## Annual Report 2012



Santos

Image: Addition of the second secon

TAURAI MASYIGISI

Santos



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

## World of Santos

Ref	Location	Site/Asset	Activity	Santos operated	Product
AUS	STRALIA				
1	Carnarvon Basin	Mutineer-Exeter Stag, Barrow Island, Thevenard Spar, John Brookes, Varanus Island, Reindeer, Devil Creek Fletcher Finucane Zola, Winchester	•	Yes No No Yes 3 of 9 permits	Oil Oil Gas, condensate Oil Oil, gas
2	Browse Basin	Crown, Burnside		4 of 5 permits	Gas, condensate
3	Bonaparte Basin	Caldita Barossa Two exploration permits		No Yes	Gas Gas
4	McArthur Basin	Four exploration permits	•	Yes	Oil, gas, condensate
5	Amadeus/Pedirka Basins	Mereenie	• •	Yes	Oil, gas, condensate
6	Cooper/Eromanga Basins	South Australia – Moomba South-west Queensland – Ballera, Jackson Other oil assets	•• ••	Yes Yes No	Oil, gas, condensate, LPG Oil, gas, condensate, LPG Oil
7	Surat/Bowen Basins	Denison, Mahalo Moonie Combabula, Spring Gully	••	Yes Yes No	Gas Oil Gas
8	Gunnedah Basin	Narrabri, Bando		Yes	Gas
9	Gippsland Basin	Kipper Sole		No Yes	Gas, condensate, LPG Gas
10	Otway Basin	Casino, Henry, Netherby Minerva	•	Yes No	Gas, condensate Gas, condensate
LNC	G PROJECTS				
11	Bonaparte Basin	Bonaparte LNG	•	No	LNG
12	Timor Sea and Timor Gap	Bayu-Undan, Darwin LNG	•	No	LNG, condensate, LPG
13	Surat/Bowen Basins	GLNG		Yes*	LNG
14	Papua New Guinea	PNG LNG		No	LNG, condensate
ASI	Α				
1	Papua New Guinea	SE Gobe Hides, Barikewa	•	No No	Oil, Oil, gas, condensate
16	Papuan Basin, Indonesia	Warim		No	Oil, gas, condensate
1	East Java Basin, Indonesia	Maleo, Oyong, Wortel, Peluang	٠	Yes	Oil, gas, condensate
18	South Sumatra, Indonesia	Four CSG licences		No	Gas
19	Nam Con Son Basin, Vietnam	Chim Sáo Dua Block 13/03	•	No No Yes	Oil, gas Oil, gas Oil, gas
20	Phu Khanh Basin, Vietnam	123 PSC	•	Yes	Oil, gas, condensate
21	Bengal Basin, Bangladesh	Sangu/Block 16	•	Yes	Gas, condensate
22	North East Coast Basin, India	Two exploration permits	•	Yes	Gas

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

At Santos, delivering on our potential is more than a promise. It is a core value upon which the company is built. Our record of delivering strong results and robust projects provides a solid platform for years to come.

### About Santos

An Australian energy pioneer since 1954, Santos is a leading oil and gas producer, supplying Australian and Asian customers.

With its origins in the Cooper Basin, Santos is one of Australia's largest producers of gas to the domestic market and has the largest exploration and production acreage position in Australia of any company.

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

Santos also has an exploration-led Asian portfolio, with a focus on three core countries: Indonesia, Vietnam and Papua New Guinea.

From this base, Santos is pursuing a transformational LNG strategy with interests in four LNG projects, including GLNG and PNG LNG.

Our substantial pipeline of projects ensures Santos is well positioned to achieve our production goal of 80 to 90 million barrels of oil equivalent by 2020.

With over 3,000 employees across Australia and Asia, Santos' foundations are based on safe, sustainable operations and working in partnership with host communities, governments, business partners and shareholders.

### Our values

#### We are a company that:

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

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

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

**Cares** – by taking the long-term view to build a sustainable future for our company, our people and the environments and <u>communities</u>.

This 2012 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2012. All references to dollars, cents or \$ in this document are to Australian currency, unless otherwise stated. An electronic version of this report is available on Santos' website, www.santos.com



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Cover: Taurai Masvingise, Environmental Advisor GLNG project.

This page: Fletcher Finucane oil project in the Carnarvon Basin, offshore Western Australia.

# Operating and financial highlights

### ркористіон 52.1 mmboe



sales revenue \$3,220 million



	2012	2011	% change
Production volume (mmboe)	52.1	47.2	10
Sales volume (mmboe)	61.0	58.7	4
Sales revenue (\$million)	3,220	2,721	18
EBITDAX (excluding asset sales) (\$million)	1,869	1,597	17
Net profit after tax (\$million)	519	753	(31)
Underlying net profit after tax (\$million)	606	453	34
Operating cash flow (\$million)	1,658	1,253	32
Earnings per share (cents)	54.4	84.8	(36)
Dividends declared per ordinary share (cents)	30	30	-
Proved and probable reserves (mmboe)	1,406	1,364	3

EBITDAX (excluding asset sales) \$1,869 million

**▲**|7%

## **production volume** 52.1 mmboe



Production increased 10%, driven by new producing assets combined with strong Cooper oil production.

#### sales volume 61.0 mmboe



Sales volumes increased 4%, with higher equity production offsetting lower third-party gas sales.

### operating cash flow \$1,658 million

**1**32%

#### operating cash flow \$1,658 million



Operating cash flow increased 32%, due to higher sales receipts and lower taxes paid, partially offset by higher operating costs.

### **NET PROFIT AFTER TAX** \$519 million

**₽**3|%

#### **NET PROFIT AFTER TAX** \$519 million



Net profit after tax was 31% lower, as the prior year included \$408 million from the sale of interests in GLNG and Evans Shoal.

#### sales revenue \$3,220 million



Sales revenue increased by 18%, driven by a 33% increase in crude oil production and higher gas prices.

#### EARNINGS & DIVIDENDS PER SHARE

54.4 cents



Earnings per share Dividends declared per share

The total 2012 dividend of 30 cents per share is in line with the prior year.

#### underlying net profit after tax \$606 million



#### underlying net profit after tax \$606 million



Underlying net profit increased by 34%, with higher liquids volumes and gas prices partially offset by higher production costs.

#### SAFETY PERFORMANCE

5.0 (per million hours worked)



The rate of low severity injuries increased in 2012, reflecting a record 19 million work hours, however the overall injury severity decreased.

Santos delivered stronger production, record sales revenue and higher underlying earnings in 2012. Major projects are on track to deliver long-term returns to shareholders.

Left to right: Peter Coates and David Knox

## Review by Peter Coates and David Knox

Chairman and Chief Executive Officer

Dear Shareholder,

Santos delivered growth in production and underlying earnings in 2012. Production was up 10% to 52 million barrels of oil equivalent (mmboe) and sales revenue was a record \$3.2 billion, driven by a 33% increase in crude oil production. Underlying earnings rose by 34% to \$606 million, primarily due to higher oil and gas production and higher prices. Our balance sheet is robust, and the base business continues to generate strong cash flows to fund our pipeline of sanctioned growth projects and to provide shareholder returns.

In addition to the base business, delivering our LNG portfolio is critical to achieve our vision of being a leading oil and gas exploration and production company in Australia and Asia. Our major LNG projects are making good progress. PNG LNG is over 75% complete and on track for first LNG in 2014. GLNG is 47% complete, with first LNG expected in 2015. You can read more about these projects later in this *Annual Report*.

By 2015, Santos will have equity production from three LNG projects supplying Asian markets, which are underpinned by longterm, oil-linked, binding offtake agreements. This will be an extraordinary achievement for a company of our size, and these assets will deliver a significant step-change to our production and cash flow.

Our strategy is to unlock the company's significant resources in a growing market for oil and gas in Australia and Asia. We will do this safely, sustainably and profitably to deliver long-term growth in shareholder value. We are targeting 6% compound annual production growth to the end of the decade, which would deliver annual production of between 80 and 90 mmboe by 2020.

#### AUSTRALIA'S ENERGY TRANSFORMATION

As one of the largest producers of natural gas in Australia, Santos will continue to play its part in providing energy to fuel both our domestic and export markets.

Energy is critical to the development of economies, and Australia is no different. Not only is energy essential for providing power to our homes and businesses, but the development of a country's energy resources creates jobs, fosters innovation and delivers wealth and prosperity.

Because of the importance of energy, the development of our energy resources and the policies in place to govern that development command the attention of our governments, communities and industry. This situation is heightened when things change, and Australia's energy sector is going through a period of rapid transformation which, if well managed, can deliver great outcomes.

Natural gas is key to understanding Australia's energy transformation. In terms of our gas resources, Australia is truly blessed, with current estimates of more than 50 years of gas in the ground available for both domestic and export markets. And this is without taking into account Australia's shale gas potential.

Santos has a large Australian unconventional gas resource, and has a focused strategy to evaluate and commercialise this gas. During 2012, Santos produced Australia's first commercial gas from a shale well in the Cooper Basin, enabling us to book Australia's first 2P shale gas reserves.

#### STRONG POSITION TO FUND GROWTH, WITH A FOCUS ON COST CONTROL

In 2013, we have another busy year ahead of us, both for project delivery and with our exploration drilling program. The Fletcher Finucane oil project in the Carnarvon Basin, sanctioned in January 2012, is on schedule to deliver first oil in mid-2013. Work will also continue at the Dua oil project in Vietnam, with first oil on schedule for the first half of 2014.

Following the exploration success at Crown, offshore Western Australia, the Browse exploration campaign continues in 2013 with drilling of two exciting prospects. In the Cooper Basin, we continue to explore the potential of shale and other unconventional gas.

We are in a strong position to fund our growth, with \$5.8 billion of cash and available credit facilities as at 31 December 2012. We also have strong operating cash flow, with average cash flow over the past five years of over \$1.3 billion per year. This is driven by production growth, an increasing proportion of oil in our project mix, as well as rising gas prices in key markets.

In order to deliver our portfolio for the future, we also need to be leaner and more efficient. Santos is committed to a relentless focus on productivity and cost control across our portfolio. We are investing in technology to drive costs out of the business, such as a more efficient drilling rig fleet to drill from multi-well pads and initiatives to reduce plant downtime in the Cooper Basin.

### Review by Peter Coates and David Knox (continued)

#### SAFETY AND SUSTAINABILITY

At Santos, safety permeates everything we do. Good safety performance, covering both our people and our operating facilities, is critical to our business success.

During 2012, Santos' lost-time injuries were at a five-year low. There was an increase in the rate of low-severity injuries, reflecting the record level of manual work being conducted on a day-to-day basis. This trend will be addressed as part of Santos' relentless focus on eliminating serious incidents and injuries from its business.

Sustainability is an integral part of Santos. This means focusing on the health and wellbeing of our people, responsibly managing our environmental impact, working in partnership with the communities in which we operate, and reliably managing our business.

Our 2012 Sustainability Report is designed to complement this Annual Report, and is available online at www.santos.com/sustainability. We encourage you to read our Sustainability Report and find out more about what sustainability means to Santos and what we are doing to achieve it.

#### **DIVIDEND MAINTAINED**

The Board maintained the dividend at 30 cents per share fully franked in 2012 and anticipates that the dividend will remain at this level during our capital intensive growth phase between now and PNG LNG start-up. Following that, the Board will look to increase the dividend as soon as appropriate.

Santos continues to offer a dividend reinvestment plan (DRP) which enables shareholders to increase their shareholding at a 2.5% discount to the market price and without brokerage.

#### **EMPLOYEES AND THE BOARD**

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

We would also like to thank our employees who have rallied to support their local communities, be it during the floods in Queensland at the beginning of 2012 and again in 2013, or through volunteering during the year. Mr Hock Goh joined the Board in October 2012, and through his extensive experience in the oil and gas industry in Asia is contributing strongly to your company.

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

PETER COATES AO Chairman

DAVID KNOX Chief Executive Officer and Managing Director

## Our vision and strategy

Our vision is to be a leading oil and gas exploration and production company in Australia and Asia.

We have a three-pronged strategy to achieve this.



- Highest-ever Carnarvon gas production, driven by new projects online
- Highest Cooper oil production since 2009
- Fletcher Finucane project 85% complete with first oil expected in mid-2013
- Australia's first commercial production of gas from a shale well in the Cooper Basin
- Exploration success at Crown in the Browse Basin

- Strong production from Darwin LNG post planned shutdown
- PNG LNG project over 75% complete and on track for first LNG in 2014
- GLNG project 47% complete and on track for first LNG in 2015
- Proposed floating Bonaparte LNG project in concept design phase
- Wortel gas project in Indonesia delivered on budget
- Strong oil production from Chim Sáo, Vietnam
- Dua oil project sanctioned and over 35% complete, with first oil expected in the first half of 2014

#### **production** 52.1 mmboe



sales 61.0 mmboe



Santos' 2012 production was 10% higher than in 2011, driven by new producing assets and strong performance from the base business.

Total crude oil production of 7.2 mmboe was up 33% on the previous year, reflecting a full year of oil production from Chim Sáo, Vietnam, and a successful drilling campaign over the past 12 months in the Cooper Basin.

Total sales gas, ethane and LNG production of 38.3 mmboe was up 8%, driven by the highest-ever production from the Carnarvon Basin due to strong production from the Spar and Reindeer fields. Condensate and LPG production was in line with the previous year.

In 2013, Santos is forecasting production of between 53 and 57 mmboe, with the increase driven by forecast strong production from the base business and the start-up of the Fletcher Finucane oil project in Western Australia in mid-2013.

Sales volumes of 61.0 mmboe were up 4%, with crude oil sales increasing by 43% due to higher equity production and higher third-party Cooper oil purchases. Gas sales declined slightly with lower sales from Indonesia, Cooper Basin and Victorian assets partially offset by higher sales from Reindeer and John Brookes in Western Australia.

Santos continued to grow its third-party sales business during the year, primarily in Eastern Australia. In 2012, Santos sold a record 9.9 mmboe of third-party gas, oil, condensate and LPG, generating a before-tax profit of \$60 million. Sources of third-party gas include Cooper Basin gas produced by others, gas produced from the Longtom field and processed at Santos' Patricia-Baleen plant, and the non-Santos share of gas produced in the GLNG acreage which is sold domestically.

#### sales revenue \$3,220 million



Sales revenue of \$3,220 million in 2012 was a record high for Santos, and was up 18% on the previous year. Sales revenue from oil was up more than 40%, driven by strong growth in the company's oil production and favourable oil prices during the year. Santos also recorded higher sales revenue for natural gas and ethane, condensate and LPG in 2012. LNG sales revenue was slightly lower primarily due to the planned shutdown of the Darwin LNG plant during 2012.

The average gas price increased from \$4.71/GJ to \$5.14/GJ, driven by higher priced gas sales from Reindeer and Wortel, along with the favourable Maleo price review. Crude oil prices were in line with 2011, with the average realised price in 2012 of US\$117.83.

## Production and sales

### Santos continues to increase production year-on-year from our base business.

	2012		2	011		2012		2011	
	Field units	mmboe	Field units	mmboe		Field units	mmboe	Field units	mmboe
Sales gas, ethane and LN	G (PJ)				Crude oil ('000 bbls)				
Cooper	66.6	11.5	66.1	11.4	Cooper	3,226.1	3.2	2,831.4	2.8
Carnarvon	65.0	11.2	45.5	7.8	Vietnam	2,870.2	2.9	680.6	0.7
Indonesia	28.1	4.8	33.9	5.8	Stag	1,411.6	1.4	1,677.2	1.7
Otway	19.4	3.3	19.0	3.3	Mutineer-Exeter	604.0	0.6	669.5	0.7
Darwin LNG/Bayu-Undan	14.4	2.5	14.7	2.6	Barrow	566.6	0.5	526.0	0.5
Surat/Bowen	11.2	1.9	14.2	2.4	Indonesia	340.2	0.3	269.9	0.3
GLNG	10.8	1.9	9.0	1.6	Amadeus	198.0	0.2	112.7	0.1
Bangladesh	4.9	0.8	3.5	0.6	Thevenard	180.6	0.2	235.5	0.2
Vietnam	2.1	0.4	-	-	PNG	73.8	0.1	77.5	0.1
Amadeus	-	-	0.7	0.1	Surat/Denison	66.8	0.1	89.6	0.1
Gunnedah	-	-	0.2	-	Total production	9,537.9	9.5	7,169.9	7.2
Total production	222.5	38.3	206.8	35.6	Total sales	12,309.5	12.3	8,615.6	8.6
Total sales	256.7	44.1	265.8	45.7					
					LPG ('000 tonnes)				
Condensate ('000 bbls)					Cooper	125.1	1.0	134.4	1.1
Darwin LNG/Bayu-Undan	1,174.1	1.1	1,291.9	1.2	Darwin LNG/Bayu-Undan	69.4	0.6	75.2	0.6
Cooper	1,030.7	1.0	1,072.0	1.0	Total production	194.5	1.6	209.6	1.7
Carnarvon	635.6	0.6	502.4	0.5	Total sales	191.7	1.6	198.4	1.7
Amadeus	29.9	-	24.1	-					
Otway	19.7	-	19.5	-	Sales revenue (\$million)			2012	2011
Indonesia	5.6	-	5.2	-	Crude oil			1,401	994
Surat/Bowen	1.8	-	2.8	-	Sales gas, ethane and LNG			1,319	1,252
Bangladesh	-	-	0.6	-	Condensate			321	304
Total production	2,897.4	2.7	2,918.5	2.7	LPG			179	171
Total sales	3,180.5	3.0	2,919.6	2.7	Total sales revenue			3,220	2,721

## Reserves and resources

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





In 2012, Santos continued its consistent track record of reserves growth. Proved and probable (2P) reserves have increased in nine of the past ten years, while producing over 480 mmboe in the same period.

Proved and probable hydrocarbon reserves increased to 1,406 mmboe as at the end of 2012. Based on the 2012 production of 52 mmboe, Santos has a current 2P reserves life of 27 years.

Approximately 88% of Santos' 2P reserves are sales gas, 6% crude oil, 4% condensate and 2% LPG.

On a proved (1P) reserves basis, year-end reserves were 663 mmboe, 14 mmboe higher than 2011.

### 2P RESERVES RECONCILIATION



2P additions of 71 mmboe in 2012 were driven by strong growth in Cooper Basin gas reserves, due to successful ongoing results from the infill drilling program combined with technical studies. Reserves growth was also recorded in Cooper Basin oil, Queensland CSG, the Carnarvon Basin and Vietnam, more than offsetting a reduction in Bonaparte reserves.

Santos also booked Australia's first 2P shale gas reserves, due to the success of the Moomba-191 shale gas well that was commissioned in September 2012.

Net 2P acquisitions of 23 mmboe reflect Santos' purchase of additional interests in the Combabula CSG field in Queensland, consolidation of interests in Fletcher Finucane, and the purchase of Woodside's interest in Mutineer-Exeter.

#### 2P RESERVES REPLACEMENT RATIO %



Santos has a strong track record of reserves replacement which is an important target to drive long-term shareholder value growth. A reserves replacement ratio (RRR) of more than 100% indicates that reserves grew by more than production during the period.

In 2012, Santos' 2P RRR was 180%, as reserves additions and net acquisitions and divestments of 94 mmboe exceeded production of 52 mmboe.

Over the five years to 2012, Santos' 2P RRR was a strong 305%. This was primarily driven by the sanction of the PNG LNG project, growth in CSG reserves in Queensland and NSW, Cooper gas and the Carnarvon.

#### **RESERVES (SANTOS SHARE)**

mmboe	Year-end 2011	Production	Additions	Acquisitions/ divestments	Year-end 2012
1P reserves	649	-52	65	1	663
2P reserves	1,364	-52	71	23	1,406
2C contingent resources	2,162	-	-108	-89	1,965

#### **PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) BY ACTIVITY**

	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Reserves year-end 2011	6,959	71	72	3,449	1,364
Production	-222	-10	-3	-194	-52
Additions	294	20	-	116	71
Acquisitions/divestments	130	1	-	-	23
Estimated reserves year-end 2012	7,161	82	69	3,371	1,406

#### PROVEN PLUS PROBABLE RESERVES (SANTOS SHARE) YEAR-END 2012 BY AREA

	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG '000 tonnes	Total mmboe
Eastern Australia					
Cooper Basin	1,213	30	21	2,522	280
Southern Australia	367	-	5	398	71
Queensland CSG	1,920	-	-	-	330
Queensland conventional	41	-	-	-	7
New South Wales CSG	1,141	-	-	-	196
Total Eastern Australia	4,682	30	26	2,920	884
Western Australia and Northern Territory					
Carnarvon	831	26	9	-	177
Bonaparte	179	-	7	451	41
Amadeus	123	8	2	-	31
Total Western Australia and Northern Territory	1,133	34	18	451	249
Asia Pacific					
Papua New Guinea	1,228	-	25	-	235
Indonesia	93	1	-	-	17
Vietnam and Bangladesh	25	17	-	-	21
Total Asia Pacific	1,346	18	25	-	273
Total	7,161	82	69	3,371	1,406

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

The information in this reserves statement has been compiled by Greg Horton, a full-time employee of the company. Greg Horton is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears. Santos prepares its reserves and contingent resources estimates in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) prepared by the Society of Petroleum Engineers (SPE). Santos engages independent experts Gaffney, Cline & Associates, Netherland, Sewell & Associates, Inc. and DeGolyer and MacNaughton to audit and/or evaluate reserves and contingent resources. Each auditor found, based on the outcomes of its respective audit and evaluation, and its understanding of the estimation processes employed by Santos, that Santos' 2012 reserves and contingent resources quantities in aggregate compare reasonably to those estimates prepared by each auditor. Thus, in the aggregate, the total volumes summarised in the Santos summary table represent a reasonable estimate of Santos' reserves and contingent resources position as at 31 December 2012.

## Review by Chief Financial Officer

Andrew Seaton



Santos delivered strong financial results in 2012, with record sales revenue and underlying profit up 34% to \$606 million.

Santos produced strong operational and financial results in 2012, which is testament to our focus on delivery across all parts of the business.

Sales revenue was up 18% to a record \$3.2 billion, driven by higher crude oil sales volumes and higher gas prices. Gas prices were up 9% on the previous year, reflecting higher prices from our Indonesian and Western Australian assets.

Net profit after tax (NPAT) was \$519 million for the year. The previous year comparable profit of \$753 million included gains on asset sales of \$408 million after tax. The 2012 result includes \$77 million of after tax impairments. The impairments primarily relate to the Sangu assets in Bangladesh and revisions to abandonment cost estimates for the non-operated Thevenard Island asset, located offshore Western Australia. Underlying net profit after tax was up 34% to \$606 million, continuing the growth trend since 2009. Growth in underlying profit was driven by higher liquids volumes and gas prices, partially offset by higher costs.

Production costs of \$660 million were \$104 million higher than the previous year, with over half of this increase due to the commencement of production from new assets, such as Chim Sáo, Reindeer and Wortel. Other main drivers of the cost increase were the planned shutdown of Bayu-Undan/Darwin LNG and higher maintenance activities.

Managing costs remains an absolute priority for Santos, and we are targeting 2013 production costs of between \$630 and \$660 million. Operating cash flow of \$1,658 million was 32% higher than the previous year due to the favourable impact of higher sales volumes and lower taxes paid, partially offset by higher operating costs. This is a 32% increase on 2011, and underpins our robust funding position in support of our major growth capital expenditure program.

The company's capital expenditure increased to \$3.4 billion in 2012 as our investment in growth projects continued. Capital expenditure is forecast to peak in 2013 at approximately \$4 billion, including approximately \$2.5 billion on the PNG LNG and GLNG projects, ahead of their start-up in 2014 and 2015 respectively.

#### **NET PROFIT AFTER TAX**

\$million



#### KEY DRIVERS OF 2012 NPAT VERSUS 2011

The main drivers of the NPAT decrease from \$753 million to \$519 million are represented in the above chart, and are as follows:

- Prices and foreign exchange increased NPAT by \$22 million, primarily due to higher gas prices.
- Sales volumes increased NPAT by \$89 million, as we sold higher volumes of crude oil from Vietnam and the Cooper Basin.
- Production costs decreased NPAT by \$32 million, as costs trended higher due to cost inflation of approximately 5% across the business, together with planned shutdown and maintenance activity.

- Depreciation and depletion expenses decreased NPAT by \$22 million, reflecting higher unit development costs.
- A lower effective tax rate increased NPAT by \$71 million, primarily due to a reduction of foreign losses not recognised.
- Other items increased NPAT by \$13 million, primarily due to lower exploration and evaluation expenditure.
- Gains on asset sales decreased NPAT by \$400 million, due to the sale of interests in Evans Shoal and GLNG completed in 2011.
- Lower impairment losses in 2012 increased NPAT by \$25 million.

#### **STRONG FINANCIAL POSITION**

**AVAILABLE FUNDING CAPACITY** 

\$billion

Santos' funding and liquidity position remains very robust.

At the end of December 2012, Santos had \$5.8 billion of funding capacity, including \$2.2 billion cash and \$3.6 billion undrawn committed corporate and project debt facilities. Maturities on drawn debt facilities are minimal out to 2017, at which time Santos has the option to redeem the €1 billion hybrid notes that otherwise mature in 2070.

This strong liquidity position provides the capacity to fund the execution of the company's sanctioned development projects while minimising refinancing risk.

## Delivering sustainably

Integrating environmental, social and governance considerations into the way we do business.

#### **ROBUST FRAMEWORK**

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

The framework aims to provide a comprehensive and consistent set of tools to assess sustainability performance, integrate sustainability into the way we operate and drive improvement across the business.

#### PARTNERING WITH COMMUNITIES

Santos understands the importance of supporting local communities in meaningful ways, and seeks to engage and inform communities by providing transparent, accurate and up-to-date information. As part of all community engagement strategies for major projects, we provide regular and timely project updates, targeted briefings, site tours, free-call telephone numbers, regional offices and information sessions.

During 2012, the Santos GLNG Community Handbook was developed based on the outcomes of a series of community information sessions and consultative committees. The handbook is designed to help locals recognise the possible social impacts of the GLNG project and addresses six themes – water and environment, community safety, social infrastructure, community wellbeing and liveability, local industry participation and training, and Aboriginal engagement and participation.

#### LIGHTENING OUR FOOTPRINT

We have integrated systems in place to manage our activities responsibly and to find new ways to reduce our environmental footprint.

Santos seeks to continually improve the way it manages the treatment and disposal of formation water, and looks for innovative ways to limit impacts and achieve beneficial outcomes for the community and environment.

For example, Santos' water management solutions aim to benefit local communities and augment existing water supplies through recharging groundwater and surface water. In 2012, over two million litres of water were recycled and diverted to local pasture irrigation.

At Fairview, Santos has also introduced an innovative system to close the loop on drilling fluids, which is helping to minimise the disposal of waste water and reduce the consumption of water requirements. Approximately 500,000 barrels of drilling fluid were processed in 2012, with around 90% being reused throughout operations.

#### LOOKING AFTER OUR PEOPLE

Santos is committed to creating a safe, supportive and productive work environment that encourages diversity, fosters resilience and maximises potential and performance.

The Santos employee survey was conducted again in 2012. The survey covered a variety of themes including job satisfaction, corporate values, leadership, support, feedback and recognition, integrity, fairness and culture. Results for 2012 were pleasing, with a significant increase in favourable responses. Santos is committed to providing an inclusive workplace that embraces people with a diversity of skills and backgrounds. In 2012, 34% of our new recruits are female (compared to 27% of the total workforce), revealing a trend towards greater female participation.

Santos encourages Aboriginal workforce participation through supporting cadetship, traineeship, apprenticeship and scholarship opportunities. To date, 137 Aboriginal employment, training and education opportunities have been created within Santos and our contractor companies, as well as 135 opportunities within the GLNG project.

#### SUSTAINABILITY REPORT 2012

For further information, please refer to our *Sustainability Report*, which provides further details on Santos' management approach and performance.



www.santos.com/sustainability







Supporting the Clontarf Foundation, Gibb River charity bike ride.

