

# Annual Report 2014

**Santos**  
We have the energy.

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This 2014 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2014.

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](http://www.santos.com)

## Organisation chart

BOARD COMMITTEES	BOARD OF DIRECTORS	
Audit & Risk	<b>MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER</b>	
Environment, Health, Safety and Sustainability	<b>SANTOS LEADERSHIP TEAM</b>	
Finance	Comprises the Managing Director and his reports	
Nomination	Drive business strategy and operations	
People and Remuneration		
CORPORATE CENTRE	BUSINESS UNITS	TECHNICAL DISCIPLINES
Allocate capital and provide governance and policy	Business execution and delivery	Provide excellence, service and assurance
Human Resources, Health, Aboriginal Affairs	Asia Pacific	Exploration and Subsurface
Finance, Strategy, Legal, Investor Relations, Treasury, Risk and Audit, Information Technology and Procurement	Eastern Australia	Drilling & Completions and Engineering
Government and Public Affairs	GLNG	Safety and Environment
Corporate Secretariat	Western Australia and Northern Territory	

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# Message from the Chairman

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Santos' vision is to be a leading energy company in Australia and Asia. We will continue to drive value and performance in our Australian base business, leverage our existing LNG infrastructure and capabilities, and build a focused, high-value position in South-East Asia.

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Dear Shareholder,

Five years ago Santos approved the first of two transformational liquefied natural gas (LNG) projects to open more of our resources to the large and growing markets of Asia. In May 2014 PNG LNG exported its first cargo ahead of schedule and shipped 55 cargoes during the course of the year. Our GLNG project also made substantial progress and ended the year more than 90% complete, on track for first LNG in the second half of 2015. Once GLNG is fully ramped up, Santos will be exporting over 3 million tonnes of LNG per annum to customers throughout Asia, realising our vision to be a leading oil and gas producer in the region. These projects are underpinned by 20 year offtake agreements which will see shareholders benefit from strong cash flows for decades to come.

In 2014, the Board announced a progressive dividend policy that would strike a balance between higher dividends, debt repayment and ongoing investment for growth. With the start-up of PNG LNG in the first-half of 2014 and receipt of first cash from the project, we were pleased to announce a 33% increase in the interim dividend from 15 cents per share to 20 cents per share, fully franked.

In light of the current oil price environment, the Board elected to maintain a cautious approach and set the final dividend at

15 cents per share, fully franked. This brings the full-year 2014 dividend to 35 cents per share, up 17% on the prior year. We will again review the level of the dividend around the start-up of GLNG in the second half of 2015.

The Brent crude oil price fell by almost 50% in the fourth quarter of 2014, closing the year at US\$56 per barrel, its lowest level in more than five years. The speed and degree of this decline was unexpected, impacting oil and gas stocks around the world, including Santos. We acknowledge the effect this has had on shareholder value and have moved to implement a range of initiatives to manage the company through this lower oil price environment.

In 2014, despite the volatile oil price environment, Santos recorded its highest production in five years of 54.1 million barrels of oil equivalent (mboe), record sales revenue of \$4 billion and a strong operating cash flow of \$1.8 billion, up 13% on the prior year. The business also recorded an underlying net profit after tax of \$533 million, an increase of 6% year on year, reflecting the strong operating performance of the business.

The sharp fall in oil prices in the second half of the year led us to recognise significant asset impairments in our 2014 results of \$1.6 billion after tax. The impairment charge

is a non-cash accounting adjustment that relates only to the book value of the company's assets. Taking into account the after tax impairments of \$1.6 billion, the financial result for the year was a net loss after tax of \$935 million.

The long term characteristics of the world's energy markets should continue to support the growth in global LNG demand. The world's population is expected to grow by 1.1 billion people over the next 15 years, and the secure and reliable supply of energy remains fundamental to a strong, cohesive and prosperous society<sup>1</sup>. As a result, the demand for food is projected to increase by 35%, water by 40% and energy by 50%<sup>2</sup>.

Australia, with over 920 trillion cubic feet (Tcf) of natural gas resources and local demand of only 1 Tcf per annum, is well placed to meet the energy demands of the domestic Australian market and contribute supply to our Asian neighbours<sup>3</sup>. And Santos' vision to be a leading energy company in Australia and Asia remains unchanged. We are committed to providing the energy needs of schools, hospitals, homes, transport networks as well as business and industry. We will continue to drive value and performance in our base business, leverage our existing LNG infrastructure and capabilities, and build a focused, high-value position in South-East Asia.

1. United Nations, July 2014

2. US National Intelligence Council, Global Trends 2030, December 2012

3. BREE, Gas Market Report, November 2014

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# Chairman's Review

## continued

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For societies to continue to prosper, we must create a diverse, reliable and affordable energy mix that will underpin our standard of living as well as our children's future. The natural gas industry will have an important role in achieving this, and Santos is already playing its part.

Santos' technical and highly credentialed work-force is committed not only to safe and sustainable operations but also recognising that we operate in communities, and as such, must work hard to gain their trust and support.

Santos prides itself on the reputation it has earned through transparent and proactive engagement in the communities in which we operate. Our project life cycles are often over many decades and as such, we are in a position to benefit local communities and landholders over the long-term. Santos has helped fund road improvements and communications infrastructure, and contributes millions of dollars each year in rates to shire councils. Our policy to support local service providers and product suppliers also boosts local businesses and our in-kind support also helps community groups to organise and run events and provide emergency services support.

For societies to continue to prosper, we must create a diverse, reliable and affordable energy mix that will underpin our standard of living as well as our children's future. The natural gas industry will have an important role in achieving this, and Santos is already playing its part. For further information regarding our commitment to environmental and social reporting, I would encourage you to read our 2014 Sustainability Report, available on our website at [www.santos.com/sustainability](http://www.santos.com/sustainability)

In 2014 we took the opportunity to strengthen the Board, appointing two new independent non-executive directors.

Scott Sheffield was appointed in February and brings strong leadership, technical and operational skills to the Board and a deep understanding of the US energy industry and markets. The company he leads in the US, Pioneer Natural Resources, is at the forefront of the US shale oil and gas industry.

Yasmin Allen was appointed in October and has more than 20 years' experience in finance and investment banking and brings extensive governance, leadership and risk management skills to the table. Yasmin is also a Director of Insurance Australia Group Limited, Cochlear Limited and ASX Limited.

On behalf of the Board, I would like to thank all our employees and contractors. The professionalism and hard work exhibited is evident in the delivery of production growth, new projects and exploration success. During this period of intense construction, we maintained a strong safety track record. Our lost time injury frequency rate (LTIFR) of 0.67 reflects our commitment that no business objective will take priority over health and safety, and that no task is so important or urgent that it cannot be done safely.

The Board and management would also like to thank you, our shareholders, for your ongoing support. We remain focused

on driving operational efficiency, reducing costs, prudently managing capital and ensuring our balance sheet remains strong. Our strategy is clear; we will continue to focus on the long-term drivers of shareholder value that reinforce Santos' position as a leading energy company in Australia and Asia.

Finally, in March 2015 it was announced that I will retire as Chairman and member of the Board at the Annual General Meeting on 30 April. Mr Peter Coates, AO, currently a non-executive director, will resume the role of Chairman. It has been a great privilege to serve on the Board of Santos and I would like to thank all of the Santos team for their dedication and hard work. I leave in the knowledge that the company has an experienced Chairman, a strong Board and an executive team well led by Managing Director and Chief Executive Officer David Knox.



**Ken Borda**  
Chairman

# Q&A

With David Knox, Managing Director  
and Chief Executive Officer



In 2014, Santos achieved record sales revenue, strong operating cash flow, the highest production level in five years and added to future production potential through successful exploration and appraisal activities. In December we responded to the fall in oil price by cutting capital spend in 2015 by 44% compared with 2014.

## How did Santos deliver against its vision to be a leading energy company in Australia and Asia in 2014?

As I reflect on 2014, I am proud to say the underlying business performed well.

PNG LNG commenced production ahead of schedule in April and was producing at full capacity by late July. Construction on this project commenced in 2010, and with over 55,000 workers involved and 200 million work hours expended on the project's construction, it was indeed a remarkable feat of logistics, engineering and design.

We also made considerable headway during the year on our Gladstone LNG project. The US\$18.5 billion project is now more than 90% complete and we remain on track for first LNG in the second half of 2015, on time and on budget.

Importantly, despite the volatile external environment, the long-term fundamentals that underpin our vision to be a leading energy company in Australia and Asia have not changed.

The world's population is forecast to grow by 1.1 billion over the next 15 years<sup>1</sup>. The majority of this growth will be in Asia where the local population is expected to increase at double the rate of the rest of the world combined. This, coinciding with the rapid migration of people from rural areas to cities, will see Asia's energy demand increase by nearly 50%<sup>2</sup>.

Natural gas, with its lower carbon footprint, will be a key beneficiary of this growth. Exposing Santos' gas reserves to these large and growing export markets has created the scale and pricing necessary to justify the continued development of our resources to meet demand growth, both here in Australia and in Asia, and ultimately, deliver greater returns to shareholders.

In Australia, where we seek to drive value and performance in our base business and unlock resources to meet demand, we delivered strongly in 2014.

The Eastern Australia Business Unit recorded a 7% rise in sales revenue to more than \$2 billion primarily on the back of increased drilling activity, infrastructure upgrades and higher third-party processing in the Cooper Basin. This increase in production and upgrades to infrastructure have set the company up to meet its commitments to supply Santos gas to the GLNG project, and also to take advantage of new opportunities as existing east coast contracts roll off in the coming years.

An impairment to the value of our NSW gas assets was recorded on the back of a 30% reduction in reserves combined with a later start-up date for the Narrabri Gas Project. This action does not change our view about the project and the importance for NSW to develop its own natural gas supplies. This is a strategic asset and we remain focused on supplying natural gas to the 1 million families in NSW that use our product and the thousands of people

who rely on the energy provided by gas for their employment.

The Western Australia and Northern Territory Business Unit recorded a significant gas-condensate discovery with the Lasseter-1 well in the Browse Basin, offshore Western Australia, reinforcing our material resource position following our Crown discovery in 2012.

The Barossa-3 appraisal well in the Bonaparte Basin, offshore Northern Territory, also recorded a strong result, thereby strengthening the position of the field to potentially supply gas for either back-fill or expansion at Darwin LNG.

The Asia Pacific Business Unit underwent a significant transformation with the early start-up of PNG LNG in April of 2014. By year-end over 55 cargoes of LNG had been shipped to customers throughout Asia. The early start-up of PNG LNG resulted in a 134% lift in EBITDAX<sup>3</sup> to \$743 million.

The Business Unit also recorded new project delivery in Indonesia and Vietnam, and made a new country entry, farming in to high impact exploration acreage in the Sabah Basin, offshore Malaysia.

Santos has been providing natural gas safely and securely in Australia for more than 50 years and because of the global need for energy – especially in the Asia-Pacific – Santos has now grown into a regional energy company. At 2014 year-end we were delivering 160,000 barrels of oil equivalent a day, which is an outstanding

1. United Nations, July 2014

2. IEA, World Energy Outlook 2014

3. EBITDAX (Earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment)

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## Q&A

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result and certainly the highest daily production since I joined the company.

Through diversification we have built a more robust and sustainable business, enabling us to be resilient throughout the energy price cycle.

#### **What initiatives have you taken to address the fall in oil price?**

We are meeting the challenge of a volatile oil price head on. In December 2014 we announced a reduction in forecast 2015 capital expenditure to \$2 billion, 44% lower than 2014. In doing so, we led the industry by responding in a clear and significant way. We also announced at that time that asset divestments were under consideration as part of the company's ongoing portfolio management, provided fair long-term value is realised.

Cost pressures will continue to abate as we review contracts and optimise procurement, logistics and construction strategies across the business. In fact, production costs per barrel are expected to reduce by 10% in 2015. We are implementing innovative technologies to drive down costs and increase efficiencies in line with the current operating environment.

We also sought to maintain a robust liquidity profile, and to that end we announced a \$1 billion bi-lateral debt facility in the second half of December. This is effectively a buffer should it ever be needed. The money is not drawn down, but is kept for unexpected events and supports our

liquidity profile. At the end of 2014, Santos had approximately \$2.9 billion in cash and undrawn debt facilities available.

In a lower oil price environment we will continue to drive efficiencies and cost out measures. Across the business we are eliminating all distractions, simplifying and challenging ourselves. We strive to be as efficient as we can while ensuring we maintain the integrity of our operations and keep everyone safe.

Nobody can predict the future direction of the oil price, but what we can do is ensure that, as a firm, we remain robust through the lower oil price environment.

#### **How do you think about Santos as an environmentally and socially responsible energy company?**

There was much debate during the year about what defines a company's credibility with respect to operating in an environmental, sustainable and socially responsible manner. The debate around the environment and climate change is an important one and, as such, it needs to be based on science and facts rather than fiction.

As a region blessed with a large endowment of natural resources, we have a responsibility to help our neighbouring countries and economies grow to improve their standard of living. I am glad to say that Santos is a company that has the capacity and responsibility to promote progress to a more sustainable future.

Santos is committed to taking a seat at the table to better understand the challenges, concerns and genuine needs of our local communities and key stakeholders. Working with local landholders and communities is central to what we do and we simply could not operate without building these strong and enduring relationships.

Ultimately, it is true engagement on both sides that will bring communities, employees, and the wider public onboard. And it is the Santos way of genuinely committing to engagement, and taking the time to do it properly, that has ensured we have a positive reputation in the communities in which we operate.

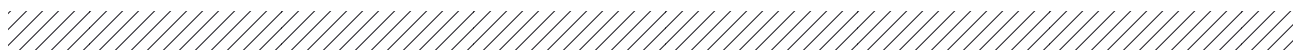
Energy after all can be the source of progress and prosperity – not only does it power our homes and underpin our manufacturing industry, but access to energy lifts living standards for families and provides opportunities for businesses in Australia, Asia and around the globe.

During the year we were recognised by the National Trust as a corporate icon in recognition of our outstanding contribution to South Australia. The National Trust recognised the high degree of integrity, social responsibility and leadership shown by Santos since 1954, and this would not be possible without our people – from the tenacity of our early pioneers to the committed staff of today.

Our consistent and enduring approach to lightening our footprint and working closely

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Exposing Santos' gas reserves to global markets has created the scale and pricing necessary to justify the continued development of our resources and ultimately, deliver greater returns to shareholders.



with our communities has paved the way for our success. We have received awards both internationally and in Australia for our track record, and have been recognised by the Dow Jones Sustainability Indices World Leaders Index, and as a sustainability leader in Australia and in the Asia-Pacific region.

The safety of our employees, contractors and the communities in which we work, will underpin our operations each and every day. Our objective, is to ensure that everyone goes home from work without injury. We remain focused on this objective, and in 2014 we recorded another good year in terms of lost time injury performance. This was particularly pleasing during a period in which two major contractors completed work and demobilised from the GLNG project.

Santos is passionate about paving the way for brighter futures. We are built on strong foundations of environmental, sustainable and social responsibilities, and have the right mechanisms in place to prepare for the next phase of gas supply to Australia and our Asian neighbours.

