 2011, no SESP shares converted to ordinary shares. As at 31 December 2012 there were 54,500 (2011: 83,000) plan shares outstanding.

Santos Executive Share Purchase Plan

The Santos Executive Share Purchase Plan ("SESEP") operated in 2003 and 2004, governed by the executive long-term component of the Santos Employee Share Purchase Plan rules. No shares have been issued under the SESEP since 2004. At 31 December 2012, the total number of shares acquired under SESEP since its commencement was 220,912.

The shares allocated pursuant to the SESEP were allotted to a trustee at no cost to participants, to be held on their behalf.

In general, the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board, in its discretion, could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. At 31 December 2012, 30,430 shares (2011: 35,725) remain on trust until December 2013 or July 2014, applicable to the 2003 and 2004 grants respectively. During this time, the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. During the period the shares are held on trust, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

(g) Non-executive Director Share Plan

In accordance with shareholder approval given at the 2007 Annual General Meeting, the Non-executive Director ("NED") Share Plan was introduced in July 2007. In 2010 and earlier years, Directors who participated in the NED Share Plan elected to sacrifice all or part of their fees in return for an allocation of fully paid ordinary shares of equivalent value. The NED Share Plan therefore did not involve any additional remuneration for participating Directors.

Shares were allocated quarterly and were either issued as new shares or purchased on the ASX at the prevailing market price. The shares are registered in the name of the participating Director, but are subject to a restriction on dealing. In the absence of exceptional circumstances, the restriction will apply until the Director ceases to hold office or until ten years have elapsed since the allocation of the shares, whichever is earlier.

The NED Share Plan was suspended in 2011 and closed in 2012. Accordingly, no Non-executive Directors participated in the NED Share Plan in 2012 or 2011 and no shares were allocated under the plan in those years. A total of 72,137 shares were allocated to NEDs during the life of the NED Share Plan, of which as at 31 December 2012, 46,279 (2011: 46,279) are still subject to restrictions, for periods up to 2020.

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30. Share-based Payment Plans (continued)

(h) Amounts recognised in the financial statements

The amounts recognised in the financial statements of the Group during the financial year in relation to shares issued under employee share plans are as follows:

	Note	2012 $000	2011 $000
Statement of financial position:			
Current general employee share plans – ShareMatch Plan	30(a)	5,379	8,478
Executive long-term incentive programme:			
Share options	30(b)	–	699
Cash-settled	30(b)	80	(260)
Acquisition of Eastern Star Gas Limited	30(c)	–	13,767
		5,459	22,684
Issued capital:			
Current general employee share plans:			
Share1000 Plan	30(a)	1,539	2,275
ShareMatch Plan	30(a)	5,379	8,478
Executive long-term incentive programme – share options	30(b)	–	699
		6,918	11,452
Retained earnings:			
Current general employee share plans – matched SARs	30(a)	3,651	2,196
Executive long-term incentive programme – equity-settled	30(b)	9,003	8,872
Acquisition of Eastern Star Gas Limited	30(c)	–	13,767
CEO four-year strategy grant	30(d)	375	–
		13,029	24,835
Employee expenses:			
Current general employee share plans:			
Share1000 Plan	30(a)	(1,539)	(2,275)
Matched SARs	30(a)	(3,651)	(2,196)
Executive long-term incentive programme:			
Equity-settled	30(b)	(9,003)	(8,872)
CEO four-year strategy grant	30(d)	(375)	–
Cash-settled	30(b)	80	(260)
		(14,488)	(13,603)
		5,459	22,684

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31. Key Management Personnel Disclosures

(a) Key management personnel compensation

	2012 $000	2011 $000
Short-term employee benefits	11,210	10,547
Post-employment benefits	211	234
Other long-term benefits	163	223
Share-based payments	3,772	2,521
	15,356	13,525

(b) Loans to key management personnel

There have been no loans made, guaranteed or secured, directly or indirectly, by the Group or any of its subsidiaries at any time throughout the year to any key management person, including their related parties.

31. Key Management Personnel Disclosures (continued)

(c) Equity holdings of key management personnel

Options and SARs holdings

The movement during the reporting period in the number of options and SARs over ordinary shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Balance at beginning of the year	Granted [1]	Options exercised/ rights vested [2]	Other changes [3]	Sold/ transferred	Balance at end of the year [4]	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of The year
2012									
Options									
Directors									
Knox, David John Wissler	521,464	–	–	(131,976)	–	389,488	257,512	257,512	–
Executives									
Anderson, John Hugh	117,693	–	–	–	–	117,693	117,693	117,693	–
Baulderstone, James Leslie	86,238	–	–	–	–	86,238	86,238	86,238	–
Brown, Trevor	–	–	–	37,137	–	37,137	37,137	37,137	–
Cleary, Peter John	–	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	71,662	–	–	–	–	71,662	71,662	71,662	–
Macfarlane, Mark Stuart	102,684	–	–	(102,684)	–	–	–	–	–
Seaton, Andrew John	22,213	–	–	–	–	22,213	22,213	22,213	–
Total	921,954	–	–	(197,523)	–	724,431	592,455	592,455	–
SARs									
Directors									
Knox, David John Wissler	258,038	399,274	–	(50,403)	–	606,909	–	–	–
Executives									
Anderson, John Hugh	65,040	40,274	(4,168)	(13,359)	–	87,787	–	–	–
Baulderstone, James Leslie	87,806	42,737	(5,057)	(13,450)	–	112,036	–	–	–
Brown, Trevor	–	–	–	83,275	–	83,275	–	–	–
Cleary, Peter John	44,084	40,843	–	–	–	84,927	–	–	–
Eames, Martyn Edward James	71,473	42,777	(4,471)	(15,744)	–	94,035	–	–	–
Macfarlane, Mark Stuart	84,278	41,447	(4,152)	(121,573)	–	–	–	–	–
Seaton, Andrew John	45,869	44,302	(3,948)	(5,982)	–	80,241	–	–	–
Total	656,588	651,654	(21,796)	(137,236)	–	1,149,210	–	–	–