## 2012 key statistics

#### GREENHOUSE GAS EMISSIONS FROM SANTOS OPERATED ASSETS

3.8 million tonnes CO<sub>2</sub>e (Scope-



We achieved our 2012 emissions intensity target of 70kt CO<sub>2</sub>e/mmboe.

#### SAFETY PERFORMANCE



While injury rates have increased, our systems are successfully preventing severe injuries.

### WORKFORCE GENDER PROFILE %

Board of Directors	89
Strategic leader	77 23
Functional leader	84 16
Team leader	87 13
Technical specialist	76 24
Team member	69 31
Total	73 27

Santos is committed to providing an inclusive workplace that embraces diversity and supports women in technical and management roles.

## 2012 delivery

- Australia's first commercial production of gas from a shale well.
- Highest Cooper oil production since 2009.
- First multi-well pad drilling project executed in Cooper Basin.
- Farm-in to 19 million acres across the Amadeus and Pedirka Basins.

### 2012 key statistics

#### PRODUCTION 22.3 mmboe



Production was in line with 2011, with higher Cooper Basin oil production offset by lower Queensland gas production.

#### EBITDAX (excluding asset sales) \$666 million



EBITDAX increased by 5%, with higher crude oil sales driving higher sales revenue partially offset by higher third-party purchase costs.



Drilling at the Tindilpie multi-well pad, Cooper Basin.

## Eastern Australia

## Positioned for growth, with innovation and investment helping us meet rising demand locally and abroad.

Santos is a leading producer of natural gas, gas liquids and crude oil in eastern Australia. Gas is sold primarily to domestic retailers and industry, while gas liquids and crude oil are sold in the domestic and export markets.

The demand for natural gas in eastern Australia is expected to triple by 2016 which is driving gas prices significantly higher. Santos has substantial gas reserves and resources, conventional and unconventional, and is well positioned to supply the growing eastern Australian gas market.

Our aim is to double current production by 2020 whilst delivering lower production costs per barrel through maximising utilisation of existing infrastructure.

#### COOPER GAS TRANSITION UNDERWAY

Gas production of 66.6 petajoules 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 the wet weather that affected the 2010–2011 drilling campaigns.

During the year, 23 gas development wells were drilled, including the Tindilpie six-well pad that will produce 15 mmscf/day. Multi-well pad technology is used extensively in the United States for its greater efficiency, lower costs and a smaller environmental footprint. A 16-well pad is planned for the Cowralli field for 2013, with an expected reduction in each well cost of 16%. During the year, Santos also developed plans for a phased expansion of the Moomba processing plant, with phase one gross investment of up to \$800 million over the next four years.

This will be the most significant project in three decades affecting the Moomba plant and field satellites, and will include an additional carbon dioxide processing train and associated facilities, upgrades to existing satellite compression stations, and installation of gathering systems and trunklines covering hundreds of kilometres.

#### **DELIVERING COOPER OIL**

Santos produced 3.2 million barrels of oil from the Cooper Basin in 2012, its highest production since 2009. Driving the increase was the 2011 drilling campaigns in the Zeus and Cook fields, improved access to field infrastructure following the 2010–2011 floods, and strong performance from the Charo wells brought on line in the third quarter of 2012.

In addition, Santos generated additional revenue through the ongoing processing of third-party crude oil at Moomba. This is expected to grow by 30% in 2013 as additional third-party volumes are processed.

#### MOOMBA-191 SUCCESS

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 with an initial flow rate greater than 3 mmscf/day, exceeding expectations. As it was only 350 metres away from existing pipelines and only eight kilometres from Moomba, the well was able to be connected to the market within weeks. As at the end of the year, the well was flowing at 2.4 mmscf/day, a pleasing result.

Following this success, Santos will expand its unconventional gas exploration campaign in 2013, with four exploration wells targeting Moomba shale and the Nappamerri Trough basin centred gas plays.

#### **NSW GAS OPPORTUNITY**

Santos has the largest natural gas acreage position in New South Wales, with uncontracted reserves close to existing market channels.

Santos plans to commence a three-year drilling and seismic program in the Gunnedah Basin in 2013, including pilot and corehole wells to gather production data, working over existing wells and constructing state-of-the-art water treatment facilities.

#### FARM-IN TO AMADEUS AND PEDIRKA BASINS

In October, Santos announced a farm-in with Central Petroleum Ltd to earn a 70% interest in 13 permits in the Amadeus and Pedirka Basins, onshore Northern Territory.

Under the agreement, Santos will be the operator of all the permits. A 2D seismic survey and an exploration well are planned, targeting a potentially large conventional and unconventional gas resource.

The proposed program is a natural extension to Santos' existing operations in the Mereenie field in the Amadeus Basin, which are managed by the Eastern Australia business and produce oil, condensate and gas.

## Western Australia and Northern Territory

## Proven record of delivery with strong growth opportunities.

The WA&NT business has gone from strength to strength, posting record gas production from the Carnarvon Basin and contributing over a third of Santos' 2012 production and revenue.

Santos' strategy is to build on this success through further domestic gas sales, increased oil production and progress towards the commercialisation of its northern Australian assets.

#### STRONG DOMESTIC GAS PRODUCTION

Santos' Western Australia domestic gas production was up over 40% in 2012, 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 mining and industrial customers.

Options to grow this domestic gas business include new sales for Reindeer gas, additional processing capacity at Devil Creek and follow-on projects in the Spar and John Brookes gas fields.

#### CARNARVON OIL DEVELOPMENT ONGOING

Sanctioned in January 2012, the Fletcher Finucane oil project is currently 85% complete and on track for first oil in mid-2013. All three development wells have been drilled and completed. Offshore installation of the sub-sea facilities, including the tie-in of the three wells into the Mutineer-Exeter facilities, will commence in early 2013.

In December, Santos acquired Woodside's 8.2% interest in Mutineer-Exeter, which will result in aligned joint-venture parties having interests in both Mutineer-Exeter and Fletcher Finucane. Santos has also identified a number of follow-on oil opportunities in the Mutineer-Exeter area, which will be explored over the next few years.

#### **CROWN GAS DISCOVERY**

In November, Santos made a significant gas discovery at the Crown exploration well in WA-274-P, located between the Poseidon and Ichthys fields in the offshore Browse Basin. 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 Malita reservoirs. Pressure data was acquired at multiple points indicating that gas would be expected to flow at a high rate and multiple condensate-bearing gas samples were recovered to surface. The preliminary recoverable contingent resource estimate for the discovery is up to 5 TCF.

The Crown discovery is located close to existing and proposed LNG projects in the Browse Basin, with discussions underway with joint-venture partners for follow-up drilling.

### EXCITING 2013 DRILLING PROGRAM

An exciting exploration program is planned for the Browse Basin in 2013, following the success of Crown in 2012. Drilling of the Dufresne and Bassett-West prospects is planned for the first half, targeting gas and associated liquids in the neighbouring permit WA-408-P.

In the Carnarvon Basin, drilling of the Winchester exploration well is planned for 2013, and gas with high gas liquids content is anticipated. The Zola appraisal well is also planned to be drilled, a follow-up from the 2011 discovery of 100 metres of net gas pay in an excellent quality reservoir. Multiple development options exist, including domestic gas opportunities and tie-back to third-party LNG projects.

#### OFFSHORE NORTHERN AUSTRALIA PROGRESS

In June, Santos and partner ConocoPhillips signed an agreement with South Korea's SK E&S to progress the appraisal of the Caldita Barossa gas fields. Under the agreement, SK E&S will fund up to US\$520 million in joint venture carry obligations and contingent payments, with planning for a three-well appraisal program currently underway. Various development options for the fields will be assessed, including floating LNG and a tie-back to the Darwin LNG plant.

In October, the Bonaparte LNG project cleared a major regulatory milestone, receiving environmental approval from the Australian Government. GDF SUEZ Bonaparte, the operator and Santos' partner in the project, has awarded contracts to KBR and Technip to complete independent designs of the floating LNG facility during the concept definition stage of development.

#### NORTHERN TERRITORY SHALE FARM-IN

Onshore, Santos is expanding its footprint in the Northern Territory, with a farm-in to four prospective shale gas and oil permits in the McArthur Basin announced in December.

The permits offer gas and liquids potential close to existing infrastructure, including gas pipelines, a railway and a major highway.

These assets add to Santos' NT portfolio led by Darwin LNG, which continued to perform strongly following a planned shutdown in the first half of 2012.

### 2012 delivery

- Highest-ever Carnarvon gas production, up 43% from 2011.
- Exploration success at Crown in Browse Basin.
- SK E&S farm-in to Caldita Barossa for up to US\$520 million.
- Fletcher Finucane project 85% complete and on schedule for first oil in mid-2013.

## 2012 key statistics

#### **PRODUCTION** 18.7 mmboe



Production was up 18%, driven by a full year of production from the Reindeer and Spar fields in the Carnarvon Basin.

#### EBITDAX

(excluding asset sales) \$792 million



EBITDAX was in line with 2011, with strong revenue from higher priced Reindeer gas sales offset by higher production costs, including the cost of the Darwin LNG planned shutdown.





Supplying domestic gas from the Devil Creek gas processing plant, Pilbara.



Installation works at Fletcher Finucane oil project, Carnarvon Basin.

## 2012 delivery

- GLNG project 47% complete and on track for first LNG in 2015.
- Over 15 million hours worked across the project.
- 5,200 people working on the project at year end.
- Upstream hub compressor station construction commenced.
- All pipeline landed in Queensland and pipeline construction underway.
- Strong progress on construction of LNG trains and supporting infrastructure on Curtis Island.
- Start of module construction in Batangas, the Philippines.
- Brisbane operations centre commissioned.



LNG plant construction underway at Curtis Island.

## GLNG

## Construction well underway on a cornerstone project.

#### ON TRACK FOR FIRST LNG IN 2015

The GLNG project involves the development of gas fields in the Bowen and Surat Basins, the construction of a 420-kilometre underground gas transmission pipeline and a two-train LNG processing facility on Curtis Island in Gladstone.

The project is a joint venture between Santos and three of the world's largest LNG companies, PETRONAS, Total and KOGAS. Sanctioned in January 2011, the project is now 47% complete and on track for first LNG in 2015.

#### BUILDING VALUE FOR SHAREHOLDERS

The GLNG project is at the heart of Santos' vision to be a leading Asia Pacific exploration and production company.

With the sanction of the GLNG project, Santos opened a channel to strong Asian demand for Australian LNG, reinvigorating our Eastern Australia business through access to the stronger priced Asian market. The scale afforded by that higher demand allows Santos to underpin the investment needed to unlock the next wave of Eastern Australia development, including Cooper Basin shale and Moomba infrastructure.

The GLNG project had already provided material value before the final investment decision was made in January 2011, with the 70% sell-down to PETRONAS, Total and KOGAS generating \$3.3 billion in cash proceeds. Underpinned by binding 20-year sales contracts with KOGAS and PETRONAS, GLNG is a new legacy asset that will generate substantial cash flow to fund the next wave of Santos' growth after 2015.

#### GAS SUPPLY BUILD CONTINUES

To execute the most efficient gas supply for the project, gas will be sourced from the dedicated CSG fields, underground storage, supply from Santos' portfolio and third parties.

In 2012, 143 wells were drilled in the project's CSG acreage, with the gas produced supplied to domestic contracts and the remainder injected into underground storage. A further 200 to 300 wells are planned to be drilled each year from 2013 to 2015.

Additional gas supply agreements for a total of 595 PJ were signed with third parties in 2012 for gas supply to the GLNG project, adding to the 750 petajoules that Santos has agreed to supply, primarily from the Cooper Basin.

#### GASFIELD AND PIPELINE CONSTRUCTION UNDERWAY

More than 5,200 people are currently working on the GLNG project, with a significant number in the upstream and pipeline construction.

Construction is currently underway at the three hub compressor stations in Fairview and Roma, with site foundations well advanced and equipment installation commenced. Materials and equipment for key infrastructure continue to arrive from local and overseas suppliers. All 420 kilometres of the gas transmission pipeline have been delivered to site, marking a significant milestone for the project. Construction continues with over 140 kilometres of the mainland pipeline right-of-way cleared and graded, and pipeline welding well underway. In December, pipeline burial in the Arcadia Valley commenced – the final step before rehabilitation works are carried out.

#### LNG PLANT AND PORT CONSTRUCTION

On Curtis Island, construction of the two LNG trains and supporting infrastructure continues to progress. Bulk earthworks have been completed, and the first mechanical equipment has been installed on Train 1. Good progress has been made on the LNG tanks, with installation of roof plates and concrete wall construction ongoing.

Work is also underway at the module yard in the Philippines to construct and assemble the 110 modules required, with modules planned to be shipped to site in 2013.

#### CAPITAL COST ESTIMATE INCREASED TO US\$18.5 BILLION

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

## Asia Pacific

Focused exploration-led portfolio, led by our operations in Indonesia, Vietnam and Papua New Guinea.

Santos' strategy in Asia is to be a leading independent upstream oil and gas producer, by deepening our portfolio of assets in our core countries of Indonesia, Vietnam and Papua New Guinea.

Asia's energy trends are matching its economic trends, as millions of people across the region seek a better way of life, largely through migration to urban centres and greater access to heat, light and mobility.

Asia's transformation and its energy challenges have been game-changers for Australia and Asia's gas industries, leading to rapid rises in natural gas demand. Projections indicate that global demand for natural gas will grow by more than 50%, faster than any other fossil fuel, in the 25 years to 2035.

Santos is well positioned with a growing portfolio and interests in both LNG supply and domestic production – the two activities critical to the Asia Pacific's energy security.

#### PNG LNG ON TRACK FOR FIRST LNG IN 2014

The PNG LNG project is over 75% complete and on track for first LNG in 2014. The project involves gas production and processing facilities at Hides in the Southern Highlands of Papua New Guinea and pipeline infrastructure to a LNG plant and load-out facility located near Port Moresby, with a capacity of 6.9 million tonnes of LNG per year.

In the upstream, development drilling is underway on the first two wells of the Hides field. Meanwhile, construction is progressing at the Hides gas conditioning plant, with earthworks and the major foundations complete and pipework and equipment installation progressing. The Komo airfield is nearing completion with Antonov operations expected to begin in April, meeting the required timing of the overall project schedule.

The offshore section of pipeline has been completed and over 70% of the main onshore pipeline has been welded. The major items of processing equipment are in place at the LNG plant, with the LNG tanks, flare system and load-out jetty nearing completion.

In addition, the Hides Deep prospect is planned to be drilled in 2014. It is located below the existing Hides resource.

During the year, operator ExxonMobil completed a cost and schedule review for the project and advised that the project capital cost estimate had increased to US\$19 billion. Foreign exchange was the largest single contributor to the increase and to a lesser extent, delays from work stoppages due to community disruptions and land access led to increased construction and drilling costs. Extraordinary logistics and weather challenges also increased costs. The operator also advised that the LNG plant capacity had increased from 6.6 mpta to 6.9 mtpa, with discussions underway for sales of additional volumes.

#### **STRONG INDONESIA BUSINESS**

Santos' Indonesia business continues to perform strongly, accounting for 10% of company-wide production in 2012.

The Wortel gas project, located offshore East Java, was delivered in January 2012 on budget, adding a third producing asset to Santos' Indonesian portfolio. Combined gross production from Oyong and Wortel has been 90 TJ/day, in line with expectations. Santos is seeking to sanction the Peluang project in early 2013, with an expected gross peak production of 25 TJ/day. Peluang will be developed as a tie-back to the existing Maleo asset, with start-up expected in the first half of 2014.

#### **HIGH-MARGIN VIETNAM OIL**

The Chim Sáo oil project, producing since October 2011, continued to perform strongly in 2012. The gross oil production rate was greater than 25,000 barrels of oil per day for the last eight months of the year, above expectations.

Building on the success at Chim Sáo, the Dua oil project was sanctioned in August 2012. It involves a three-well sub-sea tie-back to Chim Sáo and is expected to produce at a gross rate of 10,000 barrels of oil per day. The project is over 35% complete and on track for first oil in the first half of 2014.

#### VIETNAM EXPLORATION UPSIDE

Santos has an active exploration program underway in the Nam Con Son and Phu Khanh basins, offshore Vietnam, following promising seismic results.

The Hon Khoai oil exploration well is planned for the second half of 2013, following the acquisition of 3D seismic in 2012. Located in Block 13/03 in the Nam Con Son Basin, Santos is targeting a gross mean prospective resource estimate of 50-100 million barrels of oil equivalent.

In Block 123 in the Phu Khanh basin, Santos completed a 3D seismic survey in June 2012 which identified a main prospect with material potential. An exploration well is planned to be drilled in 2014, located in 1,900 metres of water.



## 2012 delivery

- PNG LNG over 75% complete and on track for first LNG in 2014.
- Wortel gas project in Indonesia delivered on budget.
- Chim Sáo delivers 200% boost to Asia Pacific oil production.
- Dua oil project sanctioned; first oil expected in first half of 2014.

## 2012 key statistics

#### **PRODUCTION** 9.3 mmboe



Production up 24%, driven by a full year of oil production from Chim Sáo in Vietnam, partially offset by lower Indonesian gas production.

#### EBITDAX

(excluding asset sales) \$372 million



EBITDAX was up 137%, driven by a full year of production from the Chim Sáo oil asset in Vietnam.

## **Board of Directors**

#### **KENNETH ALFRED** DEAN

BCom (Hons), FCPA, FAICD

Age 60. Independent non-executive Director since 23 February 2005. Chairman, Audit Committee and Member. Finance Committee of the Board. Director of Santos Finance Ltd since 2005.

Non-executive director of Bluescope Steel Limited since April 2009 and Chairman of Bluescope's Audit and Risk Committee. Independent non-executive director of EnergyAustralia Holdings Limited (formerly TRUenergy) since June 2012.

Previously Chief Financial Officer of Alumina Limited, alternate director of Alumina Limited and non-executive director of Alcoa of Australia Ltd, Alcoa World Alumina LLC and related companies (2005–2009). Director of Shell Australia Ltd (1997–2001) and Woodside Petroleum Ltd (1998-2004).

Over 30 years' experience in the oil and gas industry. Former Chief Executive Officer of Shell Financial Services and member of the La Trobe University Council.

#### **GREGORY JOHN** WALTON MARTIN BEc, LLB, FAIM, MAICD

Age 53. Independent non-executive Director since 29 October 2009. Chairman. People and Remuneration Committee of the Board. Member, Environment, Health, Safety and Sustainability Committee of the Board.

Non-executive director of a number of listed and unlisted companies including Energy **Developments Limited since** May 2006, Iluka Resources Limited since January 2013 and Australian Energy Market Operator Limited since July 2009. Chairman and Joint Managing Partner of Prostar Capital since July 2012.

Previously Deputy Chairman of the Australian Gas Association and inaugural Chairman of the Energy Supply Association of Australia between 2004 and 2006. Past member of the Business Council of Australia and Committee for the Economic Development of Australia. Formerly Managing Director, Murchison Metals Limited (2011-2012), Managing Director and CEO of AGL and Chief Executive Infrastructure at Challenger Financial Services Group.

#### **ROY ALEXANDER** FRANKLIN OBE BSc (Hons)

Age 59. Independent non-executive Director since 28 September 2006. Member. Environment, Health, Safety and Sustainability Committee and People and Remuneration Committee of the Board.

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

Previously Chief Executive Officer of Paladin Resources plc (1997-2005) and former Group Managing Director of Clyde Petroleum plc. Chairman of BRINDEX, the trade association for UK independent oil and gas companies (2002-2005) and a former member of PILOT, the joint industry/UK Government task force set up to maximise hydrocarbon recovery from the UK North Sea (2002-2005).

In 2004, awarded the OBE for services to the UK oil and gas industry.

#### DAVID JOHN WISSLER KNOX

BSc (Hons) Mech Eng, MBA, FIE Aust, FTSE

Age 55. Chief Executive Officer and Managing Director of Santos since July 2008, having been appointed Acting Chief Executive Officer in March 2008. Joined Santos in September 2007 as **Executive Vice President** Growth Businesses. Member, Environment, Health, Safety and Sustainability Committee of the Board.

30 years of experience in the global oil and gas industry, including as Managing Director Glencore International plc for BP Developments in Australasia (2003-2007). Previously held senior positions with BP in Australia, . UK and Pakistan, and management and engineering roles at ARCO and Shell in the United States, Netherlands, UK and Norway.

Chairman of the Australian Petroleum Production and **Exploration Association** (APPEA). Board member, SA Botanic Gardens and State Herbarium. Member of the Business Council of Australia. Elected in November 2012 as a Fellow of the Australian Academy of Technological Sciences and Engineering.

#### PETER ROLAND COATES AO BSc (Mining Engineering), FAICD

Age 67. Appointed Chairman on 9 December 2009. Previously an independent non-executive Director since 18 March 2008. Chairman, Nomination Committee of the Board and Santos Finance Limited Board. Member, People and Remuneration and Finance Committees of the Board.

Non-executive director of Amalgamated Holdings Limited since July 2009 and non-executive director of since April 2011. Chair, Sydney North West Rail Link Advisory Board, since December 2012.

Former non-executive Chairman of Xstrata Australia Pty Ltd (2008-2009). Former Chairman and non-executive director of Minara Resources Ltd (2008-2011). Previously Chief Executive of Xstrata Coal, Xstrata plc's global coal business. Past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association.

Made an Officer of the Order of Australia in 2009. Awarded the 2010 Australasian Institute of Mining and Metallurgy Medal.



Age 59. Independent non-executive director since 16 February 2010. Member, People and Remuneration Committee and Audit Committee of the Board.

Non-executive director of the Commonwealth Bank of Australia since October 2006, Lend Lease Group since September 2011 and Tabcorp Holdings Ltd since November 2008. Chairman of Victorian Opera Company Ltd since February 2013 (previously non-executive director since October 2010).

Previously Deputy Chairman of The Global Foundation (2009–2012) and a member of the CEDA Research and Policy Council (2009–2013).

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

#### HOCK GOH BEng (Hons) Mech Eng

Age 57. Independent non-executive Director since 22 October 2012.

Chairman of MEC Resources Ltd since October 2006, Advent Energy Ltd since November 2007 and NetGain Systems Pte Ltd (Singapore) since 2005. Non-executive director of Stora Enso Oyj (Finland) since April 2012.

Previously an Operating Partner of Baird Capital Partners Asia, based in China, (2007–June 2012) and non-executive director of Xaloy Holding Inc in the US (2006–2008).

More than 30 years' experience in the global oil and gas industry, having spent 25 years with Schlumberger Limited including as President of Network and Infrastructure Solutions division in London, President of Asia, and Vice President and General Manager of China. Previously held managerial and staff positions in Asia, the Middle East and Europe.

#### KENNETH CHARLES BORDA LLB, BA

Age 60. Independent non-executive Director since 14 February 2007. Chairman, Finance Committee of the Board. Member, Nomination Committee of the Board.

Board member of Fullerton Funds Management, owned by Temasek, Singapore since February 2007 and member of the Asian Advisory Board of Aviva Pte Ltd (Singapore) since February 2009.

Previously Chairman of Leighton Contractors Pty Ltd (2011-2012 and nonexecutive director since 2007), director of Talent2 International Ltd (2008–2012) and board member of SFE Corporation (2000-2006) until its acquisition by the Australian Stock Exchange Ltd. Former non-executive director of Ithmaar Bank (Bahrain and Kuwait). CEO of Middle East and North Africa, Deutsche Bank before retirement in 2007 after 17 years of service. Formerly Regional CEO Asia Pacific, Regional CEO Middle East and CEO Australia and New Zealand, Deutsche Bank and Director of Deutsche Bank Malaysia (2002–2007).

#### RICHARD MICHAEL HARDING MSc

Age 63. Independent non-executive Director since 1 March 2004. Chairman, Environment, Health, Safety and Sustainability Committee of the Board. Member, Audit and Nomination Committees of the Board.

Chairman of Downer EDI Limited since November 2010, non-executive director since 2008 and Deputy Chairman since July 2010. Non-executive director of Roc Oil Company Limited since June 2012.

Previously Chairman of Clough Limited (2006-2010), Deputy Chairman of Arc Energy Ltd until 2007 (appointed as non-executive director in 2003) and Chairman of the Ministry of Defence Project Governance Board – Land Systems Division (Army) (2003–2009). Former President and General Manager of BP Developments Australia Ltd with over 25 years of extensive international experience with BP. Former Vice-Chairman of APPEA.

## Santos Leadership Team

Left to right: Christian Paech, James Baulderstone, Bill Ovenden, Diana Hoff, John Anderson, Trevor Brown, David Knox, Petrina Coventry, Peter Cleary, Andrew Seaton,

Rod Duke, Martyn Eames, David Lim

CHRISTIAN PAECH General Counsel LLB (Hons), BCom

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

Christian has 20 years of legal experience and joined Santos in 2004 after working in national and international firms in Melbourne and London where he focused on large-scale corporate transactions and corporate governance.

#### JAMES BAULDERSTONE Vice President Eastern Australia

LLB (Hons), BSc (Hons)

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

James joined Santos in 2007 as General Counsel and Company Secretary after previously holding similar roles at Mayne Group and BlueScope Steel. James has 23 years of extensive legal, commercial and business development experience. BILL OVENDEN Vice President Exploration and Subsurface (Acting) BSc Hons (Geology and Geophysics)

Bill Ovenden is responsible for exploration budget and strategy, and ensuring excellence in subsurface activities across Santos' upstream programs.

Bill is a geologist with 30 years of experience in the oil and gas industry. He has worked on exploration projects in Australia, Central and South-East Asia, North Africa, the Middle East and South America, with companies including Sun Oil, Kufpec, ExxonMobil and Ampolex. He joined Santos in 2002 after working for ExxonMobil in Indonesia.

#### DIANA HOFF Vice President Technical and Engineering BSc Petroleum Engineering

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

Diana joined Santos in 2010 as General Manager Drilling and Completions. Her career has included drilling and completions operations, engineering and management, and production management with significant focus on regulatory processes, including environmental approvals, stakeholder engagement and mitigations to lessen impacts to air quality, water quality and surface disturbance. JOHN ANDERSON Vice President Western Australia and Northern Territory LLB, BEc, GDCL

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

John joined Santos in 1996 as Corporate Counsel for the former Queensland Northern Territory Business Unit. John has over 25 years of legal, commercial and business development experience in the oil and gas industry, including 10 years working as a solicitor with Freehills.

#### TREVOR BROWN Vice President Queensland BSc (Hons)

Trevor Brown has end-to-end responsibility for the delivery of optimal gas supply, execution of the upstream project and upstream operations for the GLNG Project.

Trevor joined Santos in 2001 from Unocal, where he was part of an active exploration team working in South-East Asia, the United States and South America. Trevor has more than 27 years' experience in the oil and gas industry, including 11 years in Indonesia managing onshore and offshore exploration programs. Chief Executive Officer and Managing Director BSc (Hons) Mech Eng, MBA, FIEAust, FTSE

David Knox was appointed Chief Executive Officer and Managing Director in July 2008.

He has over 30 years of experience in the global oil and gas industry, and was Managing Director for BP Developments in Australasia from 2003 to 2007. He previously held senior positions with BP in the United Kingdom and Pakistan, and management and engineering roles at ARC0 and Shell in the United States, Pakistan, the Netherlands, the United Kingdom and Norway.

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

#### PETRINA COVENTRY Chief Human Resources Officer

BEd, Grad Dip HR, Grad Dip Phil, Master Business Ethics

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

Prior to joining Santos in 2009, Petrina held global leadership roles for The General Electric Company, The Coca Cola Company and Proctor and Gamble. Her industry experience includes energy, oil and gas, financial services and fast-moving consumer goods. Petrina is a PhD partner with Melbourne Business School, a Vincent Fairfax Fellow, a member of the World Economic Forum Partner Against Corruption Initiative and an advisor to the Global Council of Corporate Universities.

#### PETER CLEARY Vice President Strategy and Corporate Development BCom. LLB

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

Peter joined Santos in September 2010 from BP, where he was the President of North West Shelf Australia LNG, the LNG marketing company for the North West Shelf Venture.

During his 24-year career with BP, Peter held senior management positions in Australia, Indonesia, Korea, Hong Kong, Abu Dhabi and the United Kingdom. Peter is currently a member of the Executive Committee of the Australia Japan Business Co-operation Committee.