For me, it remains a privilege to be your CEO. I am proud of the hard work and commitment that Santos employees and contractors demonstrated during 2014. We remain focused on maximising returns for shareholders.



# Board of Directors



**KENNETH BORDA\***

**Chairman**

LLB, BA

Appointed Santos Chairman on 9 May 2013. Previously independent non-executive Director since 14 February 2007. Chairman of Santos Finance Limited. Chairman of the Nomination Committee and member of the Finance and People & Remuneration Committees of the Board.

Board member of Fullerton Funds Management Company Limited, owned by Temasek, Singapore, since February 2007. Chairman of Aviva Ltd (Singapore) and Navigator Investment Service Ltd (Singapore) since January 2011. Director since 2009.

Seventeen year career with Deutsche Bank based in Sydney, Hong Kong, Singapore and Dubai.

Formerly Regional CEO Asia Pacific, Regional CEO Middle East and North Africa and CEO Australia and New Zealand, Deutsche Bank until retirement in May 2007 after 17 years of service.



**DAVID KNOX**

**Managing Director and Chief Executive Officer**

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

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

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

Director of the Migration Council Australia. Chairman of the Adelaide Botanic Gardens Foundation and Director of the Board of the Botanic Gardens and State Herbarium in South Australia. Council Member of the Commonwealth Science Council, Business Council of Australia, University Queensland Industry Engagement Committee, Great Barrier Reef Foundation and the Royal Institute of Australia. Chair of the CSIRO Energy Strategic Advisory Committee. Member of Trade and Investment Policy Advisory Council and the UK University College London Advisory Committee. Fellow of the Australian Institute of Mechanical Engineering and elected in November 2012 as a Fellow of the Australian Academy of Technological Sciences and Engineering



**YASMIN ALLEN**

BCom FAICD

Independent non-executive Director since 22 October 2014. A member of the Environment, Health, Safety and Sustainability Committee of the Board.

Ms Allen has more than 20 years experience in finance and investment banking, including senior roles at Deutsche Bank AG, ANZ and HSBC Group Plc.

Ms Allen is a director of Insurance Australia Group Limited, where she chairs the Nomination and Remuneration Committee and is a member of the Audit and Risk Committee. She is a director of Cochlear Limited, chairs its Audit Committee and is a member of the Nomination and Remuneration Committee. She is also a director of ASX Limited.

Ms Allen was formerly chair of Macquarie Specialised Asset Management Limited. She is a national director of the Australian Institute of Company Directors, a member of the George Institute for Global Health Board and a director of the National Portrait Gallery.



**PETER COATES AO\***

BSc (Mining Engineering), FAICD, FAusIMM

Independent non-executive Director. Previously Santos Chairman from 9 December 2009 to 9 May 2013, and prior to that an independent non-executive Director since 18 March 2008. Member of the Nomination Committee of the Board and Member of the Environment, Health, Safety and Sustainability Committee of the Board.

Non-executive director of Glencore plc since its float in April 2011 until its merger with Xstrata plc in May 2013. Joined the Board of the merged company in June 2013 and worked as an executive director assisting with the integration of Glencore and Xstrata before resuming the position as a non-executive director from 1st January 2014. Non-executive Chairman of Glencore majority owned Sphere Minerals Ltd since May 2013.

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

Former non-executive Chairman of Xstrata Australia Pty Limited from January 2008 to August 2009 and former Chairman and non-executive director of Minara Resources Limited from April 2008 to April 2011. Previously Chief Executive of Xstrata Coal, Xstrata plc's global coal business. Past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association.

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



**KENNETH DEAN**

BCom (Hons), FCPA, FAICD

Independent non-executive Director since 23 February 2005. Member of the Audit and Risk, Finance and Nomination Committees of the Board. Director of Santos Finance Limited since 30 September 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 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, October 2005 to February 2009. Director of Shell Australia Ltd from 1997 to 2001 and Woodside Petroleum Ltd from 1998 to 2004.

40 years' experience in the oil and gas industry. Fellow of the Australian Society of Certified Practising Accountants and Fellow of the Australian Institute of Company Directors. Former Chief Executive Officer of Shell Financial Services and member of the La Trobe University Council.

\* Ken Borda will be stepping down as Chairman and resigning as a Santos Board member following our Annual General Meeting on the 30 April 2015. Peter Coates has been elected by the Board to replace Ken Borda.





### ROY FRANKLIN OBE

BSc (Hons)

Independent non-executive Director since 28 September 2006. Chairman of the Environment, Health, Safety and Sustainability Committee and member of the 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 Cuadrilla Resources Holdings Limited since January 2012 and a member of the Supervisory Board of OMV AG since May 2014.

Chief Executive Officer of Paladin Resources plc from 1997 to 2005 and former Group Managing Director of Clyde Petroleum plc. Chairman of BRINDEX, the trade association for UK independent oil and gas companies from 2002 to 2005 and a former member of PILOT, the joint industry/UK Government task force set up to maximise hydrocarbon recovery from the UK North Sea 2002-05. Former non-executive director of Statoil ASA from October 2007 to June 2013.

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



### HOCK GOH

B Eng (Hons) Mech Eng

Independent non-executive Director since 22 October 2012. Member of the Environment, Health, Safety and Sustainability Committee and the Audit and Risk Committee of the Board.

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.

Chairman of MEC Resources Ltd since October 2006. Appointed as non-executive director of Stora Enso Oyj (Finland) in April 2012 and AB SKF (Sweden) in March 2014.

Previously an Operating Partner of Baird Capital Partners Asia, based in China, from 2007 to June 2012, and non-executive director of Xaloy Holding Inc in the US from 2006 to 2008 and BPH Energy from 2007 to 2015.



### JANE HEMSTRITCH

BSc (Hons), FCA, FAICD

Independent non-executive Director since 16 February 2010. Member of the People & Remuneration committee and Chairman of the Audit and Risk Committee.

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.

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 since February 2013 having formerly been non-executive director since 2010. Director of the Walter and Eliza Hall Institute of Medical Research since November 2013.

A member of the Council of the National Library of Australia. A Fellow of the Institutes of Chartered Accountants in Australia and in England and Wales, a Fellow of the Australian Institute of Company Directors and a member of Chief Executive Women Inc.



### GREGORY MARTIN

B.Ec, LLB, FAIM, MAICD

Independent non-executive Director since 29 October 2009. Chairman of the People & Remuneration and Finance Committees of the Board and Member of the Audit and Risk Committee of the Board.

Non-executive Director of a number of listed and unlisted companies including Energy Developments Limited since May 2006. Chairman of Iluka Resources Limited from 18 December 2013. Chairman and Joint Managing Partner of Prostar Capital since July 2012 and independent non-executive Chairman of Sydney Desalination Plant Pty Ltd from December 2012. Appointed Australian Senior Adviser to the Royal Bank of Canada (RBC) in May 2014.

Previous Deputy Chairman of the Australian Gas Association, inaugural Chairman of the Energy Supply Association of Australia between 2004 and 2006 and Non Executive Director of Australian Energy Market Operator Limited. Past member of the Business Council of Australia, Committee for the Economic Development of Australia, and the Council on Australia Latin America Relations. Formerly Managing Director and Chief Executive Officer of AGL, Chief Executive Infrastructure at Challenger Financial Services Group and Managing Director of Murchison Metals Limited.



### SCOTT SHEFFIELD

BS Petroleum Engineering

Mr Sheffield is an independent non-executive Director, effective 24 February 2014. Member of the Finance Committee of the Board.

He is Chairman and Chief Executive Officer of Pioneer Natural Resources Company, which is listed on the New York Stock Exchange and included in the S&P 500 Index. He has been Chief Executive Officer since 1997 and Chairman since 1999.

Serves on various industry and education-related boards, including the National Petroleum Council and the Maguire Energy Institute of the SMU Cox School of Business.

Recipient of the Permian Basin Association's Top Hand award, which recognises individuals who have demonstrated exceptional leadership within the oil and gas industry and the Permian Basin community. He is also a 2013 inductee into the Permian Basin Petroleum Museum Hall of Fame.

# Santos Leadership Team



**01 DAVID KNOX**  
**Managing Director**  
**and Chief Executive Officer**

For bio see page 6.



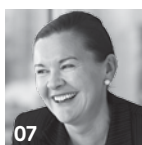
**02 ANDREW SEATON**  
**Chief Financial Officer**

BEng Hons (Chem), GradDip BusAdmin

Andrew Seaton was appointed Chief Financial Officer in 2010, and is responsible for Santos' corporate finance, accounting, taxation, treasury, risk, audit, insurance, corporate development, strategy & planning, 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.



**03 JOHN ANDERSON**  
**Asia, Western Australia**  
**and Northern Territory**

LLB, BEc, GDCL

John Anderson is responsible for Santos' activities in the Asia Pacific, Western Australia and the Northern Territory, including commercial and finance, business development, exploration, development and operated assets.

John joined Santos in 1996 as Corporate Counsel for the former Queensland Northern Territory Business Unit. John has over more than 20 years' experience in the upstream oil and gas industry.



**04 JAMES BAULDERSTONE**  
**Eastern Australia**

LLB (Hons), BSc (Hons)

James Baulderstone is responsible for Santos' activities in Eastern Australia and unconventional business across 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 also oversees Santos' Public Affairs team, leading the company's engagement with communities and governments.

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.

**05 TREVOR BROWN**  
**Queensland**

BSc (Hons) (Geology)

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

Trevor is a petroleum geologist with more than 29 years' experience in the oil and gas industry working onshore and offshore exploration and development projects in Australia, South East Asia, the US and South America including 11 years in Indonesia. Trevor joined Santos in 2001 from Unocal.

**06 PETER CLEARY**  
**LNG Markets**  
**and Commercial**

B. Com, LLB

Peter Cleary leads LNG commercial for Santos, and commercial for the Eastern Australia Business Unit.

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, the Australia Korea Business Council, and is a Board member of the Australian Petroleum Production & Exploration Association.

**07 PETRINA COVENTRY**  
**Human Resources**  
**and Communities**

B.Ed. M.Phil. (Ethics) MBA, EMBA, FAICD, FAHRI

Petrina joined Santos in 2009 and is responsible for the company's organisational and community strategies.

Prior to Santos, she worked for leading companies such as GE and The Coca Cola Company out of the United States, Europe and Asia. She has over 25 years of experience in global executive and non-executive director roles across the energy, financial services, and manufacturing and fast-moving consumer goods sectors.

## **08 ROD DUKE**

**Downstream Gladstone LNG**  
BEng (Hons) Chemical, GradDip  
Management

Rod is responsible for leading the downstream activities of the Santos GLNG project, including the delivery of the GLNG gas transmission pipeline and LNG plant & port projects, as well as ongoing plant operations, commercial, LNG marketing and production planning for GLNG.

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 29 years' international experience in project management, engineering, construction, commissioning, operations, commercial, marketing and business development areas of the upstream natural gas and LNG industry.

## **09 DIANA HOFF** **Technical, Engineering** **and Innovation**

(Magna cum Laude)

Diana Hoff is responsible for drilling and completions, major projects, surface engineering, safety and environment. She has more than 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.

More recently Diana has been at the forefront of innovation within Santos, including sourcing technologies to deal with the complex engineering and technical challenges of conventional and unconventional drilling.

## **10 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.

## **11 ANDREW NAIRN** **Group Executive** **Investor Relations**

B.Comm

Andrew is responsible for Santos' investor and media relations.

He has over 20 years resources industry experience, encompassing finance, commercial and investor relations roles. Andrew joined Santos in 2008 from BHP Billiton.

Andrew is a member of the Board of the Australasian Investor Relations Association.

## **12 BILL OVENDEN** **Exploration and subsurface**

BSc (Hons) (Geology and Geophysics)

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

He 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 and the Middle East, with companies including Sun Oil, Kufpec, ExxonMobil and Ampolex. He joined Santos in 2002 after working for ExxonMobil in Indonesia.

Bill is a member of the AAPG, SEAPEX and serves on the Advisory Board of the Adelaide School of Petroleum.

## **13 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 Australia and overseas where he focused on large-scale corporate transactions and corporate governance.

## **14 BRETT WOODS** **Western Australia** **and Northern Territory**

BSc (Hons) Geology & Geophysics

Brett Woods is responsible for Santos' activities in Western Australia and its offshore interests in Northern Territory and South Australia, including commercial and finance, business development, exploration, development and operated assets.

Brett joined Santos in February 2013 as the Manager Exploration for the company's Perth-based WA & NT business unit. Brett is a geologist and geophysicist, and has over 20 years of oil and gas industry experience including senior management, technical and business development roles with Woodside, Japan Australia LNG (MIMI) and UK-listed Sterling Resources.

He was also managing director of dual-listed E&P company, Rialto Energy, which had interests throughout Africa and Australia.

Brett has worked around the world in many challenging environments and led multi-disciplinary teams.

# Production and sales

	Total 2014		Total 2013	
	Field units	mmboe	Field units	mmboe
<b>Sales gas and ethane (PJ)</b>				
Cooper	63.3	10.9	61.0	10.5
Carnarvon	54.2	9.3	64.9	11.1
Indonesia	25.1	4.3	26.9	4.6
Otway	16.0	2.8	18.4	3.2
Denison/Scotia/Spring Gully	12.4	2.1	12.0	2.0
GLNG	7.9	1.4	9.6	1.7
Vietnam	3.2	0.5	1.5	0.3
Other	0.4	0.1	1.9	0.3
<b>Total production</b>	<b>182.5</b>	<b>31.4</b>	196.2	33.7
<b>Total sales volume</b>	<b>207.0</b>	<b>35.6</b>	210.7	36.2
<b>Total sales revenue (\$million)</b>		<b>1,028</b>		1,025
<b>Sales gas to LNG (PJ)</b>				
PNG LNG	34.0	5.9	0.1	-
Darwin LNG	16.5	2.8	16.7	2.9
<b>Total production</b>	<b>50.5</b>	<b>8.7</b>	16.8	2.9
<b>Total sales volume ('000 t)</b>	<b>766.5</b>	<b>7.3</b>	300.5	2.9
<b>Total sales revenue (\$million)</b>		<b>659</b>		257
<b>Condensate ('000 bbls)</b>				
Cooper	1,036.9	1.0	1,043.0	1.0
PNG LNG	915.6	0.9	-	-
Bayu-Undan	695.4	0.6	967.5	0.9
Carnarvon	533.4	0.5	627.5	0.6
Amadeus	41.0	-	28.4	-
Other	19.7	-	25.4	-
<b>Total production</b>	<b>3,242.0</b>	<b>3.0</b>	2,691.8	2.5
<b>Total sales volume</b>	<b>3,127.4</b>	<b>2.9</b>	2,820.2	2.6
<b>Total sales revenue (\$million)</b>		<b>317</b>		310

	Total 2014		Total 2013	
	Field units	mmboe	Field units	mmboe
<b>LPG ('000 t)</b>				
Cooper	128.4	1.1	125.7	1.0
Bayu-Undan	39.0	0.3	55.9	0.6
<b>Total production</b>	<b>167.4</b>	<b>1.4</b>	181.6	1.6
<b>Total sales volume</b>	<b>172.6</b>	<b>1.5</b>	186.8	1.6
<b>Total sales revenue (\$million)</b>		<b>155</b>		176
<b>Crude oil ('000 bbls)</b>				
Cooper	3,230.6	3.2	3,104.4	3.1
Vietnam	2,822.0	2.8	2,658.5	2.7
Fletcher Finucane/ Mutineer-Exeter	1,443.6	1.5	2,167.9	2.2
Stag	1,085.5	1.1	1,124.3	1.1
Barrow/Thevenard	526.7	0.5	740.7	0.7
Amadeus	225.6	0.2	173.1	0.2
Indonesia	168.2	0.2	203.1	0.2
PNG	46.5	0.1	49.8	0.1
Queensland	46.0	-	49.9	-
<b>Total production</b>	<b>9,594.7</b>	<b>9.6</b>	10,271.7	10.3
<b>Total sales volume</b>	<b>16,446.1</b>	<b>16.4</b>	15,163.4	15.2
<b>Total sales revenue (\$million)</b>		<b>1,878</b>		1,834
<b>TOTAL</b>				
<b>Production (mmboe)</b>		<b>54.1</b>		51.0
<b>Sales volume (mmboe)</b>		<b>63.7</b>		58.5
<b>Sales revenue (\$million)</b>		<b>4,037</b>		3,602

# Reserves Statement

## RESERVES HIGHLIGHTS

- Year-end 2014 proved (1P) reserves were 622 million barrels of oil equivalent, slightly higher than 2013
- Proved plus probable (2P) reserves were 1,245 mmboe, 9% lower than 2013
- 2P Reserves life of 23 years, based on 2014 production of 54 mmboe
- GLNG proved reserves up 22% and proved plus probable reserves up 4%
- Gunnedah Basin proved plus probable reserves down 32%
- 116% organic five-year 1P reserves replacement
- 97% organic five-year 2P reserves replacement

## Reserves and 2C contingent resources

		2014	2013	% change
Proved	mmboe	<b>622</b>	620	0.3
Proved plus probable	mmboe	<b>1,245</b>	1,368	(9.0)
Contingent resources	mmboe	<b>1,721</b>	1,869	(7.9)

Proved plus probable reserves declined by 123 mmboe in 2014 (inclusive of 54 mmboe production). This was primarily due to a 62 mmboe reduction in Gunnedah Basin 2P reserves following a re-assessment during the year, as advised at the company's investor seminar in November 2014.