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31. Key Management Personnel Disclosures (continued)

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

Options and SARs holdings (continued)

1. *SARs granted to executives including the Managing Director on 1 March 2012 for the 2012 LTI Performance Grant and a further Strategy Grant to the Managing Director granted on 3 May 2012 in accordance with shareholder approval on that date.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of SARs.*
3. *Other changes include:*
   - *(i) Options and SARs which did not vest due to non-fulfilment of vesting conditions and were forfeited during the year;*
   - *(ii) Mr TJ Brown held 37,137 options and 83,275 SARs when he was appointed as a key management person on 6 August 2012; and*
   - *(iii) Mr MS Macfarlane ceased to be a key management person on 5 August 2012.*
4. *These balances are unchanged since the end of the financial year.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 30(b).

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31. Key Management Personnel Disclosures (continued)

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

Options and SARs holdings (continued)

The movement during the reporting period in the number of options and SARs over ordinary shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Balance at beginning of the year	Granted [1]	Options exercised/ rights vested [2]	Other changes [3]	Sold/ transferred	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of The year
2011									
Options									
Directors									
Knox, David John Wissler	544,974	–	–	(23,510)	–	521,464	257,512	257,512	–
Executives									
Anderson, John Hugh	123,637	–	–	(5,944)	–	117,693	117,693	117,693	–
Baulderstone, James Leslie	91,678	–	–	(5,440)	–	86,238	86,238	86,238	–
Cleary, Peter John	–	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	78,667	–	–	(7,005)	–	71,662	71,662	71,662	–
Macfarlane, Mark Stuart	–	–	–	102,684	–	102,684	102,684	102,684	–
Seaton, Andrew John	–	–	–	22,213	–	22,213	22,213	22,213	–
Wilkinson, Richard John	–	–	–	–	–	–	–	–	–
Total	838,956	–	–	82,998	–	921,954	658,002	658,002	–
SARs									
Directors									
Knox, David John Wissler	136,779	157,232	(31,297)	(4,676)	–	258,038	–	–	–
Executives									
Anderson, John Hugh	41,087	23,953	–	–	–	65,040	–	–	–
Baulderstone, James Leslie	62,303	25,503	–	–	–	87,806	–	–	–
Cleary, Peter John	20,000	24,084	–	–	–	44,084	–	–	–
Eames, Martyn Edward James	46,458	25,015	–	–	–	71,473	–	–	–
Macfarlane, Mark Stuart	–	–	–	84,278	–	84,278	–	–	–
Seaton, Andrew John	–	22,929	–	22,940	–	45,869	–	–	–
Wilkinson, Richard John	61,874	23,776	(15,751)	(69,899)	–	–	–	–	–
Total	368,501	302,492	(47,048)	32,643	–	656,588	–	–	–

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31. Key Management Personnel Disclosures (continued)

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

Options and SARs holdings (continued)

1. *SARs granted to executives were granted on 1 March 2011.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of SARs.*
3. *Other changes include:*
   - *(i) Options and SARs which did not vest due to non-fulfilment of vesting conditions and were forfeited during the year;*
   - *(ii) Mr MS Macfarlane held 102,684 options and 84,278 SARs when he was appointed as a key management person on 20 May 2011;*
   - *(iii) Mr AJ Seaton held 24,784 options and 22,940 SARs when he was appointed as a key management person on 1 January 2011; 2,661 of these options were subsequently forfeited; and*
   - *(iv) Mr RJ Wilkinson ceased to be a key management person on 3 July 2011.*

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 30(b).

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31. Key Management Personnel Disclosures (continued)

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

Share holdings

The movement during the reporting period in the number of shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Sold	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2012							
Ordinary shares – fully paid							
Directors							
Borda, Kenneth Charles	72,532	–	–	–	1,788	74,320	–
Coates, Peter Roland	31,985	–	4,330	–	789	37,104	–
Dean, Kenneth Alfred	15,956	–	–	–	393	16,349	–
Franklin, Roy Alexander	–	–	3,500	–	47	3,547	–
Goh, Hock[2]	–	–	–	–	–	–	–
Harding, Richard Michael	2,580	–	–	–	63	2,643	–
Hemstritch, Jane Sharman	14,000	–	–	–	–	14,000	–
Knox, David John Wissler	93,749	–	–	–	306	94,055	–
Martin, Gregory John Walton	10,750	–	–	–	–	10,750	–
Executives							
Anderson, John Hugh	53,626	4,168	–	–	–	57,794	–
Baulderstone, James Leslie	24,600	5,057	–	–	–	29,657	–
Brown, Trevor John	–	–	–	–	386,669	386,669	–
Cleary, Peter John	–	–	–	–	–	–	–
Eames, Martyn Edward James	61,780	4,471	–	–	–	66,251	–
Macfarlane, Mark Stuart	38,207	4,152	–	–	(42,359)	–	–
Seaton, Andrew John	16,841	3,948	–	–	56	20,845	–
Total	436,606	21,796	7,830	–	347,752	813,984	–