#### ANDREW SEATON Chief Financial Officer

BEng (Hons) Chemical, GradDip BusAdmin

Andrew Seaton was appointed Chief Financial Officer in 2010, and is responsible for Santos' corporate finance, accounting, taxation, treasury, investor relations, risk, audit, insurance, information systems and procurement functions. Andrew has over 25 years of oil and gas industry experience, encompassing finance, banking, commercial and engineering roles. Prior to joining Santos in 2005, Andrew held senior positions in investment banking with Merrill Lynch and corporate banking with NAB where he worked on a broad range of M&A, equity and debt transactions. His early career included 10 years of operations, engineering design and project management experience.

#### ROD DUKE Vice President Downstream GLNG

BEng (Hons) Chemical, GradDip Management

Rod Duke is responsible for leading the downstream activities of the Santos GLNG project, including the delivery of the GLNG gas transmission pipeline and the LNG plant and port projects.

Rod has extensive global experience in the LNG industry and joined Santos in February 2013 from Singapore LNG Corporation, where he held the position of Senior Vice President.

He has over 28 years of experience in project management, engineering, construction, commissioning, operations, commercial, marketing and business development areas of the upstream natural gas and LNG industry.

#### MARTYN EAMES Vice President Asia Pacific BSc (Hons)

Martyn Eames is responsible for Santos' activities in the Asia Pacific region, and has been based in Singapore since early 2012. This includes management of Santos' existing exploration, development and production assets in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh and any future growth.

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

#### DAVID LIM Company Secretary BEc, LLB, Ch.Sec

David Lim is accountable to the Board for the effectiveness of corporate governance processes, ensuring adherence to the Board's principles and procedures and coordinating all Board business, and provides the Santos Board with independent advice and support in relation to these matters.

Prior to joining Santos in 2007, David had over 15 years of experience in commercial legal practice. He is an accredited Chartered Secretary.

## Corporate Governance

#### **2012 GOVERNANCE HIGHLIGHTS**

- Review of Board Charter
- Appointment of new independent non-executive Director
- Update of non-executive Director letter of appointment and induction process
- The Board participated in two site visits and ongoing briefing programs
- Santos ranked at 92nd percentile in Corporate Governance in Dow Jones Sustainability Index
- Policy and procedure updates

#### INTRODUCTION

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

The Board has established policies and charters ("Policies") designed to achieve the highest standards of corporate governance within Santos. The Policies, or a summary of the Policies, are publicly available on the Company's website, **www.santos.com**. The Company's Constitution, which was updated in 2012 to ensure consistency with current regulations and corporate practice, is also available on the website.

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

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

Principle 4 – Safeguard integrity in financial reporting	
The Board should establish an Audit Committee, and structure the Committee so that it:	Sections 3.1–3.3 set out the role and membership of the Board Committees, including the Audit Committee, and confirm compliance
<ul> <li>consists only of non-executive Directors;</li> </ul>	with the Audit Committee structure.
<ul> <li>consists of a majority of independent Directors;</li> </ul>	
- is chaired by an independent chair, who is not chair of the Board; and	
• has at least three members.	
The Audit Committee should have a formal charter.	The Audit Committee operates under a Charter approved by the Board. For further details see Section 3.1 and 3.3.
Principle 5 – Make timely and balanced disclosure	
Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Section 5.4 outlines the written policies and processes Santos has adopted to ensure compliance with its continuous disclosure obligations.
Principle 6 – Respect the rights of shareholders	
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Section 5.4 summarises the Company's shareholder communication policies.
Principle 7 – Recognise and manage risk	
Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Sections 4.1–4.3 summarise the Company's risk management systems including reporting to the Board on risk, and provide examples of how business risks are managed.
Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to the Board on whether those risks are being managed effectively.	Sections 4.1–4.3 summarise the Company's risk management systems including reporting to the Board on risk, and provide examples of how business risks are managed.
Disclose whether the Board has received assurance from the CEO and the CFO that the declaration provided under s295A of the Corporations Act is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.	Section 4.2 confirms that the Board has received such assurance for the 2012 financial year.
Principle 8 – Remunerate fairly and responsibly	
The Board should establish a remuneration committee.	Sections 3.1–3.3 set out the role and membership of the Board Committees, including the People and Remuneration Committee.
Distinguish the structure of non-executive Directors' remuneration from that of executive Directors and Senior Executives.	Further information regarding the structure and details of the remuneration paid to Directors, the CEO and other Senior Executives is set out in the Remuneration Report on pages 58–75 of this <i>Annual Report</i> .

## Corporate Governance (continued)

#### PART I: COMPOSITION OF THE BOARD

Relevant policies and charters

#### See www.santos.com

- Board Charter
- Company Constitution

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

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

### The Board Charter was reviewed and updated in 2012.

In 2012, the Board undertook a review of the Board Charter (previously called the Board Guidelines) with a focus on plain language and ensuring that it maintained best market practice. The revised Board Charter has been published on the Company's website.

#### **I.I Director independence**

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

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

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

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

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

Directors must declare any conflict of interest that they may have, at the start of all Board meetings. Where a material personal interest arises with respect to a matter that is to be considered by the Board, the Director is required to declare that interest and must not take part in any Board discussion or vote in relation to that matter, unless permitted in accordance with the Corporations Act. In addition to a standing Board agenda item for declarations of changes to Directors' interests, Directors' standing notices of interests were last refreshed in 2012, tabled at a Board meeting and minuted, and copies distributed to all Directors. A standing notice for the new Director appointed during the year was tabled for consideration prior to the Board's confirmation of his appointment and he similarly received copies of all other Directors' standing declarations of interests. Taking into account each Director's standing notices and subsequent declarations, the Board considers that all non-executive Directors are independent.

#### **BOARD COMPOSITION**

Numbers of Directors



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

#### **I.2 Board capabilities**

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

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

#### DEFINING REQUIRED SKILLS AND EXPERIENCE

In order to ensure that the skills and experience available on the Board align with Santos' goals and strategy the Board considers requirements arising from:

- Current business plan and operations
- Future growth plans

#### **KEY ACTIONS IN 2012**

- Ongoing review
- Strategic planning meeting

#### IDENTIFYING AREAS FOR FURTHER DEVELOPMENT

Areas for further development, as well as skills and experience that would complement existing skills and experience, are identified by:

- Board performance review to assess current capabilities
- Nomination Committee consideration of succession planning
- Internal review conducted in late 2011/early 2012 and results reported to the Board in May 2012
- External review commenced in late 2012, to be completed in early 2013

IMPROVING BOARD EFFECTIVENESS

Steps taken to improve the Board include:

- Development and briefings to enhance Board effectiveness
- Recruitment of new Directors to complement existing Board capabilities
- Briefing sessions for Directors on a wide range of issues
- Site visits to GLNG, Gunnedah and Narrabri
- Appointment of new independent non-executive Director

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



The names and details of the experience, qualifications, special responsibilities (including Committee memberships), and term of office of each Director of the Company and the Company Secretary can be found on pages 24–27 of the *Annual Report*.

### I.3 Director selection and succession planning

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

The framework for the Nomination Committee's ongoing considerations of Board composition, as specified in the Board Charter, is that:

• Directors should be appointed primarily based on their capacity to contribute to the Company's development;

#### the Board should include at least some members with experience in the upstream oil and gas and/or resources industries; and

 in determining the composition of the Board, consideration should be given to succession planning, board renewal and the optimal mix of background, skills, experience and diversity that will position the Board to guide the Company.

## Corporate Governance (continued)

The Board Charter also includes the following principles:

- nomination for re-election is subject to review by the Nomination Committee and endorsement by the Board;
- there should be appropriate circumstances justifying nomination for re-election after a Director has served for 12 years (e.g. Chairmanship or special skills); and
- the contribution of the Board, Board Committees, and of individual Directors is the subject of formal review and discussion in accordance with the process set out below.

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

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

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

### I.4 Director induction and continuing education

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

The existing practices of providing new directors with a formal letter of appointment setting out their rights, duties and responsibilities and ensuring that they receive a comprehensive induction program, including business briefings by Management and site visits, has now been explicitly recognised in the revised Board Charter. The letter of appointment was reviewed and updated in October 2012, as were the Company's induction procedures.

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

#### Board site visits in 2012 to GLNG, Gunnedah and Narrabri.

During 2012, the Directors participated in briefing sessions on a broad range of issues, including global oil and gas industry trends, crude oil pricing, global LNG supply and demand, global exploration outcomes and trends, and the national *Work Health Safety Act* 2011 (Cth). Directors also attended site visits to GLNG and to Gunnedah and Narrabri, including engagement with local community business and government leaders. In addition, Board meetings have been held at various Santos offices including in Adelaide, Sydney, Brisbane and Singapore, giving the opportunity for familiarisation with each location's operations and personnel, and presentations from the local management team.

#### I.5 Review of board and director performance

As specified in the Board Charter, reviews of Board, Committee and individual Director performance are conducted annually. At least once every three years, the annual review of the Board and individual Directors is carried out by an independent consultant. The scope of the external review is agreed in advance with the Board. Internal reviews are facilitated by the Chairman, in consultation with the Nomination Committee, and involve questionnaires and formal interviews with each Director culminating in a written report prepared by the Chairman.

The last external review of the Board as a whole concluded in 2011 and a number of initiatives were introduced as a result, including the initiation of a strategic five year review, broadening the remit of the People and Remuneration Committee and increasing the Board's engagement with upcoming talent within the Company as well as the key stakeholders in the Company's business.

An internal review of the Board, each Committee and individual Directors was carried out in early 2012. This review included feedback from all Directors on the workings of the Board as a whole, as well as from senior executives. It included a review of the performance, structure, objectives and purpose of the Board Committees. The review addressed:

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



The results of the review were reported to the Board in May 2012 and as a result of this review, a number of initiatives, including additional scheduled site visits, were introduced in 2012 to ensure the continued effectiveness of the Board's performance and enable its sustained focus on key issues for the Company.

In the latter part of 2012 the Board commenced its periodic external Board performance review, engaging a specialist corporate governance consultancy firm to assist with the review.

The review examined the workings, performance and effectiveness of the Board and the Board's Committees. In undertaking the review, one-on-one interviews were conducted with each member of the Board and members of the Company's Senior Executive team who interact regularly with the Board. The external consultant also sat in and observed the conduct of part of a Board meeting, including interactions of the Senior Executives with the Board and the operation of the Board generally during a Board meeting. At the date of this Report, the external review is in its final stages. The Board will shortly discuss the key findings from the review and consider recommendations for addressing the opportunities identified by the review.

## **PART 2: BOARD RESPONSIBILITIES**

#### Relevant policies and charters

## See www.santos.com

Board Charter

The updated Board Charter was approved in December 2012 following a review. It incorporates, consolidates and updates key elements from the Board Guidelines, as the Charter was previously known, as well as the 'Role of the Board' document adopted by the Board a number of years ago, in relation to the Board's role and responsibilities. The Board's overriding objective is defined in the Board Charter as "...to safely and sustainably increase shareholder value within a business framework which protects shareholders' interests". The Board seeks to ensure that Management implements sound strategies and develops an integrated framework of risk management and control.

#### 2.1 Responsibilities

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

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

The Board Charter confirms that the Company Secretary, through the Chairman, is accountable to the Board for the effectiveness of corporate governance processes, ensuring adherence to the Board's principles and procedures and coordinating all Board business. All Directors have direct access to the Company Secretary.

## Corporate Governance (continued)

## The Board is responsible for:

- overseeing the Company's strategic direction and management of the Company;
- approving the annual capital and operating budget;
- approving delegations of authority to Management;
- approving significant acquisitions and disposals of assets;
- approving significant expenditure decisions outside of the Board-approved corporate budget;
- approving and monitoring financial performance against strategic plans and corporate budgets;

- approving ethical standards and codes of conduct;
- selection, evaluating and succession planning for Directors, the CEO and Company Secretary and generally endorsing the same for the CEO's direct reports;
- setting the remuneration of Directors and the CEO and generally endorsing of the same for the CEO's direct reports; and
- overseeing the integrity of risk management processes and systems.

## **Delegation of Authority**

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

#### **Responsibilities delegated by the Board to Management:**

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

The Company's Delegation of Authority was the subject of an extensive review in the first half of 2012, with a view to simplification and incorporation of increased accountability by personnel exercising their delegated authority, whilst reducing unnecessary 'red tape'. A substantially restructured, simplified and updated version was adopted in June 2012. The new Delegation of Authority incorporates increased accountability for personnel exercising delegated authority.

## Regular Senior Executive performance evaluations are undertaken.

An important aspect of the Board's responsibilities is the evaluation of the Company's executives. Performance evaluation of Senior Executives is undertaken twice a year by the CEO. The Chairman undertakes the CEO's annual review and reports the outcome to the People and Remuneration Committee.

The results of these reviews are used in determining future remuneration in consultation with the People and Remuneration Committee, and generally for review by the Board in relation to Management succession planning. Performance reviews were conducted in accordance with this process for each of the Senior Executives, including the CEO, during the year. These reviews impacted on the short term incentives for the Senior Executives and included the following criteria:

- analysing performance against agreed measures;
- examining the effectiveness and quality of the individual in their given role;

- assessing key contributions;
- identifying areas of potential improvement; and
- assessing whether expectations of shareholders and other stakeholders have been met.

Details of the remuneration received by the CEO and Senior Executives, including short- and long-term incentives relating to Company and individual performance targets, are set out in the Remuneration Report commencing on page 58 of the *Annual Report*. Details of non-executive Director remuneration are also set out in the Remuneration Report.

## 2.2 Indemnity, access to information and independent professional advice

The Board Charter sets out the circumstances and procedures pursuant to which a Director may seek independent professional advice at the Company's expense. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant adviser. A copy of the advice and letter of instruction is usually required to be provided to the Board.

Pursuant to a deed executed by the Company and each Director, a Director also has the right to access all documents which have been presented to meetings of the Board or to any Committee of the Board or otherwise made available to the Director whilst in office. This right continues for a term of seven years after ceasing to be a Director, or such longer period as is necessary to determine any relevant legal proceedings that commenced during that term. Information in respect of indemnity and insurance arrangements for Directors and certain Senior Executives appears in the Directors' Report on page 76 of this *Annual Report*.

## **PART 3: BOARD COMMITTEES**

Relevant policies and charters

See www.santos.com

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

#### 3.1 Role and membership

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

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

Board Committees conduct their own internal review of their performance, structure, objectives and purpose from time to time. A revised Charter for the Environment, Health, Safety and Sustainability Committee was adopted in February 2012, following a review by that Committee. This updated the Charter in line with changes brought about by the new *Work Health Safety Act 2011* (Cth). An indicative annual schedule of matters for consideration by the Committee was also added, as part of consolidation of safety due diligence principles endorsed by the Board.

Board Committees have access to internal and external resources, including access to advice from independent external consultants or specialists.

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

Following is a summary of the membership of the Board Committees.

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

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

## Board Committee Membership

## Corporate Governance (continued)

Following are details of the membership requirements of each Committee, as outlined in each Committee's Charter. The Board reviews Committee membership on at least an annual basis and believes that each Committee's membership currently satisfies the membership requirements. Details of the qualifications and experience of each Director can be found on pages 24–25 of this *Annual Report*.

Board Committee	Membership requirements
Audit Committee	• members who are financially literate;
	<ul> <li>at least one member with past employment experience in finance and accounting, requisite professional certification in accounting or other comparable experience or background;</li> </ul>
	• at least one member with an understanding of the exploration and production industry; and
	• the Chairman of the Board is precluded from being the Chairman of the Audit Committee.
Environment, Health, Safety and Sustainability Committee	At least three non-executive Directors and the Managing Director.
Finance Committee	At least three independent non-executive Directors, all of whom will be financially literate and including at least one with past employment experience in finance, requisite professional certification or other comparable experience or background which results in the individual's financial sophistication.
Nomination Committee	At least three independent Directors, chaired by the Chairman of the Board.
People and Remuneration Committee	At least three non-executive Directors, including the Chairman of the Board.

## **3.2 Board and Committee meetings**

In 2012, a total of 11 Board meetings were held, including a strategy workshop and meeting. This exceeded the minimum requirements set out in the Board Charter. In addition to formal meetings, the Directors participated in a site visit to the GLNG project at Gladstone in June 2012, and to Narrabri and Gunnedah in December 2012.

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

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

## 3.3 Role and activities of Committees

## Audit Committee

The primary objective of the Audit Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities related to financial accounting practices, external financial reporting, financial risk management and internal control, the internal and external audit function, and compliance with laws and regulations relating to these areas of responsibility.

The role of the Audit Committee includes:

- evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board;
- reviewing the process adopted by the CEO and Chief Financial Officer ("CFO") when certifying to the Board that the Company's financial reports are true and fair and that they are based on a sound system of risk management and internal compliance and control that is operating effectively in all material respects;

- examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices;
- meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures;
- where the external auditor provides non-audit services, reporting to the Board as to whether the Committee is satisfied that the provision of those services has not compromised the auditor's independence;
- reviewing the process of the Reporting Misconduct Program;
- recommending proposed dividends to the Board for final adoption; and
- recommending to the Board the appointment and dismissal of the head of internal audit.

Regular meetings held with auditors without Management present.

The Audit Committee meets with the external auditor, Ernst & Young, without management present, after each Audit Committee meeting and this is followed by a meeting with Ernst & Young and the Internal Auditor without the rest of Management present.

## Finance Committee

The role of the Finance Committee includes:

- responsibility for considering and making recommendations to the Board on the Company's capital management strategy and the Company's funding requirements and specific funding proposals;
- formulating and monitoring compliance with treasury policies and practices; and
- the management of credit, liquidity and commodity market risks.

During 2012 the Finance Committee worked closely with Management in actively reviewing the Company's funding plans.

## Environment, Health, Safety and Sustainability Committee

The role of the Environment, Health, Safety and Sustainability ("EHSS") Committee includes:

- monitoring and review of the EHSS Policies and related systems and their compliance with all applicable environment, health and safety legislation;
- monitoring and review of all aspects of environment, and health and safety risks which are relevant to the Company's operations;

- receipt and consideration of reports on all major changes to the Company's environment and health and safety responsibilities;
- receipt and consideration of reports on any significant system failure, accident or other incident;
- review of the regular internal and external environmental, health and safety audits; and
- monitoring and reviewing the appropriateness and implementation of the Company's environment, health, safety and sustainability governance arrangements.

During 2012, EHSS Committee reporting was improved and a new category of award, to recognise outstanding contribution by a health and safety representative, was added to the Directors' EHS Awards categories.

Following a review of the format and content of reporting to the EHSS Committee, the EHSS Committee's agendas and the style and content of reports from Management were amended in 2012, with the aim of focusing more closely on key priorities. A new standing agenda item involving the review of lessons learnt from high potential incidents ("HiPo's") was added and this item is required to be presented by senior line management personnel or a Vice President.

A new category was introduced to the annual Directors' EHS Awards, to recognise outstanding contribution by a health & safety representative. In this eighth year of the Awards, which are judged by the EHSS Committee, there were five categories of awards, open to both employees and contractors, attracting 46 entries. An awards ceremony was held in May 2012, to which all employees were invited. This is an important annual opportunity to bring EHSS matters, and the Board and EHSS Committee's commitment to EHSS, to the attention of the whole Company.

## Nomination Committee

It is the responsibility of the Nomination Committee to devise the criteria for, and review membership of the Board, including the re-election of incumbent Directors and nominations for new appointments, to maintain an appropriate balance of skills, experience, diversity and expertise on the Board.

When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, experience or background, the Nomination Committee has responsibility for proposing candidates for consideration by the Board.

Successful candidate search conducted and new non-executive Director appointed in 2012.

During 2012 the Nomination Committee developed a brief for a search for candidates for an additional director, having reviewed the existing and future requirements for diversity, skills and experience on the Board. The Nomination Committee oversaw the conduct of that search by an external service provider and recommended the final candidate to the Board for approval. resulting in the appointment of Mr Hock Goh as a new Director on 22 October 2012. This appointment enhances the skills, technical and geographical experience represented on the Board. Further information about the new composition of the Board is provided in Section 1.2 above (Board Capabilities) and Section 5 (Diversity) and Directors' biographical details are provided on pages 24 and 25 of this Annual Report.

## Corporate Governance (continued)

## People and Remuneration Committee

The People and Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including:

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

The Committee has access to, and regularly uses, independent advice and comparative studies on the appropriateness of remuneration arrangements. Further details of 2012 activities are set out in the Remuneration Report commencing on page 58 of this *Annual Report*.

The structure and details of the remuneration paid to Directors, the CEO and other Senior Executives during the period are set out in the Remuneration Report commencing on page 58 of this *Annual Report* and notes 30-31 to the financial statements commencing on page 130 of this *Annual Report*.

Further detail about the People and Remuneration Committee's oversight of diversity objectives and reporting, including in relation to gender diversity, is provided in section 5.1 Diversity on page 41.

## PART 4: RISK MANAGEMENT

Relevant policies and charters

See www.santos.com

- Board Charter
- Risk Management Policy

## 4.1 Risk management systems

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Company's risk management and internal compliance and control systems. These systems require Management to be responsible for identifying and managing the risks which may have a material impact on the Company's objectives, and to review the systems if any irregularity or inadequacy becomes apparent. These risks include financial, non-financial and operational risks impacting areas such as project delivery, production, reputation, environment and safety, exploration and investment.

The Board Charter specifies that risk management arrangements will include:

- Board Committees;
- financial reporting;
- management reporting;
- organisational structures, procedures, manuals and policies;
- audits;
- environment, health and safety standards;
- comprehensive insurance programs; and
- appointment of specialist staff and external advisors.

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

## 4.2 Management reporting on risk

As risk management is embedded throughout the Company, reporting of these risks occurs at a number of levels.

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

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

Following a review during 2012, amendments to the Risk Policy, risk management system and processes were endorsed by the Board in December 2012 for implementation in 2013.

The Board confirms that it has received a report from Management as to the effectiveness of the Company's management of its material business risks for the 2012 financial year.

The Board also receives written certifications from the CEO and the CFO in relation to the Company's financial reporting processes. For the 2012 financial year, the CEO and CFO provided assurance that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and the system is operating effectively in all material respects in relation to financial reporting risks.

## 4.3 Examples of business risks

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

Type of risk	Managed through:
Project risk	<ul> <li>A comprehensive Santos Quality Asset Development ("SQAD") system, which applies in full to all projects greater than \$100 million and key selected principles to all smaller projects;</li> </ul>
	<ul> <li>project managers are identified as the key risk and control owners with accountability to ensure all identified actions are taken;</li> </ul>
	<ul> <li>reports to the Board on the material projects;</li> </ul>
	<ul> <li>formal look back process to identify key lessons for application to future projects; and</li> </ul>
	• use of internal and external experts to peer review projects at defined points.
Environmental and safety risk	• A comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001;
	• environment, health, safety and sustainability committees at Board and management levels;
	• the retention of specialist environmental, health and safety staff and advisors;
	<ul> <li>regular internal and external environmental, health and safety audits and reviews, including process safety reviews;</li> </ul>
	• regular training of employees with respect to environment, health and safety; and
	<ul> <li>imposing environmental care and health and safety accountability as line management responsibilities.</li> </ul>
Exploration and reserves risk	<ul> <li>Implementation of risk management processes, including reporting mechanisms in respect of each exploration project;</li> </ul>
	<ul> <li>internal control systems that include resource assessment of exploration prospects, resource development plans and project assurance processes;</li> </ul>
	<ul> <li>corporate review, both forward looking and retrospective; and</li> </ul>
	<ul> <li>Board approval of exploration budgets; and</li> </ul>
	<ul> <li>a Reserves Management System that is consistent with the Society of Petroleum Engineers' Petroleum Resources Management System, in respect of which external reserves reviews and audits are undertaken regularly.</li> </ul>
Reputational risk	<ul> <li>Formal processes to ensure that the Company's operations and interactions with our stakeholders and communities are of the highest standard;</li> </ul>
	<ul> <li>consideration is given to the impacts of all operations to communities;</li> </ul>
	<ul> <li>participation with the industry body and other oil and gas operators; and</li> </ul>
	• regular briefings to stakeholders and communities where the Company operates.
Operational risk	• All significant areas of Company operations are subject to regular reporting to the Board;
	• the Board receives regular reports on the performance of each business unit, functional area and major project, including: Eastern Australia; Western Australia and Northern Territory; Asia Pacific; GLNG; PNG LNG; Corporate Development; Legal; Finance and Investor Relations; Human Resources; Government and Media; Environment, Health, Safety and Sustainability; and
	• identification of key safety critical equipment and maintenance processes.

## Corporate Governance (continued)

Type of risk	Managed through:						
Investment risk	Clearly defined procedures for capital allocation and expenditure, including:						
	<ul><li>a portfolio management system;</li><li>annual budgets approved by the Board;</li></ul>						
	<ul> <li>Board approval for all new strategies prior to implementation;</li> </ul>						
	• short- and long-term funding strategies which are approved by the Finance Committee;						
	<ul> <li>detailed appraisal and review procedures, including the appointment of independent advisers;</li> </ul>						
	• project management processes, including cost reporting, project forecasts and monitoring;						
	<ul> <li>levels of authority; and</li> </ul>						
	<ul> <li>due diligence requirements where assets are being acquired or new country entry is contemplated.</li> </ul>						
Financial reporting and treasury	• A comprehensive budgeting system exists with an annual budget approved by the Board;						
	<ul> <li>monthly actual results are reported against budget and quarterly forecasts for the year are prepared and reported to the Board;</li> </ul>						
	<ul> <li>treasury operations are subject to a comprehensive system of internal control, and speculative financial transactions are prohibited; and</li> </ul>						
	• regular treasury and market risk reports are made to the Finance Committee of the Board.						
	Further details relating to financial instruments and commodity price risk management are included in note 38 to the Financial Statements.						
Organisational capability risk	<ul> <li>Conducting regular reviews of the organisational capacity;</li> </ul>						
	• developing the workforce development and succession plans for all employees with focus on key roles within the Company;						
	<ul> <li>maintaining a personal and professional development curriculum with general and industry programs;</li> </ul>						
	<ul> <li>conducting a biennial survey of employees to ensure both qualitative and quantitative measures are in place to communicate with all employees and take appropriate actions; and</li> </ul>						
	• conducting regular reviews of Human Resources policy and practice.						

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

## 4.4 Independence of auditors and non-audit services

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

- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years and there will be a period of at least two successive years before that partner can again be involved in the Company's audit; and
- the internal audit function, if outsourced, will be provided by a firm other than the external audit firm.

The nature and amount of non-audit services provided by the external auditors is in the Directors' Statutory Report on page 57 of this *Annual Report*, together with the Directors' reasons for being satisfied that the provision of those services did not compromise the auditor independence requirements of the Corporations Act.

The policy requires that services which are considered to be in conflict with the role of statutory auditor are not performed by the Company's external auditor and prescribes the approval process for all non-audit services where the Company's external auditor is used. The Audit Committee Chairman is responsible for the final approval of these services. Non-assurance service work in 2012 represented 4% of the fees paid to the Company's external auditor or associates.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 164 of the *Annual Report*.

## PART 5: DIVERSITY, ETHICS AND CONDUCT

Relevant policies and charters

See www.santos.com

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

## 5.1 Diversity

The Board and senior leadership team of Santos believe that increased workforce diversity leads to stronger Company performance and a positive organisational culture. Santos is committed to providing an inclusive working environment that embraces diversity. Specific aims are to increase the representation and development of its diverse population, as well as supporting broad based equal opportunity programs and encouraging multicultural awareness.

The Diversity Policy has been approved by the Board's People and Remuneration Committee and can be found on the Company's website. This policy is summarised and referenced in the Company's Code of Conduct which sets out the expectations regarding the behaviour of all Santos employees. These policies are reviewed regularly to ensure ongoing relevance. In addition to concentrating on development of the current workforce, Santos recognises that recruitment is a key opportunity for encouraging diversity. Santos' Recruitment and Selection Policy requires that only relevant factors, such as experience and qualifications, can be taken into consideration when making selection decisions. Further, in 2012, provision of gender balanced candidate pools was included as a performance measure in new contracts with recruitment firms. This will continue to be implemented as contracts are re-negotiated over the next few years.