Excluding the Gunnedah Basin re-assessment, 2P reserves were 6 mmboe or 0.5% lower before 2014 production.

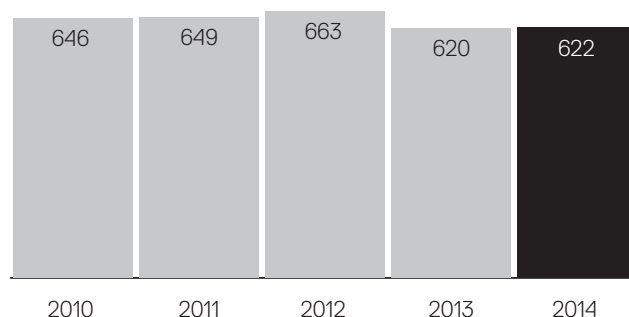
The key movements in proved plus probable reserves before production were:

- 18 mmboe addition from growth in GLNG reserves;
- 18 mmboe net reduction in the Cooper Basin, mainly due to a review of production performance and reservoir studies; and
- 10 mmboe reduction in John Brookes due to a re-assessment of fuel usage and heating value.

After deducting 2014 production of 54 mmboe, year-end proved and probable reserves were 1,245 mmboe, 9% lower than 2013.

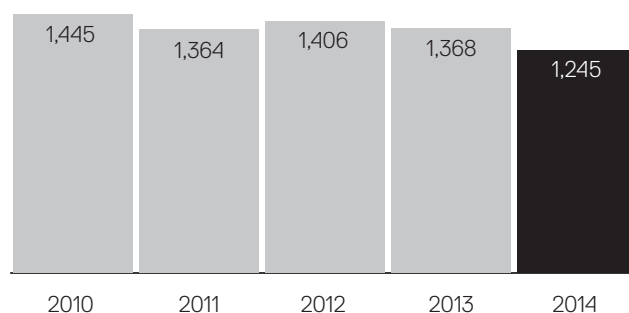
## Proved reserves

(mmboe)



## Proved plus probable reserves

(mmboe)



## Proved plus probable reserves by product

		2014	2013	% change
Sales gas	PJ	<b>6,450</b>	7,035	(8.3)
Crude oil	mmbbl	<b>61</b>	70	(12.3)
Condensate	mmbbl	<b>53</b>	63	(15.6)
LPG	000t	<b>3,002</b>	3,510	(14.5)
Total	mmboe	<b>1,245</b>	1,368	(9.0)

## Proved plus probable reserves by area

		2014	2013	% change
Eastern Australia	mmboe	<b>795</b>	877	(9.3)
WA&NT	mmboe	<b>195</b>	221	(11.7)
Asia Pacific	mmboe	<b>255</b>	270	(5.5)
Total	mmboe	<b>1,245</b>	1,368	(9.0)

# Reserves Statement

## continued

### Cooper Basin

#### Proved plus probable reserves by product

Santos share		2014	2013	% change
Sales gas	PJ	<b>972</b>	1,108	(12.3)
Crude oil	mmbbl	<b>26</b>	29	(12.5)
Condensate	mmbbl	<b>15</b>	18	(18.3)
LPG	000t	<b>1,791</b>	2,246	(20.2)
Total	mmboe	<b>222</b>	256	(13.3)

Sales gas proved plus probable reserves decreased by 7% before production, primarily due to a review of production performance and reservoir studies and a re-assessment of PEL 106A, partially offset by higher gas uplift associated with additional wellhead compression.

### GLNG

#### Reserves and 2C contingent resources

GLNG share		2014	2013	% change
Proved	PJ	<b>2,245</b>	1,844	21.7
Proved plus probable	PJ	<b>5,603</b>	5,406	3.6
Contingent resources	PJ	<b>1,202</b>	1,374	(12.5)

GLNG share proved and proved plus probable reserves increased by 427 PJ and 223 PJ respectively before production, primarily due to positive re-assessments in the Fairview, Roma and Scotia fields.

In addition to the reserves in the table above, Santos' share of 2P reserves in the APLNG-operated Combabula, Ramyard and Spring Gully fields was 389 PJ at the end of 2014.

GLNG has also executed the following third party gas supply agreements:

- 750 PJ from Santos over 15 years commencing in 2015;
- 365 PJ from Origin Energy over 10 years commencing in 2015;
- Up to 194 PJ from Origin Energy over five years commencing in 2016;
- A combined 85 PJ from two suppliers: one tranche for 10–15 TJ/day over seven years commencing in 2015 and a second tranche for 60–100 TJ/day for 21 months commencing in 2016; and
- Up to 445 PJ from the Meridian joint venture over 20 years commencing in 2015.

Gas swap arrangements have also been executed with APLNG covering a number of fields in Queensland, enabling the more efficient development and transport of gas resources.

### Gunnedah Basin

Santos conducted an exploration and appraisal program within the Narrabri Gas Project in the Gunnedah Basin during 2013 and 2014. The program provided additional geological and reservoir data.

The incorporation of this new data led to a detailed geological and engineering re-evaluation over 2014, including the remapping of methane and CO<sub>2</sub> content, net gas pay and the revision of expected recoverable volumes and ultimately led to a 62 mmboe reduction in 2P reserves.

Further, the contingent resource estimates have also been adjusted to incorporate the above re-evaluation and the guidance in the 2011 'Guidelines for the Application of the Petroleum Resource Management System' relating to the discovery test criteria and the extent of any such discovery.

#### 2C Contingent resources

Contingent resources decreased by 8% to approximately 1.7 billion barrels oil equivalent.

Key movements in contingent resources included:

- 161 mmboe addition from exploration discoveries, including Lasseter in the Browse Basin and Cooper Basin unconventional;
- 266 mmboe reduction in the Gunnedah Basin from re-assessments and application of SPE-PRMS guidelines;
- 60 mmboe net reduction due to revisions in Cooper Basin unconventional and conventional gas; and
- 25 mmboe addition from a re-assessment of the Browse and Bonaparte Basin fields.



**Proved reserves**

**Year-end 2014 (Santos share)**

Basin/Area	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe		Total
					Developed	Undeveloped	
<b>Eastern Australia</b>							
Surat/Bowen	792	0	0	-	41	95	136
Cooper/Eromanga	458	9	6	778	51	49	100
Gunnedah	186	-	-	-	8	24	32
Gippsland/Otway	240	-	4	310	25	23	47
<b>Total EA</b>	<b>1,676</b>	<b>9</b>	<b>10</b>	<b>1,088</b>	<b>125</b>	<b>191</b>	<b>316</b>
<b>Western Australia &amp; Northern Territory</b>							
Carnarvon	521	6	6	-	67	33	101
Bonaparte	92	-	2	134	18	1	19
Amadeus	35	4	1	298	7	6	13
<b>Total WA&amp;NT</b>	<b>648</b>	<b>10</b>	<b>9</b>	<b>432</b>	<b>93</b>	<b>40</b>	<b>133</b>
<b>Asia Pacific</b>							
Papua New Guinea	810	0	14	-	100	52	152
Vietnam	17	9	-	-	12	-	12
Indonesia	53	0	0	-	9	-	9
<b>Total Asia Pacific</b>	<b>880</b>	<b>9</b>	<b>14</b>	<b>-</b>	<b>122</b>	<b>52</b>	<b>173</b>
<b>Total 1P</b>	<b>3,204</b>	<b>28</b>	<b>32</b>	<b>1,520</b>	<b>340</b>	<b>282</b>	<b>622</b>
Proportion of total proved reserves that are unconventional							27%

**Proved reserves reconciliation**

Product	Reserves Year-end 2013	Production	Revisions and extensions	Discoveries	Commercial- isation	Net acquisitions and divestments	Reserves Year-end 2014
Sales gas (PJ)	3,140	(233)	294	-	2	1	3,204
Crude oil (mmbbl)	33	(10)	4	-	(0)	-	28
Condensate (mmbbl)	36	(3)	(1)	-	(0)	-	32
LPG (000 tonnes)	1,580	(167)	108	-	0	-	1,520
<b>Total 1P (mmboe)</b>	<b>620</b>	<b>(54)</b>	<b>55</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>622</b>



# Reserves Statement

continued

## Proved plus probable reserves

Year-end 2014 (Santos share)

Basin/Area	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe		Total
					Developed	Undeveloped	
<b>Eastern Australia</b>							
Surat/Bowen	2,187	0	0	-	43	334	376
Cooper/Eromanga	972	26	15	1,791	120	101	222
Gunnedah	777	-	-	-	8	126	134
Gippsland/Otway	324	-	5	398	34	30	64
<b>Total EA</b>	<b>4,260</b>	<b>26</b>	<b>19</b>	<b>2,189</b>	<b>205</b>	<b>591</b>	<b>795</b>
<b>Western Australia &amp; Northern Territory</b>							
Carnarvon	654	15	7	-	94	41	135
Bonaparte	112	-	3	216	21	3	24
Amadeus	123	8	2	597	24	12	36
<b>Total WA&amp;NT</b>	<b>889</b>	<b>23</b>	<b>13</b>	<b>813</b>	<b>139</b>	<b>56</b>	<b>195</b>
<b>Asia Pacific</b>							
Papua New Guinea	1,212	0	20	-	159	69	228
Vietnam	12	12	-	-	14	-	14
Indonesia	76	0	0	-	13	-	13
<b>Total Asia Pacific</b>	<b>1,301</b>	<b>12</b>	<b>21</b>	<b>-</b>	<b>186</b>	<b>69</b>	<b>255</b>
<b>Total 2P</b>	<b>6,450</b>	<b>61</b>	<b>53</b>	<b>3,002</b>	<b>530</b>	<b>716</b>	<b>1,245</b>
Proportion of total proved plus probable reserves that are unconventional							41%

## Proved plus probable reserves reconciliation

Product	Reserves Year-end 2013	Production	Revisions and extensions	Discoveries	Commercial- isation	Net acquisitions and divestments	Reserves Year-end 2014
Sales gas (PJ)	7,035	(233)	(396)	26	5	13	6,450
Crude oil (mmbbl)	70	(10)	1	0	(0)	-	61
Condensate (mmbbl)	63	(3)	(6)	-	0	-	53
LPG (000 tonnes)	3,510	(167)	(341)	-	0	-	3,002
<b>Total 2P (mmboe)</b>	<b>1,368</b>	<b>(54)</b>	<b>(76)</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>1,245</b>

## 2C Contingent resources

### Year-end 2014 (Santos share)

Basin/Area	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe
Eastern Australia	5,202	35	26	3,446	984
Western Australia & Northern Territory	3,298	35	39	56	639
Asia Pacific	297	45	2	-	98
<b>Total 2C</b>	<b>8,797</b>	<b>115</b>	<b>67</b>	<b>3,502</b>	<b>1,721</b>

### 2C Contingent resources reconciliation

Product	Contingent resources Year-end 2013	Production	Revisions and extensions	Discoveries	Commercialisation	Net acquisitions and divestments	Contingent resources Year-end 2014
<b>Total 2C (mmboe)</b>	<b>1,869</b>	<b>-</b>	<b>(308)</b>	<b>161</b>	<b>(1)</b>	<b>0</b>	<b>1,721</b>

#### Notes

- This reserves statement:
  - is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of the qualified petroleum reserves and resources evaluators listed in note 14 of this reserves statement. Details of each qualified petroleum reserves and resources evaluator's employment and professional organisation membership are set out in note 14 of this reserves statement; and
  - as a whole has been approved by Barbara Pribyl, who is a qualified petroleum reserves and resources evaluator, and whose employment and professional organisation membership details are set out in note 14 of this reserves statement; and
  - is issued with the prior written consent of Barbara Pribyl as to the form and context in which the estimated petroleum reserves and contingent resources and the supporting information are presented.
- The estimates of petroleum reserves and contingent resources contained in this reserves statement are as at 31 December 2014.
- Santos prepares its petroleum reserves and contingent resources estimates in accordance with the Petroleum Resources Management System (PRMS) sponsored by the Society of Petroleum Engineers (SPE).
- All estimates of petroleum reserves and contingent resources reported by Santos are prepared by, or under the supervision of, a qualified petroleum reserves and resources evaluator or evaluators. Processes are documented in the Santos Reserves Guidelines, which are overseen by a Reserves Committee. The frequency of reviews is dependent on the magnitude of the petroleum reserves and contingent resources and changes indicated by new data. If the changes are material, they are reviewed by the Santos internal technical leaders, prior to overall approval by management and the Reserves Committee.