1. *Other changes include:*
   - *(i) Dividend Reinvestment Plan allocations;*
   - *(ii) Mr TJ Brown held 386,669 shares when he became a key management person on 6 August 2012; and*
   - *(iii) Mr MS Macfarlane ceased to be a key management person on 5 August 2012.*
2. *Mr H Goh was appointed on 22 October 2012.*

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31. Key Management Personnel Disclosures (continued)

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

Share holdings (continued)

The movement during the reporting period in the number of shares of the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Sold	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2011							
Ordinary shares – fully paid							
Directors							
Borda, Kenneth Charles	68,835	–	2,000	–	1,697	72,532	–
Coates, Peter Roland	27,121	–	4,330	–	534	31,985	–
Dean, Kenneth Alfred	15,583	–	–	–	373	15,956	–
Franklin, Roy Alexander	–	–	–	–	–	–	–
Harding, Richard Michael	2,519	–	–	–	61	2,580	–
Hemstritch, Jane Sharman	14,000	–	–	–	–	14,000	–
Knox, David John Wissler	53,664	31,297	8,700	–	88	93,749	–
Martin, Gregory John Walton	10,750	–	–	–	–	10,750	–
Executives							
Anderson, John Hugh	53,626	–	–	–	–	53,626	–
Baulderstone, James Leslie	24,600	–	–	–	–	24,600	–
Cleary, Peter John	1,971	–	–	(1,971)	–	–	–
Eames, Martyn Edward James	61,780	–	–	–	–	61,780	–
Macfarlane, Mark Stuart	–	–	–	–	38,207	38,207	–
Seaton, Andrew John	–	–	–	–	16,841	16,841	–
Wilkinson, Richard John	93,288	15,751	–	–	(109,039)	–	–
Total	427,737	47,048	15,030	(1,971)	(51,238)	436,606	–

1. *Other changes include:*
   - *(i) Dividend Reinvestment Plan allocations;*
   - *(ii) Mr MS Macfarlane held 38,207 shares when he became a key management person on 20 May 2011;*
   - *(iii) Mr AJ Seaton held 16,789 shares when he became a key management person on 1 January 2011. A further 52 shares were acquired through the Dividend Reinvestment Plan; and*
   - *(iv) Mr RJ Wilkinson ceased to be a key management person on 3 July 2011.*

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32. Related Parties

Identity of related parties

Santos Limited and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are conducted on normal terms and conditions.

Details of related party transactions and amounts are set out in:

- note 10 as to amounts owing from other related entities;
- notes 17 and 36 as to Santos Limited's parent company financial guarantees provided for its controlled entities;
- note 24 as to its controlled entities;
- note 26 as to interests in an associate;
- note 27 as to interests in joint ventures; and
- note 31 as to disclosures relating to key management personnel.

33. Remuneration of Auditors

	2012 $000	2011 $000
The auditor of Santos Limited is Ernst & Young.		
(a) Audit and review services		
Amounts received or due and receivable for an audit or review of the financial report of the entity and any other entity in the Group by:		
Ernst & Young (Australia)	1,690	1,600
Overseas network firms of Ernst & Young (Australia)	211	166
Overseas other audit firms	–	8
	1,901	1,774
(b) Other services		
Amounts received or due and receivable for other services in relation to the entity and any other entity in the Group by:		
Ernst & Young (Australia) for other assurance, taxation and other services	582	611
Overseas network firms of Ernst & Young (Australia) for taxation services	57	22
	639	633
	2,540	2,407

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34. Commitments for Expenditure

	2012 $million	2011 $million
The Group has the following commitments for expenditure:		
(a) Capital commitments		
Capital expenditure contracted for at reporting date for which no amounts have been provided in the financial statements, payable:		
Not later than one year	2,248	2,346
Later than one year but not later than five years	822	1,879
Later than five years	82	–
	3,152	4,225
(b) Minimum exploration commitments		
Minimum exploration commitments for which no amounts have been provided in the financial statements or capital commitments, payable:		
Not later than one year	104	69
Later than one year but not later than five years	166	203
Later than five years	–	–
	270	272

The Group has certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure.

These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by the Group.

(c) Operating lease commitments		
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	128	124
Later than one year but not later than five years	282	396
Later than five years	389	421
	799	941

The Group leases floating production, storage and offtake facilities, floating storage offloading facilities, LNG carriers and mobile offshore production units under operating leases. The leases typically run for a period of four to six years, and may have an option to renew after that time.

The Group also leases building office space and a warehouse under operating leases. The leases are generally for a period of ten years, with an option to renew the lease after that date. The lease payments typically increase annually by the Consumer Price Index.

During the year ended 31 December 2012 the Group recognised $85 million (2011: $82 million) as an expense in the income statement in respect of operating leases.

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34. Commitments for Expenditure (continued)	2012 $million	2011 $million
(d) Finance lease commitments		
Finance lease commitments are payable as follows:		
Not later than one year	1	1
Later than one year but not later than five years	1	2
Later than five years	–	–
Total minimum lease payments	2	3

The Group has finance leases for various items of plant and equipment with a carrying amount of $1 million (2011: $2 million). The leases generally have terms of between three to twelve years with no escalation clauses and no option to renew. Title to the assets passes to the Group at the expiration of the relevant lease periods.