Santos' focus on improving gender balance has a high level of corporate accountability with senior executives reporting annually to the Board's People and Remuneration Committee on the results against measurable objectives and progress on initiatives. To ensure a consistent focus on diversity-related matters, the Company requires business units and corporate leaders to report on diversity progress at their quarterly business reviews and it is a major part of its annual people planning reviews.

The following table sets out the measureable objectives adopted by the Board and a summary of the progress towards achieving them that was reported to the Board's People and Remuneration Committee in October 2012 by the CEO and Chief Human Resource Officer, in accordance with the Company's Diversity Policy. The items outlined in the 'initiatives and progress' column also summarise progress towards achieving the measurable objectives adopted in 2011 that were ongoing in 2012.

# Corporate Governance (continued)

## Diversity objectives and progress

Objective	Initiatives and progress					
1. Representation Increase representation of females and	• A 2% increase in the overall number of female employees was achieved. 27% of Santos' workforce is now female.					
Aboriginal employees at Santos. In particular, increase representation in the non-traditional areas such as apprentices,	• Hiring practices and leadership coaching focused on removing gender bias has resulted in 34% of new hires being women in 2012 compared with 27% representation across Santos.					
trainees and graduates.	• The Santos Graduate Program continues to drive gender balance in the engineering and geoscience pipeline, with 42% of graduates employed in 2012 being female.					
	Santos has increased Aboriginal workforce participation in the energy and resources sectors through creation of 137 employment, education and training opportunities within Santos and its contractor companies, of which 81 were created in 2012. A further 135 opportunitie have been created within the GLNG Project. Roles created include cadetships, traineeships and apprenticeships.					
<b>2. Leadership and culture development</b> Deliver development solutions to remove gender bias and create an inclusive culture.	• The Code of Conduct was re-launched in 2012. In conjunction with that re-launch, EEO, workplace harassment and bullying legislation regulations were reinforced by increased training to over 98% of employees.					
	Workforce flexibility policies and practices have been reinforced and Santos had a 100% return rate of employees from parental leave.					
	• Diversity awareness tools were embedded into leadership development programs to ensure that the drive for diversity is part of the overall Santos system.					
<b>3. Personal and career development</b> Equal representation of women and men to	• Female representation at the Company's in-house development programs increased by 18% and female participation at technical development programs increased by 14%.					
receive opportunities for in-house development programs.	• The company-sponsored MBA program continued to drive the development of women in management positions and strengthen their networks. In 2012, 26% of participants in the MBA program were female.					
	<ul> <li>Personal development programs such as confidence building and resilience tools were introduced to assist employees with their ability to manage work/life balance challenges.</li> </ul>					
4. Systems and processes Review practices to identify inequities,	• Policies have been reviewed, updated and communicated as outlined above in relation to Diversity Objective 2.					
specifically review gender pay equity and take necessary actions.	<ul> <li>Service providers are measured on their ability to provide diverse and gender balanced candidate pools.</li> </ul>					
	• Recruitment practices have been upgraded to ensure we seek and attract a more diverse candidate pool for trade and technical/science-based positions.					
	<ul> <li>Improved reporting systems to track participation in indigenous recruitment and development have been implemented.</li> </ul>					
	• The pay equity review process is conducted on an annual basis. This year's review continued to highlight that there was no significant difference in pay levels for male and female employees in similar roles.					
<b>5. Government and industry</b> <b>participation.</b> Involvement with initiatives designed to	• Santos continued its involvement with the Gender Equity Project (GEP), an initiative driven by Melbourne Business School and industry partners to produce research and interventions that will drive awareness and improvement in gender balance across the country.					
improve gender equity.	• Santos continues to support industry and community initiatives designed to improve gender equity including Women in Resources South Australia, Boardlinks, Women on Boards and Australian Institute of Company Directors programs.					

The Company remains committed to attracting, retaining and engaging people with diversity of experience, skills, qualities and backgrounds, and to providing an inclusive culture. The five objectives listed above will continue to ensure Santos maintains focus in these key areas. Progress against these objectives will be reported in the Company's 2013 Annual Report.

The following table shows the proportional representation of men and women at various levels within the Santos workforce. In 2012, there was an increase of 2% in female representation across the Group.

## WORKFORCE GENDER PROFILE 2012 %

Non-executive Directors	87 13
Senior executives	85 15
Other	73 27
Total	73 27



## WORKFORCE GENDER PROFILE 2011

Non-executive Directors		86	14
Senior executives		83	17
Other	75	25	
Total	75	25	

Male Female

There was no reduction in the number of females in the non-executive Director and Senior Executive groups in 2012. Mr Hock Goh was appointed as an additional non-executive Director (see Section 3.3 and the Directors' Report commencing on page 49 of this *Annual Report*. An additional senior executive was appointed as a result of a restructure. The 2012 Senior Executives included above are those who are described in the *Annual Report* on pages 26–27, reflecting changes to the comparable group as described on pages 26–27 of the *2011 Annual Report*.

## 5.2 Ethical standards and code of conduct

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

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

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

Key issues addressed by the Code of Conduct include:

- achieving compliance with all applicable laws of the countries in which Santos operates;
- avoiding conflicts, by prioritising the interests of the Company and its stakeholders over personal interests;
- prohibiting inappropriate gifts, hospitalities, bribes, commissions and inducements;
- communicating regularly, accurately and effectively with investors, other stakeholders, the media and the market generally;
- treating employees and prospective employees fairly and equitably in all matters;
- protecting rights of privacy and confidentiality, both at an individual and Company level;
- ensuring Company assets are used solely to promote the interests of the Company and its stakeholders;

- operating with a view to long-term sustainability, through a focus on health, safety and the environment; and
- acting as a responsible corporate citizen in all communities of which the Company is part, and actively contributing to the needs of the communities.

The Code of Conduct and its associated training was re-launched in January 2012 after review and updating. All employees were required to undertake a refresher of compulsory online training and this training module is also a compulsory component of new personnel inductions. This roll-out of training was undertaken in parallel with other compulsory training modules in relation to an associated policy which had also been reviewed and updated, the Equal Opportunity/Bullying Policy.

In addition, the Company has a separate Anti-Corruption Policy. All Santos staff and contractors are required to be familiar with and to abide by the Policy and related Guidelines. In 2012, the Company continued a roll-out of anti-corruption workshops and web-based training for employees in roles or locations where there is a higher risk of exposure to corrupt practices by third parties.

The standards of conduct expected of Santos staff, including when dealing with the broader stakeholder constituency of shareholders, customers and the community, are also recorded in separate guidelines and policies relating to dealing in securities (see section 5.3 below), the environment, occupational health and safety, and human resources.

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

Santos treats actual or suspected breaches of its guidelines and policies seriously, and has adopted Reporting Misconduct and Issue

## Corporate Governance (continued)

Resolution policies as additional mechanisms to ensure that suspected breaches are reported and acted upon fairly and effectively. A Reporting Misconduct Program is in place at Santos, to enable employees to report misconduct confidentially, without fear of reprisal or discrimination. Matters are investigated without bias and anyone using the hotline in good faith will be protected from reprisals and discrimination and their identity will be protected (if desired by them or otherwise required by law). During 2012, a review of investigation and reporting protocols was undertaken, resulting in an improved process for recording and investigating all complaints relating to human resources matters, regardless of whether they have escalated to the formal independent Reporting Misconduct hotline.

## 5.3 Securities trading policy

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

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

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

• the period from the close of trading on 31 December each year until the trading day following the announcement to the ASX of the Company's preliminary final statement or full-year results (usually in the third week of February);

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

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

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

In 2012 the Company made significant improvements to the Company-wide visibility of the Securities Trading Policy and related materials on the Company's intranet site, which is available to all employees. The improvements include:

- news stories highlighting the commencement and cessation of each blackout period;
- online applications for clearance to deal in securities for relevant executives;
- frequently asked questions; and
- contact details for key internal contacts.

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

## 5.4 Continuous disclosure and shareholder communication

The Company is committed to giving all shareholders timely and equal access to information concerning the Company. The Company has developed policies and procedures to ensure that Directors and Management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. The Shareholder Communications and Market Disclosure Policy and associated Guidelines were reviewed during the year and updated in November 2012. A copy is published on the Santos website. In accordance with the Policy, information must not be selectively disclosed prior to being announced to the ASX. Employees must notify their departmental manager or a designated Disclosure Officer as soon as they become aware of information that should be considered for release to the market.

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

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

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

## Organisation chart

## BOARD COMMITTEES

Environment, Health, Safety and Sustainability

Finance

Nomination

People and Remuneration

## CORPORATE CENTRE

Allocate capital and provide governance and policy

Human Resources, Health, Aboriginal Participation

Finance, Tax, Insurance, Investor Relations, Treasury, Risk and Audit, Information Technology, Logistics and Procurement

Strategy and Corporate Development, Legal, Commercial and Marketing, Public Affairs, Climate Change and Sustainability

Corporate Secretariat

## **BOARD OF DIRECTORS**

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

SANTOS LEADERSHIP TEAM

Comprises the CEO and his reports

Drive business strategy and operations

## **BUSINESS UNITS**

Business execution and delivery

Asia Pacific

astern Australia

torn Australia and

Northern Territory

## **TECHNICAL DISCIPLINES**

Provide excellence, service and assurance

Exploration and Subsurface

Engineering, Safety, Environment

# 10-year summary

As at 31 December	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Santos average realised oil price (A\$/bbl) <sup>5</sup>	43.59	51.83	73.83	89.35	92.00	117.45	78.83	87.35	115.29	113.78
Financial Performance (\$million) <sup>6</sup>										
Product sales revenue⁵	1,465	1,501	2,463	2,750	2,489	2,762	2,181	2,228	2,721	3,220
Total revenue <sup>1,5</sup>	1,486	1,526	2,492	2,779	2,518	2,805	2,251	2,306	2,803	3,299
Foreign currency gains/(losses) <sup>3</sup>	(8)	3	(4)	1	-	24	(28)	(10)	18	(2)
Profit from ordinary activities before tax <sup>3</sup>	431	519	1,133	964	719	2,533	717	793	1,282	915
Income tax relating to ordinary activities <sup>3</sup>	104	164	371	321	196	768	205	244	440	322
Royalty-related taxes <sup>2</sup>					164	115	78	51	91	75
Net profit after tax attributable to the shareholders of Santos Ltd <sup>3</sup>	327	355	762	643	359	1,650	434	500	753	519
Financial Position (\$million) <sup>6</sup>										
Total assets <sup>3</sup>	5,218	4,837	6,191	6,903	7,320	9,802	11,361	13,769	15,814	17,035
Net debt/(cash) <sup>3</sup>	898	1,133	1,599	1,450	1,839	506	(605)	(1,201)	(205)	1,330
Total equity <sup>3</sup>	3,088	2,358	2,964	3,356	3,093	4,478	6,967	7,603	8,963	9,365
Reserves and production (mmboe)										
Proven plus probable reserves (2P)	636	643	774	819	879	1,013	1,440	1,445	1,364	1,406
Production	54.2	47.1	56.0	61.0	59.1	54.4	54.4	49.9	47.2	52.1
Exploration <sup>4</sup>										
Wells drilled (number)	19	16	22	25	10	13	6	3	4	4
Expenditure (\$million) <sup>6</sup>	136	126	187	259	150	233	181	90	151	162
Other capital expenditure (\$million)	5									
Delineation and development <sup>4</sup>	519	673	666	866	955	1,290	1,204	1,684	2,769	2,965
Buildings, plant and equipment	95	131	106	182	202	105	172	107	149	232
General										
Number of employees (excluding contractors)	1,700	1,526	1,521	1,679	1,786	1,940	2,096	2,367	2,847	3,289
Number of shareholders	84,327	78,976	78,157	83,566	77,498	78,933	107,138	112,145	113,173	111,135
Market capitalisation (\$million)	4,017	4,965	7,280	5,907	8,274	8,696	11,721	11,506	11,560	10,669
Netback (\$/boe)⁵	18.4	19.8	29.5	32.9	32.9	35.9	22.9	23.0	27.6	31.1

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

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

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

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

5 From 2012, Cooper Basin oil purchases have been recorded as product sales/ third party purchases on a gross basis. Previously they had been recorded as trading income on a net basis. Only 2011 amounts have been restated.

6 Prior year figures have been restated as whole numbers in order to achieve consistency with current year disclosures.

Share issuesStare issuesStare intricor issue intri issue intri 	As at 31 December	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Juniter 1530ets         Sume Finity States finity         Sum Finity States finity         Sum Finity States finity         Sum Finity Sta	Share Information										
at year end (million)584.7585.7594.4598.5586.1584.9831.9875.1944.6961.2Weighted average number of issued ordinary shares (million)633.2634.9638.2647.1641.0641.2780.9836.0888.5954.6Dividends - ordinary shares3030364040424242303030Cents per share)303033384040424242333030Paid during the period (\$million)^6175176212238235248299350263285Number of issued preference shares at year end (million)3.56.06.06.06.06.0Pid during the period (\$million)^635.56.06.06.06.06.06.0	Share issues	Share Plan/ Executive Share Plan/ Exercise of	Share Plan/ Executive Share Plan/ Exercise of Options/ Preference Buy-Back/ Issue of FUELS/ Convertible Preference	Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment	Share plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment	Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/	Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/	Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/2 for 5 Rights Issue/ Redemption of FUELS/ Convertible Preference	Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Placement	Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ ESG Plan/ ESG Scheme of	Share Plan/ Executive Share Plan/ Dividend Reinvestment
issued ordinary shares (million)         633.2         634.9         638.2         647.1         641.0         641.2         780.9         836.0         888.5         954.6           Dividends - ordinary shares         30         30         36         40         40         42         42         42         30         30         30           Declared in respect of the period (\$million) <sup>6</sup> 175         176         212         238         235         248         299         350         263         285           Number of issued preference shares         stares at year end (million)         3.5         6.0 <t< td=""><td>Number of issued ordinary shares at year end (million)</td><td>584.7</td><td>585.7</td><td>594.4</td><td>598.5</td><td>586.1</td><td>584.9</td><td>831.9</td><td>875.1</td><td>944.6</td><td>961.2</td></t<>	Number of issued ordinary shares at year end (million)	584.7	585.7	594.4	598.5	586.1	584.9	831.9	875.1	944.6	961.2
Paid during the period (cents per share)       30       30       36       40       40       42       42       42       42       30       30         Declared in respect of the period       30       33       38       40       40       42       42       42       37       30       30         Paid during the period (\$million) <sup>6</sup> 175       176       212       238       235       248       299       350       263       285         Number of issued preference shares at year end (million)       3.5       6.0       6.0       6.0       6.0       6.0       6.0       -	Weighted average number of issued ordinary shares (million)	633.2	634.9	638.2	647.1	641.0	641.2	780.9	836.0	888.5	954.6
(cents per share)         30         33         38         40         40         42         42         37         30         30           Paid during the period (\$million) <sup>6</sup> 175         176         212         238         235         248         299         350         263         285           Number of issued preference shares at year end (million)         3.5         6.0         6.0         6.0         6.0         6.0         -         -         -         -           Dividends - preference shares         - <td>Dividends – ordinary shares</td> <td></td>	Dividends – ordinary shares										
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Number of issued preference shares at year end (million) 3.5 6.0 6.0 6.0 6.0 6.0		30	33	38	40	40	42	42	37	30	30
shares at year end (million)       3.5       6.0       6.0       6.0       6.0       6.0       -       -       -       -         Dividends – preference shares         Paid during the period (\$ per share)         - ordinary       6.6       6.6       5.1       5.1       5.6       6.3       4.6       -       -       -         - special       -       5.0       -<	Paid during the period (\$million) <sup>6</sup>	175	176	212	238	235	248	299	350	263	285
Paid during the period (\$ per share)         - ordinary       6.6       6.6       5.1       5.1       5.6       6.3       4.6       -	Number of issued preference shares at year end (million)	3.5	6.0	6.0	6.0	6.0	6.0	-	-	-	-
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- special - 5.0	Paid during the period (\$ per share)										
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		-	5.0	-	-	-	-	-	-	-	-
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$											
$\begin{array}{c c c c c c c c c c c c c c c c c c c $		6.6	5.7	5.2	5.3	5.9	6.3	-	-	-	-
Paid during the period (\$million)6- ordinary23233130343828 special-14Earnings per share (cents)³48.050.0114.694.750.8251.452.059.884.854.4Return on total revenue (%) <sup>1.5</sup> 22.023.230.623.114.358.819.321.726.915.7Return on average ordinary equity (%)³11.618.635.523.912.450.67.56.99.15.7Return on average capital employed (%)³8.811.719.815.19.034.17.37.38.74.4Net debt / (net debt + equity) (%)³22.532.535.030.237.310.2(9.5)(18.7)(2.3)12.4	•	-		-	-	-	-	_	_	-	-
- special-14											
Earnings per share (cents)3 $48.0$ $50.0$ $114.6$ $94.7$ $50.8$ $251.4$ $52.0$ $59.8$ $84.8$ $54.4$ Return on total revenue (%) <sup>1.5</sup> $22.0$ $23.2$ $30.6$ $23.1$ $14.3$ $58.8$ $19.3$ $21.7$ $26.9$ $15.7$ Return on average ordinary equity (%)3 $11.6$ $18.6$ $35.5$ $23.9$ $12.4$ $50.6$ $7.5$ $6.9$ $9.1$ $5.7$ Return on average capital employed (%)3 $8.8$ $11.7$ $19.8$ $15.1$ $9.0$ $34.1$ $7.3$ $7.3$ $8.7$ $4.4$ Net debt/ (net debt + equity) (%)3 $22.5$ $32.5$ $35.0$ $30.2$ $37.3$ $10.2$ $(9.5)$ $(18.7)$ $(2.3)$ $12.4$	- ordinary	23	23	31	30	34	38	28	-	-	-
Return on total revenue (%) <sup>1.5</sup> 22.023.230.623.114.358.819.321.726.915.7Return on average ordinary equity (%) <sup>3</sup> 11.618.635.523.912.450.67.56.99.15.7Return on average capital employed (%) <sup>3</sup> 8.811.719.815.19.034.17.37.38.74.4Net debt/ (net debt + equity) (%) <sup>3</sup> 22.532.535.030.237.310.2(9.5)(18.7)(2.3)12.4	- special	-	14	-	-	-	-	-	-	-	-
Return on average ordinary equity $(\%)^3$ 11.618.635.523.912.450.67.56.99.15.7Return on average capital employed $(\%)^3$ 8.811.719.815.19.034.17.37.38.74.4Net debt/ (net debt + equity) $(\%)^3$ 22.532.535.030.237.310.2(9.5)(18.7)(2.3)12.4	Earnings per share (cents) <sup>3</sup>	48.0	50.0	114.6	94.7	50.8	251.4	52.0	59.8	84.8	54.4
Return on average capital employed (%)38.811.719.815.19.034.17.37.38.74.4Net debt/ (net debt + equity) (%)322.532.535.030.237.310.2(9.5)(18.7)(2.3)12.4	Return on total revenue (%) <sup>1,5</sup>	22.0	23.2	30.6	23.1	14.3	58.8	19.3	21.7	26.9	15.7
Net debt/ (net debt + equity) $(\%)^3$ 22.5 32.5 35.0 30.2 37.3 10.2 (9.5) (18.7) (2.3) <b>12.4</b>	Return on average ordinary equity (%) <sup>3</sup>	11.6	18.6	35.5	23.9	12.4	50.6	7.5	6.9	9.1	5.7
	Return on average capital employed (%) <sup>3</sup>	8.8	11.7	19.8	15.1	9.0	34.1	7.3	7.3	8.7	4.4
Net interest cover $(times)^3$ 8.59.114.910.17.438.5(45.3)(19.1)700.914.6	Net debt/ (net debt + equity) (%) <sup>3</sup>	22.5	32.5	35.0	30.2	37.3	10.2	(9.5)	(18.7)	(2.3)	12.4
	Net interest cover (times) <sup>3</sup>	8.5	9.1	14.9	10.1	7.4	38.5	(45.3)	(19.1)	700.9	14.6

# Directors' Report

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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.

## 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 commencing on page 58 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.

# Directors' Report (continued)

## **Directors' Meetings**

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

## Table of Directors' meetings

Disector			ectors'		udit	Health a Sustai	onment, n, Safety and anability	Peo Remu	ple & neration		ance		ination
Director			eting <sup>2</sup>		mittee		mittee		mittee		mittee		mittee
		Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	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 <sup>3</sup>	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	-	-	-	-

Reflects the number of meetings held during the time the Director held office, or was a member of the Committee, during the year.
 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 <sup>2</sup>	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 <sup>2</sup>	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 <sup>1</sup>	519	753	(31)
Underlying profit for the period <sup>2</sup>	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 54 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 54 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 Sáo 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.

## Directors' Report (continued)

## **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 and 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 mid-year 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 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 Sáo asset in Vietnam and commencement of production from the Wortel asset in Indonesia.

The Chim Sáo 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 Sáo, the Dua oil project was sanctioned in August 2012. It involves a three-well subsea tie-back to Chim Sáo, 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.

## Directors' Report (continued)

## 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<sup>1</sup>

	2012 \$million		2011 \$millior		1	
	Gross	Tax	Net	Gross	Тах	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 <sup>1</sup>			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 (" $CO_2e''$ ) emitted from its affected facilities. The price set by the Government for the first compliance year of the scheme is \$23 per tonne of  $CO_2e$ .

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.

#### **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 Act 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 are referred to in the reports in the *Annual Report* by the Chairman, Chief Executive Officer and Chief Financial Officer.

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

## Directors' Report (continued)

## 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 grante	l Expiry date	Issue price of shares <sup>1</sup>	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 58 of this report and in note 30 to the Financial Statements.

## 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 ("SESPP")) and ShareMatch Plan ("ShareMatch"). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares issued
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 58 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	<ul> <li>As foreshadowed in the 2011 remuneration report, changes in 2012 included:</li> <li>"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</li> </ul>
	<ul> <li>interests of shareholders. The CEO grant continued to be entirely performance-based;</li> <li>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.</li> </ul>
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 Table 1 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.

## Table 1: Realised remuneration (non-IFRS)

		Fixed				
	Year	remuneration <sup>1</sup>	STI <sup>2</sup>	LTI <sup>3</sup>	Other <sup>4</sup>	Total
		\$	\$	\$	\$	\$
DJW Knox	2012	2,351,250	1,598,850	0	0	3,950,100
Chief Executive Officer and Managing Director	2011	2,250,000	1,552,500	0	0	3,802,500
JH Anderson	2012	642,098	253,100	62,478	0	957,676
Vice President Western Australia and Northern Territory	2011	610,301	235,000	0	0	845,301
JL Baulderstone	2012	689,484	250,100	75,804	0	1,015,388
Vice President Eastern Australia	2011	648,340	235,000	0	0	883,340
TJ Brown⁵	2012	639,567	248,200	44,385	6,892	939,044
Vice President Queensland	2011	N/A	N/A	N/A	N/A	N/A
PJ Cleary	2012	652,695	200,800	N/A	0	853,495
Vice President Strategy and Corporate Development	2011	627,000	205,000	N/A	1,400	833,400
MEJ Eames	2012	684,404	203,400	67,020	77,7546	1,032,578
Vice President Asia Pacific	2011	662,908	215,000	0	0	877,908
MS Macfarlane <sup>7</sup>	2012	662,964	200,400	62,238	14,804	940,406
President GLNG Operations	2011	642,185	208,000	0	23,215	873,400
AJ Seaton	2012	705,500	246,300	59,181	0	1,010,981
Chief Financial Officer	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 70. 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 70).

## 2012 Remuneration Report (continued)

## **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.

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

## 2012 Remuneration Report (continued)

## 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	<ul> <li>Personnel Safety – measured by the number of injuries per million hours worked and the average severity of these injuries.</li> <li>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 and equipment.</li> </ul>	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.
	• Environmental Incidents – measured by the number of environmental incidents of moderate or greater consequence.	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	<ul> <li>Production</li> <li>Cost of production</li> <li>Net profit after tax ("NPAT")</li> </ul>	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	<ul> <li>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.</li> </ul>	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	<ul> <li>Project Delivery – progress against milestones in key projects including GLNG, PNG LNG, Fletcher Finucane, Gunnedah and other opportunities are identified and measured.</li> <li>Reserves Replacement – the volume of 'proven and</li> </ul>	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.
	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.

## 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 74–75.

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) <sup>1</sup>	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 <sup>2</sup>
TSR percentile ranking relative to ASX100 –					
three year performance to 31 December	88th	88th <sup>3</sup>	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.

## 2012 Remuneration Report (continued)

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 74–75. 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 62 and the section 'Detailed information about linking Company performance to incentives' on pages 74–75). 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 74–75.
	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;
	<ul> <li>Production Growth – targeting 77 mmboe or more by 31 December 2015;</li> </ul>
	<ul> <li>Reserves Growth – targeting 2P reserve/production cover of 18 years or more at 31 December 2015; and</li> </ul>
	• 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.

## 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<sup>1</sup>

	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.

## 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 r 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 over 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 62 and the section 'Detailed information about linking Company performance to incentives' on page 74).		
	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 70). 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.		

## 2012 Remuneration Report (continued)

Long-term Incentives (continued)	
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 page 75.
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 59, 70 and 71 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<sup>1</sup>

	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.
#### 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 73.

#### Fee structure

#### Table 7: Non-executive Directors' fees per annum<sup>1</sup>

	Chair <sup>2</sup>	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 <sup>2</sup>	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).

# **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

Post-

		Short-term empl	employee b	oyee benefits	employment		Share-based payments <sup>1,2</sup>	payments <sup>1,</sup>	2					
		Base salary	εЩ3	Other	Superannuation contributions	SARs	Options	Cash based	Total share-based payments	Termination	Other long term benefits Termination (long service) <sup>4</sup>	Total	% Total 'at risk'	% Total in SARs and Options
		\$	\$	₩	\$	\$	₩	\$	\$	\$	\$	\$		
DJW Knox	2012	2,335,128	1,598,850	1	16,122	1,783,865	119,358	15,660	1,918,883 <sup>5</sup>	1	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%
JH Anderson	2012	625,976	253,100	1	16,122	292,987	1	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%
JL Baulderstone 2012	ne 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%
TJ Brown <sup>6</sup>	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	1	16,122	270,769	I	T	270,769		10,752	1,135,016	42%	24%
	2011	601,059	205,000	1,400	25,941	129,595	I	ı	129,595		10,670	973,665	34%	13%
$ME Eames^7$	2012	668,282	203,400	193,166	16,122	311,893	ı	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	I	31,522	1,151,200	40%	21%
MS Macfarlane <sup>8</sup> 2012	e <sup>8</sup> 2012	384,134	119,364	8,835	9,481	201,192	1	525	201,717	'	8,146	731,677	44%	27%
	2011	389,220	128,789	9,084	9,615	155,481	ı	2,310	157,791	1	22,046	716,545	40%	22%
AJ Seaton	2012	689,378	246,300	1	16,122	275,808	1	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 red	uirements of the A	ccounting Stands	ards. remunera	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.	portion of the val	ue of the equity-	linked compens	ation determined	l as at the gran	t date and progre	ssively exnensed	over the vestin	a neriod

In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the value of the equity-tinked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated are memberations in the tative to the actual benefit (fit is any) that the Samo Executives may utilinately realise should the equity instruments were. The advect are instructed as a progressively expensed over the vesting period. The amount allocated are with MarsERD is not relative to the actual benefit (fit is a Samo Executives may utiling the valued) in accordance with MarsERD state Payments applying the Monte Carlo simulation method. Betalis of the assumptions underlying the valued) are able of security compensation was determined in accordance with MarsERD state Payments applying the Monte Carlo simulation method. Betalis of the assumptions underlying the valued) are able of the trancial Statements.