- 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 their respective audit and evaluation, and their understanding of the estimation processes employed by Santos, that Santos' 31 December 2014 petroleum 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 tables included in this reserves statement represent a reasonable estimate of Santos' petroleum reserves and contingent resources position as at 31 December 2014.
- Unless otherwise stated, all references to petroleum reserves and contingent resources quantities in this reserves statement are Santos' net share.
- Reference points for Santos' petroleum reserves and contingent resources and production are defined points within Santos' operations where normal exploration and production business ceases, and quantities of produced product are measured under defined conditions prior to custody transfer. Fuel, flare and vent consumed to the reference points are excluded.
- Petroleum reserves and contingent resources are aggregated by arithmetic summation by category and as a result, proved reserves may be a very conservative estimate due to the portfolio effects of arithmetic summation.
- Petroleum reserves and contingent resources are typically prepared by deterministic methods with support from probabilistic methods.
- Any material concentrations of undeveloped petroleum reserves that have remained undeveloped for more than five years: (a) are intended to be developed when required to meet contractual obligations; and (b) have not been developed to date because they have not yet been required to meet contractual obligations.
- Petroleum reserves replacement ratio is the ratio of the change in petroleum reserves (excluding production) divided by production.

- Information on petroleum reserves and contingent resources quoted in this reserves statement is rounded to the nearest whole number. Some totals in the tables may not add due to rounding. Items that round to zero are represented by the number 0, while items that are actually zero are represented with a dash "-".

#### 13. Conversion factors

Sales gas and ethane, 1PJ	171,937 boe
LPG, 1 tonne	8,458 boe
Condensate, 1 barrel	0.935 boe
Crude oil, 1 barrel	1 boe

#### 14. Qualified Petroleum Reserves and Resources Evaluators

Name	Employer	Professional Organisation
B Pribyl	Santos Ltd	SPE
P Lyford	Santos Ltd	SPE
B Camac	Santos Ltd	SPE, PESA
A Western	Santos Ltd	SPE
W Bard	Santos Ltd	SPE
E Klettke	Santos Ltd	SPE, APEGA
J Ariyaratnam	Santos Ltd	SPE
A Wisnugroho	Santos Ltd	SPE
J Telford	Santos Ltd	SPE
M Lees	Santos Ltd	SPE
D Smith	NSAI	SPE

SPE: Society of Petroleum Engineers

APEGA: The Association of Professional Engineers and Geoscientists of Alberta

PESA: Petroleum Exploration Society of Australia

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# Corporate Governance Statement

## 2014 GOVERNANCE HIGHLIGHTS

- The Directors participated in various site visits and a strategy session
- Yasmin Allen and Scott Sheffield were appointed as independent non-executive Directors
- Santos ranked at the 95th percentile in Corporate Governance in Dow Jones Sustainability Index, Oil and Gas industry sector
- The Board Charter was amended to include a Minimum Shareholding Requirement for non-executive Directors in order to more closely align their interests with the interests of shareholders
- The role of the Audit Committee was expanded to include additional responsibilities in relation to risk. The Committee has been renamed the Audit & Risk Committee and its Charter has been updated

## INTRODUCTION

The Board and Management of Santos believe that for the Company to achieve its vision as a leading energy company for Australia and Asia, it must 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 in the Corporate Governance section of the Company's website, <https://www.santos.com/sustainability-at-santos/corporate-governance.aspx>, unless otherwise stated below. The Company's Constitution is also available in the Corporate Governance section of the website, along with additional information regarding the Company's corporate governance practices.

The Company's Policies and corporate governance practices meet the requirements of both the *Corporations Act 2001* (Cth) ("Corporations Act") and the Listing Rules of the Australian Securities Exchange ("ASX"). The Policies and corporate governance practices comply with best practice, including the 2nd edition of the ASX Corporate Governance Council's Principles and Recommendations ("ASX Principles"), except where explained below.

While Santos is not yet required to report against the 3rd edition of the ASX Principles, the Company has commenced the transition towards their adoption and will report against the 3rd edition for the 2015 financial year.

The table below indicates the sections of this Corporate Governance Statement that address each of the recommendations under the 3rd edition of the ASX Principles.

<b>ASX RECOMMENDATIONS</b>	<b>REFERENCE</b>
1.1 A listed entity should disclose:	Section 2.1
(a) the respective roles and responsibilities of its board and management; and	
(b) those matters expressly reserved to the board and those delegated to management.	
1.2 A listed entity should:	Section 1.3
(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and	
(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	
1.3 A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Section 1.4
1.4 The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Section 2.1
1.5 A listed entity should:	Section 5.1
(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;	
(b) disclose that policy or a summary of it; and	
(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:	
1. the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or	
2. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	n/a
1.6 A listed entity should:	Sections 1.5 and 3.1
(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and	
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	
1.7 A listed entity should:	Section 2.1
(a) have and disclose a process for periodically evaluating the performance of its senior executives; and	
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	

# Corporate Governance Statement

## continued

2.1	<p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose:</li> <li>3. the charter of the committee;</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	Sections 1.3 and 3.1 - 3.3
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Section 1.2
2.3	<p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Principles (“Factors relevant to assessing the independence of a director”), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	Sections 1.1-1.2 and pages 6 and 7 of the Annual Report
2.4	A majority of the board of a listed entity should be independent directors.	Section 1.1
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the chief executive officer of the entity.	Section 1.1
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Section 1.4
3.1	<p>A listed entity should:</p> <p>(a) have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) disclose that code or a summary of it.</p>	Section 5.2
4.1	<p>The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <ol style="list-style-type: none"> <li>1. has at least three members, all of whom are non-executive Directors and a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, who is not the chair of the board,</li> </ol> <p>and disclose:</p> <ol style="list-style-type: none"> <li>3. the charter of the committee;</li> <li>4. the relevant qualifications and experience of the members of the committee; and</li> <li>5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>Sections 3.1-3.3</p> <p>See <a href="http://www.santos.com/library/Audit-Risk-Committee-Charter-22-October-2014.pdf">http://www.santos.com/library/Audit-Risk-Committee-Charter-22-October-2014.pdf</a></p>

4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its chief executive officer and chief financial officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Section 4.2
4.3	A listed entity that has an annual general meeting should ensure that its external auditor attends its annual general meeting and is available to answer questions from security holders relevant to the audit.	Section 5.4
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that code or a summary of it.	Section 5.4  See <a href="http://www.santos.com/sustainability-at-santos/corporate-governance.aspx">http://www.santos.com/sustainability-at-santos/corporate-governance.aspx</a>
6.1	A listed entity should provide information about itself and its governance to investors via its website.	See <a href="http://www.santos.com/sustainability-at-santos/corporate-governance.aspx">http://www.santos.com/sustainability-at-santos/corporate-governance.aspx</a>
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Section 5.4
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Section 5.4
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Section 5.4
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: 1. has at least three members, a majority of whom are independent directors; and 2. is chaired by an independent director, and disclose: 3. the charter of the committee; 4. the members of the committee; and 5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	Sections 3.1-3.3  See <a href="http://www.santos.com/library/Audit-Risk-Committee-Charter-22-October-2014.pdf">http://www.santos.com/library/Audit-Risk-Committee-Charter-22-October-2014.pdf</a>  n/a
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	Sections 4.1- 4.3
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Section 4.1  n/a

# Corporate Governance Statement

## continued

7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Section 4.3 and pages 41–48 of the Annual Report
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose:</li> <li>3. the charter of the committee;</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>Sections 3.1- 3.3</p> <p>See <a href="http://www.santos.com/sustainability-at-santos/corporate-governance/committees-of-the-board.aspx">http://www.santos.com/sustainability-at-santos/corporate-governance/committees-of-the-board.aspx</a></p>
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive directors and other senior executives.	Section 2.1
8.3	<p>A listed entity should disclose:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	<p>Section 5.3</p> <p>See: <a href="http://www.santos.com/library/Securities_trading_policy_Dec_2010.pdf">http://www.santos.com/library/Securities_trading_policy_Dec_2010.pdf</a></p>



## PART 1: COMPOSITION OF THE BOARD

### Relevant policies and charters

See [www.santos.com](http://www.santos.com)

- Board Charter
- Company Constitution

### 1.1 Director independence

The Board assesses the independence of each Director, having regard to the definition of independence set out in the ASX Principles.

Consistent with 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 that accounts for 5% or more of the revenue or expense of the Company.

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focusing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to 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 2013, the Board reviewed the tenure provisions in the Board Charter and inserted a guideline that the expected tenure of a non-executive Director would

be between six and nine years. This guideline applies flexibly and it is expected that some non-executive Directors may remain in office for longer periods where appropriate, for instance to maintain the desired mix of skills and experience on the Board. While Ken Dean and Roy Franklin have been in office since 2005 and 2006, respectively, the Board believes that their skills and experience enable them to continue to provide valuable contributions to the Board. The Board is satisfied that both Directors exercise rigorous and objective judgement and that they remain independent.

Total Directors: 10

- Nine independent Non-executive Directors
- One Executive Director (Managing Director)

Currently, the Board comprises nine non-executive Directors (including the Chairman), all of who are considered independent under the principles set out above, and one executive Director (the Managing Director). With the exception of the Managing Director, no Director may hold office without re-election beyond the third Annual General Meeting following the meeting at which the Director was last elected or re-elected.

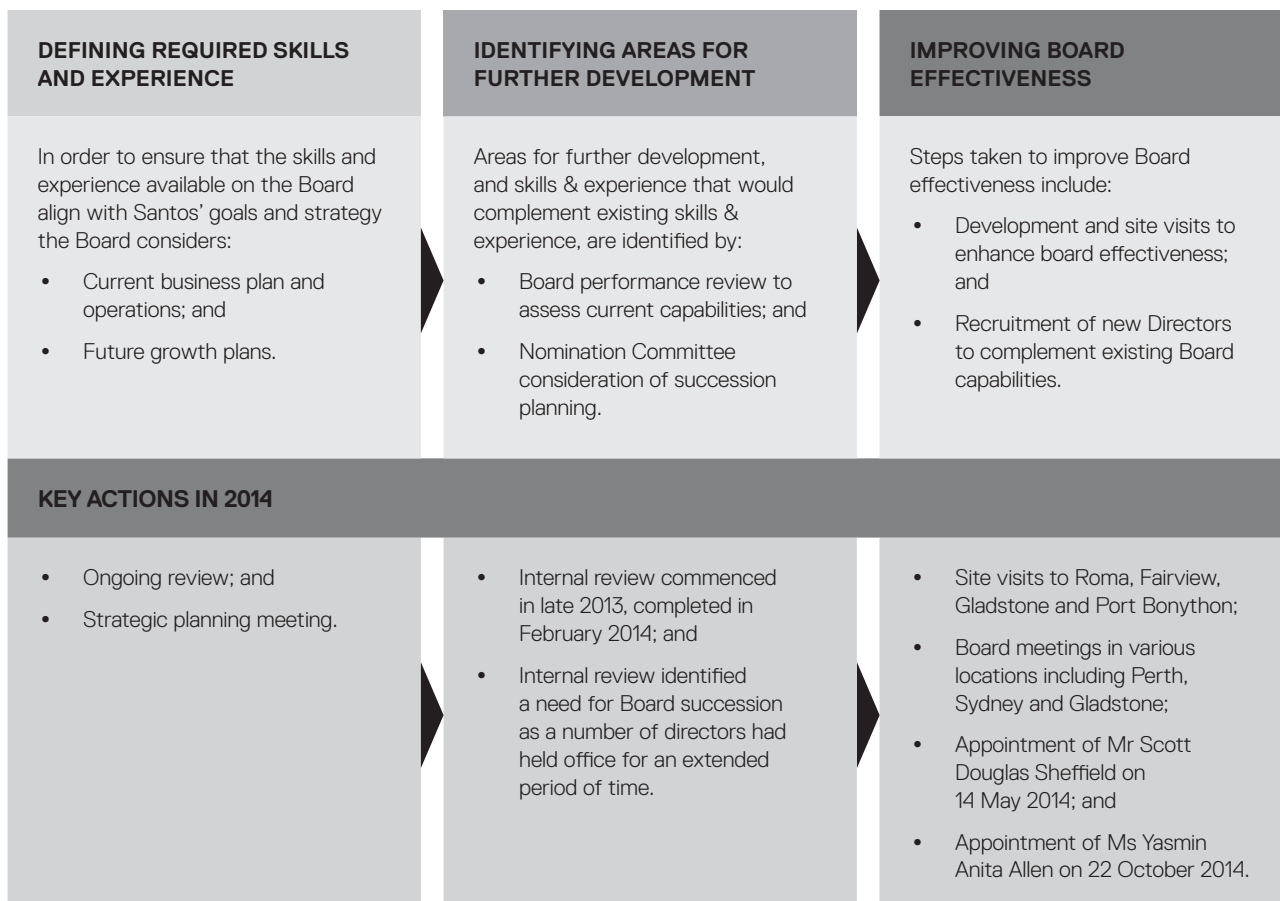
# Corporate Governance Statement

## continued

### 1.2 Board capabilities

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

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



The framework for the Nomination Committee's ongoing consideration 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, and the Board should include at least some members with experience in the upstream oil and gas and/or resources industries.

In 2014, the Board comprised Directors from diverse backgrounds with a range of business experience, skills and attributes.

The tables and charts on the following pages demonstrate the skills, experience and diversity of the Directors in office at the end of 2014 across several dimensions that are relevant to Santos as a leading energy Company.

## SKILLS AND EXPERIENCE OF DIRECTORS

Composition of skills and experience of the Board (out of 10)

<b>Management and leadership</b>		<b>Financial/business qualifications</b>	
Senior management positions held outside Santos (past and present)	10	Tertiary business qualification including post-graduate business studies and CA or CPA	4
Directorships held outside Santos (past and present)	10	Position held on financial bodies and councils (past or present)	2
<b>International experience</b>		<b>Health, safety and environment</b>	
Global	10	Experience managing health, safety and environment issues in a large organisation	7
ASIA Pacific	9	<b>Resources experience and education</b>	
<b>Governance and regulatory</b>		Mining or minerals experience	6
Membership of governance or regulatory bodies (past or present)	4	Oil and gas experience	8
Experience in governance of a complex organisation	10	Infrastructure experience	5
<b>Strategy</b>		Tertiary engineering or science background	7
Mergers and acquisitions experience	8	Positions held on industry-related bodies (past or present) or membership of professional industry-related bodies	8
Experience in growing a business	9	<b>Risk management</b>	
Experience in implementing capital projects	8	Background in risk-focused positions e.g. CFO or auditor (past or present)	3

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 6–9 of the Annual Report.

### TERTIARY QUALIFICATIONS



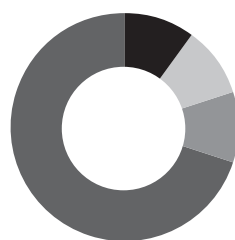
- Engineering
- Finance
- Law
- Science

### INDUSTRY EXPERIENCE



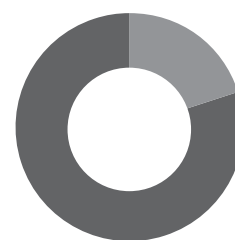
- Mergers and acquisitions
- Experience in growing a business
- Experience in implementing capital projects
- Mining or minerals experience
- Oil and gas experience
- Infrastructure experience
- Tertiary engineering or science background
- Positions held on industry-related bodies (past or present) or membership of professional industry-related projects

### RESIDENCY



- Australia
- China
- North America
- United Kingdom

### GENDER



- Men
- Women

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# Corporate Governance Statement

## continued

### 1.3 Director selection and succession planning

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

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 as the basis for selection of new Director candidates.