(e) Remuneration commitments		
Commitments for the payment of salaries and other remuneration under the long-term employment contracts in existence at the reporting date but not recognised in liabilities, payable:		
Not later than one year	6	6

Amounts included as remuneration commitments include commitments arising from the service contracts of Directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

(f) Commitment on removal of shareholder cap

Pursuant to a Deed of Undertaking to the Premier of South Australia dated 16 October 2007 and as a consequence of the enactment of the *Santos Limited (Deed of Undertaking) Act 2007* on 29 November 2007, Santos has agreed to:

- continue to make payments under its existing Social Responsibility and Community Benefits Programme specified in the deed totalling $60 million over a ten-year period from the date the legislation was enacted. As at 31 December 2012, approximately $26 million (2011: $32 million) remains to be paid over the remainder of the ten-year period through to 29 November 2017.
- continue to maintain the South Australian Cooper Basin asset's Head Office and Operational Headquarters together with other roles in South Australia for ten years subsequent to the date the legislation was enacted. At 31 December 2012, if this condition had not been met, the Company would have been liable to pay approximately $50 million (2011: $60 million) to the State Government of South Australia.

Santos is required to make these payments only if the State Government of South Australia does not reintroduce a shareholder cap on the Company's shares or introduce any other restriction on or in respect of the Company's Board or senior management which have an adverse discriminatory effect in their application to the Company relative to other companies domiciled in South Australia.

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35. Contingent Liabilities

Native title

A number of the Australian interests of the Group are located within areas which are the subject of one or more claims or applications for native title determination. Whatever the outcome of those claims or applications, it is not believed that they will significantly impact the Group's asset base. Compliance with the "future act" provisions of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and consequently impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

36. Parent Entity Disclosures

Selected financial information of the ultimate parent entity in the Group, Santos Limited, is as follows:

	2012 $million	2011 $million
Net profit for the period	284	348
Total comprehensive income	285	340
Current assets	2,490	3,642
Total assets	12,349	11,940
Current liabilities	1,568	1,327
Total liabilities	4,930	4,751
Issued capital	6,608	6,392
Retained earnings	811	797
Total equity	7,419	7,189

(a) Commitments of the parent entity

The parent entity's capital expenditure commitments and minimum exploration commitments are:

Capital expenditure commitments	186	144
Minimum exploration commitments	2	5

(b) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

All interest-bearing loans and borrowings, as disclosed in note 17, with the exception of the finance leases, are arranged mainly through Santos Finance Ltd which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings are guaranteed by Santos Limited.

(c) Contingent liabilities of the parent entity

A number of the Australian interests of Santos Limited are located within areas which are the subject of one or more claims or applications for native title determination. Whatever the outcome of those claims or applications, it is not believed that they will significantly impact the Group's asset base. Compliance with the "future act" provisions of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and consequently impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

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37. Deed of Cross Guarantee

Pursuant to Class Order 98/1418, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, the Company and each of the listed subsidiaries ("the Closed Group") have entered into a Deed of Cross Guarantee ("Deed"). The effect of the Deed is that the Company has guaranteed to pay any deficiency in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. The subsidiaries have also given a similar guarantee in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Alliance Petroleum Australia Pty Ltd;
- Basin Oil Pty Ltd;
- Bridge Oil Developments Pty Ltd;
- Reef Oil Pty Ltd;
- Santos (BOL) Pty Ltd;
- Santos Darwin LNG Pty Ltd;
- Santos (NARNL Cooper) Pty Ltd;
- Santos Offshore Pty Ltd;
- Santos Petroleum Management Pty Ltd;
- Santos Petroleum Pty Ltd;
- Santos QNT Pty Ltd;
- Santos QNT (No. 1) Pty Ltd;
- Santos QNT (No. 2) Pty Ltd; and
- Vamgas Pty Ltd.

Basin Oil Pty Ltd was added as a party to the Deed during the year. Santos Petroleum Management Pty Ltd executed a Revocation Deed which was lodged with ASIC on 21 December 2012. It will cease to be a party to the Deed six months after that date.

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37. Deed of Cross Guarantee (continued)

Set out below is a consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the year ended 31 December 2012 of the Closed Group:

	2012 $million	2011 $million
Consolidated income statement		
Product sales	2,613	2,380
Cost of sales	(2,028)	(1,858)
Gross profit	585	522
Other revenue	223	338
Other income	20	365
Other expenses	(394)	(542)
Interest income	136	184
Finance expenses	(126)	(234)
Profit before tax	444	633
Income tax expense	(97)	(124)
Royalty-related taxation expense	(41)	(51)
Total taxation expense	(138)	(175)
Net profit for the period	306	458
Consolidated statement of comprehensive income		
Net profit for the period	306	458
Other comprehensive income, net of tax:		
Net exchange (loss)/gain on translation of foreign operations	(3)	1
Net actuarial gain/(loss) on defined benefit plan	1	(10)
Total comprehensive income	304	449
Summary of movements in Closed Group's retained earnings		
Retained earnings at 1 January	1,168	958
Adjustment to retained earnings for company added to Deed during the year	24	–
Net profit for the period	306	458
Actuarial gain/(loss) on defined benefit plan	1	(10)
Dividends to shareholders	(285)	(263)
Share-based payment transactions	13	25
Retained earnings at 31 December	1,227	1,168

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37. Deed of Cross Guarantee (continued)

Set out below is a consolidated statement of financial position as at 31 December 2012 of the Closed Group:

	2012 $million	2011 $million
Current assets		
Cash and cash equivalents	1,968	3,143
Trade and other receivables	1,131	1,072
Inventories	266	252
Other financial assets	3	8
Tax receivable	–	12
Total current assets	3,368	4,487
Non-current assets		
Receivables	30	25
Other financial assets	3,162	3,237
Exploration and evaluation assets	670	617
Oil and gas assets	5,213	4,744
Other land, buildings, plant and equipment	173	147
Deferred tax assets	11	4
Total non-current assets	9,259	8,774
Total assets	12,627	13,261
Current liabilities		
Trade and other payables	619	550
Deferred income	28	38
Tax liabilities	82	95
Provisions	170	139
Total current liabilities	899	822
Non-current liabilities		
Deferred income	4	–
Interest-bearing loans and borrowings	2,372	3,699
Deferred tax liabilities	236	266
Provisions	1,295	926
Other non-current liabilities	7	6
Total non-current liabilities	3,914	4,897
Total liabilities	4,813	5,719
Net assets	7,814	7,542
Equity		
Issued capital	6,608	6,392
Reserves	(21)	(18)
Retained earnings	1,227	1,168
Total equity	7,814	7,542

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38. Financial Risk Management

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk and liquidity risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its corporate objectives and meet its obligations to stakeholders. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

The Group uses various methods to measure the types of financial risk to which it is exposed. These methods include Cash Flow at Risk analysis in the case of interest rate, foreign exchange and commodity price risk, and ageing analysis for credit risk.

Financial risk management is carried out by a central treasury department ("Treasury") which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and covers specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(a) Foreign currency risk

Foreign exchange risk arises from commercial transactions and valuations in assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using cash flow forecasting and Cash Flow at Risk analysis.

The Group is exposed to foreign currency risk principally through the sale of products denominated in US dollars, borrowings denominated in US dollars and Euros and foreign currency capital and operating expenditure. In order to economically hedge foreign currency risk, the Group from time to time enters into forward foreign exchange, foreign currency swap and foreign currency option contracts.

All foreign currency denominated borrowings of Australian dollar ("AUD") functional currency companies are either designated as a hedge of US dollar denominated investments in foreign operations (2012: US$896 million; 2011: US$934 million), or swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2012: US$1,410 million; 2011: $1,410 million). As a result, there were no net foreign currency gains or losses arising from translation of US dollar denominated borrowings recognised in the income statement in 2012.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation, are periodically restated to Australian dollar equivalents, and the associated gain or loss is taken to the income statement. The exception is foreign exchange gains or losses on foreign currency provisions for restoration at operating sites which are capitalised in oil and gas assets.

Based on the Group's net financial assets and liabilities at 31 December 2012, the following table demonstrates the estimated sensitivity to a ±13 cent movement in the US dollar exchange rate (2011: ±17 cent) and a ±9 cent movement in the Euro exchange rate (2011: ±9 cent) with all other variables held constant, on post-tax profit and equity:

	2012 $million	2011 $million
Impact on post-tax profit:		
AUD/USD +13 cents (2011: +17 cents)	22	(26)
AUD/USD –13 cents (2011: –17 cents)	(22)	26
AUD/EUR +9 cents (2011: +9 cents)	–	–
AUD/EUR –9 cents (2011: –9 cents)	–	–
Impact on equity:		
AUD/USD +13 cents (2011: +17 cents)	22	(26)
AUD/USD –13 cents (2011: –17 cents)	(22)	26
AUD/EUR +9 cents (2011: +9 cents)	–	–
AUD/EUR –9 cents (2011: –9 cents)	–	–

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38. Financial Risk Management (continued)

(a) Foreign currency risk (continued)

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The ± 13 cent sensitivity in the US dollar exchange rate and ± 9 cent sensitivity in the Euro exchange rate is the Group's estimate of reasonably possible changes over the following financial year, based on recent volatility experienced in the market.

(b) Market risk

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes, long-term notes and subordinated debt, respectively. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes. At 31 December 2012, the Group had interest rate swaps with a notional contract amount of $763 million (2011: $859 million).

The net fair value of swaps at 31 December 2012 was $182 million (2011: $181 million), comprising assets of $182 million and liabilities of $nil (2011: assets of $181 million and liabilities of nil). These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2012, taking into account interest rate swaps, it is estimated that if US London Interbank Offered Rate ("LIBOR") interest rates changed by ±0.30% (2011: ±0.42%), Euro Interbank Offered Rate ("EURIBOR") by ±1.29% (2011: ±0.61%) and Australian Bank Bill Swap reference rate ("BBSW") by ±1.47% (2011: ±0.65%), with all other variables held constant, the impact on post-tax profit and equity would be:

	2012 $million	2011 $million
Impact on post-tax profit as a result of changing interest rates:		
US +0.30%/EU +1.29%/AU +1.47% (2011: US +0.42%/EU +0.61%/AU +0.65%)	21	8
US –0.30%/EU –1.29%/AU –1.47% (2011: US –0.42%/EU –0.61%/AU –0.65%)	(21)	(8)
Impact on equity as a result of changing interest rates:		
US +0.30%/EU +1.29%/AU +1.47% (2011: US +0.42%/EU +0.61%/AU +0.65%)	21	8
US –0.30%/EU –1.29%/AU –1.47% (2011: US –0.42%/EU –0.61%/AU –0.65%)	(21)	(8)

This assumes that the change in interest rates is effective from the beginning of the financial year and the net debt position and fixed/floating mix is constant over the year. However, interest rates and the debt profile of the Group are unlikely to remain constant and therefore the above sensitivity analysis will be subject to change.

The sensitivity analysis is based on the Group's reasonable estimate of changes in interest rates over the following financial year and reflects annual interest rate volatility. Changes in interest rates over the following year may be greater or less than the US LIBOR ±0.30%, EURIBOR ±1.29% and the Australian BBSW ±1.47% sensitivity employed in the estimates above.

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38. Financial Risk Management (continued)

(b) Market risk (continued)

Cash flow hedge accounting

The Group has issued €1,000 million subordinated notes with an average fixed interest rate of 8.25%.