"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. ~

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

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

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 21.1 une 2012, respectively, was \$10.45 and \$10.57. Further details are provided in note 30 to the Financial Statements. S

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. 9

Mr Eames became eligible for expatriate benefits, including foreign Service Pemium, 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, Jasignments are made in accordance with the standard policy applied to all Santos employees, and include significant taxation related adjustments. The Mr MacFalance eased to be a AMP 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 AMP 2011 are for the Period AMP 2011 and Mr 2014 and Provide AMP and AMP on 5 August 2012. Figures shown for 2011 are for the period AMP 2011 and AMP 2012 to 5 August 2012. Figures shown for 2011 are for the period AMP 2011 and AMP 2012 to 5 August 2012. ~

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## 2012 Remuneration Report (continued)

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 <sup>1</sup>	Maximum value <sup>2</sup>	Number	Value	Number	Value
SARs <sup>3</sup>	399,274	\$4,197,054	-	-	(50,403)	(\$625,501)
Options <sup>4</sup>	-	-	-	-	(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.

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 dates 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. 2

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

	Gr	Granted SARs		Vested SARs		Lapsed SARs	
	Number <sup>1</sup>	Maximum value <sup>2</sup>	Number	Value <sup>3</sup>	Number	Value <sup>3</sup>	
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 <sup>4</sup>	-	-	-	-	-	-	
PJ Cleary	40,843	\$407,205	-	-	-	-	
MEJ Eames	42,777	\$426,487	4,471	\$67,020	(15,744)	(\$195,383)	
MS Macfarlane <sup>4</sup>	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.

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.
 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.

## 2012 Remuneration Report (continued)

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 <sup>1</sup>	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

	Sh	ort-term benefits		Retirement benefits		
Year	(incl. Committee	Fees for special duties or exertions	Other	Superannuation <sup>1</sup>	Share-based payments	Total
	\$	\$	\$	\$	\$	\$
2012	192,551	-	-	16,123	-	208,674
2011	186,369	-	-	15,487	-	201,856
2012	480,551	-	-	16,123	-	496,674
2011	462,744	-	-	15,487	-	478,231
2012	217,551	-	-	16,123	-	233,674
2011	209,869	-	-	15,487	-	225,356
2012	204,299	-	-	1,212	-	205,511
2011	184,119	-	-	736	-	184,855
2012	34,105	-	-	134	-	34,239
2011	-	-	-	-	-	_
2012	215,518	-	-	16,123	-	231,641
2011	221,869	-	-	15,487	-	237,356
2012	197,551	-	-	16,123	-	213,674
2011	189,869	-	-	15,487	-	205,356
2012	205,551	-	-	16,123	-	221,674
2011	193,369	-	-	15,487	-	208,856
	2012 2011 2012 2011 2012 2011 2012 2011 2012 2011 2012 2011 2012 2011 2012	Directors' fees (incl. Committee Fees)1           2012         192,551           2011         186,369           2012         480,551           2011         462,744           2012         2017,551           2011         209,869           2012         204,299           2011         184,119           2012         204,299           2011         184,119           2012         215,518           2011         215,518           2012         197,551           2011         189,869           2012         205,551	Year         Fees) <sup>1</sup> exertions           \$         \$           2012         192,551         -           2011         186,369         -           2012         480,551         -           2012         480,551         -           2012         2480,551         -           2011         462,744         -           2012         217,551         -           2011         209,869         -           2012         204,299         -           2012         204,299         -           2011         184,119         -           2012         34,105         -           2011         184,119         -           2012         215,518         -           2011         221,869         -           2011         221,869         -           2012         197,551         -           2011         189,869         -           2012         205,551         -	Directors' fees (incl. Committee Year         Fees for special duties or exertions         Other           \$         \$         \$         \$           2012         192,551          -           2011         186,369         -         -           2012         480,551          -           2012         2480,551          -           2011         462,744         -         -           2012         217,551          -           2011         209,869          -           2012         204,299          -           2011         184,119          -           2012         34,105          -           2011         184,119         -         -           2012         215,518         -         -           2011         221,869         -         -           2011         189,869         -         -           2011         189,869         -         -           2012         205,551         -         -	Directors' fees (incl. Committee Year         Fees for special duties or exertions         Other         Superannuation1           \$         \$         \$         \$         \$           2012         192,551          -         16,123           2011         186,369         -         -         16,123           2012         480,551          -         16,123           2011         462,744         -         -         16,123           2012         217,551          -         16,123           2011         462,744         -         -         15,487           2012         217,551          -         16,123           2011         209,869         -         -         15,487           2012         204,299         -         -         1,212           2011         184,119         -         -         -           2012         34,105         -         -         134           2011         -         -         -         -           2012         215,518         -         -         16,123           2011         220,551         -         -	Directors' fees (incl. Committee Year         Fees for special duties or exertions         Other         Superannuation1 Superannuation1         Share-based payments           \$ <td< td=""></td<>

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.

## 2012 Remuneration Report (continued)

#### 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 62, the areas covered by the scorecard include:
	• environment, health and safety;
	<ul> <li>profitability, including production, cost of production and NPAT;</li> </ul>
	• corporate sustainability; and
	• 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?	performance of Santos relative	d by the CEO and Senior Executives with the longer term e to other ASX 100 companies. Recipients also have the term value of their LTI by delivering results for the Company		
	All 2012 LTI grants are now so interests of shareholders.	lely performance-based, ensuring further alignment with the		
How is LTI awarded?	ordinary share at zero price, su	the form of SARs, i.e. a conditional entitlement to a fully paid ubject to satisfaction of the performance condition. Nothing is when SARs vest. For LTI awards granted in 2012, the Board has sh.		
What is the performance period?	1 January 2012 to 31 Decembe	LTI program for 2012 have a three-year performance period from er 2014. This period has been chosen as an appropriate balance and foreseeable incentive to Senior Executives and fostering a interests.		
What performance hurdles are applied to the LTI?	as at 1 January 2012. The Boa to take account of takeovers,	ased on the Company's relative TSR against ASX 100 companies rd has discretion to adjust the comparator group, for instance mergers and demergers that occur during the performance period sted by an independent third party and reviewed by the Board		
Why has relative TSR been chosen as the company's LTI performance hurdle?	with that of the Company's sh	ve TSR effectively aligns the interests of individual executives areholders, as TSR is a fair measure of shareholder returns, and mpanies in which most of the Company's shareholders could ntos.		
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's and Senior Executives' annual LTI grants.			
	There is no re-testing of the p the performance condition wil	erformance condition. SARs that do not vest upon testing of l lapse.		
When can vested SARs be traded?	allocated without restrictions Restricted shares cannot be tr	will automatically be allocated to the executive. Shares will be unless the executive has elected an extended restriction period. aded until the earlier of five/seven years from the grant date ted by the executive) or cessation of employment, whichever		

### 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 164.

#### 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.

Deter Coare

David Knox.

Director

# Financial Report

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## Consolidated Income Statement for the year ended 31 December 2012

	Note	2012 \$million	2011 \$million
Product sales Cost of sales	3 4	3,220 (2,089)	2,721 (1,737)
Gross profit Other revenue Other income	3	1,131 79 16	984 82 545
Other expenses Finance income Finance costs Share of net losses of an associate	4 5 5 26	(390) 138 (59) -	(411) 190 (99) (9)
Profit before tax		915	1,282
Income tax expense Royalty-related taxation expense	6 6	(322) (75)	(440) (91)
Total taxation expense		(397)	(531)
Net profit for the period		518	751
Net profit/(loss) attributable to: Owners of Santos Limited Non-controlling interests		519 (1) 518	753 (2) 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.

# 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 Tax effect	6	(89) (12)	6 -
	21	(101)	6
Gain/(loss) on foreign currency loans designated as hedges of		. ,	
net investments in foreign operations		46	(20)
Tax effect	6	(14)	б
	21	32	(14)
Impairment of available-for-sale financial assets reclassified to the			
income statement Tax effect	6	-	4 (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.

# Consolidated Statement of Financial Position as at 31 December 2012

Current assets         7         2.151         3.332           Tade and other receivables         8         514         899           Prepayments         263         200           Inventories         9         3221         283           Other financial assets         0         3         6           Tax receivable         3.258         4.744           Non-current assets         3.0         6           Receivables         8         17         25           Prepayments         30         16         13           Other financial assets         10         254         192           Exploration and evaluation assets         11         1,510         1,336           Other financial assets         13,777         11,070         13           Total non-current assets         13,777         11,070         144           Total assets         13,777         11,070         148         60           Interest-baring lons and borrowings         121         109         70         13         135           Other financial Liabilities         121         109         13         148         60           Interest-baring lons and borrowings         17		Note	2012 \$million	2011 \$million
Tade and other receivables         8         514         899           Prepayments         263         2090           Inventories         9         321         283           Other financial assets         10         3         6           Tax receivable         3,258         4,744           Non-current assets         3,258         4,744           Non-current assets         30         16           Prepayments         30         16           Other financial assets         10         254         192           Other land, buldings, plant and equipment         13         268         241           Deferred tax assets         15         23         142           Total non-current assets         15         13,777         11,070           Total assets         16         950         1,055           Other Ind, buldings, plant and equipment         13         268         261           Deferred tax assets         16         950         1,055           Total non-current assets         16         950         1,055           Deferred tax assets         16         950         1,055           Other financial labilitites         121         109	Current assets			
Prepayments Inventories         263         200           Inventories         9         321         283           Total current assets         0         3         6           Total current assets         3,258         4,744           Non-current assets         8         17         255           Prepayments         30         16           Other financial assets         10         254         192           Exploration and evaluation assets         10         254         192           Other financial assets         10         254         192           Control and evaluation assets         11         1,510         1,386           Other land, buildings, plant and equipment         13         268         241           Deferred itax assets         15         13,777         11,070           Total assets         13,777         11,070         15,814           Current taskibilities         13,777         11,070         15           Total assets         13         13,73         135           Other financial liabilities         19         4         2           Total assets         13         1,652         1,713           Other financial liabili	Cash and cash equivalents	7	2,151	3,332
Investionies         9         321         283           Other financial assets         0         3         6           Tax receivable         3,258         4,744           Non-current assets         3,258         4,744           Receivables         8         17         25           Prepayments         30         16           Other financial assets         10         254         192           Other land, buildings, plant and equipment         13         266         244           Defered tax assets         15         23         142           Other land, buildings, plant and equipment         13         266         244           Defered tax assets         15         23         142           Total non-current assets         15         13,777         11,070           Total assets         16         950         1,005           Defered tax assets         16         950         1,005           Defered income         48         60         60           Uher financial liabilities         121         109         4         2           Total current liabilities         13         14         2         2           Other financia	Trade and other receivables	8	514	899
Other financial assets         10         3         6         24           Total current assets         3,258         4,744           Receivables         8         17         25           Prepayments         30         16           Other financial assets         10         254         192           Exploration and evaluation assets         11         1,510         1,336           Other financial assets         12         11,675         9,068           Other financial assets         12         11,070         1,307           Total non-current assets         13         268         241           Defered income         48         60           Interest-bearing loans and borrowings         17         15         169           Other financial liabilities         121         109         121         109           Provisions         18         173         135         142           Other financial liabilities         15         934	Prepayments		263	200
fax receivable         6         24           Total current assets         3,258         4,744           Non-current assets         8         17         25           Receivables         8         17         25           Prepayments         30         16           Other financial assets         10         254         192           Other and, buildings, plant and equipment         13         268         241           Deferred tax assets         15         23         142           Other and, buildings, plant and equipment         13         268         241           Deferred tax assets         15         23         142           Total non-current assets         17,035         15,814           Current tiabilities         17,035         15,814           Current tiabilities         12         1009           Provisions         18         173         135           Other financial tabilities         13         4         20           Deferred income         45         47           Interest-bearing Loans and borrowings         17         15         169           Deferred tax ibilities         13,689         3,092         20	Inventories		321	283
Total current assets         3,258         4,744           Non-current assets         8         17         25           Receivables         8         17         25           Prepayments         0         254         192           Other financial assets         10         254         192           Exploration and evaluation assets         11         1,510         1,386           Other financial assets         12         11,675         9,068           Other financial assets         13         268         241           Defered tax assets         15         23         142           Total onon-current assets         13,777         11,070         10,703           Total assets         16         950         1,005         169           Current tiabilities         17         15         169           Current tax liabilities         18         173         135           Other financial liabilities         19         4         2           Total current tiabilities         19         4         2           Deferred income         45         47           Interest-bearing loans and borrowings         17         3,689         3,092		10		
Non-current assets         8         17         25           Receivables         30         16           Other financial assets         10         254         192           Exploration and evaluation assets         11         1,510         1,386           Other land, buildings, plant and equipment         13         268         241           Deferred tax assets         15         23         142           Total non-current assets         13,777         11,070         13,777         11,070           Total assets         13         268         241         13,777         11,070           Total on-current assets         13,777         11,070         13,877         11,070         13,877         11,070           Total assets         13,777         11,070         13,877         11,070         13,814         142           Current tassets         16         950         1,005         15,814         131         1,848         60           Interest-bearing loans and borrowings         17         15         169         121         109           Provisions         18         173         135         131         1,480           Non-current tabilities         15         93	Tax receivable		6	24
Receivables         8         17         25           Preparments         30         16           Other financial asets         10         254         192           Exploration and evaluation asets         11         1,510         1,386           Other land, buildings, plant and equipment         13         268         241           Deferred tax asets         15         23         142           Total non-current assets         13         268         241           Current tiabilities         13,777         11.070         13.86           Total non-current assets         16         950         1,007           Total and ber payables         16         950         1,007           Deferred income         48         60           Interest-bearing loans and borrowings         17         15         169           Current tax liabilities         121         109         131         1,480           Non-current liabilities         13         131         1,480           Non-current liabilities         15         934         937           Deferred income         45         47           Interest-bearing loans and borrowings         17         3.689         3.092 <td>Total current assets</td> <td></td> <td>3,258</td> <td>4,744</td>	Total current assets		3,258	4,744
Prepayments       30       16         Other financial assets       10       254       192         Exploration and evaluation assets       11       1,510       1,386         Oll and gas assets       12       11,675       9,068         Other land, buildings, plant and equipment       13       268       241         Deferred tax assets       12       11,777       11,070         Total assets       13,777       11,070       15,814         Current liabilities       17       15       169         Trade and other payables       16       950       1,005         Deferred income       48       60       113       135         Other financial liabilities       121       109       121       109         Provisions       18       173       135       169         Current liabilities       19       4       2       104       104       2         Total current liabilities       19       1,311       1,480       1,313       135         Other financial liabilities       19       1,311       1,480       1,325       1,777         Total current liabilities       15       1334       9,777       1,659       3,				
Other financial assets         10         254         192           Exploration and evaluation assets         11         1,510         1,386           Other Inad, buildings, plant and equipment         13         268         241           Deferred tax assets         15         23         142           Total non-current assets         15         23         142           Total non-current assets         16         950         1,075           Total assets         17,035         15,814           Current tabilities         17         15         169           Trade and other payables         16         950         1,005           Deferred income         48         60           Interest-bearing loans and borrowings         17         15         169           Current tabilities         121         109         13         135           Other financial liabilities         121         109         14         2           Total current tabilities         13         1,311         1,480           Non-current liabilities         13         1,55         47           Interest-bearing loans and borrowings         17         3,689         3,092           Deferred income		8		
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         1,070           Total assets         17,035         15,814         15         16           Current liabilities         17         15         169         1,005           Deferred income         48         60         121         109           Provisions         18         173         135         169           Other rin, not liabilities         121         109         4         2           Total current liabilities         18         173         135           Deferred income         45         47         1,480           Non-current liabilities         19         4         2           Deferred income         45         47         1,733         135           Deferred income         45         47         1,1480         1,480           Non-current liabilities         19 <t< td=""><td>1 5</td><td></td><td></td><td></td></t<>	1 5			
0i and gas assets       12       11,675       9,068         0ther land, buildings, plant and equipment       13       268       241         Deferred tax assets       15       23       142         Total non-current assets       17,035       15,814         Current liabilities       17,035       15,814         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       109         Provisions       18       173       135         Other rinancial liabilities       19       4       2         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred income       45       47         Interest-bearing loans and borrowings       17 <td></td> <td></td> <td></td> <td></td>				
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         17         15         169           Trade and other payables         16         950         1,005           Deferred income         48         600           Interest-bearing loans and borrowings         17         15         169           Current liabilities         121         109         4         2           Total current liabilities         19         4         2         13           Other financial liabilities         19         4         2         13           Deferred income         45         47         13         13           Deferred income         45         47         13         148           Deferred income         45         47         17           Interest-bearing loans and borrowings         17         3,689         3,092         26           Deferred income         45         47         17         13         13				
Deferred tax assets         15         23         142           Total non-current assets         13,777         11,070           Total assets         17,035         15,814           Current liabilities         16         950         1,005           Trade and other payables         16         950         1,005           Deferred income         48         600           Interest-bearing loans and borrowings         17         15         169           Current tax liabilities         121         109         121         109           Provisions         18         173         135         142           Other financial liabilities         19         4         2         121         109           Deferred income         45         47         1.311         1.480           Non-current liabilities         17         3,689         3,092         3.689         3,092         3.689         3.092         3.689         3.092         3.682         3.092         3.682         3.092         3.683         3.092         3.683         3.092         3.683         3.092         3.683         3.092         3.683         3.092         3.635         3.635         3.711				
Total non-current assets         13,777         11,070           Total assets         17,035         15,814           Current liabilities         16         950         1,005           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         4         2           Provisions         18         173         135         0ther financial liabilities         1         1         1,480           Non-current liabilities         19         4         2         4         2           Deferred income         45         47         1         1,480           Non-current liabilities         13,11         1,480         3,092         2           Deferred income         45         47         1,652         1,173           Interest-bearing loans and borrowings         17         3,689         3,092         2           Deferred income         45         47         1,73         9         32         2           Interest-bearing loans and borrowings         17         3,689 <td></td> <td></td> <td></td> <td></td>				
Total assets         17,035         15,814           Current liabilities         177,035         15,814           Current liabilities         16         950         1,005           Deferred income         48         60           Interest-bearing loans and borrowings         17         15         169           Current tax liabilities         121         109         101         101           Provisions         18         173         1313         135           Other financial liabilities         19         4         2           Total current liabilities         19         4         2           Deferred income         45         47           Interest-bearing loans and borrowings         17         3,689         3,092           Deferred income         45         47           Interest-bearing loans and borrowings         17         3,689         3,092           Deferred income         45         5,314         977           Interest-bearing loans and borrowings         18         1,652         1,173           Other financial liabilities         19         39         82           Total non-current liabilities         9,365         8,963           R	Deterred tax assets	15	23	142
Current liabilities Trade and other payables169501,005Deferred income4860Interest-bearing loans and borrowings1715169Current tax liabilities121109Provisions18173135Other financial liabilities1942Total current liabilities1942Deferred income4547Interest-bearing loans and borrowings173,6893,092Deferred income4547Interest-bearing loans and borrowings173,6893,092Deferred tax liabilities193982Total non-current liabilities181,6521,173Other financial liabilities193982Total liabilities193982Total capital7,6706,851Net assets9,3658,963Equity206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests(5)(4)	Total non-current assets		13,777	11,070
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       19       4       2         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred tax liabilities       19       39       82         Total non-current liabilities       19       39       82         Total iabilities       19       39       82         Total liabilities       19       39       82         Total current liabilities       17       6,608       6,392         Reserves       20       6,608       6,392         Reserves       21       (412)       (351)         Reserves       21       (412)	Total assets		17,035	15,814
Deferred income         48         60           Interest-bearing loans and borrowings         17         15         169           Current tax liabilities         121         109         121         109           Provisions         18         173         135         135           Other financial liabilities         19         4         2           Total current liabilities         19         4         2           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         19         39         82           Total iabilities         19         39         82           Total liabilities         7,670         6,851           Net assets         9,365         8,963           Equity         20         6,608         6,392           Reserves         21         (412)         (351)           Retained earnings         2				
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       19       4       2         Deferred income       1,311       1,480         Non-current liabilities       17       3,689       3,092         Deferred income       45       47         Interest-bearing loans and borrowings       17       3,689       3,092         Deferred tax liabilities       19       39       82         Total non-current liabilities       19       39       82         Total non-current liabilities       19       39       82         Total liabilities       19       39       82         Total liabilities       19       39       82         Total liabilities       9,365       8,963         Reasets       9,365       8,963         Equity       20       6,608       6,392         Reserves       21       (412)       (351)         Retained earnings       21       3,174       2,926		16		
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         17         3,689         3,092           Deferred income         45         47           Interest-bearing loans and borrowings         17         3,689         3,092           Deferred tax liabilities         19         39         82           Total non-current liabilities         19         39         82           Total liabilities         19         39         82           Total liabilities         19         39         82           Total non-current liabilities         6,359         5,371           Not assets         9,365         8,963           Equity         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)				
Provisions       18       173       135         Other financial liabilities       19       4       2         Total current liabilities       1,311       1,480         Non-current liabilities       45       47         Deferred income       45       934       977         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       19       39       82         Total tabilities       9,365       8,963       8,963         Equity       Isued 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       9,370         Non-controlling interests       (5)       (4)       4       4		17		
Other financial liabilities1942Total current liabilities1,3111,480Non-current liabilities4547Deferred income4547Interest-bearing loans and borrowings173,6893,092Deferred tax liabilities15934977Provisions181,6521,173Other financial liabilities193982Total non-current liabilities196,3595,371Total liabilities9,3658,963Equity206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests9,3708,967(5)(4)				
Total current liabilities1,3111,480Non-current liabilities4547Deferred income4547Interest-bearing loans and borrowings173,6893,092Deferred tax liabilities15934977Provisions181,6521,173Other financial liabilities193982Total non-current liabilities193982Total non-current liabilities6,3595,371Total liabilities7,6706,851Net assets9,3658,963Equity Issued capital Reserves206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited Non-controlling interests9,3658,967(5)(4)				
Non-current liabilities4547Deferred income173,6893,092Deferred tax liabilities15934977Provisions181,6521,173Other financial liabilities193982Total non-current liabilities193982Total non-current liabilities6,3595,371Net assets9,3658,963Equity206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests6,3706,67	Other financial liabilities	19	4	2
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       19 $39$ $82$ Total non-current liabilities $6,359$ $5,371$ 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 $(4)$ $(4)$	Total current liabilities		1,311	1,480
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       19       39       82         Total liabilities       6,359       5,371         Net assets       9,365       8,963         Equity       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)			<i></i>	(7
Deferred tax liabilities15934977Provisions181,6521,173Other financial liabilities193982Total non-current liabilities6,3595,371Total liabilities7,6706,851Net assets9,3658,963Equity Issued capital Reserves Reserves206,608Reserves Retained earnings206,6086,392Equity attributable to owners of Santos Limited Non-controlling interests9,3708,967(412) (5)(4)(4)1		47		
Provisions181,6521,173Other financial liabilities193982Total non-current liabilities6,3595,371Total liabilities7,6706,851Net assets9,3658,963Equity206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests(4)(4)(4)				
Other financial liabilities193982Total non-current liabilities6,3595,371Total liabilities7,6706,851Net assets9,3658,963Equity Issued capital Reserves206,6086,392 (412)Retained earnings21(412)(351) (351)Equity attributable to owners of Santos Limited Non-controlling interests9,3708,967 (5)9,370				
Total non-current liabilities       6,359       5,371         Total liabilities       7,670       6,851         Net assets       9,365       8,963         Equity       20       6,608       6,392         Issued capital       20       6,608       6,392         Retained earnings       21       (412)       (351)         Equity attributable to owners of Santos Limited       9,370       8,967         Non-controlling interests       (5)       (4)				
Total liabilities       7,670       6,851         Net assets       9,365       8,963         Equity       20       6,608       6,392         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 non-current liabilities			
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)				
EquityIssued capital206,6086,392Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests(5)(4)				
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)			5,305	0,903
Reserves21(412)(351)Retained earnings213,1742,926Equity attributable to owners of Santos Limited9,3708,967Non-controlling interests(5)(4)		20	6,608	6.392
Retained earnings213,1742,926Equity attributable to owners of Santos Limited Non-controlling interests9,3708,967(5)(4)				
Non-controlling interests (5) (4)				
Non-controlling interests (5) (4)	Equity attributable to owners of Santos Limited		9,370	8,967
Total equity         9,365         8,963	Non-controlling interests		(5)	
	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.

# 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:		(000)	(474)
Exploration and evaluation assets		(200)	(171)
Oil and gas assets		(2,767)	(2,583)
Other land, buildings, plant and equipment Acquisitions of exploration and evaluation assets		(60)	(48)
Acquisitions of exploration and evaluation assets Acquisitions of oil and gas assets		(68)	(18)
Acquisition of controlled entities, net of cash received		(52)	(18)
Restoration		(31)	(42)
Receipts from loans to related entities		3	(42)
Proceeds from:		5	5
Disposal of exploration and evaluation assets	3	51	653
Disposal of oil and gas assets	3	223	444
Disposal of controlled entity		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 attri	bulable to o	whers of Sal	itos Limited			
	Note	Issued 1 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 Profit for the period		5,514	(329)	(3)	2	2,421 753	7,605 753	(2) (2)	7,603 751
Other comprehensive income/(loss	•	-	-	-	-	/55	/55	(2)	/51
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	5)	-	(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	20 22	210	_	-	-	(285)	(285)	_	(285)
Share-based payment	~~	-	-	-	-	(205)	(200)	-	(200)
transactions	30	-	-	-	-	13	13	-	13
Balance at 31 December 2012		6,608	(406)	_	(6)	3,174	9,370	(5)	9,365
Balance at 31 December 2012		6,608	(406)	-	(0)	3,1/4	9,370	(5)	9,30

Equity attributable to owners of Santos Limited

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

#### **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 ("AASB") 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.

## 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 reporting 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 reporting periods beginning on or after 1 January 2013.

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

• 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 reporting 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 product 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.

#### (C) BASIS OF CONSOLIDATION

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

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

The difference between the above items and the fair value of the consideration, including the fair value of the pre-existing investment of the acquiree, is goodwill or a discount on acquisition. If the Group loses control over a subsidiary it will:

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

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

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

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

#### Non-controlling interests

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

#### Jointly controlled assets

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

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

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

#### Jointly controlled entities

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

#### **1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Investment in an associate

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

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

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

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

#### (D) FOREIGN CURRENCY

#### Functional and presentation currency

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

#### Transactions and balances

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

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

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

#### Group companies

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.

#### (F) HEDGING

#### Hedge effectiveness

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

#### Fair value hedge

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

#### Cash flow hedge

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

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

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

## Hedge of monetary assets and liabilities

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

## Hedge of net investment in a foreign operation

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

#### (G) ACQUISITION OF ASSETS

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

#### **Business combinations**

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

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

#### (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:

- 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:

- 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.

#### (I) OIL AND GAS ASSETS

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

#### Assets in development

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

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

#### Producing assets

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

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

## Ongoing exploration and evaluation activities

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

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

## (J) LAND, BUILDINGS, PLANT AND EQUIPMENT

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

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

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

#### (K) DEPRECIATION AND DEPLETION

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

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

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

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

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

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

#### **1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

#### (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:

- 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 any 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.

#### (0) CASH AND CASH EQUIVALENTS

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

#### (P) IMPAIRMENT

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

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

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

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

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

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

#### Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's estimated future cash flows are discounted to their

present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

#### **Reversals of impairment**

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

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

#### (Q) PROVISIONS

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

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

#### Restoration

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

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

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

#### Remediation

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

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

#### 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.

#### 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).

#### 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 vield 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.

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.

#### (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.

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (V) TRADE AND OTHER PAYABLES

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

#### (W) SHARE CAPITAL

#### Ordinary share capital

Ordinary share capital is classified as equity.

#### Dividends

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

#### Transaction costs

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

#### (X) REVENUE

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

#### Sales revenue

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

#### Dividends

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

#### **Overriding royalties**

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

#### Pipeline tariffs and processing tolls

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

#### Trading revenue

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

#### (Y) INTEREST INCOME

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

#### (Z) OTHER INCOME

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

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 obligations 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.

#### (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.

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

#### (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.

#### 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 taxation 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 taxation expense, assets or liabilities in the consolidated financial report.