The Nomination Committee is responsible for defining the desired attributes and skill-sets for a new Director. The services of an independent consultant are then used where appropriate 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 and arranges for appropriate

background checks to be undertaken, then makes recommendations to the Board regarding possible appointments of Directors, including recommendations for appointments to Committees.

When candidates are submitted to shareholders for election or re-election, the Company includes in the Notice of Meeting all information in its possession that is material to the decision whether to elect or re-elect the candidate.

### 1.4 Director induction and continuing education

Prior to appointment, each non-executive Director is provided with a letter of appointment that sets out the terms of their appointment and 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 of 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 non-executive 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, is explicitly recognised in the Board Charter.

The Managing Director and other Senior Executives are employed under separate employment agreements, which set out their rights, duties and responsibilities.

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

### Director site visits in 2014 to Roma, Fairview, Gladstone and Port Bonython.

During 2014, Directors attended site visits to Roma, Fairview, Gladstone and Port Bonython. In addition, Board meetings were held at various Santos offices and sites including in Adelaide, Sydney, Perth and Gladstone, providing further opportunity for familiarisation with each location's operations and personnel, and presentations from the local management team.

### 1.5 Review of Board, Board Committees 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, Committees 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. Where the review relates to the performance of the Chairman, the two senior independent non-executive Directors conduct the review.

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### **Internal Board review process**



An internal Board review was conducted in late 2013/early 2014 in accordance with the process outlined in this Section. The review included an assessment of the performance of individual Directors including the Chairman and 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 Leadership Team who interact regularly with the Board.

A key aspect of this review was to focus on Board succession, as a number of Board members have held office for some time. The review:

- assessed the mix of skills, experience and personalities currently represented on the Board;
- considered the optimal mix of skills, experience and personalities that the Board may desire over the medium-term given the Company's current plans; and
- made recommendations for Board succession planning over the medium term.

As a result of the Board's review two independent non-executive Director appointments were made in 2014, Mr Scott Douglas Sheffield and Ms Yasmin Anita Allen.

# Corporate Governance Statement

## continued

### PART 2: BOARD RESPONSIBILITIES

#### Relevant policies and charters

See [www.santos.com](http://www.santos.com)

- Board Charter

The Board Charter was last updated in August 2014. 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 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 and the Company Secretary has a direct reporting line to the Chairman.

#### 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.

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The Company's Delegation of Authority has previously been the subject of an extensive review and a substantially restructured, simplified and updated version was adopted in June 2012. The Delegation of Authority incorporates increased accountability for personnel exercising delegated authority and continued to be applied rigorously by the Company in 2014.

Performance evaluation of Senior Executives is regularly undertaken (usually twice a year) by the Managing Director. The Chairman undertakes the Managing Director's annual review.

The results of these reviews are used in determining succession plans, performance and development plans and 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 during the year in accordance with this process for each of the Senior Executives, including the Managing Director. 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 Managing Director 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 52 of the Annual Report. Details of non-executive Director remuneration are also set out in the Remuneration Report.

## **2.2 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 that have been presented to meetings of the Board or to any Committee of the Board or otherwise made available to the Director while 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 74 of the Annual Report.



# Corporate Governance Statement

## continued

### PART 3: BOARD COMMITTEES

#### Relevant policies and charters

See [www.santos.com](http://www.santos.com)

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

All Committees are chaired by and comprise only independent non-executive Directors, except the Environment, Health, Safety and Sustainability Committee, which includes the Managing Director as a member in accordance with the Charter of that Committee. Other composition requirements specific to each Committee are set out in Section 3.1. 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. In 2014, the Audit Committee's responsibilities were expanded to include additional responsibilities in relation to risk and a revised Charter was adopted in October 2014, following a review by that Committee. The Committee was renamed the 'Audit & Risk Committee' in light of its expanded role.

Prior to the change to the Audit & Risk Committee's Charter each of the Board's other Committees exercised oversight of risk in their respective areas including environmental, health, safety and sustainability risk (EHSS Committee), financial, funding and capital management risk (Finance Committee) and organisational, human resource and related risks (People and Remuneration Committee). While those Committees continue to exercise oversight in their respective areas, the Audit & Risk Committee has overarching oversight in relation to risk as a whole.

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.

### 3.1 Role and membership

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

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

#### Board Committee membership

		Audit & Risk Committee	Environment, Health, Safety and Sustainability Committee <sup>1</sup>	Finance Committee	Nomination Committee <sup>1</sup>	People and Remuneration Committee
KC Borda	Non-executive Director (Chairman)			Member	Chairman	Member
PR Coates <sup>2</sup>	Non-executive Director		Member		Member	
KA Dean	Non-executive Director	Member		Member	Member	
RA Franklin	Non-executive Director		Chairman			Member
DJW Knox	Executive Director (Managing Director)		Member			
GJW Martin	Non-executive Director	Member		Chairman		Chairman
JS Hemstrich	Non-executive Director	Chairperson				Member
H Goh <sup>3</sup>	Non-executive Director	Member	Member			
SD Sheffield <sup>4</sup>	Non-executive Director			Member		
YA Allen <sup>5</sup>	Non-executive Director		Member			

Notes:

1. Mr RM Harding ceased to be a member of the Environment, Health, Safety and Sustainability Committee and the Nomination Committee upon his retirement at the 2014 Annual General Meeting held on 16 May 2014.
2. Mr PR Coates was appointed as a member of the Environment, Health, Safety and Sustainability Committee on 14 May 2014.
3. Mr H Goh was appointed as a member of the Audit & Risk Committee on 22 October 2014.
4. Mr SD Sheffield was appointed as a member of the Finance Committee on 14 May 2014.
5. Ms YA Allen was appointed as a member of the Environment, Health, Safety and Sustainability Committee on 22 October 2014.

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 6–7 of the Annual Report.

<b>Board Committee</b>	<b>Membership Requirements</b>
Audit & Risk Committee	<ul style="list-style-type: none"> <li>• At least three independent non-executive Directors</li> <li>• Collectively the members, will have sufficient accounting and financial expertise and understanding of the oil &amp; gas industry, to be able to discharge the Audit &amp; Risk Committee's responsibilities</li> <li>• At least one member who is also a member of the EHSS Committee</li> <li>• To be chaired by an independent non-executive Director who is not the Chairman of the Board.</li> </ul>
Environment, Health, Safety and Sustainability Committee	<ul style="list-style-type: none"> <li>• At least three independent non-executive Directors and the Managing Director.</li> </ul>
Finance Committee	<ul style="list-style-type: none"> <li>• At least three independent non-executive Directors who are financially literate and at least one will have past employment experience in finance, requisite professional certification or other comparable experience or background which results in the individual's financial sophistication.</li> </ul>
Nomination Committee	<ul style="list-style-type: none"> <li>• At least three independent non-executive Directors, chaired by the Chairman of the Board.</li> </ul>
People and Remuneration Committee	<ul style="list-style-type: none"> <li>• At least three independent non-executive Directors, including the Chairman of the Board.</li> </ul>

### 3.2 Board and Committee meetings

In 2014, a total of 10 Board meetings were held, including a strategy 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 Roma, Fairview and Gladstone in June 2014 and the EHSS Committee participated in a site visit to Port Bonython in May 2014.

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 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' Report on page 38 of the Annual Report.

### 3.3 Role and activities of committees

#### **Audit & Risk Committee**

In 2014, the Audit Committee's role was expanded to include oversight of the Company's risk management and internal

control framework and as a result it was renamed the 'Audit & Risk Committee'. The Audit & Risk Committee assists the Board to meet its oversight responsibilities by reviewing, reporting and making recommendations in relation to financial reporting, enterprise risk management, internal control systems, the internal and external audit functions and reserves and resources reporting.

During 2014, the Audit & Risk Committee met with the external auditor, Ernst & Young, without Management present, after each Audit & Risk Committee meeting.

The qualifications and experience of the members of the Audit & Risk Committee are set out on pages 6–7 of the Annual Report.

#### **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.

#### **Environment, Health, Safety and Sustainability Committee**

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

- monitoring and review of the Environment, Health and Safety and Sustainability policies and related systems and their compliance with all applicable environment, health and safety legislation;
- monitoring and review of all aspects of environment, and health and safety risks, 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.

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# Corporate Governance Statement

## continued

During 2014 the Committee reviewed the EHS performance of each of the Business Units and the Drilling and Completions department.

In May 2014, the committee held the Directors' EHS Awards for recognising outstanding EHS performance and innovation, from a total pool of 59 submissions received. The Committee also conducted a field trip to Santos' Port Bonython facility near Whyalla, South Australia where it was able to discuss and observe some of the key EHS and Process Safety programs in place while also being able to observe a strong EHS culture and commitment from local management.

### **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.

Areas of focus for the Nomination Committee in 2014 included Board renewal, as a number of Directors were in their third term, and enhancing gender diversity on the Board.

As a result, during 2014, the Nomination Committee oversaw the search for two new independent non-executive Directors and recommended the final candidates to the Board for approval, resulting in the appointments of Mr Scott Douglas Sheffield on 24 February 2014 and Ms Yasmin Anita Allen on 22 October 2014. These appointments enhance the skills, experience and diversity represented on the Board.

### **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 Managing Director), and Senior Leadership Team;
- development and succession plans for the Managing Director 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.

In 2014, the Committee oversaw the implementation of various changes to the Short-Term Incentive (STI) and Long-Term Incentive (LTI) programs including the deferral of a 30% portion of STI awards to senior executives and the extension of the LTI performance period from three years to four years.

The Committee has access to, and regularly uses, independent advice and comparative studies on the appropriateness of remuneration arrangements. Further details of 2014 activities are set out in the Remuneration report commencing on page 52 of the Annual Report.

The structure and details of, and policies and strategy in relation to, the remuneration paid to non-executive Directors, the Managing Director and other Senior Executives during the period are set out in the Remuneration Report commencing on page 52 of the Annual Report and notes 29 and 30 to the financial statements commencing on page 128 of the Annual Report.

## PART 4: RISK MANAGEMENT

### Relevant policies and charters

See [www.santos.com](http://www.santos.com)

- Board Charter
- Audit & Risk Committee Charter
- Risk Management Policy

### 4.1 Risk management systems

The Board is responsible, with the assistance of the Audit & Risk Committee, 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 that 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.

The Audit & Risk Committee assists the Board in performing its role in relation to risk management by periodically reviewing the effectiveness of Santos' enterprise risk management framework and reporting, and making recommendations, to the Board. A review of the Company's risk management framework was undertaken by the Committee in 2014 with the assistance of an independent risk management expert consultant. The review concluded that the company's risk management framework was sound and effective in identifying and managing risk. The review also made a number of process improvements and recommendations which were adopted and are currently being implemented.

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.

Independent validation of controls is undertaken by internal audit as part of the Company's risk-based approach. The risk & internal audit function is independent of the external auditor and reports to the Audit & Risk Committee, which reviews the findings and recommendations made by the risk & internal audit function. The head of risk & internal audit is appointed by the Audit & Risk 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.

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 2014 financial year.

The Board also receives written certifications from the Managing Director and the CFO in relation to the Company's financial reporting processes for the full and half year reporting periods. Before the Board approved the financial statements for the half year ending on 30 June 2014 and full year ended 31 December 2014, the Managing Director and CFO declared that, in their opinion, the financial records of the Company have been properly maintained

and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that this opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### 4.3 Business and sustainability risks

The Operating and Financial Review on pages 41 to 48 of the 2014 Annual Report contains detailed information about the Company's material business risks and the mitigation measures in place.

The Operating and Financial Review, together with the Company's 2014 Sustainability Report explains the Company's exposure to economic, environmental and social sustainability risks and how that exposure is managed.

### 4.4 Independence of auditors and non-audit services

The Audit & Risk Committee makes recommendations to the Board about the selection, appointment and independence of the Company's external auditor.

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor. The policy can be found in Attachment A to the Audit & Risk Committee Charter.

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 non-audit services where the Company's external auditor is used.

Non-assurance service work in 2014 represented 13% 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 156 of the Annual Report.

# Corporate Governance Statement

## continued

### PART 5: DIVERSITY, ETHICS AND CONDUCT

#### Relevant policies and charters

See [www.santos.com](http://www.santos.com)

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

#### 2014 Diversity Achievements

- Ms Yasmin Allen was appointed to the Santos Board in October 2014.
- Approval was gained to implement a superannuation 'top up', which enables the superannuation guarantee to continue to be paid during periods of unpaid parental leave. This compliments the already successful parental leave program of 16 weeks paid leave or 32 weeks at half pay.
- Nine 'Making Better Decisions' bias awareness sessions were conducted with leaders.
- Launch of a 'Flexible Work Guide' to highlight and promote key policies enabling flexible working arrangements.
- In 2014, Santos continued to increase Aboriginal and Torres Strait Islander participation by directly contributing to 155 employment, education and training opportunities for Aboriginal and Torres Strait Islander peoples, which included the employment of 72 people.

#### 5.1 Diversity

The Board and Senior Leadership Team of Santos is committed to workforce diversity believing that it leads to stronger Company performance and a positive organisational culture.

The Company aims to continuously:

- increase the representation and development of its diverse population;
- improve leadership, career and personal development opportunities;
- ensure robust auditing, analysing and reporting on diversity-related issues including a focus on gender pay equity; and
- participate in, and contribute to, industry and public debate in relation to diversity.

The Diversity Policy has been approved, and is overseen, by the Board's People and Remuneration Committee and can be found on the Company's website. As part of the Company's transition to the 3rd edition of the ASX Principles, the Diversity Policy has been updated to explicitly require the Board or the People and Remuneration Committee to set measurable objectives for gender diversity and for the People and Remuneration Committee to annually assess the objectives and Santos' progress towards delivering them. Prior to this, the practice that had been in place for a number of years was consistent with the requirements of the current version of the ASX Principles.

This policy is summarised and referenced in the Company's Code of Conduct, which sets out the overall framework, guidance and expectations regarding the behaviour of all Santos employees. These policies are reviewed to ensure ongoing relevance and employees are required to update their knowledge of the Code of Conduct regularly.

In addition to concentrating on development of the current workforce, Santos recognises 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. Gender balanced candidate pools are included as a performance measure in contracts with recruitment firms and service suppliers.

The Company's focus on improving gender balance and pay equity has a high level of corporate accountability with Senior Executives reporting to the CEO on initiatives and progress towards achieving objectives. An annual review is also conducted with the Board.

During 2014 the Company continued to focus on additional commitments and opportunities needed to increase the number of females in leadership roles. This has led to a 4% increase in the number of females in senior leadership roles.

Greater awareness was built around the role of bias and decision making, with new programs introduced to ensure leaders were aware and could take action around any conscious or unconscious bias that might impede diversity.

Recruitment systems were updated to ensure biased practices did not exist with talent reviews or hiring decisions. In addition, flexible work practice policies were updated and relaunched with all employees. Of the people who establish formal flexible work arrangements, 85% are female.

The table opposite sets out the measureable objectives adopted by the Board and a summary of the progress towards achieving them, as reported to and assessed by the Board during 2014 in accordance with the Company's Diversity Policy. Specific achievements are outlined in the table opposite.