In order to reduce the variability of the Australian dollar cash flows arising from the Euro principal and interest payments to September 2017, the Group entered into cross-currency interest rate swap contracts in March 2011, under which it has a right to receive interest at fixed Euro rates and pay interest at floating US dollar interest rates. These contracts are in place to cover all remaining principal and interest payments on €950 million of the subordinated notes. The Euro rates were fixed at 8.25% and the fixed US dollar margins range between 5.18% and 5.349%.

€50 million of the subordinated notes have been swapped to a fixed US dollar interest rate of 8.48% for seven years.

The cross-currency interest rate swap contracts are recognised at fair value and all gains and losses attributable to the hedged risks are recognised in the hedge reserve and reclassified into the income statement when the interest expense is recognised.

The movement in hedge reserve is as follows:

	2012 $million	2011 $million
Opening balance	(14)	2
Charged to comprehensive income	8	(16)
Closing balance	(6)	(14)

Commodity price risk exposure

The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil-price-linked contracts. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2012 the Group has no open oil price swap contracts (2011: nil), and therefore is not exposed to movements in commodity prices on financial instruments. The Group continues to monitor oil price volatility and to assess the need for commodity price hedging.

(c) Credit risk

Credit risk for the Group arises from investments in cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management has Board-approved credit policies and the exposure to credit risk is monitored on an ongoing basis. The majority of Santos' gas contracts are spread across major Australian energy retailers and industrial users. Contracts exist in every mainland state whilst the largest customer accounts for less than 20% of contracted gas.

The Group controls credit risk by setting minimum creditworthiness requirements for counterparties, which for banks and financial institutions are based upon their long-term credit rating.

Rating	**Approved counterparties**	**Total credit limit $million**	**Total exposure* $million**	**Exposure range $million**
AAA, AA, AA–	6	11,950	4,204	0 – 1,512
A+, A, A–	13	6,950	1,393	0 – 397

* *The sum of all cash deposits plus accrued interest, bank account balances, undrawn credit facility limits and derivative mark-to-market gains.*

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38. Financial Risk Management (continued)

(c) Credit risk (continued)

If customers are independently rated these ratings are used, otherwise the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors including credit support from a third party. Individual risk limits for banks and financial institutions are set based on external ratings in accordance with limits set by the Board. Limits for customers are determined within contract terms. The daily nomination of gas demand by customers and the utilisation of credit limits by customers are monitored by line management.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not hold collateral, nor does it securitise its trade and other receivables.

At the reporting date there were no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of counterparty default. The maximum exposure to credit risk is represented by the carrying amount of financial assets of the Group (excluding investments), which have been recognised on the statement of financial position.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management strategy and seeks to maintain sufficient liquid assets and available committed credit facilities to meet short-term to medium-term liquidity requirements. The Group's objective is to maintain flexibility in funding to meet ongoing operational requirements, exploration and development expenditure, and other corporate initiatives.

The following table analyses the contractual maturities of the Group's financial liabilities, and financial assets held to manage liquidity risk. The relevant maturity groupings are based on the remaining period to the contractual maturity date, at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments. Estimated variable interest expense is based upon appropriate yield curves as at 31 December 2012.

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2012				
Financial assets held to manage liquidity risk				
Cash	2,163	–	–	–
Derivative financial assets				
Interest rate swap contracts	38	38	83	46
Cross-currency swap contracts	24	25	(34)	–
Non-derivative financial liabilities				
Trade and other payables	(950)	–	–	–
Obligations under finance leases	(1)	(1)	–	–
Bank loans	(62)	(61)	(545)	(1,201)
Medium-term notes	(6)	(6)	(106)	–
Long-term notes	(43)	(102)	(351)	(458)
Subordinated debt	(105)	(105)	(1,590)	–
	1,058	(212)	(2,543)	(1,613)

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38. Financial Risk Management (continued)

(d) Liquidity risk (continued)

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2011				
Financial assets held to manage liquidity risk				
Cash	3,362	–	–	–
Derivative financial assets				
Interest rate swap contracts	41	32	52	25
Non-derivative financial liabilities				
Trade and other payables	(1,005)	–	–	–
Obligations under finance leases	(1)	(2)	–	–
Bank loans	(57)	(63)	(365)	(861)
Medium-term notes	(6)	(6)	(113)	–
Long-term notes	(202)	(44)	(230)	(702)
Subordinated debt	(105)	(105)	(316)	(1,383)
Derivative financial liabilities				
Cross-currency swap contracts	21	12	(36)	(143)
	2,048	(176)	(1,008)	(3,064)

(e) Fair values

The financial assets and liabilities of the Group are all initially recognised in the statement of financial position at their fair value in accordance with the accounting policies in note 1. The fair values of receivables, payables, interest-bearing liabilities and other financial assets and liabilities which are not subsequently measured at fair value approximates their carrying value.