#### 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.

		Eastern Australia	ern alia	WA & NT	NT	Asia Pacific	acific	BNIB	9	Corporate, exploration and eliminations	ate, on and tions	Total	le
2. SEGMENT INFORMATION (CONTINUED)	Note	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 Inter-segment sales Other revenue from		1,614 _	1,504	1,065 -	958 -	497	230 -	44 38	28 64	- (38)	1 (64)	3,220	2,721 _
external customers Total segment revenue	ŝ	46 1,660	65 1,569	4 1,069	1 959	10 507	(1) 229	3 85	5 97	16 (22)	12 (51)	79 3,299	82 2,803
Results Earnings before interest, tax, exploration and evaluation, impairment and gains/(losses) on sale of non-current assets													
and controlled entities ("EBITX") Depreciation and depletion Gains //losses) on sale of	(,,	286 380	276 357	574 218	614 177	256 116	95 62	(18) 29	(18) 16	(2) 30	(11) 29	1,096 773	956 641
non-current assets and controlled entities	ŝ	2	14	6	172	(1)	ς	I	340	1	I	11	529
Earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment ("EBTIDAX")		668	647	801	963	371	160	11	338	29	18	1,880	2.126
Depreciation and depletion Evaluation and evaluation	4	(380)	(357)	0	(177)	(116)	(62)	(29)	(16)	(30)	(29)	(773)	(641)
expensed expensed Net impairment (loss)/reversal	4	11	- (51)	- (64)	- (1)	- (42)	- (83)	1 1	1 1	(165) -	(167) 8	(165) (106)	(167) (127)
Earnings before interest and tax ("EBIT") Net finance income	J.	288	239	519	785	213	15	(18)	322	(166) 79	(170) 91	836 79	1,191 91
Profit before tax Income tax expense Provalty related taxation	9									(322)	(440)	915 (322)	1,282 (440)
hoyarty-retated taxarton expense	9	20	00	(96)	(66)	I	I	1	I	I	I	(75)	(91)
Net profit for the period												518	751

		Eastern Australia	ern alia	WA & NT	NT	Asia Pacific	acific	BNIB	U	Corporate, exploration and eliminations	rate, Ion and Itions	Total	l
2. SEGMENT INFORMATION (CONTINUED)	Note	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													
size or incidence:													
Gain on sale of exploration and evaluation assets	ŝ	I	I	I	152	I	Ś	I	45	I	I	I	200
Gain on sale of oil and													
gas assets	ŝ	2	14	6	20	I	I	I	295	I	I	11	329
controlled entity	ŝ	I	I	I	I	I	I	I	I	1	I	1	I
Loss on sale of													
avariable-101-sale financial assets	ŝ	I	I	I	I	(1)	I	I	I	I	I	(1)	I
Restructuring provision		(4)	I	I	I	)	I	I	I	I	I	(4)	I
Transaction costs on		•										•	
acquisition of													
subsidiaries		I	(11)	I	I	I	I	I	I	I	I	I	(11)
Kemediation costs for incidents, net of related													
insurance recoveries		(2)	I	I	I	I	I	I	I	I	I	(2)	I
Non-refundable deposit													
received		I	I	I	15	I	I	I	I	I	I	I	15
Finalisation of redetermination		I	I	I	5	I	I	I	I	I	I	I	Ð
Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets): Evoloration and													
evaluation assets	11	152	966	96	55	25	54	5	19	I	I	278	1,126
Oil and gas assets Other land, buildings,	12	616	427	525	477	878	820	1,463	1,312	I	I	3,482	3,036
plant and equipment	13	I	27	2	I	1	I	2	∞	58	42	63	77
		768	1,452	623	532	904	874	1,470	1,339	58	42	3,823	4,239

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	2,575
		507	LLO
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
Product sales: Gas, ethane and liquefied gas Crude oil Condensate and naphtha		1,319 1,401 321	1,252 994 304
Liquefied petroleum gas		179	171
Total product sales*		3,220	2,721
Other revenue: Overriding royalties Pipeline tariffs and processing tolls Other		12 34 33	9 56 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 a controlled entity		1	-

Total other income

**Other** 

Non-refundable deposit received

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

Net loss on sale of available-for-sale financial assets

\_

15

1

545

(1)

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4

16

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 inflows 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

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)* Losses/(gains) from change in fair value of derivative financial assets desig	instad	2	(18)
as at fair value through profit or loss	Inateu	1	(8)
Fair value hedges, (gains)/losses:		1	(6)
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 signific amounts in relation to foreign functional currency subsidiaries: \$17 million gain (2011: \$30 mi relating to the effects of foreign exchange on Australian dollar denominated tax bases and \$17 loss (2011: \$30 million gain) on foreign functional currency intercompany loans.	illion loss)		
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

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
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
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 Actuarial loss/(gain) on defined benefit plan	3	(7)
Actualiat toss/ (gaili) oli dellied bellelit plali		(4)
	30	(16)

7. CASH AND CASH EQUIVALENTS	2012 \$million	2011 \$million
Cash at bank and in hand Short-term deposits	265 1,886	282 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	-	_

## 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 Drilling and maintenance stocks	180 141	151 132
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

	2012			2011			
S 11. EXPLORATION AND EVALUATION ASSETS	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Subsurface assets \$million	Plant and equipment \$million	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	t <b>(81)</b>	-	(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	

	2012			2011			
12. OIL AND GAS ASSETS	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Subsurface assets \$million	Plant and equipment \$million	Total \$million	
Cost Less accumulated depreciation, depletion	10,061	11,913	21,974	9,060	9,508	18,568	
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							
expendenture pending commercialisation	n <b>(4)</b>	_	(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	
<b>Comprising:</b> 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	
	4,042	1,033	11,075	3,495	5,575	9,008	

		2012			2011			
13. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	Land and buildings \$million	Plant and equipment \$million	Total \$million	Land and buildings \$million	Plant and equipment \$million	Total \$million		
Cost Less accumulated depreciation and	84	462	546	72	427	499		
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.

Segment	Description	Subsurface assets \$million	Plant and equipment \$million	Total \$million
WA & NT	Exploration area	4	-	4
Asia Pacific	Exploration area	1	-	1
oration and evaluation asse	ets	5	-	5
Asia Pacific	Exploration area	13	-	13
oration and evaluation asse	ets	13	-	13
	WA & NT Asia Pacific oration and evaluation asse Asia Pacific	WA & NT Exploration area Asia Pacific Exploration area pration and evaluation assets	SegmentDescriptionassets \$millionWA & NTExploration area4Asia PacificExploration area1oration and evaluation assets5Asia PacificExploration area13	SegmentDescriptionassets \$millionequipment \$millionWA & NTExploration area4-Asia PacificExploration area1-Asia PacificExploration area5-Asia PacificExploration area13-

## (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.

## 14. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

# (B) OIL AND GAS ASSETS (CONTINUED)

Cash-generating unit	enerating 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 ga	is assets		68	33	101
2011					
Impairment/(reversal) of CGUs					
Legendre	WA & NT	Oil field	6	-	б
Airlie	WA & NT	Oil field	4	-	4
Thevenard	WA & NT	Oil field	(5)	-	(5)
	MA O NT	Oil field	( ( )		
Mutineer-Exeter	WA & NT	UIL HELU	(4)	-	
Mutineer-Exeter Kipper	WA & NI Eastern Australia	Gas field	(4) 9	20	(4)
				- 20 5	(4) 29
Kipper	Eastern Australia	Gas field	9		(4 29 14
Kipper Moonie	Eastern Australia Eastern Australia Asia Pacific	Gas field Oil field	9 9		(4 29 14
Kipper Moonie Sangu	Eastern Australia Eastern Australia Asia Pacific	Gas field Oil field	9 9		(4 29 14
Kipper Moonie Sangu Impairment/(reversal) of spect	Eastern Australia Eastern Australia Asia Pacific	Gas field Oil field	9 9	5 -	(4) 29 14 66 7
Kipper Moonie Sangu Impairment/(reversal) of spect oil and gas assets:	Eastern Australia Eastern Australia Asia Pacific ific	Gas field Oil field Gas PSC	9 9 66		(4) 29 14 66 7
Kipper Moonie Sangu Impairment/(reversal) of spect oil and gas assets: Cooper Basin	Eastern Australia Eastern Australia Asia Pacific ific Eastern Australia	Gas field Oil field Gas PSC Oil and gas field	9 9 66	5 -	(4) 29 14 66 7 (1) 2

## (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.

Asset	Segment	Description	Subsurface assets \$million	Plant and equipment \$million	Total \$million
<b>2011</b> Other plant and equipment	Corporate	Aircraft		1	1
Total impairment of other land, buildings, plant and equipment			_	1	1

	Ass	sets	Liabi	Liabilities		Net	
15. DEFERRED TAX ASSETS AND LIABILITIES	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 taxation			(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	2011	
					\$million	\$million	
Unrecognised deferred tax assets							
Deferred tax assets have not been recognised in	respect of the	e following item	5:				
Temporary differences in relation to investm	ents in subsic	liaries			2,939	1,550	
Deductible temporary differences relating to			of income tax)		3,625	-	
Other deductible temporary differences	5 5	, , , , , , , , , , , , , , , , , , ,	,		269	239	
Tax losses					349	347	
14/ (03565							

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.

# **16. TRADE AND OTHER PAYABLES**

Trade payables	786	764
Non-trade payables	164	241
	950	1,005

	2012	2011
17. INTEREST-BEARING LOANS AND BORROWINGS	\$million	\$million

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

Current		
Finance leases	1	1
Bank loans – unsecured	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.

# Details of major credit facilities

(A) BANK LOANS – SECURED

			Effective in	terest rate		
Secured assets	Year of maturity	Currency	2012 %	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 Oil and gas assets – Assets in development	94 2,041	35 1,308
	2,135	1,343

# 17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

## (A) BANK LOANS - SECURED (CONTINUED)

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

		Effective in	terest rate			
Year of maturity	Currency	2012 %	2011 %	2012 \$million	2011 \$million	
2012-2017	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)).

## 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 in	terest rate	st rate		
Year of maturity	Currency	2012 %	2011 %	2012 \$million	2011 \$million	
2016–2024	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 in	terest rate		
Year of issue	Year of maturity	2012 %	2011 %	2012 \$million	2011 \$million
2005	2015	4.74	5.66	107	105

## 17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

### (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 in	terest rate		2011 \$million
Year of issue	Year of maturity	2012 %	2011 %	2012 \$million	
2000	2010-2015	2.05	1.82	57	82
2002	2010-2022	1.92	2.73	162	296
2007	2017–2027	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)).

## (E) SUBORDINATED NOTES

The Group has issued  $\in$ 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 in	terest 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.

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.

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 Numi	2011 Der 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).

# 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.

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	(329)	(5)	L	(550)
Net loss on foreign currency loans designated as hedges	0	-	-	0
of net investments in foreign operations	(14)	_	_	(14)
Impairment of available-for-sale financial assets	(14)	_	_	(14)
reclassified to the income statement	_	3	_	3
Net loss on derivatives designated as cash flow hedges		5	(16)	(16)
Net loss off derivatives designated as cash flow fledges		-	(10)	(10)
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

# 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
<b>Dividend franking account</b> 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).

### **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 (	2011 of shares
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).

# 24. CONSOLIDATED ENTITIES

Name Country of incorp	oration	Name Country of incorpo	oration
Santos Limited (Parent Company)	AUS	Santos International Pte Ltd	SGP
Controlled Entities <sup>1</sup> :		Santos International Operations Pty Ltd	AUS
Alliance Petroleum Australia Pty Ltd <sup>2</sup>	AUS	Santos International Ventures Pty Ltd	AUS
Basin Oil Pty Ltd <sup>2</sup>	AUS	Santos Netherlands B.V. <sup>3</sup>	NLD
Bridgefield Pty Ltd	AUS	Santos Niugini Exploration Ltd	PNG
Bridge Oil Developments Pty Ltd <sup>2</sup>	AUS	Santos OIG Pty Ltd	AUS
Bronco Energy Pty Ltd	AUS	Santos (Papalang) Pty Ltd	AUS
Canso Resources Pty Ltd	AUS	Santos Petroleum Ventures B.V.	NLD
Doce Pty Ltd	AUS	Santos (Popodi) Pty Ltd	AUS
Fairview Pipeline Pty Ltd	AUS	Santos Sangu Field Ltd	GBR
Farmout Drillers Pty Ltd	AUS	Santos Vietnam Pty Ltd	AUS
Gidgealpa Oil Pty Ltd	AUS	Zhibek Resources Ltd <sup>1</sup>	GBR
Kipper GS Pty Ltd	AUS	Santos (JBJ1) Pty Ltd	AUS
Controlled entities of Kipper GS Pty Ltd		Controlled entities of Santos (JBJ1) Pty Ltd	
Santos Carbon Pty Ltd	AUS	Santos (JBJ2) Pty Ltd	AUS
Controlled entity of Santos Carbon Pty Ltd		Controlled entity of Santos (JBJ2) Pty Ltd	
SB Jethro Pty Ltd	AUS	Shaw River Power Station Pty Ltd	AUS
Moonie Pipeline Company Pty Ltd	AUS	Santos (JPDA 06-104) Pty Ltd	AUS
Reef Oil Pty Ltd <sup>2</sup>	AUS	Santos (JPDA 91-12) Pty Ltd	AUS
Santos Asia Pacific Pty Ltd	AUS	Santos (NARNL Cooper) Pty Ltd <sup>2</sup>	AUS
Controlled entities of Santos Asia Pacific Pty Ltd		Santos NSW Pty Ltd <sup>4,5</sup>	AUS
Santos (Sampang) Pty Ltd	AUS	Controlled entities of Santos NSW Pty Ltd	
Santos (Warim) Pty Ltd	AUS	Santos NSW (Betel) Pty Ltd <sup>5</sup>	AUS
Santos Australian Hydrocarbons Pty Ltd	AUS	Santos NSW (Hillgrove) Pty Ltd⁵	AUS
Santos (BOL) Pty Ltd <sup>2</sup>	AUS	Santos NSW (Holdings) Pty Ltd⁵	AUS
Controlled entity of Santos (BOL) Pty Ltd		Controlled entities of Santos NSW (Holdings) Pty Ltd	
Bridge Oil Exploration Pty Ltd	AUS	Santos NSW (LNGN) Pty Ltd <sup>5</sup>	AUS
Santos Browse Pty Ltd⁵	AUS	Santos NSW (Pipelíne) Pty Ltd⁵	AUS
Santos CSG Pty Ltd	AUS	Santos NSW (Sales) Pty Ltd⁵	AUS
Santos Darwin LNG Pty Ltd <sup>2</sup>	AUS	Santos NSW (Narrabri Énergy) Pty Ltd⁵	AUS
Santos Direct Pty Ltd	AUS	Controlled entities of Santos NSW (Narrabri Energy) Pty Lta	1
Santos Facilities Pty Ltd	AUS	Santos NSW (Eastern) Pty Ltd⁵	AUS
Santos Finance Ltd	AUS	Santos NSW (Sulu) Pty Ltd⁵	AUS
Santos GLNG Pty Ltd	AUS	Santos NSW (Tooncomet) Pty Ltd⁵	AUS
Controlled entity of Santos GLNG Pty Ltd		Santos NSW (Narrabri Power) Pty Ltd⁵	AUS
Santos GLNG Corp	USA	Santos NSW (Operations) Pty Ltd⁵	AUS
Santos (Globe) Pty Ltd	AUS	Santos (N.T.) Pty Ltd	AUS
Santos International Holdings Pty Ltd	AUS	Controlled entity of Santos (N.T.) Pty Ltd	
Controlled entities of Santos International Holdings Pty Ltd		Bonaparte Gas & Oil Pty Ltd	AUS
Barracuda Ltd	PNG	Santos Offshore Pty Ltd <sup>2</sup>	AUS
CJSC South Petroleum Company <sup>1</sup>	KGZ	Santos Petroleum Pty Ltd <sup>2</sup>	AUS
Lavana Ltd	PNG	Santos QLD Upstream Developments Pty Ltd <sup>3</sup>	AUS
Sanro Insurance Pte Ltd	SGP	Santos QNT Pty Ltd <sup>2</sup>	AUS
Santos Americas and Europe Corporation	USA	Controlled entities of Santos QNT Pty Ltd	
Controlled entities of Santos Americas and Europe Corp		Santos QNT (No. 1) Pty Ltd <sup>2</sup>	AUS
Santos TPY Corp	USA	Controlled entities of Santos QNT (No. 1) Pty Ltd	
Controlled entities of Santos TPY Corp		Santos Petroleum Management Pty Ltd <sup>2</sup>	AUS
Santos Queensland Corp	USA	Santos Petroleum Operations Pty Ltd	AUS
Santos TOG Corp	USA	TMOC Exploration Pty Ltd	AUS
Controlled entities of Santos TOG Corp		Santos QNT (No. 2) Pty Ltd <sup>2</sup>	AUS
Santos TOGA Pty Ltd	AUS	Controlled entities of Santos QNT (No. 2) Pty Ltd	
Santos TPY CSG Corp	USA	Moonie Oil Pty Ltd	AUS
Santos Bangladesh Ltd	GBR	Petromin Pty Ltd	AUS
Santos Baturaja Pty Ltd <sup>3</sup>	AUS	Santos (299) Pty Ltd (in liquidation)	AUS
Santos (BBF) Pty Ltd	AUS	Santos Exploration Pty Ltd	AUS
Controlled entities of Santos (BBF) Ptv Ltd		Santos Gnuco Pty Ltd	AUS
Santos (SPV) Pty Ltd	AUS	Santos Upstream Pty Ltd	AUS
Controlled entity of Santos (SPV) Pty Ltd		Santos TPC Ptv Ltd	AUS
Santos (Madura Offshore) Pty Ltd	AUS	Santos Wilga Park Pty Ltd	AUS
Santos Belida Pty Ltd <sup>3</sup>	AUS	Santos Resources Pty Ltd	AUS
Santos (Donggala) Pty Ltd	AUS	Santos (TGR) Ptv Ltd	AUS
Santos (Donggala) Fly Ltd Santos Egypt Pty Ltd	AUS	Santos Timor Sea Pipeline Pty Ltd	AUS
Santos Egypt i ty Etd	AUS	SESAP Pty Ltd	AUS
Santos Hides Ltd	PNG	Vamgas Pty Ltd <sup>2</sup>	AUS
Santos mats Eta	1110	vanigas i ty Eta	105

## 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).

### 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 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.

#### Country of incorporation

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

# 25. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

# (A) ACQUISITIONS (CONTINUED)

Acquisition-date fair value of consideration transferred:

	2011 \$million
Shares issued	673
Share-based payments	14
Cash paid	35
Total consideration transferred	722

# (B) DISPOSAL OF CONTROLLED ENTITY

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.

# **26. INVESTMENT IN AN ASSOCIATE**

			Ownership	interest		
Company	Country	Principal activity	2012 %	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)

# **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 asset	ts			
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*	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 develo	opment			
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

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

# 27. INTERESTS IN JOINT VENTURES (CONTINUED)

## (B) JOINTLY CONTROLLED ENTITIES

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

Joint venture entity	Interest 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
824	570
1,287	822
2,111	1,392
782	507
1,189	713
140	172
375	362
(379)	(326)
(4)	36
	\$million 824 1,287 2,111 782 1,189 140 375 (379)