Objective	Initiatives and progress
<p><b>1. Representation</b></p> <p>Increase representation of females and Aboriginal employees at Santos. In particular increase representation in the non-traditional areas such as apprentices, trainees and graduates.</p>	<ul style="list-style-type: none"> <li>Over the last five years Santos' female workforce has increased from 22% to 26%.</li> <li>An additional female non-executive Director was appointed in 2014 increasing female representation at a board level.</li> <li>There has been a 4% increase in the number of senior leadership roles held by women since 2013.</li> <li>The Company continues to make progress on increasing female representation through quarterly business reviews and annual talent reviews.</li> <li>The Santos Graduate Program continues to drive gender balance in engineering and geoscience with 40% of graduates employed being female.</li> <li>Santos has increased Aboriginal workforce participation through the creation of 653 employment and training opportunities across the energy and resource sector. These opportunities include cadetships, traineeships and apprenticeships.</li> <li>Santos collaborated with its contractors and suppliers to gain additional employment opportunities for the Aboriginal workforce during 2014.</li> </ul>
<p><b>2. Leadership and culture development</b></p> <p>Deliver development solutions to remove gender bias and create an inclusive culture.</p>	<ul style="list-style-type: none"> <li>Bias awareness tools are embedded into leadership development programs.</li> <li>New programs introduced during the year to help drive inclusiveness and awareness were Coaching for performance, Removing Bias and Making Better Decisions and Building Confidence and Resilience.</li> <li>Workforce flexibility policies and practices continue to be reinforced with females making up 85% of all formal flexible work arrangements.</li> <li>Santos had a return rate of 95% of employees from parental leave during 2014.</li> </ul>
<p><b>3. Personal and career development</b></p> <p>Equal representation of women and men to receive opportunities for in-house development programs.</p>	<ul style="list-style-type: none"> <li>Female representation in the Company's leadership development programs increased by 6% during 2014.</li> <li>Females in the company sponsored MBA program continued to be strong at 27% driving the formal development of women in leadership positions and strengthening their networks.</li> <li>Sponsorship of 'Women on Boards' and the Australian Institute of Company Directors programs reinforced the development of women to be board ready.</li> </ul>
<p><b>4. Systems and processes</b></p> <p>Review practices to identify inequities, specifically review gender pay equity and take necessary actions.</p>	<ul style="list-style-type: none"> <li>Flexible work policies have been reviewed and a 'Flexible Work Guide' launched to all employees aimed at ensuring people are clear about the policies that are on offer.</li> <li>Service providers continue to be contracted on the basis of their ability to provide diverse and gender-balanced candidate pools.</li> <li>The annual pay equity review continued and is used to address inequities between male and female employees. Santos achieved the highest result of 'taking action' in pay equity as part of the Workplace Gender Equality Agency's review.</li> <li>Superannuation sessions tailored to the needs of women were provided to allow for improved financial planning.</li> </ul>
<p><b>5. Government and industry participation.</b></p> <p>Involvement with initiatives designed to improve gender equity.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Santos continues to support industry and community initiatives designed to improve gender equity including Australian Women in Resources alliances, Women on Boards and the Australian Institute of Company Directors programs. Santos supported a number of women joining boards in 2014 through these programs. Through its association with universities, Santos also supports various STEM* initiatives assisting to increase females seeking STEM subjects.</li> </ul>

\* Science, Technology, Engineering and Mathematics



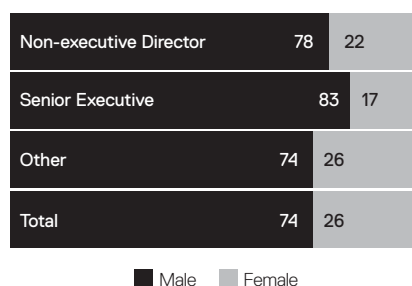
# Corporate Governance Statement

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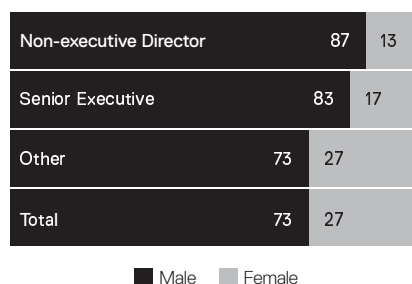
The Company remains committed to attracting, retaining and engaging people with diversity of experience, skills, qualities and backgrounds, and to providing an inclusive culture. The five objectives listed above will continue to ensure Santos maintains focus in these key areas. Progress against these objectives will be reported in the Company's 2015 Annual Report.

The following graphs shows the proportional representation of men and women at various levels within the Santos workforce.

### WORKFORCE GENDER PROFILE 2014



### WORKFORCE GENDER PROFILE 2013



The Senior Executives for 2014 are the Senior Leadership Team as at 31 December 2014 which consisted of 12 of the individuals (ten males and two females) depicted in pages 8 and 9 of the 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 Directors, employees and contractors with a clear set of rules, values and guidelines

to follow when carrying out their roles. These rules, values and guidelines set out what is expected of Directors, employees, contractors and agents of Santos.

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

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

The Code of Conduct and its associated training was last reviewed and updated in 2012. All employees are required to undertake a periodic 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. To assist the Company achieve the highest ethical standards, all Santos staff and contractors are required to be familiar with and to abide by the Policy and related Guidelines. During 2014, 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 (discussed below), the environment, occupational health and safety, and human resources.

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

integrity, direction and operation of the Company and its financial performance.

Santos treats actual or suspected breaches of its guidelines and policies seriously, and has adopted Reporting Misconduct and Issue Resolution policies as additional mechanisms to ensure that suspected breaches are reported and acted upon fairly and effectively. A Reporting Misconduct Program is in place at Santos, to enable employees to report misconduct confidentially via an independent Reporting Misconduct hotline, 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).

### 5.3 Securities trading policy

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

Directors, executives and employees (and their connected persons) are also generally prohibited from dealing in the Company's securities during defined 'blackout periods'. In addition, they must not trade 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.

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



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disclosure of material price-sensitive information. A copy of the Shareholder Communications and Market Disclosure Policy is published on the Santos website at <http://www.santos.com/share-price-performance/continuous-disclosure.aspx>. 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](http://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.

The Company also has in place a detailed investor relations program of scheduled and ad hoc briefings with shareholders, analysts and financial media. The program is aimed at facilitating effective two-way communications with investors, and provides an opportunity for the Company's investors to interact with senior Management and to gain a greater understanding of the Company's business, financial performance, prospects and corporate governance. The Company's dedicated investor relations team and share registry receives and sends electronic communications directly to shareholders, and can be contacted via links on the Santos website.

# 10-year summary

<b>As at 31 December</b>	2005	2006	2007	2008	2009	2010	2011	2012	2013	<b>2014</b>
Santos average realised oil price (A\$/bbl) <sup>5</sup>	73.83	89.35	92.00	117.45	78.83	87.35	115.29	113.78	120.96	<b>114.21</b>
<b>Financial performance (\$million)<sup>4,5</sup></b>										
Product sales revenue <sup>3</sup>	2,463	2,750	2,489	2,762	2,181	2,228	2,721	3,223	3,602	<b>4,037</b>
Total revenue <sup>3</sup>	2,492	2,779	2,518	2,805	2,251	2,306	2,803	3,289	3,651	<b>4,099</b>
Foreign currency gains/(losses)	(4)	1	-	24	(28)	(10)	18	(2)	24	<b>(5)</b>
Profit from ordinary activities before tax	1,133	964	719	2,533	717	793	1,282	911	869	<b>(1,544)</b>
Income tax relating to ordinary activities	371	321	196	768	205	244	440	318	296	<b>(482)</b>
Royalty-related taxes <sup>1</sup>			164	115	78	51	91	75	57	<b>(127)</b>
Net profit after tax attributable to the shareholders of Santos Ltd	762	643	359	1,650	434	500	753	519	516	<b>(935)</b>
<b>Financial position (\$million)<sup>4,5</sup></b>										
Total assets	6,191	6,903	7,320	9,802	11,361	13,769	15,814	16,988	20,609	<b>22,345</b>
Net debt/(cash)	1,599	1,450	1,839	506	(605)	(1,201)	(205)	1,334	4,918	<b>7,490</b>
Total equity	2,964	3,356	3,093	4,478	6,967	7,603	8,963	9,354	10,212	<b>9,413</b>
<b>Reserves and production (mmboe)</b>										
Proven plus probable reserves (2P)	774	819	879	1,013	1,440	1,445	1,364	1,406	1,368	<b>1,245</b>
Production	56.0	61.0	59.1	54.4	54.4	49.9	47.2	52.1	51.0	<b>54.1</b>
<b>Exploration<sup>2</sup></b>										
Wells drilled (number)	22	25	10	13	6	3	4	4	12	<b>9</b>
Expenditure (\$million) <sup>4</sup>	187	259	150	233	181	90	151	162	391	<b>323</b>
<b>Other capital expenditure (\$million)<sup>4,5</sup></b>										
Delineation and development <sup>2</sup>	666	866	955	1,290	1,204	1,684	2,769	2,960	3,704	<b>3,247</b>
Buildings, plant and equipment	106	182	202	105	172	107	149	231	274	<b>261</b>
<b>General</b>										
Number of employees (excluding contractors)	1,521	1,679	1,786	1,940	2,096	2,367	2,847	3,289	3,502	<b>3,636</b>
Number of shareholders	78,157	83,566	77,498	78,933	107,138	112,145	113,173	111,135	112,397	<b>140,509</b>
Market capitalisation (\$million)	7,280	5,907	8,274	8,696	11,721	11,506	11,560	10,669	14,222	<b>8,116</b>
Netback (\$/boe) <sup>5</sup>	29.5	32.9	32.9	35.9	22.9	23.0	27.6	31.1	33.9	<b>33.4</b>

**As at 31 December**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
<b>Share Information</b>											
Share issues	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Non-executive Director Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Non-executive Director Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/2 for 5 Rights Issue/ Redemption of FUELS/ Convertible Preference Shares	Employee Share Plan/ Executive Share Plan/ Non-executive Director Exercise of Options/ Dividend Reinvestment Plan/ Placement (institutional)	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ ESG Scheme of Arrangement	Employee Share Plan/ Executive Share Plan/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Dividend Reinvestment Plan / Exercise of Options	Employee Share Plan/ Executive Share Plan/ Dividend Reinvestment Plan / Exercise of Options	Employee Share Plan/ Executive Share Plan/ Dividend Reinvestment Plan / Exercise of Options
Number of issued ordinary shares at year-end (million)	594.4	598.5	586.1	584.9	831.9	875.1	944.6	961.2	972.1	<b>983.8</b>	
Weighted average number of issued ordinary shares (million)	638.4	647.3	641.2	641.4	781.1	836.3	888.7	954.9	967.5	<b>978.2</b>	
Dividends – ordinary shares											
Paid during the period (cents per share)	36	40	40	42	42	42	30	30	30	<b>35</b>	
Declared in respect of the period (cents per share)	38	40	40	42	42	37	30	30	30	<b>35</b>	
Paid during the period (\$million) <sup>4</sup>	212	238	235	248	299	350	263	285	289	<b>341</b>	
Number of issued preference shares at year-end (million)	6.0	6.0	6.0	6.0	-	-	-	-	-	-	
Dividends – preference shares											
Paid during the period (\$ per share)											
– ordinary	5.1	5.1	5.6	6.3	4.6	-	-	-	-	-	
– special	-	-	-	-	-	-	-	-	-	-	
Declared in respect of the period (\$ per share)											
– ordinary	5.2	5.3	5.9	6.3	-	-	-	-	-	-	
– special	-	-	-	-	-	-	-	-	-	-	
Paid during the period (\$million) <sup>5</sup>											
– ordinary	31	30	34	38	28	-	-	-	-	-	
– special	-	-	-	-	-	-	-	-	-	-	
Earnings per share (cents)	114.6	94.7	50.8	251.4	52.0	59.8	84.8	54.4	53.3	<b>(95.6)</b>	
Return on total revenue (%) <sup>3</sup>	30.6	23.1	14.3	58.8	19.3	21.7	26.9	15.7	14.1	<b>(22.8)</b>	
Return on average ordinary equity (%)	35.5	23.9	12.4	50.6	7.5	6.9	9.1	5.7	5.3	<b>(9.5)</b>	
Return on average capital employed (%)	19.8	15.1	9.0	34.1	7.3	7.3	8.7	4.4	3.8	<b>(5.7)</b>	
Net debt/(net debt + equity) (%)	35.0	30.2	37.3	10.2	(9.5)	(18.7)	(2.3)	12.4	32.5	<b>44.3</b>	
Net interest cover (times)	14.9	10.1	7.4	38.5	(45.3)	(19.1)	700.9	14.6	4.8	<b>(5.3)</b>	

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

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

3. 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.

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

5. The 2012 figures have been restated to reflect adjustments required from the adoption of AASB 11 Joint Arrangements. Prior year amounts have not been restated.

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# 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 2014, 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 set out below.

<b>Surname</b>	<b>Other names</b>	<b>Shareholdings in Santos Limited</b>
Allen	Yasmin Anita	10,000
Borda	Kenneth Charles (Chairman)	87,874
Coates	Peter Roland	48,879
Dean	Kenneth Alfred	32,130
Franklin	Roy Alexander	15,215
Goh	Hock	15,000
Hemstritch	Jane Sharman	39,192
Knox	David John Wissler (Managing Director)	99,325
Martin	Gregory John Walton	24,500
Sheffield	Scott Douglas	40,000

The above named Directors held office during and since the end of the financial year with the exception of Mr Scott Sheffield, who was appointed on 24 February 2014 and Ms Yasmin Allen, who was appointed on 22 October 2014. Mr Richard Michael Harding was a Director until his retirement at the Annual General Meeting on 16 May 2014. 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 1,009,920 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 52.

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 set out below:

**Table of Directors' Meetings**

Director		Directors'	Audit & Risk	Environment	People &	Finance	Nomination
		meeting <sup>2</sup>	Committee	Health, Safety & Sustainability Committee	Remuneration Committee	Committee	Committee
		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/Held <sup>1</sup>
Allen <sup>3</sup>	Yasmin A	2 of 2	n/a	1 of 1	n/a	n/a	n/a
Borda	Kenneth C	10 of 10	n/a	n/a	5 of 5	6 of 6	6 of 6
Coates <sup>4</sup>	Peter R	9 of 10	n/a	2 of 2	n/a	n/a	6 of 6
Dean	Kenneth A	10 of 10	5 of 5	n/a	n/a	6 of 6	6 of 6
Franklin	Roy A	10 of 10	n/a	4 of 4	5 of 5	n/a	n/a
Goh <sup>5</sup>	Hock	10 of 10	1 of 1	4 of 4	n/a	n/a	n/a
Harding <sup>6</sup>	Richard M	2 of 3	n/a	1 of 2	n/a	n/a	2 of 2
Hemstritch	Jane S	10 of 10	5 of 5	n/a	4 of 5	n/a	n/a
Knox	David JW	10 of 10	n/a	4 of 4	n/a	n/a	n/a
Martin	Gregory JW	10 of 10	5 of 5	n/a	5 of 5	6 of 6	n/a
Sheffield <sup>7</sup>	Scott D	9 of 10	n/a	n/a	n/a	4 of 5	n/a

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

2. In addition to formal meetings, the Directors participated in site visits to Fairview, Gladstone and Roma in June 2014.