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

Available-for-sale financial assets

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Derivatives

The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms of maturity of each contract and using market interest rates for a similar instrument at the reporting date. Where these cash flows are in a foreign currency, the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

Financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency, the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

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38. Financial Risk Management (continued)

(e) Fair values (continued)

Interest rates used for determining fair value

The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve at the reporting date. The dealt credit spread is assumed to be the same as the market rate for the credit as at reporting date as allowed under AASB 139 *Financial Instruments: Recognition and Measurement*. The interest rates including credit spreads used to determine fair value were as follows:

	2012 %	2011 %
Derivatives	0.2 – 5.0	0.6 – 5.4
Loans and borrowings	0.2 – 5.0	0.6 – 4.8

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following financial instruments measured at fair value:

	Total $million	**Level 1 $million**	**Level 2 $million**	**Level 3 $million**
2012				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	182	–	182	–
Cross-currency swap contracts	41	–	41	–
Embedded derivatives	7	–	7	–
Available-for-sale financial assets:				
Equity shares	10	10	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(846)	–	(846)	–
Medium-term notes	(107)	–	(107)	–

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38. Financial Risk Management (continued)

(e) Fair values (continued)

	Total $million	Level 1 $million	Level 2 $million	Level 3 $million
2011				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	181	–	181	–
Embedded derivatives	8	–	8	–
Available-for-sale financial assets:				
Equity shares	2	2	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(1,019)	–	(1,019)	–
Medium-term notes	(105)	–	(105)	–
Cross-currency swap contracts	(47)	–	(47)	–

During the reporting periods ended 31 December 2012 and 31 December 2011, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

39. Events After the End of the Reporting Period

On 22 February 2013, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2012 financial year. The dividend has not been provided for in the 31 December 2012 financial statements. Refer to note 22 for dividends declared after 31 December 2012.

Directors' Declaration

For the year ended 31 December 2012

In accordance with a resolution of the Directors of Santos Limited ("the Company"), we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001* (Cth), including:

      (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and the *Corporations Regulations 2001* (Cth); and

   (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(a).

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 2012.

3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 37 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those members of the Closed Group pursuant to Class Order 98/1418.

Dated this 22nd day of February 2013

On behalf of the Board:

Director **Director**

Adelaide

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Independent auditor's report to the members of Santos Limited

Report on the financial report

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the company a written Auditor's Independence Declaration, a copy of which is referred to in the Directors' Report.

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Opinion

In our opinion:

a. the financial report of Santos Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 24 of the Directors' Report for the year ended 31 December 2012. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Santos Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

T S Hammond
Partner
Adelaide
22 February 2013

Financial Commentary to Appendix 4E

The following comments should be read in conjunction with the Consolidated Financial Report for the year ended 31 December 2012.

Consolidated Income Statement

Net profit for the period ($519 million, down by $234 million -31%)

Net profit after income tax attributable to owners of Santos Limited decreased by $234 million to $519 million.

Earnings per share for 2012 decreased by 36% to 54.4 cents.

Underlying Profit after tax for the period ($606 million, up by $153 million +34%)

An analysis of the change in net profit after tax is set out below and a reconciliation to underlying profit after tax is set out on page 6 in the Directors' Report.

Dividends

During the year Santos Limited paid fully franked dividends of $285 million on ordinary shares. (2011: $263 million).

The Directors have declared a final dividend for 2012 of 15 cents per ordinary share, fully franked (2011: 15 cents, fully franked), payable on 28 March 2013.

Product sales ($3,220 million, up by $499 million +18%)

Sales revenue increased by $499 million to $3,220 million primarily driven by higher liquids volumes and gas prices.

Sales gas, ethane and liquefied natural gas ("LNG") revenues of $1,319 million were 5% higher than 2011. Sales gas, ethane and LNG prices in 2012 averaged $5.14/GJ compared with $4.71/GJ in 2011. This primarily reflects higher Western Australian gas prices from the commencement of Reindeer production and higher Maleo gas prices resulting from a favourable price review. Sales volumes of sales gas, ethane and LNG decreased 1.6 mmboe largely due to lower customer nominations and cessation of some Eastern Australia gas contracts.

Crude oil sales of $1,401 million were $407 million higher primarily due to higher sales volumes of 3.7 mmboe. The increase in sales volumes is primarily due to increased production from Chim Sao and the Cooper Basin combined with higher third party crude sales volumes.

Condensate/naphtha sales of $321 million increased by $17 million mainly due to timing of liftings.

Liquefied petroleum gas ("LPG") revenues increased by $8 million to $179 million mainly due to higher LPG prices.

Other Income ($16 million, down by $529 million -97%)

Other income in 2011 included $529 million of gains relating to the sale of non-current assets.

Cost of sales ($2,089 million, up by $352 million +20%)

Cost of sales is $352 million higher mainly due to higher production costs, higher third party purchases and higher depletion and depreciation costs. Further analysis on cost of sales is detailed below.

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Financial Commentary to Appendix 4E

> Production costs ($660 million, up by $104 million +19%)

Field production costs of $660 million have increased by $104 million, mainly due to the costs associated with new fields (Chim Sao, Reindeer and Wortel) and additional costs relating to the Bayu Undan planned shut-down.

> Pipeline Tariffs, Tolls & other ($117 million, up by $2 million +2%)

Pipeline tariffs, tolls and other expenses of $117 million are in line with 2011.

> Royalties and Excise ($88 million, up by $34 million +63%)

Royalties and excise are $34 million higher than 2011 mainly due to higher Cooper Basin and Chim Sao sales.

Carbon Costs ($26 million in 2012, up by $26 million)

Carbon costs commenced from 1 July 2012 under the Clean Energy Legislation.

Third Party Gas Purchases ($465 million, up $77 million +20%)

Third party liquids purchases are higher than 2011 primarily due to increased production as additional fields came on-line in 2012. This increase is partially offset by lower third party gas purchases from Nexus as a result of Longtom plant shutdown in June 2012 and lower purchases to fulfil Cooper Basin gas contracts following wet weather impacts in 2011.

> Increase in product stock ($35 million increase, up $23 million)

The increase in product stock is predominantly due to increased third party liquids purchased, GLNG gas injections into underground storage at Roma and to timing of liftings.