## (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

Add/(deduct) non-cash items:       773       6         Depreciation and depletion       773       6         Exploration and evaluation expensed       41         Net impairment loss on exploration and evaluation assets       5         Net impairment loss on exploration and evaluation assets       101       1         Net impairment loss on exploration and evaluation assets       68       5         Share-based payment evabables       -       -         Unwind of the effect of disconting on provisions       45       68         Change in fair value of fanancial assets designated as at fair value through profit or loss       3       2         Defined benefit plan expense       11       3       2       2         Net gain on sale of oral poration and evaluation assets       -       -       2       2         Net gain on sale of oral oral evaluation assets       -       -       2       2       2       2       2       2       1       3       4       4       4       4       4       4       4       4       4	28. NOTES TO THE STATEMENT OF CASH FLOWS	2012 \$million	2011 \$million
Add/(defuct) non-cash items:       773       6         Depreciation and explosition and explosition and evaluation assets       5       6         Net impairment loss on exploration and evaluation assets       5       7         Net impairment loss on outher land, buildings, plant and equipment       -       -         Net typication and evaluation assets       60       5         Net typication and evaluation assets       60       5         Net typication and evaluation assets       -       -         Net typication and evaluation assets       -       -         Share-based payment expense       15       10         Unwind of the effect of discounting on provisions       45       -         Defined benefit plan expense       10       1         Vet gain on sale of oral portation and evaluation assets       -       -         Net gain on sale of oral oration and evaluation assets       -       -       2         Net gain on sale of oraliable-for-sale financial assets       1       1       -         Fair value of step-up acquisition from associate to substidiary       -       -       -         Add/(deduct) change in operating assets or liabilities       1,491       1,1       .         Add/(deduct) change in operating activitities before changes in assets or liabiliti	(A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation and depletion       773       6         Exploration and evaluation expensed       41       6         Net impairment loss on exploration and evaluation assets       5       1         Net impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Unwind of the effect of discounting on provisions       45       -         Unwind of the effect of discounting on provisions       45       -         Offined benefit plan expense       3       -       -         Foreign exchange losser (gains)       2       (C       -       -         Net gain on sale of all and gas assets       111       -       -       -         Fair value adjustment for step-up acquisition from associate to subidiary       -       -       -         Fair value adjustment for step-up acquisition from assects to subidiary       -       -       -         Share of net loss in an associate       1       -       -       -         Add/(reduct) change in operating assets or liabilities, net of acquisitions or disposats of businesses:       10       -       -         Decrease in trade and other receivables       10       1	Profit after income tax	518	751
Exploration and evaluation expensed       41         Net impaimment loss on coll and gas assets       101       1         Net impaimment loss on other land, buildings, plant and equipment       -       -         Net transforment loss on other land, buildings, plant and equipment       -       -         Net reversal of impaimment loss on receivables       -       -         Net (gains)/losses on fair value thedges       (8)       -         Unwind of the effect of discounting on provisions       45       -         Change in fair value of hanacital asset designated as at fair value through profit or loss       1       -         Defined benefit plan expense       2       (1)       -       -       (2)         Net gain on sale of orland gas assets       (11)       (3)       -       -       (2)       (1)       Net tags on sale of orland gas assets       -       (2)       (1)       Net gain on sale of orland gas assets       -       (2)       (1)       Net gain on sale of orland gas assets       -       (2)       (1)       Net gain on sale of orland gas assets       -       (2)       (1)       Net gain on sale of orland gas assets       -       -       -       -       -       -       -       -       -       -       -       -       -       -       -	Add/(deduct) non-cash items:		
Net impairment loss on exploration and evaluation assets       5         Net impairment loss on oil and ga assets       101       1         Net impairment loss on oil and ga assets       101       1         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Onvind of the effect of discounting on provisions       45       -         Other depends and explore the set of discounting on provisions       -       -         Net gain on sale of or and qa assets       (11)       (3       -         Net gain on sale of or and qa assets       (11)       -       -         Share of net loss in an associate       -       -       -         Add/(deduct) change in operating assets or tiabilities, net of acquisitions or disposal of businesses:       10       -         Decrease in inventories       (38)       (11)       -       -         Increase in inventories       (38)       (12)		773	641
Net impairment loss on exploration and evaluation assets       5         Net impairment loss on oil and ga assets       101       1         Net impairment loss on oil and ga assets       101       1         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Net reversal of impairment loss on receivables       -       -         Observation of the effect of discounting on provisions       45       -         Othange in fair value of financial assets designated as at fair value through profit or loss       1       -         Net gain on sale of oil and ga assets       (11)       (3       -       -         Net gain on sale of oil and ga assets       (11)       (3       -       -       -         Net discolation of prepaid loan transaction costs       6       -       -       -       -         Net cash provided by operating activities before changes in assets or liabilities, net of acquisitions or disposals of businesset:       10       -       -       -       -       - <td></td> <td>41</td> <td>58</td>		41	58
Net impairment loss on oil and gas assets       101       1         Net impairment loss on orber land, buildings, plant and equipment       -         Net reversal of impairment loss on receivables       -         Net (gains)/losses on fair value hedges       (3)         Share-based payment expense       15         Unwind of the effect of discounting on provisions       45         Change in fair value of financial assets designated as at fair value through profit or loss       3         Foreign exchange losses/(gains)       2       (()         Net gain on sale of exploration and evaluation assets       -       (2)         Net gain on sale of exploration and evaluation assets       101       (3)         Net gain on sale of controlled entities       (1)       (3)         Net toss on sale of available-for-sale financial assets       1       -         Add/(deduct) change in or sale-of auguistion from associate to subsidiary       -       -         Share of net loss in an associate       10       1.1       1.1         Add/(deduct) change in operating activities before changes in assets or liabilities       1.491       1.1         Add/(deduct) change in operating activities before changes in assets or liabilities       1.6       1.6         Increase in inter dat other payables       (15)       (11)       (11)		5	13
Net reversal of impairment loss on receivables       -         Net (gains)/losses on fair value hedges       (8)         Share-based payment expense       15         Unwind of the effect of discourting on provisions       45         Change in fair value of financial asset designated as at fair value through profit or loss       1         Defined benefit plan expense       3         Foreign exchange losses(/gains)       2       (0)         Net gain on sale of controlled entities       (1)       (3)         Net gain on sale of controlled entities       (1)       (3)         Net toss on sale of available-for-sale financial assets       1       -         Are tog ation on sale of controlled entities       (1)       -       -         Share of net loss in an associate       1       -       -         Add/(deduct) change in operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating activities before changes in assets or liabilities       10       -         Increase in net deferred tax liabilities       154       1       -         Increase in other assets       (13)       (11)       (12)       (12)         Increase in other data dother payables       (15)       (15)       (11)       (11)       (11) <td></td> <td>101</td> <td>118</td>		101	118
Net (gains)/losses on fair value hedges       (8)         Share-based payment expense       15         Unwind of the effect of discounting on provisions       45         Change in fair value of financial assets designated as at fair value through profit or loss       1         Defined benefit plan expense       3         Foreign exchange losses/(gains)       2         Net gain on sale of controlled entities       -         Net gain on sale of controlled entities       (1)         Net gain on sale of controlled entities       1         Fair value adjustment for step-up acquisition from associate to subsidiary       -         Share on tel loss in an associate       -         Amortisation of prepaid loan transaction costs       6         Net cash provided by operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:       0       0         Decrease in trade and other receivables       10       0       0         Increase in inventories       (38)       (1       1         Decrease in trade and other payables       (15)       0       0         Increase in other assets       16       1       1       0       0       0	Net impairment loss on other land, buildings, plant and equipment	-	1
Share-based payment expense       15         Unwind of the effect of discounting on provisions       45         Change in fair value of financial assets designated as at fair value through profit or loss       1         Defined benefit plan expense       3         Foreign exchange losses((gains))       2         Net gain on sale of controlled entities       (11)         Net gain on sale of controlled entities       (11)         Net open on sale of outrolled entities       (11)         Net open on sale of outrolled entities       (11)         Net oss on sale of available-for-sale financial assets       1         Fair value adjustment for step-up acquisition from associate to subsidiary       -         Share in trade and other receivables       6         Net cash provided by operating activities before changes in assets or liabilities       1,491         Increase in inventories       (38)         Increase in inventories       (38)         Increase in intered at albilities       57         Increase in intered tast liabilities       154         Increase in intered at albilities       154         Increase in inventories       138         Increase in inventories       150         Increase in intered at albilities       157         Increase in provisions       <	Net reversal of impairment loss on receivables	-	(9)
Unwind of the effect of discounting on provisions45Change in fair value of financial assets designated as at fair value through profit or loss1Defined benefit plan expense3Foreign exchange losses/(gsins)2Net gain on sale of oxiland gas assets(11)Net gain on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Amortisation of prepaid loan transaction costs6Net cash provided by operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposal of businesses:38Decrease in trade and other receivables10Increase in inventories(38)Increase in outer assets57Increase in outer assets154Decrease in trade and other payables154Decrease in trade and other payables154Decrease in trade and other payables154Decrease in trade and other payables10Increase in ourent tax liabilities57Increase in ourent tax liabilities165(2) NON-CASH FINANCING AND INVESTING ACTIVITIESSantos Divided Reinvestment Plan126Cash outflow from operating activities(142)Cash outflow from operating activities(142)Cash outflow from operating activities(142)Cash outflow from operating activities(142)Cash outflow from operating activities(142) <td>Net (gains)/losses on fair value hedges</td> <td>(8)</td> <td>13</td>	Net (gains)/losses on fair value hedges	(8)	13
Change in fair value of financial assets designated as at fair value through profit or loss1Defined benefit plan expense3Foreign exchange losses/(gains)2Net gain on sale of exploration and evaluation assets-Net gain on sale of ind gas assets(11)Net loss on sale of outrolled entities(11)Net loss on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Add/(deduct) change in operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:10Decrease in ther assets(51)(11)Decrease in inventories(38)(11)Increase in ent deferred tax liabilities57(15)Increase in ent deferred tax liabilities57(15)Increase in ther assets(15)(15)(15)Net cash provided by operating activities1,6581,22Increase in inventories1,6581,22Increase in inventories(15)(15)Increase in provisions50(15)Net cash provided by operating activities(16)(24)(2) TOTAL TAXATION PAID(126)1Increase in provision(142)(1Consideration for acquisition of Eastern Star Gas Limited-6(10) TOTAL AXATION FAID(124)(24)(24)(2) TOTAL BORROWING COSTS PAID<	Share-based payment expense	15	13
Defined benefit plan expense3Foreign exchange losses/(gains)2Net gain on sale of exploration and evaluation assets-Net gain on sale of oil and gas assets(11)Net gain on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Amortisation of prepaid loan transaction costs6Net cash provided by operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities1,491Add/(deduct) change in operating assets or liabilities10Increase in inventories(38)Decrease in trade and other receivables10Increase in other assets(51)(1) Crease in net deferred tax liabilities57Increase in inventories(38)(15)(15)Increase in trade and other payables(15)Increase in inventories50Net cash provided by operating activities1,6581.261Consideration for acquisition of Eastern Star Gas Limited-(C) IOTAL TAXATION PAID(24)Increase paid(24)Cash outflow from operating activities(142)(142)(142)(142)(142)(144)(290)(6)(290)(6)(15)(140)(21)(140)(21)(140)(21)(141)(15)(140)(15) </td <td></td> <td>45</td> <td>43</td>		45	43
Defined benefit plan expense3Foreign exchange losses/(gains)2Net gain on sale of oil and gas assets-Net gain on sale of oil and gas assets(11)Net gain on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Amortisation of prepaid loan transaction costs6Net cash provided by operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposal for businesses:10Decrease in trade and other receivables10Increase in inventories(38)Of Increase in trade and other preceivables151Increase in other assets(15)Increase in trade and other payables154Increase in trade and other payables155Increase in trade and other payables151Increase in trade and other payables154Increase in trade and other payables155Increase in trade and ther payables156Increase in provisions50Net cash provided by operating activities(24)(2) TOTAL TAXATION PAID(24)Increase paid(24)Cash outflow from operating activities(142)(142)(142)(150)(290)(6)(290)(6)(290)(6)(150)(16) working activities(175)(175)(175)(175		1	(8)
Foreign exchange losses/(gains)2Net gain on sale of exploration and evaluation assets-Net gain on sale of il and gas assets(11)Net gain on sale of controlled entities(1)Net loss on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Amortisation of prepaid loan transaction costs6Net cash provided by operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:10Decrease in trade and other receivables10Increase in other assets(51)Increase in entrade and other payables154Increase in current tax liabilities57Increase in trade and other payables1,658Increase in provisions50Net cash provided by operating activities1,26(1)1,6581,22(1)(24)(2(2)10Increase in trade and other payables1,658Increase in provisions50Net cash provided by operating activities(24)(2)(24)(2(2)(24)(2(3)(124)(2(2)(24)(2(2)(24)(2(2)(24)(2(2)(24)(2(2)(24)(2(2)(24)(2(2)(24)		3	2
Net gain on sale of exploration and evaluation assets       -       (2         Net gain on sale of foul and gas assets       (11)       (3)         Net gain on sale of outnolled entities       (1)       (3)         Net loss on sale of available-for-sale financial assets       1       -         Fair value adjustment for step-up acquisition from associate to subsidiary       -       -         Share of net loss in an associate       -       -         Amortisation of prepaid loan transaction costs       6       -         Net gain on sale of available-for-sale financial assets       1       -         Amortisation of prepaid loan transaction costs       6       -         Add/(deduct) change in operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating activities before changes in assets or liabilities       1,491       1,1         Increase in inventories       (38)       (1)       0         Increase in inventories       (38)       (15)       (1)         Increase in trade and other payables       (15)       (15)       (15)         Increase in provided by operating activities       1,658       1,2         Net cash provided by operating activities       1,658       1,2         (C) TOTAL TAXATION PAID		2	(18)
Net gain on sale of oil and gas assets       (11)       (3         Net gain on sale of controlled entities       (1)       (3)         Net gain on sale of controlled entities       (1)       (3)         Net oss on sale of available-for-scale financial assets       1       1         Fair value adjustment for step-up acquisition from associate to subsidiary       -       -         Share of net loss in an associate       -       -         Amortisation of prepaid loan transaction costs       6       -         Net cash provided by operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:       10       -         Decrease in trade and other receivables       10       -       -         Increase in outered tax liabilities       57       -       -         Increase in trade and other payables       (15)       (15)       (15)         Increase in trade and other payables       1,658       1,2         Increase in trade and other payables       1,658       1,2         Increase in provisions       50       -       6         Net cash provided by operating activities       1,658       1,2         (B) NON-CASH FINANCING AND INVESTING ACTI		-	(200)
Net gain on sale of controlled entities(1)Net loss on sale of available-for-sale financial assets1Fair value adjustment for step-up acquisition from associate to subsidiary-Share of net loss in an associate-Amortisation of prepaid loan transaction costs6Net cash provided by operating activities before changes in assets or liabilities1,491Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:10Decrease in trade and other receivables10Increase in onter assets(51)Increase in net deferred tax liabilities57Increase in net deferred tax liabilities154Decrease in trade and other payables(15)Increase in provisions50Net cash provided by operating activities1,658(1)(15)(15)(2)10Increase in provisions50Net cash provided by operating activities(16)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(24)(2)(25)(10)(124)(11)(124)(12)(142)(14)(142		(11)	(329)
Net loss on sale of available-for-sale financial assets       1         Fair value adjustment for step-up acquisition from associate to subsidiary       -         Amortisation of prepaid loan transaction costs       6         Net cash provided by operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:       0       0         Decrease in trade and other receivables       10       0       0         Increase in inventories       (38)       0       0         Increase in inventories       (51)       0       0       0         Increase in net deferred tax liabilities       57       0       0       0         Increase in net deferred tax liabilities       154       1       0       0       0         Increase in provisions       50       0 <t< td=""><td></td><td>• •</td><td></td></t<>		• •	
Fair value adjustment for step-up acquisition from associate to subsidiary Share of net loss in an associate Amortisation of prepaid loan transaction costs-Net cash provided by operating activities before changes in assets or liabilities Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses: Decrease in trade and other receivables10Increase in inventories Increase in other assets(33) (G1)(0Increase in inter deferred tax liabilities Increase in uret deferred tax liabilities Increase in uret at liabilities57(15)Increase in net deferred tax liabilities Increase in urent tax liabilities1541Decrease in trade and other payables Increase in provisions(15)(15)(15)Net cash provided by operating activities1,6581,22(B) NON-CASH FINANCING AND INVESTING ACTIVITIES Santos Dividend Reinvestment Plan Consideration for acquisition of Eastern Star Gas Limited1261Income taxes paid Cash outflow from operating activities(124)(2(2(C) TOTAL TAXATION PAID Income taxes paid Cash outflow from operating activities(142)(1(290)(6(D) TOTAL BORROWING COSTS PAID Cash outflow from operating activities(19)(10)(C) TOTAL BORROWING COSTS PAID Cash outflow from investing activities(19)(175)(19)(175)(1			-
Share of net loss in an associate       -         Amortisation of prepaid loan transaction costs       6         Net cash provided by operating activities before changes in assets or liabilities       1,491       1,1         Add/(deduct) change in operating assets or liabilities, net of acquisitions or       10       11         Add/(deduct) change in operating assets or liabilities, net of acquisitions or       10       11         Increase in inventories       (38)       (15)       (15)         Increase in inventories       (51)       (15)       (15)       (15)         Increase in other assets       (51)       (15)       (16)       (16)       (16)       (17)       (17)       (17)       (17)       (16)       (16)       (1		_	6
Net cash provided by operating activities before changes in assets or liabilities Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses: Decrease in trade and other receivables10Increase in in trade and other receivables10Increase in in ent deferred tax liabilities(51)Increase in net deferred tax liabilities57Increase in net deferred tax liabilities154Decrease in trade and other payables(15)Increase in provisions50Net cash provided by operating activities1,658Increase in rade and other Plan126Consideration for acquisition of Eastern Star Gas Limited-Consideration for investing activities(124)Cash outflow from operating activities(142)Cosh outflow from operating activities(142)Cosh outflow from operating activities(142)Cash outflow from operating activities(19)Cash outflow from operating activities(175)Cash outflow from investing activities(19)Cash outflow from investing activities(175)Cash outflow from investing activities(175)Cash outflow from investing activities(19)Cash outflow from investing activities(175)Cash outflow from investing activities(175)Cash outflow from investing activities(175)Cash outflow from operating activities(175)Cash outflow from investing activities(175)Cash outflow from investing activities(175)Cash outflow from investin		_	9
Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:       10         Decrease in trade and other receivables       10         Increase in niventories       (38)         Increase in other assets       (51)         Increase in net deferred tax liabilities       57         Increase in net deferred tax liabilities       154         Decrease in trade and other payables       (15)         Increase in provisions       50         Net cash provided by operating activities       1,658         Santos Dividend Reinvestment Plan       126         Consideration for acquisition of Eastern Star Gas Limited       -         Increase spaid       (124)       (2         Cash outflow from operating activities       (142)       (1         Cash outflow from operating activities       (142)       (1         (0) TOTAL BORROWING COSTS PAID       (19)       (175)         Cash outflow from operating activities       (19)       (175)		6	3
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(B) NON-CASH FINANCING AND INVESTING ACTIVITIES         Santos Dividend Reinvestment Plan         Consideration for acquisition of Eastern Star Gas Limited         -         (C) TOTAL TAXATION PAID         Income taxes paid         Cash outflow from operating activities         (24)         (25)         (124)         (290)         (6)         (142)         (142)         (290)			20
Santos Dividend Reinvestment Plan1261Consideration for acquisition of Eastern Star Gas Limited-6(C) TOTAL TAXATION PAID(24)(2Income taxes paid(24)(2Cash outflow from operating activities(124)(2Royalty-related taxation paid(142)(1Cash outflow from operating activities(142)(1(D) TOTAL BORROWING COSTS PAID(19)(175)Cash outflow from investing activities(19)(1	Net cash provided by operating activities	1,658	1,253
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Cash outflow from investing activities (175) (1	Cash outflow from operating activities	(19)	(81)
			(132)
		(1.5)	
<b>(194)</b> (2		(194)	(213)

# **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 stat	tement of financia	al position			
Deficit in plan recognised in no Non-current receivables	n-current provisior	ns (refer note 18)		40 (16)	50 (23)
				24	27
Movements in the liability for	net defined bene	fit obligations recogn			
the statements of financial po					
Liability at 1 January				27	22
Expense recognised in income s				3 2	2
Amount capitalised in oil and g				_	1 14
Amount recognised in retained Employer contributions	earnings			(2) (6)	(12)
Liability at 31 December				24	27
-				24	L1
Expense recognised in the inco Service cost	ome statement			4	2
Interest cost				4	3
Expected return on plan assets				(6)	(3)
				3	2
				5	L
The expense is recognised in t Cost of sales	the following line	item in the income st	atement:	3	2
Amounts recognised in other of	comprehensive in	come			
Actuarial gain/(loss) in the year	r			2	(14)
Tax effect				(1)	4
Net actuarial gain/(loss) in the	year			1	(10)
Cumulative actuarial loss recogr	nised in other com	prehensive income, net	of tax	(22)	(23)
Historical information for the	current and previ	ous periods			
	2012	2011	2010	2009	2008
	\$million	\$million	\$million	\$million	\$million
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)
- F		(-)	(-)	(- /	(')

9. EMPLOYEE BENEFITS (CONTINUED)	2012 \$million	2011 \$million
A) DEFINED BENEFIT PLAN (CONTINUED)		
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	E.
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	L.
Actuarial loss	-	13
Benefits paid	(19)	(11
Taxes and premiums paid	(2)	(4
Closing defined benefit obligations	190	192
	2012	2011
	%	%
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 Cash	5 7	1
	/	٤
Fair value of plan assets		
The fair value of plan assets includes no amounts relating to:		
<ul> <li>any of the Group's own financial instruments; or</li> </ul>		
• any property occupied by, or other assets used by, the Group.		
	2012	2011
	\$million	\$million
Actual return on plan assets		

Actual return on plan assets - gain/(loss)

# 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.

(1)

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29. EMPLOYEE BENEFITS (CONTINUED)	2012 % p.a.	2011 % p.a.
(A) DEFINED BENEFIT PLAN (CONTINUED)		
Principal actuarial assumptions at the reporting date (expressed as weighted average)		
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).

### **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.

# **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

## (A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

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

### 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.

# **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

# (A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

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	Reallocated 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 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

## **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							
R01 - R03	2011	3 July 2013	-	307,401	(8,141)	(1,512)	297,748
R04 - R06	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		2011		
Matched SARs grant	R07 – R09	R10 - R12	R01 - R03	R04 – R06	
Fair value at grant date (\$)	11.93	10.06	12.47	12.61	
Share price on grant date (\$)	12.65	10.91	13.19	13.47	
Exercise price (\$)	-	-	-	-	
Right life (weighted average, years)	2.5	3.0	2.5	3.0	
Expected dividends (% p.a.)	2.4	2.8	2.3	2.2	

# **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

## (A) CURRENT GENERAL EMPLOYEE SHARE PLANS (CONTINUED)

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

## (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 no SARs were granted in 2012. Performance Awards only were granted to eligible executives in 2012.

## **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

#### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

### 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 vests 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.

# **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

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# (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

Grant	Year of grant	End of vesting period	Beginning of the year	Granted during the year	Lapsed	Vested	End of the year
	9.0	perroa	Number	Number	Number	Number	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)	(3,001)	82,673
G2	2009	1 Mar 2012	159,155	_	(18,020)	(8,850)	132,28
F2	2008	2 May 2011	67,883	-	(3,308)	(64,575)	
			1,952,896	1,012,010	(377,149)	(269,706)	2,318,051

## **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 exercis price (\$)	se		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	0						

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

## **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:

	20	)12	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:

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

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

### **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

### (B) EXECUTIVE LONG-TERM INCENTIVE PROGRAMME (CONTINUED)

### 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.

### 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).

# **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

## (C) SANTOS EASTERN STAR GAS LIMITED EMPLOYEE INCENTIVE PLAN (CONTINUED)

## Valuation of Santos ESG Plan Shares

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

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

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

## (D) 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 ("AGM").

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.
#### **30. SHARE-BASED PAYMENT PLANS (CONTINUED)**

#### (D) 2012-2015 FOUR-YEAR STRATEGY GRANT (CONTINUED)

#### 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:

10 57
10.57
11.57
-
3.5
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 Retained earnings	375 375	-

#### (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.

#### **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 (2011: 35,725) shares remain on trust until December 2013 or July 2014, applicable to the 2003 and 2004 grants respectively. During this time, the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. During the period the shares are held on trust, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

#### (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 non-executive Directors 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.

#### **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 Executive long-term incentive programme:	30(A)	5,379	8,478
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
2012–2015 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)
Cash-settled	30(B)	80	(260)
2012–2015 Four-year Strategy Grant	30(D)	(375)	-
		(14,488)	(13,603)
		5,459	22,684

#### **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.

# (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:

o	Balance at beginning of the year	<b>Granted</b> <sup>1</sup>	Options exercised/ rights vested <sup>2</sup>	Other changes <sup>3</sup>	Sold/ transferred	Balance at end of the year <sup>4</sup>	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 <i>Directors</i> Knox, David John Wissler	521,464	I	I	(131,976)	I	389,488	257,512	257,512	I
Executives Anderson, John Hugh	117,693	I	I	I	I	117,693	117,693	117,693	I
Baulderstone, James Leslie Brown, Trevor John	86,238 -	1 1	1 1	37,137	1 1	86,238 37,137	86,238 37,137	86,238 37,137	1 1
Cleary, Peter John Eames, Martvn Edward James	71,662	1 1	1 1	1 1	1 1	- 71,662	- 71,662	- 71,662	1 1
Macfarlane, Mark Stuart Seaton, Andrew John	102 22	11	1 1	(102,684) -	1 1	22,213	22,213	22,213	11
Total	921,954	I	I	(197,523)	1	724,431	592,455	592,455	1
<b>SARs</b> <i>Directors</i> Knox, David John Wissler <i>Executives</i>	258,038	399,274	I	(50,403)	I	606,909	I	I	I
Anderson, John Hugh Baulderstone, James Leslie	65,040 87,806	40,274 42.737	(4,168) (5,057)	(13,359) (13,450)	1 1	87,787 112,036	11	11	1 1
Brown, Trevor John				83,275	I	83,275	I	I	I
Eames, Martyn Edward James	44,064	40,043	- (4,471)	- (15,744)		04,921 94,035			1 1
Macfarlane, Mark Stuart Seaton, Andrew John		41,447 44,302	(4,152) (3,948)	(121,573) (5,982)	1 1	80,241	1 1	1 1	1 1
Total	656,588	651,654	(21,796)	(137,236)	I	1,149,210	I	1	1

1. 5ABs granted to executives including the Managing Director on 1 March 2012 for the 2012 UII 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).

# 31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

E L	Balance at beginning of the year	Granted <sup>1</sup>	Options exercised/ rights vested <sup>2</sup>	Other changes <sup>3</sup>	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 Eventives	544,974	I	I	(23,510)	I	521,464	257,512	257,512	I
Anderson, John Hugh	123,637	I	I	(5,944)	I	117,693	117,693	117,693	I
Baulderstone, James Leslie	91,678	I	I	(5,440)	I	86,238	86,238	86,238	I
Cleary, Peter John	I	I	I	I	I	I	I	I	I
Eames, Martyn Edward James	78,667	I	I	(2,005)	I	71,662	71,662	71,662	I
Macfarlane, Mark Stuart	I	I	I	102,684	I	102,684	102,684	102,684	I
Seaton, Andrew John	I	I	I	22,213	I	22,213	22,213	22,213	I
Wilkinson, Richard John	I	I	I	I	I	I	I	Ι	I
Total	838,956	I	I	82,998	I	921,954	658,002	658,002	I
SARs									
Knox, David John Wissler Executives	136,779	157,232	(31,297)	(4,676)	I	258,038	I	I	I
Anderson, John Hugh	41,087	23,953	I	I	I	65,040	I	I	I
Baulderstone, James Leslie	62,303	25,503	I	I	I	87,806	I	I	I
Cleary, Peter John	20,000	24,084	I	I	I	44,084	I	I	I
Eames, Martyn Edward James	46,458	25,015	I	I	I	71,473	I	I	I
Macfarlane, Mark Stuart	I	I	I	84,278	I	84,278	I	I	I
Seaton, Andrew John	I	22,929	I	22,940	I	45,869	I	I	I
Wilkinson, Richard John	61,874	23,776	(15,751)	(66,899)	I	I	I	I	I
Total	368,501	302,492	(47,048)	32,643	I	656,588	I	I	I

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:

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).

#### Notes to the Consolidated Financial Statements for the year ended 31 December 2012

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(C) EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

# Share holdings

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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 <sup>1</sup>	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	I	ı	I	1,788	74,320	I
Coates, Peter Roland	31,985	I	4,330	I	789	37,104	I
Dean, Kenneth Alfred	15,956	I	ı	I	393	16,349	I
Franklin, Roy Alexander	ı	I	3,500	I	47	3,547	I
Goh, Hock <sup>2</sup>	I	I	ı	I	I	I	I
Harding, Richard Michael	2,580	I	ı	I	63	2,643	I
Hemstritch, Jane Sharman	14,000	I	ı	I	I	14,000	I
Knox, David John Wissler	93,749	I	ı	I	306	94,055	I
Martin, Gregory John Walton	10,750	I	I	I	I	10,750	I
Executives							
Anderson, John Hugh	53,626	4,168	I	I	I	57,794	I
Baulderstone, James Leslie	24,600	5,057	I	I	I	29,657	I
Brown, Trevor John	I	I	I	I	386,669	386,669	I
Cleary, Peter John	I	I	I	I	I	I	I
Eames, Martyn Edward James	61,780	4,471	ı	I	I	66,251	I
Macfarlane, Mark Stuart	38,207	4,152	ı	I	(42,359)	I	I
Seaton, Andrew John	16,841	3,948	I	I	56	20,845	I
Total	436,606	21,796	7,830	I	347,752	813,984	I

1. Other changes include:

(i) Dividend Reinvestment Plan allocations;
 (ii) Mr T3 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.

# 31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED) 148

EQUITY HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONTINUED) 0

	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Sold	0ther changes <sup>1</sup>	Balance at end of the year	balance neu nominally at end of the year
2011							
Urannary snares – tuuy paia <i>Directors</i>							
Borda, Kenneth Charles	68,835	I	2,000	I	1,697	72,532	I
Coates, Peter Roland	27,121	I	4,330	I	534	31,985	I
Dean, Kenneth Alfred	15,583	I	I	I	373	15,956	I
Franklin, Roy Alexander	I	I	I	I	I	I	I
Harding, Richard Michael	2,519	I	I	I	61	2,580	I
Hemstritch, Jane Sharman	14,000	I	I	I	I	14,000	I
Knox, David John Wissler	53,664	31,297	8,700	I	88	93,749	I
Martin, Gregory John Walton	10,750	I	I	I	I	10,750	I
Executives							
Anderson, John Hugh	53,626	I	I	I	I	53,626	I
Baulderstone, James Leslie	24,600	I	I	I	I	24,600	I
Cleary, Peter John	1,971	I	I	(1,971)	I	I	I
Eames, Martyn Edward James	61,780	I	I	I	I	61,780	I
Macfarlane, Mark Stuart	I	I	I	I	38,207	38,207	I
Seaton, Andrew John	I	I	I	I	16,841	16,841	I
Wilkinson, Richard John	93,288	15,751	I	I	(109,039)	I	I
Total	427,737	47,048	15,030	(1,971)	(51,238)	436,606	I

(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.

#### Notes to the Consolidated Financial Statements for the year ended 31 December 2012

#### **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

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 Later than one year but not later than five years Later than five years	2,248 822 82	2,346 1,879 -
_	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 Later than one year but not later than five years Later than five years	104 166 -	69 203 –
	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 Later than one year but not later than five years Later than five years	128 282 389 799	124 396 421 941
-	199	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.

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; and
- 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.

#### **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

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

#### Native title

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 Company's asset base. Compliance with the "future act" provisions of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and consequently impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues.

#### **37. DEED OF CROSS GUARANTEE**

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

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

The subsidiaries subject to the Deed are:

- Alliance Petroleum Australia Pty Ltd;
- 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.

#### **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 costs	(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:	(2)	1
Net exchange (loss)/gain on translation of foreign operations	(3)	-
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
Net 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

#### **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

#### **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 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  $\pm$ 13 cent movement in the US dollar exchange rate (2011:  $\pm$ 17 cent) and a  $\pm$ 9 cent movement in the Euro exchange rate (2011:  $\pm$ 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)		_

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The  $\pm 13$  cent sensitivity in the US dollar exchange rate and  $\pm 9$  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  $\pm 0.30\%$  (2011:  $\pm 0.42\%$ ), Euro Interbank Offered Rate ("EURIBOR") by  $\pm 1.29\%$  (2011:  $\pm 0.61\%$ ) and Australian Bank Bill Swap reference rate ("BBSW") by  $\pm 1.47\%$  (2011:  $\pm 0.65\%$ ), 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  $\pm 0.30\%$ , EURIBOR  $\pm 1.29\%$  and the Australian BBSW  $\pm 1.47\%$  sensitivity employed in the estimates above.

#### Cash flow hedge accounting

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

In order to reduce the variability of the Australian dollar cash flows arising from the Euro principal and interest payments to September 2017, the Group entered into cross-currency interest rate swap contracts in March 2011, under which it has a right to receive interest at fixed Euro rates and pay interest at floating US dollar interest rates. These contracts are in place to cover all remaining principal and interest payments on  $\notin$ 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.

#### (B) MARKET RISK (CONTINUED)

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 Charged to comprehensive income	(14) 8	2 (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.

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.

#### (C) CREDIT RISK (CONTINUED)

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 in 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)
- 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)

#### 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (E) FAIR VALUES

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

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

#### Available-for-sale financial assets

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

#### Derivatives

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

#### Financial liabilities

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

#### Interest rates used for determining fair value

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

	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.

#### (E) FAIR VALUES (CONTINUED)

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

	Total \$million	Level 1 \$million	Level 2 \$million	Level 3 \$million
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)	-
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);
  - (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(A); and
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 31 December 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:

)eter Coare

Director Adelaide

avid Knox

Director

#### Independent Audit Report to the members of Santos Limited

#### **Report on the Financial Report**

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 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.

#### Opinion

In our opinion:

- 1. the financial report of Santos Limited is in accordance with the *Corporations Act 2001*, including:
  - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- 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 58 to 75 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

Ernst & Young

T S Hammond Partner Adelaide 22 February 2013

Liability limited by a scheme approved under Professional Standards Legislation

# Auditor's Independence Declaration to the Directors of Santos Limited

In relation to our audit of the financial report of Santos Limited for the year ended 31 December 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

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Ernst & Young

T S Hammond Partner Adelaide 22 February 2013

Liability limited by a scheme approved under Professional Standards Legislation

#### Information for shareholders

#### NOTICE OF MEETING

The Annual General Meeting of Santos Limited will be held in Hall F at Adelaide Convention Centre, North Terrace, Adelaide, South Australia, on Thursday 9 May 2013 at 10:00 am.

#### FINAL DIVIDEND

The 2012 final ordinary dividend will be paid on 28 March 2013 to shareholders registered in the books of the Company at the close of business on 7 March 2013 in respect of fully paid shares held at record date.

#### SECURITIES EXCHANGE LISTING

Santos Limited. Incorporated in Adelaide, South Australia, on 18 March 1954. Quoted on the official list of the Australian Securities Exchange (ordinary shares code STO).

#### DIRECTORS

PR Coates (Chairman), DJW Knox (Managing Director), KC Borda, KA Dean, RA Franklin, H Goh, RM Harding, GJW Martin, JS Hemstritch.

#### SECRETARY

DTJ Lim

#### CHANGE OF SHAREHOLDER DETAILS

Shareholders can access their current shareholding details and change many of these details online via the Santos Limited website, www.santos.com. The website requires you to quote your Shareholder Reference Number ("SRN") or Holder Identification Number ("HIN") in order to access this information. Forms are also available to advise the Company of changes relating to change of address, direct crediting of dividends, Tax File Number and Australian Business Number, Annual Report and Sustainability Report mailing preferences and Dividend Reinvestment Plan participation by contacting Computershare Investor Services Pty Limited.

#### INVESTOR INFORMATION AND SERVICES

#### Santos website

A wide range of information for investors is available from Santos' website, www.santos.com, including Annual Reports, Sustainability Reports, Full-Year and Interim Reports and Presentations, news announcements, Quarterly Activities Reports and current well information.

Comprehensive archives of these materials dating back to 1997 are available on the Santos website.

Other investor information available on the Santos website includes:

- webcasts of investor briefings;
- an email alert facility where people can register to be notified, free of charge, of Santos' News Announcements via email; and
- an RSS feed of Santos' News Announcements, which allows people to view these announcements using RSS reader software.

The Santos website provides a full history of Santos' dividend payments and equity issues. Shareholders can also check their holdings and payment history via the secure View Shareholding section.