3. YA Allen appointed as a Non-Executive Director and member of the EHSS Committee on 22 October 2014.

4. PR Coates appointed as a member of the EHSS Committee on 14 May 2014.

5. H Goh appointed as a member of the Audit & Risk Committee on 22 October 2014.

6. RM Harding retired as a Non-Executive Director on 16 May 2014.

7. SD Sheffield appointed as a Non-Executive Director on 24 February 2014 and a member of the Finance Committee on 14 May 2014.

## OPERATING AND FINANCIAL REVIEW

Santos' principal activities during 2014 were the exploration for, and development, production, transportation and marketing of, hydrocarbons. There were no significant changes in the nature of these activities during the year. Revenue is derived primarily from the sale of gas and liquid hydrocarbons.

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

	<b>2014</b>	2013	Variance
	<b>mmboe</b>	mmboe	%
Production volume	<b>54.1</b>	51.0	6
Sales volume	<b>63.7</b>	58.5	9
	<b>\$million</b>	\$million	
Product sales	<b>4,037</b>	3,602	12
EBITDAX <sup>1</sup>	<b>2,153</b>	1,992	8
Exploration and evaluation expensed	<b>(256)</b>	(192)	33
Depreciation and depletion	<b>(988)</b>	(888)	11
Net impairment loss	<b>(2,356)</b>	(26)	
EBIT <sup>1</sup>	<b>(1,447)</b>	886	(263)
Net finance costs	<b>(97)</b>	(17)	
Taxation benefit/(expense)	<b>609</b>	(353)	273
Net (loss)/profit for the period	<b>(935)</b>	516	(281)
Net (loss)/profit attributable to non-controlling interest	<b>-</b>	-	
Net (loss)/profit attributable to equity holders of Santos	<b>(935)</b>	516	(281)
Underlying profit for the period <sup>1</sup>	<b>533</b>	504	6

<sup>1</sup> 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 7 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' 2014 full-year production of 54.1 million barrels of oil equivalent (mmboe) was 6% higher than the prior year, primarily due to the successful start-up of the PNG LNG project ahead of schedule in April 2014, as well as higher Cooper Basin gas and oil production. This was partially offset by lower production from the Carnarvon Basin due to lower gas customer nominations.

Sales volumes rose 9% to 63.7 mmboe, reflecting the higher production outcome combined with growth in third party product sales primarily due to higher third party Cooper Basin oil volumes.

Sales revenue grew by 12% to a record \$4 billion, due to the start-up of PNG LNG and higher sales volumes, partially offset by lower crude oil prices. The average realised crude oil price for the year was A\$114 per barrel, 6% lower than 2013.

The Brent crude oil price fell by almost 50% in the second half of 2014 and closed the year at approximately US\$58 per barrel, its lowest level in more than five years. In December 2014, Santos reduced its projected 2015 capital expenditure by 25% to \$2 billion in response to the lower oil price and the company continues to focus on reducing operating costs where possible. Santos is also considering asset divestments as part of its ongoing portfolio management, provided fair long-term value can be realised.

# Directors' Report

## continued

### **Review of operations**

Santos' operations are reported in four business units based on the different geographic regions of the Company's operations: Eastern Australia; Western Australia and Northern Territory; Asia Pacific; and GLNG.

#### ***Eastern Australia***

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 from eastern Australia is expected to increase significantly over the next few years as LNG exports ramp-up from Queensland. Santos is responding to the higher demand by lifting gas capacity in the Cooper Basin and progressing the proposed Narrabri gas project in New South Wales.

Eastern Australia Business Unit EBITDAX in 2014 was \$693 million, 7% higher than 2013 primarily due to higher production volumes and higher third party crude oil sales volumes, partially offset by lower crude oil prices.

Santos' share of Cooper Basin gas production of 63.3 petajoules (PJ) during 2014 was 4% higher than 2013, reflecting the higher level of drilling activity undertaken in 2014, and the resultant increase in well capacity. Santos' share of Cooper Basin condensate production was 1.0 million barrels (mmbbl), in line with 2013. Santos' share of gas production from the Surat/Bowen/Denison areas in Queensland and the Otway Basin offshore Victoria was 28.4 PJ, 7% lower than 2013 primarily due to natural field decline.

Santos' share of Cooper Basin oil production of 3.2 mmbbl was 4% higher than 2013 due to the contribution of new wells and lower downtime more than offsetting natural field decline. Volumes of third party crude oil processed at Moomba increased as production from other operators in the Cooper Basin came on line.

Santos continued to progress appraisal of the unconventional gas potential in the Cooper Basin during 2014. The Moomba-193H and Moomba-194 wells were successfully connected to Santos' existing production infrastructure, becoming the second and third unconventional wells after Moomba-191 to be brought on-line.

#### ***Western Australia and Northern Territory***

Santos is one of the largest producers of domestic natural gas in Western Australia and is also a significant producer of gas liquids and crude oil. Santos also has an interest in the Bayu-Undan/Darwin LNG project.

Western Australia and Northern Territory Business Unit EBITDAX was \$635 million, 35% lower than 2013 mainly due to lower gas customer nominations and higher production costs for Bayu-Undan and Fletcher Finucane/Mutineer-Exeter and lower liquids sales and prices.

Santos' Western Australia gas and condensate production of 54.2 PJ and 533,400 barrels respectively, were both lower than 2013 primarily due to lower gas customer nominations.

Santos' share of Western Australia oil production of 3.1 mmbbl was 24% lower than 2013, primarily due to natural field decline and higher downtime at Fletcher Finucane.

Notwithstanding a planned one-month shutdown during 2014, strong operating performance at Darwin LNG resulted in Santos' net entitlement to gas production of 16.5 PJ being in-line with the prior year.

Following on from the success of the Crown exploration well drilled in the Browse Basin offshore Western Australia in late-2012, Santos and its partners made a significant gas-condensate discovery with the Lasseter well in mid-2014. Lasseter is located 35 kilometres east-southeast of Crown and intersected a gross gas-condensate column of 405 metres, with wireline logging confirming 78 metres of net gas pay. The Lasseter and Crown discoveries are well positioned in close proximity to existing and proposed LNG projects in the Browse Basin.



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## **Asia Pacific**

Santos is building a material business in Asia with producing assets presently in three countries, Papua New Guinea, Indonesia and Vietnam, and exploration assets in Malaysia and Bangladesh.

Asia Pacific Business Unit EBITDAX was \$743 million, 134% higher than 2013, mainly due to the start-up of the PNG LNG project in April 2014 and Dua in July 2014, partially offset by lower average realised crude prices from Chim Sào and lower sales volumes from Oyong.

In Papua New Guinea, the PNG LNG project (Santos 13.5% interest), achieved first LNG ahead of schedule in April 2014 and shipped its first LNG cargo in May. Production ramped-up strongly with the project producing at full capacity by late July. Santos' share of gas and condensate production was 34 PJ and 915,600 barrels respectively in 2014.

Santos is well positioned in discovered resources and prospective exploration acreage in Papua New Guinea and could play an important role in any expansion of the PNG LNG project. Santos participated in two exploration gas discoveries in 2014 at Manta and NW Koko, and the Hides Deep exploration well was drilling ahead at the end of the year with results expected in the first half of 2015.

Santos' net entitlement to oil production in Vietnam of 2.8 mmbbl was 6% higher than 2013, due to first oil from the Dua project and improvements in operating efficiency on the production vessel.

Santos' net entitlement to gas production in Indonesia of 25.1 PJ was 7% lower than 2013, primarily due to lower production from Oyong, Wortel and Maleo due to lower customer nominations and lower net entitlements. First gas from the Peluang project was achieved in March 2014.

## **GLNG**

Sanctioned in January 2011, the GLNG project (Santos 30% interest) is over 90% complete and on track for first LNG in the second half of 2015. The project involves developing coal seam natural gas fields in the Bowen and Surat basins in south-east Queensland, a 420-kilometre underground gas transmission pipeline and a two-train LNG plant on Curtis Island at Gladstone. The project has an estimated gross capital cost of 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).

Strong construction progress continued in 2014 as the project achieved significant milestones, including the completion of all major gas field processing facilities, completion of the 420-kilometre gas transmission pipeline, placement of the last of the 111 LNG train modules, completion of the LNG loading jetty and hydrotesting of both LNG storage tanks.

GLNG Business Unit results include domestic gas production and sales from the GLNG coal seam natural gas fields in south-western Queensland. GLNG Business Unit EBITDAX was -\$10 million, 183% lower than 2013, mainly due to higher pipeline tolls and lower domestic customer nominations.

Santos' share of GLNG gas production was 7.9 PJ, 18% lower than 2013 due to lower gas customer nominations.

# Directors' Report

## continued

### Net profit

The 2014 net loss attributable to equity holders of Santos Limited of \$935 million is \$1,451 million lower than the net profit of \$516 million in 2013. This decrease is primarily due to higher impairment losses of \$1,563 million after tax as a result of the decline in global oil prices.

Net profit includes items before tax of \$2,292 million (\$1,468 million after tax), as referred to in the reconciliation of net profit to underlying profit below.

### Reconciliation of net (loss)/profit to underlying profit<sup>1</sup>

	2014 \$million			2013 \$million		
	Gross	Tax	Net	Gross	Tax	Net
<b>Net (loss)/profit after tax attributable to equity holders of Santos Limited</b>			<b>(935)</b>			<b>516</b>
Add/(deduct) the following:						
Net gains on sales of non-current assets	(4)	1	<b>(3)</b>	(14)	4	<b>(10)</b>
Impairment losses	2,356	(793)	<b>1,563</b>	26	2	<b>28</b>
Foreign exchange (gains)/ losses	5	(2)	<b>3</b>	(24)	7	<b>(17)</b>
Fair-value adjustments on embedded derivatives and hedges	(59)	17	<b>(42)</b>	(7)	2	<b>(5)</b>
Remediation (income)/costs for incidents net of related insurance recoveries	(6)	2	<b>(4)</b>	(9)	2	<b>(7)</b>
Other (income)/expense items	–	–	<b>–</b>	(3)	2	<b>(1)</b>
Other one-off tax adjustments	–	(49)	<b>(49)</b>	–	–	<b>–</b>
	2,292	(824)	<b>1,468</b>	(31)	19	<b>(12)</b>
<b>Underlying profit<sup>1</sup></b>			<b>533</b>			<b>504</b>

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 numbers have been extracted from the financial statements which have been subject to audit by the Company's auditor. 'Other (income)/expense items' in 2014 relates to a prior year re-determination adjustment.

### Financial position

#### Summary of financial position

	2014 \$million	2013 \$million	Variance \$million
Exploration and evaluation assets	<b>1,106</b>	1,964	(858)
Oil and gas assets and other land, buildings, plant and equipment	<b>18,689</b>	16,082	2,607
Restoration provision	<b>(2,157)</b>	(1,768)	(389)
Other net assets/(liabilities) <sup>1</sup>	<b>(207)</b>	72	(279)
Total funds employed	<b>17,431</b>	16,350	1,081
Net debt <sup>2</sup>	<b>(7,490)</b>	(4,918)	(2,572)
Net tax liabilities <sup>3</sup>	<b>(528)</b>	(1,220)	692
Net assets/equity	<b>9,413</b>	10,212	(799)

1. Other net assets comprise trade and other receivables, prepayments, inventories, other financial assets, share of investments in joint ventures, offset by trade and other payables, deferred income, provisions and other financial liabilities.

2. Net debt reflects the net borrowings position and includes interest-bearing loans, net of cash and interest rate and cross-currency swap contracts.

3. Net tax liabilities comprise deferred tax liabilities and current tax payable offset by tax receivable and deferred tax assets.

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### **Impairment of assets**

During the Company's regular review of asset carrying values, Santos undertook an impairment review against the lower oil price environment as part of the preparation of its 2014 full-year accounts.

Some assets were assessed to be impaired and non-cash after tax impairment losses of \$1.6 billion have been recognised in the 2014 accounts.

The impairment losses primarily relate to certain oil producing assets including in the Cooper Basin, and certain exploration and evaluation assets including the Gunnedah Basin.

### **Exploration and evaluation assets**

Exploration and evaluation assets were \$1,106 million compared to \$1,964 million at the end of 2013, a decrease of \$858 million. This was mainly due to impairment losses before tax of \$1,170 million and exploration and evaluation expensed, offset by 2014 capital expenditure including WA offshore assets and the Gunnedah Basin, and acquisition costs comprising interests in Block S and Block R in Malaysia.

### **Oil and gas assets and other land, buildings, plant and equipment**

Oil and gas assets of \$18,689 million were \$2,607 million higher than in 2013, mainly due to 2014 capital expenditure on major development projects including PNG LNG and GLNG, and the Cooper Basin, offset by depreciation and depletion charges and impairment losses.

### **Restoration provision**

Restoration provision balances have increased by \$389 million to \$2,157 million, mainly due to a change in the discount rate, unwinding the effect of discounting the provision and revised restoration cost estimates.

### **Net debt**

Net debt of \$7,490 million was \$2,572 million higher than at the end of 2013, primarily as a result of drawdowns on debt to fund the capital expenditure program and the impact of the A\$ exchange rate on US\$ denominated debt, partially offset by net operating cash inflows.

### **Net assets/equity**

Total equity decreased by \$799 million to \$9,413 million at year end. The decrease primarily reflects the 2014 net loss after tax attributable to owners of Santos of \$935 million and dividends paid during the year (\$341 million), offset by the impact of the A\$ exchange rate on foreign operations (\$308 million) and additional shares issued in relation to the dividend reinvestment plan (\$145 million).

### **Future commitments**

Due to the nature of Santos' operations, the Company has future obligations for capital expenditure, for which no amounts have been provided in the financial statements. Santos also has certain requirements to perform minimum exploration work and spend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits, in order to maintain rights of tenure. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by the Company.

Santos leases LNG carriers and tug facilities under finance leases. The leases have terms of between 10 and 20 years with varying renewal options. At reporting date, no liability for the LNG carrier leases was recorded as the assets were not yet available for use. Santos also leases floating production, storage and offtake facilities, floating storage offloading facilities, LNG carriers and mobile offshore production units under operating leases. These 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. These leases are generally for a period of 10 years, with an option to renew the lease after that date.

# Directors' Report

## continued

### Business strategy and prospects for future financial years

#### Business strategy

Santos' vision is to be a leading oil and gas exploration and production company in Australia and Asia. The Company has a three-pronged strategy to achieve this:

**Australia:** Santos is one of Australia's largest producers of natural gas to the domestic market and has the largest exploration and production acreage position in Australia of any company. Santos has also developed major oil and gas liquids businesses in Australia and operates in all mainland Australian states and the Northern Territory. Santos' focus in Australia is to drive value and performance from its businesses and unlock resources to meet gas demand.

**LNG:** Santos has interests in three liquefied natural gas (LNG) projects. These include the PNG LNG project in Papua New Guinea, which commenced production in 2014, and Darwin LNG, which began production in 2006. Santos' GLNG project in Queensland is due to commence production in the second half of 2015. Santos aims to leverage its existing LNG infrastructure and capabilities, and in doing so, become a major LNG supplier to Asia.