> Depreciation & Depletion ($768 million, up by $132 million +21%)

Depreciation and depletion of $768 million is $132 million, or 21%, higher than 2011 mainly due to the impact of new assets, Chim Sao, Reindeer and Wortel, and higher forecast abandonment and future development costs of mature oil assets. On a $/boe basis, depletion and depreciation has increased from $13.47/boe in 2011 to $14.74/boe in 2012.

Impairment of CGU/assets ($106 million, 2011 $127 million)

The 2012 review of the carrying values of cash-generating units (CGUs) and assets resulted in impairment of CGUs ($101 million) and impairment of exploration and evaluation assets ($5 million). The impairment primarily relates to Thevenard ($61 million), Sangu ($26 million) and Sampang ($16 million).

Exploration & Evaluation Expensed ($165 million, down by $2 million -1%)

Exploration and evaluation expenditure expensed in 2012 was $165 million. The amount expensed relates to studies, seismic and unsuccessful wells primarily in Vietnam, Kyrgyz Republic, Bangladesh, Indonesia, offshore Australia, the Gunnedah Basin and the Cooper Basin.

Finance Costs ($59 million, down by $40 million -40%)

Interest expense has decreased from 2011 mainly due to an increase in borrowing costs capitalised to major oil and gas assets under development.

Finance Income ($138 million, down by $52 million -27%)

Interest income has decreased from 2011 primarily due to lower interest rates earned on lower cash balances deposited on short term money markets.

Total Taxation Expense ($397 million, down by $134 million -25%)

Total taxation expense is lower principally as a result of a reduction in income tax expense, which represents 35% of pre-tax profit compared to an effective tax rate of 34% of pre-tax profit in 2011. The lower income tax expense reflects the lower pre-tax profit. The lower pre-tax profit results in a higher effective rate despite a small reduction in income tax adjustments.

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Financial Commentary to Appendix 4E

Consolidated Statement of Financial Position

Overview

The Group's net assets increased by $402 million (4%) during 2012 to $9,365 million, principally due to the net profit generated during the year.

Assets

Current assets of $3,258 million were $1,486 million lower than in 2011 predominantly due to lower cash balances ($1,181 million lower) and lower non-trade receivables mainly relating to proceeds from the sale of interests in GLNG, which were received in January 2012.

Non-current assets were $13,777 million compared to $11,070 million at the end of 2011, an increase of $2,707 million, mainly due to 2012 capital expenditure and asset acquisitions, offset by depreciation and depletion charges, exploration and evaluation expensed, asset sales and impairment charges.

Current Liabilities

Current liabilities of $1,311 million were $169 million lower predominantly due to the repayment of long term notes ($151 million) and lower trade and other payables ($55 million). These decreases were offset by higher tax liabilities ($12 million) and the addition of a carbon cost provision ($20 million).

Non-current Liabilities

Non-current liabilities of $6,359 million were $988 million higher predominantly due to the increase in non-current interest bearing loans and borrowings ($597 million) and increase in restoration provision balances ($483 million), partially offset by lower deferred tax liabilities ($43 million).

Net Debt

Net debt (borrowings, net of cash on hand and the value of financial derivatives used to hedge debt) of $1,330 million was $1,535 million higher than at the end of 2011 primarily as a result of increased capital expenditure on major projects, offset by operating cash inflows.

The Group's net debt/net debt plus equity ratio has increased from (2.3)% in 2011 to 12.4% at the end of 2012.

Equity

Total equity increased by $402 million to $9,365 million at year end. The increase primarily reflects additional shares issued in relation to the dividend reinvestment plan ($126 million) and underwriting of the dividend payment ($77 million), the 2012 net profit after tax attributable to owners of Santos Limited of $519 million less dividends paid during the year ($285 million).

Consolidated Statement of Cash Flows

Operating Cash Flows $1,658 million inflow (2011: $1,253 million inflow), inflow up by $405 million or 32%

Net cash flows from operations increased by $405 million, primarily due to increased receipts from customers ($488 million increase), decreased payments of income taxes ($193 million decrease) and royalty-related taxes ($27 million decrease) and decreased borrowing costs paid ($62 million decrease). The decrease in income taxes paid is associated with the immediate deductibility of exploration and evaluation associated with the 2011 acquisition of Eastern Star Gas Limited.

The aforementioned increases in operating cash flows have been partially offset by increased payments to suppliers and employees ($167 million increase), decreased interest received ($53 million decrease), increased exploration and evaluation expenditure ($18 million increase), reductions in income tax refunded ($17 million decrease), royalty-related taxes refunded ($12 million decrease) and decreased pipeline tariff and other receipts ($62 million decrease).

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Financial Commentary to Appendix 4E

Investing Cash Flows $3,198 million outflow (2011: $2,142 million outflow), outflow up by $1,056 million or 49%

Net investing cash outflows increased by $1,056 million primarily due to:

- Payments for oil and gas assets ($184 million increase)
- Payments for exploration and evaluation assets ($29 million increase)
- Payments for other land, buildings, plant and equipment ($12 million increase)
- Acquisition of non-current assets ($105 million increase)
- Proceeds from disposal of non-current assets ($823 million decrease)
- Borrowing costs paid being capitalised to qualifying assets ($43 million increase)
- These increases in investing cash outflows were partially offset, primarily by income taxes paid on a reduced level of disposals of non-current assets ($124 million decrease).

Financing Cash Flows $366 million inflow (2011: $90 million outflow), net inflow up by $456 million or 507%

Net financing cash flows increased by $456 million primarily due to higher net drawdowns of borrowings.

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