Santos' website also provides an online Conversion Calculator, which instantly computes equivalent values of the most common units of measurement in the oil and gas industry.

#### Publications

The Annual Report, Interim Report and the Sustainability Report are the major sources of printed information about Santos. Printed copies of the reports are available from the Share Registry or Investor Relations.

#### SHAREHOLDER ENQUIRIES

#### Enquiries about shareholdings should be directed to:

Computershare Investor Services Pty Limited GPO Box 2975 Melbourne, Victoria 3001

Phone: 1300 017 716 (within Australia) or +61 3 9938 4343 (outside Australia)

Email: web.queries@computershare.com

#### Investor information, other than that relating to a shareholding, can be obtained from:

Investor Relations, Santos Limited GPO Box 2455 Adelaide, South Australia 5001 Telephone: 08 8116 5000 Email: investor.relations@santos.com

Electronic enquiries can also be submitted through the 'Contact Us' section of the Santos website, www.santos.com.

#### SHAREHOLDERS' CALENDAR

2012 Full-Year Results announcement 22 February 2013

Ex-dividend date for 2012 full-year dividend 1 March 2013

Record date for 2012 full-year dividend 7 March 2013

Payment date for 2012 full-year dividend 28 March 2013

Annual General Meeting 9 May 2013

2013 Interim Results announcement 16 August 2013

Ex-dividend date for 2013 interim dividend 22 August 2013

Record date for 2013 interim dividend 28 August 2013

Payment date for 2013 interim dividend 30 September 2013

Dates may be subject to change.

QUARTERLY REPORTING CALENDAR

2013 First Quarter Activities Report 19 April 2013

2013 Second Quarter Activities Report 19 July 2013

2013 Third Quarter Activities Report 18 October 2013

2013 Fourth Quarter Activities Report 17 January 2014

Dates are subject to change and are published on the Santos website, www.santos.com.

#### Securities Exchange and Shareholder Information

Listed on Australian Securities Exchange at 28 February 2013 were 958,913,588 fully paid ordinary shares. Unlisted were 27,250 partly paid Plan 0 shares, 27,250 partly paid Plan 2 shares, 1,114,666 fully paid ordinary shares issued pursuant to the ShareMatch Plan, 30,430 fully paid ordinary shares held on trust and issued pursuant to the Santos Executive Share Purchase Plan ("SESEP"), 944,970 restricted fully paid ordinary shares issued to eligible senior executives pursuant to the Santos Employee Share Purchase Plan ("SESPP"), 46,279 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan ("NED Share Plan") and 208,147 restricted fully paid ordinary shares pursuant to the Eastern Star Gas Limited Employee Incentive Plan ("ESG Plan").

There were 110,961 holders of all classes of issued ordinary shares, including: 4 holders of Plan 0 shares; 4 holders of Plan 2 shares; 1,545 holders of ShareMatch shares; 6 beneficial holders of SESEP shares; 61 holders of restricted shares pursuant to the SESPP; 4 holders of NED Share Plan shares; and 9 holders of ESG Plan shares. This compared with 111,131 holders of all classes of issued ordinary shares a year earlier.

On 28 February 2013 there were also: 42 holders of 4,162,997 Options granted pursuant to the Santos Executive Share Option Plan; 86 holders of 2,735,675 Share Acquisition Rights pursuant to the SESPP; and 1,545 holders of 1,114,666 Share Acquisition Rights pursuant to the ShareMatch Plan.

The listed issued ordinary shares plus the ordinary shares issued pursuant to the SESPP, and the restricted shares issued pursuant to the SESPP, ShareMatch Plan, NED Share Plan and ESG Plan, represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 65.09% of the total voting power in Santos (63.41% on 29 February 2012). The largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 28 February 2013 were:

Name	No. of Shares	%
HSBC Custody Nominees (Australia) Limited	212,065,945	22.12
JP Morgan Nominees Australia Limited	145,531,552	15.18
National Nominees Limited	100,087,489	10.44
Citicorp Nominees Pty Limited	44,128,845	4.60
JP Morgan Nominees Australia Limited <cash a="" c="" income=""></cash>	32,709,191	3.41
BNP Paribas Noms Pty Ltd <drp></drp>	24,440,832	2.55
Citicorp Nominees Pty Limited <colonial a="" c="" first="" inv="" state=""></colonial>	9,422,511	0.98
AMP Life Limited	8,735,399	0.91
Australian Foundation Investment Company Limited	7,789,362	0.81
HSBC Custody Nominees (Australia) Limited <nt-comnwlth a="" c="" corp="" super=""></nt-comnwlth>	5,855,887	0.61
BNP Paribas Nominees Pty Ltd <agency a="" c="" drp="" lending=""></agency>	4,556,778	0.47
UBS Nominees Pty Ltd	4,266,666	0.44
Argo Investments Limited	4,207,959	0.44
QIC Limited	4,146,142	0.43
RTS Nominees Pty Limited	3,118,324	0.33
Mr John Charles Ellice-Flint	2,994,888	0.31
HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,862,437	0.30
HSBC Custody Nominees (Australia) Limited – A/c 2	2,856,222	0.30
Citicorp Nominees Pty Limited <bhp a="" adr="" billiton="" c="" holders=""></bhp>	2,364,610	0.25
Ecapital Nominees Pty Limited <drp a="" c=""></drp>	2,000,005	0.21
Total:	624,141,044	65.09

#### Analysis of Shares – Range of Shares Held

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1–1,000	48,820	44.00	2.49
1,001–5,000	49,344	44.47	12.06
5,001-10,000	8,349	7.52	6.18
10,001-100,000	4,298	3.87	9.09
100,001 and over	150	0.14	70.18
Total	110,961	100.00	100.00
Less than a marketable parcel of \$500	2,586		

Substantial Shareholders as disclosed by notices received by the Company as at 28 February 2013: Nil

For Directors' Shareholdings see the Directors' Report as set out on page 49 of this Annual Report.

#### Voting Rights

Every member present in person of by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid ordinary share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

#### Santos Group Interests

#### As at 5 March 2013

As at 5 March 2013	%
Joint Venture and Permits	Interest
Note: In South Australia PPL = Petroleum Production Licence and PL = Pipeline Licence.	
In Queensland PPL = Pipeline Lice PL = Petroleum Lease, PLA = Petro Lease Application and PAL = Petro Assessment Lease.	leum
Interests shown are beneficial inte	erests.
• Indicates Santos operated	
EASTERN AUSTRALIA	
South Australia	
Cooper Basin	
PPLs 6-20, 22-25, 27, 29-33, 35-48, 51-61, 63-70, 72-75, 78-81, 83-84, 86-92, 94-95, 98-111, 113-117, 119-120, 124, 126-130, 132-135, 137-140, 143-146, 148-151, 153-155, 159-166, 172, 174-180, 189-190, 193, 195-196, 228, 230-238 (Fixed Factor Area)	66.6
PPL 26, PPL 76, PPL 77, PPL 118, PPLs 121-123, PPL 125, PPL 131, PPL 136, PPL 147, PPL 152, PPL 156, PPL 158, PPL 167, PPL 182, PPL 187, PPL 194, PPL 201, PPL 229	
(Patchawarra East)	72.3
Facilities       PL 2 (Moomba to Pt Bonython	
Liquid Pipeline)	66.6
PL 5 (Ballera to Moomba Pipeline)	
PL 9 (Stokes to Mettika Pipeline)	60.1
PL 15 (Moon to Kerna Pipeline)	60.1
(Jackson to Moomba Pipeline)	100.0
PL 20 (Cook to Merrimelia Pipeline)	55.0
Eromanga Basin	
PPL 206, PPL 208, PPL 215 (Derrilyn Unit)	65.0
PEL 114, PPL 225, PPL 226,	100.0
PPL 227, PRL 28, PRL 29, PRL 30	100.0 54.2
PPL 211 (Reg Sprigg West)	04.2

Joint Venture and Permits	Interest
Queensland	
Cooper Basin	
ATP 633P	50.0
Alkina	• 72.0
ATP 259P (Aquitaine A)	
PL 86, PL 131, PL 146, PL 177,	<b>• •</b> • • •
PL 208, PL 254	• 52.5
ATP 259P(Aquitaine B) PL 59, PL 60, PL 61,	
PL 81, PL 83, PL 85, PL 97,	
PL 106, PL 108, PL 111,	
PL 112, PL 132, PL 135,	
PL 139, PL 147, PL 151,	
PL 152, PL 155, PL 205,	- FF 0
PL 207, PL 288, PL 410	• 55.0
ATP 259P (Aquitaine C)	• /7 0
PL 138, PL 154	• 47.8
ATP 259P (Innamincka) PL 58, PL 80, PL 136, PL 137,	
PL 156, PL 159, PL 249, PLA 409	• 70.0
ATP 259P (Naccowlah)	
PL 23, PL 24, PL 25, PL 26,	
PL 35, PL 36 <sup>1</sup> , PL 62, PL 76 <sup>1</sup> ,	
PL 77, PL 78 <sup>1</sup> , PL 79, PL 82,	
PL 87, PL 107, PL 109, PL 133,	
PL 149, PL 175, PL 181, PL 182,	- EE E
PL 189, PL 302, PLA 287	• 55.5
ATP 259P (Total 66) PL 34, PL 37, PL 63, PL 68,	
PL 75 <sup>1</sup> , PL 84, PL 88, PL 110	
PL 129, PL 130, PL 134, PL 140,	
PL 142, PL 143, PL 144, PL 150,	
PL 168, PL 178, PL 186, PL 193,	
PL 241, PL 255, PL 301,	- 70.0
PPL 8, PPL 14	• 70.0
ATP 259P (Wareena)	
PL 113, PL 114, PL 141, PL 145, PL 148, PL 153, PL 157, PL 158,	
PL 187, PL 188, PLA 411, PPL 138	61.2
ATP 1174 <sup>2</sup>	• 100.0
PPL 12, PPL 13, PPLs 16-18,	100.0
PPL 31, PPLs 34-40, PPLs 46-48,	
PPL 62, PPLs 64-72, PPLs 78-82,	
PPL 84, PPL 86, PPLs 94-96,	
PPL 98, PPL 101, PPL 105,	
PPL 113, PPL 142, PPL 169,	<b>-</b>
PPL 170 (SWQ Unit)	• 60.1
PL 117 (ex Faulconer)	• 100.0
PPL 127 (Tickalara to SA Border)	• 100.0
PPL 128 (Jackson to Tickalara)	• 100.0

Joint Venture and Permits	Interest
Eromanga Basin	•
PL 55 <sup>1</sup> (50/40/10)	• 60.0
ATP 267P <sup>1</sup> (Nockatunga) PL 244, PL 245, PL 33, PL 501,	
PL 511	• 100.0
ATP 269P	6.8
ATP 299P <sup>1</sup> (Tintaburra) PL 29, PL 38, PL 39 <sup>1</sup> , PL 52 <sup>1</sup> , PL 57 <sup>1</sup> , PL 95, PL 169, PL 170, PPL 109, PPL 110, PPL 111, PPL 112, PPL 293, PPL 294,	
PPL 295, PPL 298	• 89.0
ATP 636P <sup>2</sup>	• 100.0
ATP 661P <sup>2</sup>	• 100.0
ATP 752P (Barta) PLA 303, PPL 137	• 45.0
ATP 752P (Wompi)	• 30.0
ATP 765P <sup>2</sup>	• 100.0
ATP 766P <sup>2</sup>	• 100.0
ATP 783P <sup>2</sup>	• 30.0
ATP 820P <sup>2</sup>	• 100.0
ATP 1063P <sup>2</sup>	• 100.0
Denison Trough	
ATP 337P <sup>1</sup> , PLA 449 <sup>2</sup> , PLA 450 <sup>2</sup> , PLA 451 <sup>2</sup>	• 50.0
ATP 553P	• 50.0
Bowen Basin	
ATP 337P (Mahalo)	• 30.0
ATP 337P, (Denison) PL 10, PL 11, PL 41, PL 42, PL 43, PL 44, PL 45, PL 54, PL 67, PL 173, PL 183, PL 218, PLA 448, PLA 454, PLA 457	50.0
ATP 592P (Spring Gully)	
PL 195, PL 203, PLA 414,	
PLA 415, PLA 416, PLA 417,	( )
PLA 418, PLA 419	4.0
ATP 685P (Cockatoo Creek)	50.0
ATP 972P (Ramyard)	7.0
PL 176 (Scotia domestic) Surat Basin	• 100.0
ATP 212 P (Major) PL 30, PL 74 <sup>1</sup>	15.0
ATP 336P (Waldegrave) PL 10 W <sup>1</sup> , PL 11 W <sup>1</sup> , PL 12 <sup>1</sup> , PL 28, PL 69, PL 89 <sup>1</sup>	• 53.8

	%
Joint Venture and Permits	Interest
ATP 470P (Redcap) PL 264	10.0
ATP 470P (Formosa Downs) PL 71	5.5
ATP 606P (Combabula) PLA 297, PLA 403, PLA 404,	
PLA 405,PLA 406,PLA 407,	
PLA 408, PLA 412, PLA 413,	
PLA 444	6.0
ATP 623, PL 200 (Spring Gully)	2.7
ATP 701P (Spring Gully) PL 204	0.2
PL 1 (Cabawin Farmount)	• 50.0
PL 1 (Cabawin Exclusion)	• 100.0
PL 1 (Moonie)	• 100.0
PL 2 <sup>1</sup> (Alton)	• 100.0
PL 2 <sup>1</sup> (Alton Farmount)	• 63.5
PL 2 (Kooroon)	• 57.5
PL 11 <sup>1</sup> (Snake Creek East)	• 75.0
PL 12 (Trinidad)	• 100.0
PL 12 (Oberina)	• 100.0
PL 15 Sub Lease (Boxleigh)	• 100.0
PL 17 (Up Stratum)	• 100.0
PL 21 <sup>1</sup> , PL 22, PL 27, PL 64 (Balonne)	12.5
PL 71 (Parnook)	8.0
PL 315 (Drillsearch (PL5K)) <sup>13</sup>	• 25.0
PL 315 (Mascotte (PL 5M)) <sup>13</sup>	• 50.0
Facilities	
PPL 1 (Moonie to Brisbane	
Pipeline)	• 100.0
PPL 6 (Jackson to Moonie)	• 82.8
New South Wales	
Gunnedah Basin	
PEL 1	• 65.0
PEL 6 <sup>1, 3</sup> (Edendale)	• 55.4
PEL 6 <sup>1,3</sup> (Remainder)	• 53.7
PEL 12 <sup>1,3</sup>	• 65.0
PEL 238 <sup>1,3</sup>	• 80.0
PEL 2381	• 69.2
PEL 427 <sup>1, 3, 8</sup>	• 34.6
PEL 428 <sup>1, 3, 9</sup>	• 27.7
PEL 4331	• 80.0
PEL 4341	• 80.0

Joint Venture and Permits	% Interes
PEL 4501	• 100.0
PEL 4521	• 100.0
PEL 456 <sup>1</sup>	• 15.0
PEL 4621	• 100.0
PAL 2 <sup>3</sup>	• 80.0
PPL 3 <sup>3</sup>	• 80.0
Victoria	
Gippsland Basin	
VIC/RL 3 (Sole)	• 100.0
VIC/L 21 (Patricia-Baleen)	• 100.0
VIC/L 25 (Kipper)	50.0
VIC/L 25 (Unit)	35.0
PL 230	
(Patricia-Baleen Onshore Pipeline)	• 100.0
VIC/PL 31	
(Patricia-Baleen Offshore Pipeline)	• 100.0
VIC/PL 31(V)	
(Patricia-Baleen Onshore (Vic)	
Pipeline)	• 100.0
VIC/PL 31(V) (Patricia-Baleen Offshore (Vic) Pipeline)	• 100.0
Otway Basin	
VIC/P 44, VIC/RL 2 (V)	• 50.0
VIC/L 22 (Minerva)	10.0
VIC/L 24 (Casino)	• 50.0
VIC/L 30 (Henry)	• 50.0
VIC/RL 11	
(Martha Retention Lease)	• 50.0
VIC/RL 12	
(Blackwatch Retention Lease)	• 50.0
PL 251	<b>- - - - - - - - - -</b>
(Casino to Iona Onshore Pipeline)	• 50.0
VIC/33 (Minerva offshore Pipeline)	50.0
VIC/PL 37	
(Casino Offshore Pipeline)	• 50.0
VIC/PL 42	
(Henry to Casino Pipeline)	• 50.0
VIC/PL 37(V)	
(Casino Offshore Vic Pipeline)	• 50.0
Northern Territory	
Amadeus Basin	
OL 4, OL 5 (Mereenie)	• 100.0
Pipeline 2 (Mereenie Pipeline)	• 100.0

Joint Venture and Permits	Interest
GLNG <sup>14</sup>	
Queensland	
Bowen Basin	
ATP 336P <sup>1</sup> (Roma), PL 3 <sup>1</sup> , PL 6 <sup>1</sup> ,	
PL 7 <sup>1</sup> , PL 8 <sup>1</sup> , PL 9 <sup>1</sup> , PL 10 <sup>1</sup> , PL 11 <sup>1</sup>	
PL 13 <sup>1</sup> , PL 93 <sup>1</sup> , PL 309, PL 310, PL 314, PL 315, PLA 478, PLA 479	• 30.0
ATP 526P (Fairview), PL 90,	- 30.0
PL 91, PL 92, PL 99, PL 100,	
PL 232, PL 233, PL 234,	
PL 235, PL 236, PPL 76, PPL 92 <sup>2</sup>	• 22.8
ATP 631P, PLA 281, PLA 282 <sup>2</sup>	• 24.6
ATP 653P (Arcadia) <sup>4, 5</sup>	
PLA 420, PLA 421, PLA 440	• 22.8
ATP 655P <sup>1</sup> (Taringa)	• 30.0
ATP 665P	• 30.0
ATP 708P	• 30.0
ATP 745P <sup>5, 1</sup>	• 22.8
ATP 803P	• 30.0
ATP 804P⁵	• 21.2
ATP 868P	• 30.0
PL 176 (Scotia)	• 30.0
PPL 118 (Comet Ridge to	
Wallumbilla Pipeline)	• 30.0
PPL 147-148, PPL 164 (Fairview Laterals)	30.0
PPL 148 (Roma Lateral)	30.0
PPL 166-168 (Gladstone	50.0
Transmission Pipeline)	30.0
PFL 10 (Gladstone LNG Plant)	30.0
WESTERN AUSTRALIA	
AND NORTHERN TERRITORY	
Northern Territory	
Bonaparte Basin	
AC/L 1 (Jabiru), AC/L 2 (Challis), AC/L 3 (Cassini)	10.3
NT/P 61 (Caldita)	25.0
NT/P 69 (Barossa)	25.0
NT/RL 1 (Petrel)	• 35.0
McArthur Basin	
EP 161, EP 162, EP 189,	
$EP(A) 299^2$	• 50.0
EP(A) 288 <sup>2</sup>	• 100.0

#### Santos Group Interests (continued)

Joint Venture and Permits	% Interest
Western Australia	
Bonaparte Basin	
WA-18-P, WA-40-R (Frigate)	40.0
WA-27-R (Tern)	40.0
WA-459-P	• 100.0
WA-6-R (Petrel West)	• 35.0
Browse Basin	
WA-274-P	• 30.0
WA-281-P	• 47.8
WA-408-P	30.0
WA-410-P	• 30.0
WA-411-P	• 63.6
Carnarvon Basin	
WA-1-P	22.6
WA-8-L (Talisman)	• 37.4
WA-13-L (East Spar)	45.0
WA-15-L (Stag)	66.7
WA-20-L (Legendre)	22.6
WA-26-L (Mutineer)	• 41.6
WA-27-L (Exeter)	• 41.6
WA-33R (Maitland)	18.7
WA-38-R (Oryx)	45.0
WA-41-L (Reindeer)	45.0
WA-45	22.6
WA-45-L (Spar)	45.0
WA-45-R	15.0
WA-49-R	24.8
WA-191-P	
Fletcher	• 42.0
Finucane	• 37.5
WA-208-P	37.3
WA-209-P <sup>10</sup>	45.0
WA-209-P (Hurricane)	• 37.3
WA-214-P, WA-29-L	(5.0
(John Brookes), WA-50-R	45.0
WA-290-P	24.8
WA-323-P	• 75.0
WA-330-P	• 75.0
L 1 H, L 10, WA-7-L EP 61, EP 62, TP/2, TP/14, TPL/9,	
TR/6 (Barrow Island)	28.6
/	

Joint Venture and Permits	% Interes
EP 357, TR/4, L 13, TL/4, TL/7	
and L 12 (Thevenard Is)	35.7
Timor Sea & Timor Gap	
Bayu Undan	11.5
JPDA 03-12	11.5
ASIA PACIFIC	
Bangladesh	
Bengal Basin	
Block 16 Exploration, Block 16	
Sangu (Sangu)	• 100.0
India	
North East Coast Basin	
NEC-DWN-2004/1	• 100.0
NEC-DWN-2004/2	• 100.0
Indonesia	
East Java Sea	
Madura Offshore PSC	
(Maleo and Peluang)	• 67.5
Sampang PSC (Oyong and Wortel)	• 45.0
Kutei Basin	
Papalang PSC	20.0
Popodi PSC	20.0
South Sumatra Basin	
GMB Air Komering <sup>6</sup>	10.0
GMB Belida <sup>6</sup>	10.0
Ogan Komering I PSC	10.0
Ogan Komering II PSC	10.0
Papuan Basin	
JV - Warim	20.0
Papua New Guinea	
Papuan Basin	
PRL 9	40.0
PDL 1 <sup>11</sup>	24.0
PDL 312	15.9
Vietnam	
Nam Con Son Basin	
Block 013/03	• 65.0
Block 12W	31.9
Phu Khanh Basin	
Block 123	• 50.0

	70
Joint Venture and Permits	Interest
Kyrgyz Republic <sup>7</sup>	

%

#### **Closed Joint Stock Company South** Petroleum Company (SPC)

The Santos Group holds a 70% equity interest in SPC, which is the legal and beneficial holder of the Tuzluk licence.

#### **Closed Joint Stock Company KNG** Hydrocarbons (KNG HC)

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

1. Under renewal.

2. Under application.

3. CSG.

- 4. Also covers Surat Basin.
- 5. Percentage interest represents Santos group entitlement to production. Costs are allocated on different percentages.
- 6. Subject to government approval. 7. Santos is preparing for country exit.
- 8. Currently 50% pending completion of transfer.
- 9. Currently 40% pending completion of transfer.
- 10. Sale pending completion.
- 11. PNG LNG Project (unitisation of PDL 1 and other licence)
   Santos share is 13.5%
- 12.SE Gobe Unit (unitisation of PDLs 3 & 4) Santos share is 9.4%.
- These are areas within PL 315 (formerly PL 5) that were specifically excluded from the GLNG project.
   Santos has a 30% interest in the jointly held project company that operates the GLNG downstream interests.

**Notes:** ATPs under application are referenced with footnote 2. PLs under application are listed in report as PLAs

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#### Glossary

#### Aboriginal

Refers to both Aboriginal and Torres Strait Islander people.

#### barrel/bbl

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

#### boe

Barrels of oil equivalent.

#### carbon dioxide equivalent (CO,e)

A measure of greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide) with the equivalent global warming potential as carbon dioxide when measured over a specific time.

#### the company Santos Ltd and its subsidiaries.

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

#### contingent resources

Those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Contingent resources may be of a significant size, but still have constraints to development. These constraints, preventing the booking of reserves, may relate to lack of gas marketing arrangements or to technical, environmental or political barriers.

#### crude oil

A general term for unrefined liquid petroleum or hydrocarbons.

#### CSG

Coal seam gas. Predominantly methane gas stored within coal deposits or seams.

#### cultural heritage

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

#### EBITDAX

Earnings before interest, tax, depreciation, depletion, exploration and impairment.

#### exploration

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

#### greenhouse gas

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

- Scope 1 direct greenhouse emissions.
- Scope 2 indirect greenhouse emissions.

#### hydrocarbon

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

#### joules

Joules are the metric measurement unit for energy.

- A gigajoule (GJ) is equal to 1 joule  $\times \ 10^9$
- A terajoule (TJ) is equal to 1 joule × 10<sup>12</sup>
- A petajoule (PJ) is equal to 1 joule  $\times$   $10^{15}$

#### liquid hydrocarbons (liquids)

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

#### LNG

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

#### lost-time injury

A lost-time injury is a work-related injury or illness that results in a permanent disability, or time lost from work of one day/shift or more.

#### LPG

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

#### market capitalisation

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

#### mmbtu

Million British Thermal Units.

#### medical treatment injury

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

#### mmboe

Million barrels of oil equivalent.

#### oil

A mixture of liquid hydrocarbons of different molecular weights.

#### proven reserves (1P)

Reserves that, to a high degree of certainty (90% confidence), are recoverable. There is relatively little risk associated with these reserves. Proven developed reserves are reserves that can be recovered from existing wells with existing infrastructure and operating methods. Proven undeveloped reserves require development.

#### proven plus probable reserves (2P)

Reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable. There is at least a 50% probability that reserves recovered will exceed proven plus probable reserves.

#### proven, probable plus possible reserves (3P)

Reserves that, to a low degree of certainty (10% confidence), are recoverable. There is relatively high risk associated with these reserves.

#### sales gas

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

#### Santos

Santos Limited and its subsidiaries.

#### seismic survey

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

#### top quartile

Top 25%.

#### total recordable case frequency rate (TRCFR)

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

#### Conversion

Crude oil	1 barrel = 1 boe
Sales gas	1 petajoule = 171,937 boe
Condensate/	
naphtha	1 barrel = 0.935 boe
LPG	1 tonne = 8.458 boe

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

### Major announcements made in 2012

13 January 2012	Fletcher Finucane oil development sanctioned; Santos lifts interest in project
13 January 2012	Update on Pilliga Forest investigation
19 January 2012	2011 Fourth Quarter Activities Report
21 January 2012	Santos extends partnership with Santos Tour Down Under to 2016
01 February 2012	First gas from Wortel
08 February 2012	2011 Reserves Report
14 February 2012	Economic benefits of CSG to NSW affirmed
15 February 2012	Santos finds gas at Sangu-11
17 February 2012	Santos lifts full-year net profit by 51% to \$753 million; underlying net profit up 20% to \$453 million
22 February 2012	Review of Eastern Star Gas operations
25 February 2012	Official opening of Devil Creek gas plant by Western Australian Premier
06 March 2012	NSW Draft Regional Land Use Plans onerous
28 March 2012	Coal seam gas critical to NSW energy security
19 April 2012	2012 First Quarter Activities Report
01 May 2012	NSW Committee Report on CSG
02 May 2012	GLNG to purchase 365 PJ of gas from Origin Energy
03 May 2012	Santos 2012 AGM address
07 May 2012	Santos submission on NSW Government Strategic Regional Land Use Policy
17 May 2012	One thousand export cargoes from Port Bonython
07 June 2012	Santos and ConocoPhillips enter agreement with SK E&S to progress the development of Caldita Barossa
25 June 2012	NSW landholders and communities to benefit from new approach to CSG compensation
28 June 2012	GLNG brings forward US\$2.5 billion of upstream capital expenditure
19 July 2012	2012 Second Quarter Activities Report
31 July 2012	Namoi Catchment Water Study shows no harmful impact on water volumes
17 August 2012	Santos reports \$262 million net profit for the first half of 2012
11 September 2012	NSW Strategic Regional Land Use Policy
02 October 2012	Santos farms-in as operator to onshore Amadeus and Pedirka Basin permits
18 October 2012	2012 Third Quarter Activities Report
19 October 2012	Santos announces start of Australia's first commercial shale gas production
22 October 2012	Santos appoints Hock Goh to Board
08 November 2012	Santos welcomes the Energy White Paper
12 November 2012	PNG LNG capacity increased, first LNG on track for 2014; capital cost estimate increased to US\$19 billion
15 November 2012	Pilliga Forest rehabilitation continues as Santos announces new water facility
19 November 2012	Gas discovery at Crown in the Browse Basin
12 December 2012	Santos farms-in to onshore McArthur Basin in the Northern Territory



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