**Asia:** Santos has oil and gas production in Indonesia and Vietnam and aims to build a material position in South-East Asia through development projects and exploration investment.

Strong progress was made in 2014 in the delivery of all elements of the strategy including:

<p><b>Australia</b></p> <p>Driving value and performance from the base business and unlocking resources to meet gas demand.</p>	<ul style="list-style-type: none"> <li>• Cooper Basin gas and oil production increased</li> <li>• Exploration success offshore Western Australia with the Lasseter well</li> <li>• Further shale gas success in the Cooper Basin with three unconventional wells connected and on-line</li> <li>• Santos uniquely positioned to meet higher domestic and export natural gas demand</li> </ul>
<p><b>LNG</b></p> <p>Leveraging existing LNG infrastructure and capabilities.</p>	<ul style="list-style-type: none"> <li>• PNG LNG first LNG ahead of schedule in April, with the project producing at full capacity by late-July</li> <li>• GLNG over 90% complete and on track for first LNG in the second half of 2015, within budget</li> <li>• Strong production from Darwin LNG</li> </ul>
<p><b>Asia</b></p> <p>Building a material position in South-East Asia.</p>	<ul style="list-style-type: none"> <li>• Dua (Vietnam) and Peluang (Indonesia) projects delivered</li> <li>• Farm-in to exploration licences in Malaysia and drilling underway</li> <li>• Multiple options for PNG LNG expansion</li> </ul>

#### Prospects for future financial years

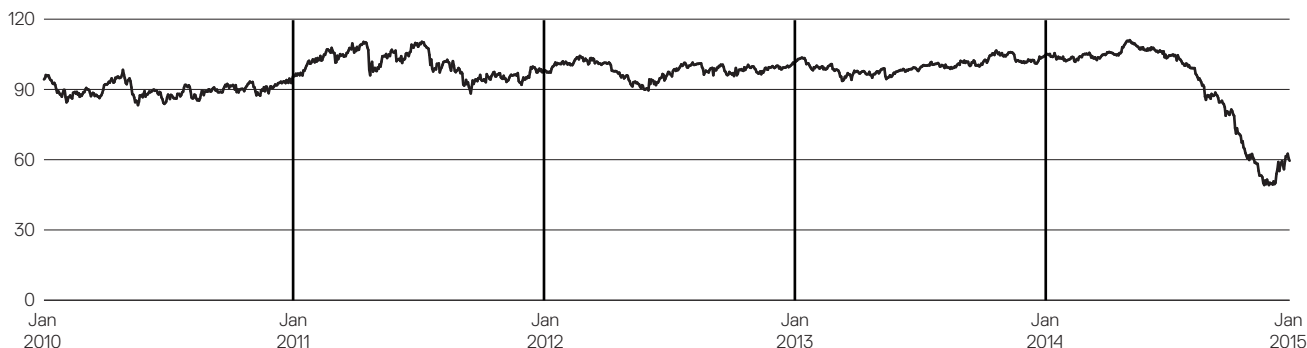
Santos expects to grow production in 2015 to between 57 and 64 mmbœ. The key driver of increased production will be a full-year of production from the PNG LNG project and the start-up of GLNG in the second half of the year.

As Santos' LNG production grows over the next few years, with the ramp-up of GLNG and PNG LNG at plateau, an increasing proportion of the Company's revenues will be linked to the global oil price.

Following a period of relative stability, oil prices declined significantly in the second half of 2014 with the Brent crude oil benchmark price falling by approximately 50%.

## BRENT CRUDE OIL PRICE

US\$/barrel



The current lower oil price environment means that Santos is focused on driving operational efficiency, reducing costs, prudently managing capital and ensuring that its balance sheet remains strong.

Capital expenditure has been reduced by 25% in 2015 while asset divestments are under consideration as part of the Company's ongoing portfolio management, provided fair long-term value can be realised.

The underlying performance of Santos' business remains strong and the Company remains well placed to benefit when oil prices recover.

### Material business risks

The achievement of the business strategy, production growth outlook and future financial performance is subject to various risks, including the material business risks summarised below. Santos undertakes steps to identify, assess and manage these risks and operates under a Board-approved Enterprise-wide Risk Management Policy. This summary refers to significant risks identified at a whole of entity level relevant to Santos in 2014. It is not an exhaustive list of all risks that may affect the Company and they have not been listed in any particular order of importance.

#### Volatility in oil and gas prices

- Santos' business relies primarily on the production and sale of oil and gas products (including LNG) to a variety of buyers under a range of short- and long-term contracts. While the existence of oil-linked pricing means that downward movements in oil price have an effect on Santos' revenue, the Company also receives revenue of material value from non-oil-linked contracts. Crude oil prices are affected by numerous factors beyond the Company's control and have fluctuated widely historically.
- A drop in oil prices in Q4 2014 saw Santos take steps to adjust to the risks associated with a lower oil price operating environment. These included a focus on reduction of 2015 capital expenditure, driving operational efficiencies, reducing operating and production costs and continuing to prudently manage capital, thereby ensuring a strong balance sheet.

#### Project development risk

- Santos is investing a significant amount of capital in the GLNG Project. The GLNG Project and other projects may be delayed or be unsuccessful for many reasons including unanticipated economic, financial, operational, engineering, technical, environmental, contractual or political events. Delays, changes in scope, cost increases or poor performance outcomes pose risks that may impact the Company's financial performance.
- Santos has comprehensive project and risk management and reporting systems in place and the progress and performance of material projects is regularly reviewed by senior management and the Board.

#### Oil and gas reserves

- Estimations of recoverable oil and gas reserves and resources contain significant uncertainties, which are inherent in the reservoir geology, seismic and well data available, and other factors such as project development and operating costs, together with commodity prices.
- Santos has adopted a reserves management system that is consistent with the Society of Petroleum Engineers' Petroleum Resource Management System. The Company's reserves and resources estimations are subject to annual independent audits and evaluations.

#### Exploration risk

- Santos' future long-term prospects are also directly related to the success of efforts to replace existing oil and gas reserves as they are depleted through production. Exploration is a high risk endeavour subject to geological and technological uncertainties, and the failure to replace utilised reserves with additional proved reserves is a risk inherent in the oil and gas exploration and production industry.

# Directors' Report

## continued

- Santos employs a well-established exploration prospect evaluation methodology and risking process to manage the risks associated with exploration.

### **Regulatory risks**

- Santos' business is subject to various laws and regulations in each of the countries in which it operates. These relate to the development, production, marketing, pricing, transportation and storage of its products. A change in the laws, which apply to the Company's business or the way in which it is regulated, could have a material adverse effect on its business, results of operations and financial condition. For example, a change in taxation laws, environmental laws or the application of existing laws could also have a material effect on Santos.
- A number of Santos' interests are located within areas that are the subject of one or more claims or applications for native title determination. In Australia, compliance with the requirements 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.
- Santos continually monitors legislative and regulatory developments and engages appropriately with legislative and regulatory bodies to manage this risk.

### **Litigation risks**

- The nature of Santos' business means that it is likely to be involved in litigation or regulatory actions arising from a wide range of matters. Santos may also be involved in investigations, inquiries or disputes, debt recoveries, native title claims, land tenure and access disputes, environmental claims or occupational health and safety claims. Any of these claims or actions could result in delays, increase costs or otherwise adversely impact Santos' assets and operations, financial performance and future financial prospects.
- Santos' legal team actively monitors and manages potential and actual claims, actions and disputes.

### **Environmental and safety risks and social licence to operate**

- A range of health, safety and environmental risks exist within oil and gas exploration and production activities. Accidents, environmental incidents and real or perceived threats to the environment or the amenity of local communities could result in a loss of the Company's social licence to operate leading to delays, disruption or the shut-down of exploration and production activities.
- Santos has a comprehensive environmental, health and safety management system to mitigate the risk of incidents. The Company also has highly informed and dedicated community affairs teams that engage with local communities to ensure the communities issues are understood and addressed appropriately.

### **Joint-venture arrangements**

- Santos' business is carried out through joint ventures. The use of joint ventures is common in the exploration and production industry and serves to mitigate the risk and associated cost of exploration, production and operational failure. However, failure of agreement or alignment with joint venture partners, or the failure of third party joint venture operators, could have a material effect on Santos' business. The failure of joint venture partners to meet their commitments and share costs and liabilities can result in increased costs to Santos.
- Santos works closely with its joint venture partners in order to reduce the risk of misalignment in joint-venture activities.

### **Financial risks**

- Foreign currency risk

Santos is exposed to foreign currency risk principally through the sale of products denominated in US dollars, borrowings denominated in US dollars and euros, and foreign currency capital and operating expenditure.

- Credit risk

Credit risk for Santos represents a potential financial loss if counterparties fail to perform as contracted, and 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.

- Access to Capital and Liquidity

Santos' business and, in particular, the development of large-scale projects, relies on access to debt and equity financing. The ability to secure financing, or financing on acceptable terms may be adversely affected by volatility in the financial markets, globally or affecting a particular geographic region, industry or economic sector, or by a downgrade in its credit rating.

Santos' overall financial risk management strategy is to seek to ensure that Santos is able to fund its corporate objectives and meet its obligations to stakeholders. Financial risk management is carried out by a central treasury department which operates under Board-approved policies. The policies govern the framework and principles for overall financial risk management and cover specific financial risks such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments and liquidity management.

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## Material prejudice

As permitted by Sections 299(3) and 299A(3) of the *Corporations Act 2001*, Santos has omitted some information from the above Operating and Financial Review in relation to the Company's business strategy, future prospects and likely developments in operations and the expected results of those operations in future financial years. This is on the basis that such information, if disclosed, would be likely to result in unreasonable prejudice (for example, because the information is premature, commercially sensitive, confidential or could give a third party a commercial advantage). The omitted information typically relates to internal budgets, forecasts and estimates, details of the business strategy, and contractual pricing.

## Forward looking statements

This report contains forward-looking statements including statements of current intention, opinion and predictions regarding the Company's present and future operations, possible future events and future financial prospects. While these statements reflect expectations at the date of this report, they are, by their nature, not certain and are susceptible to change. Santos makes no representation, assurance or guarantee as to the accuracy or likelihood of fulfilling of any such forward-looking statements (whether express or implied), and except as required by applicable law or the ASX Listing Rules, disclaims any obligation or undertaking to publicly update such forward-looking statements.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

### Oil prices

The Brent crude oil price fell by almost 50% in the second half of 2014 and closed the year at approximately US\$56 per barrel, its lowest level in more than five years. In December 2014, Santos reduced its projected 2015 capital expenditure by 25% to \$2 billion in response to the lower oil price and the company continues to focus on reducing operating costs where possible. Santos is also considering asset divestments as part of its ongoing portfolio management, provided fair long-term value can be realised.

The underlying performance of Santos' business remains strong and the company remains well placed to benefit when oil prices recover.

## DIVIDENDS

On 20 February 2015, the Directors resolved to pay a fully franked final dividend of 15 cents per fully paid ordinary share on 25 March 2015 to shareholders registered in the books of the Company at the close of business on 27 February 2015 ("Record Date"). This final dividend amounts to approximately \$148 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 volume weighted-average market price over a period of 10 business days commencing on the second business day after the Record Date less a 1.5% discount ("DRP Price"). The last date to elect to participate in the DRP is 2 March 2015. The DRP will be fully underwritten.

A fully franked final dividend of \$146 million (15 cents per fully paid ordinary share) was paid on 26 March 2014 in respect of the year ended 31 December 2013, as disclosed in the *Annual Report 2013*. In addition, a fully franked interim dividend of \$195 million (20 cents per fully paid ordinary share) was paid to members on 30 September 2014. The DRP was in operation for both of these dividends and shares were allocated based on the DRP issue price that was advised to the market for each dividend.

## 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.

In January 2014, Santos NSW Pty Ltd was fined \$52,500 in the NSW Land and Environment Court regarding reporting failures in relation to coal seam gas operations in the Pilliga Forest, NSW, previously owned and operated by Eastern Star Gas (ESG). Santos acquired ESG in November 2011. The incidents that were the subject of the fines occurred before Santos took over ESG's operations and related to the Biblewindi water treatment plant, which Santos has since decommissioned and removed.

In addition, the consolidated entity received \$19,500 in fines relating to five infringement notices issued pursuant to the *Environmental Protection Act 1994* (Qld), 1 infringement notice issued pursuant to the *Protection of the Environment Operations Act 1997* (NSW), one Infringement Notice issued pursuant to the *Water Management Act 2000* (NSW) and 1 demand payment issued pursuant to the *Forestry Act 1959* (QLD). The consolidated entity undertook corrective measures in respect of the infringements to prevent re-occurrences.

The consolidated entity received one other environmental non-compliance instrument pursuant to the *Petroleum and Geothermal Energy Act 2000* (SA) for which it was not fined and no penalties were issued.

# Directors' Report

## continued

### 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 20 February 2015, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2014 financial year. The dividend has not been provided for in the 31 December 2014 financial statements. Refer to note 22 of the financial statements for dividends declared after 31 December 2014.

### 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:

<b>Date options granted</b>	<b>Expiry date</b>	<b>Issue price of shares<sup>1</sup></b>	<b>Number of options</b>
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	263,300
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	447,540
3 May 2008	2 May 2018	\$15.39	227,951
28 July 2008	27 July 2018	\$17.36	81,948
2 March 2009	2 March 2019	\$14.81	50,549
			3,992,038

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:

<b>Date SARs granted</b>	<b>Number of shares under unvested SARs</b>
3 May 2012	205,339
2 July 2012	379,359
3 January 2013	46,272
6 March 2013	1,612,285
1 July 2013	404,762
21 January 2014	32,041
7 March 2014	3,736,134
1 July 2014	474,674
	6,890,866

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 52 of this report and in note 29 to the financial statements.



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## SHARES ISSUED ON THE EXERCISE OF OPTIONS AND ON THE VESTING OF SARs

### Options

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2014 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan. No amounts are unpaid on any of the shares.

<b>Date options granted</b>	<b>Issue price of shares</b>	<b>Number of shares issued</b>
24 October 2006	\$10.48	99,400
		<hr/> 99,400

### Vested SARs

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2014 on the vesting of SARs granted under the Santos Employee Equity Incentive Plan ("SEEIP"), (formerly known as the Santos Employee Share Purchase Plan ("SESAP")) and ShareMatch Plan ("ShareMatch"). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

<b>Date SARs granted</b>	<b>Number of shares issued</b>
1 March 2011	202,532
4 July 2011	281,455
4 Jan 2012	34,570
2 July 2012	11,136
3 Jan 2013	4,917
6 March 2013	5,573
1 July 2013	12,590
21 January 2014	626
1 July 2014	7,343
	<hr/> 560,742

Since 31 December 2014, the following ordinary shares of Santos Limited have been issued on the vesting of SARs granted under the SEEIP and ShareMatch.

<b>Date SARs granted</b>	<b>Number of shares issued</b>
2 July 2012	4,622
3 January 2013	715
1 July 2013	4,638
21 January 2014	661
1 July 2014	6,376
	<hr/> 17,012

## 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 52 of this report and in notes 29–30 to the financial statements.

# Remuneration Report

The Directors of Santos Limited (referred to as “the Company” or “Santos”) present this Remuneration Report for the consolidated entity for the year ended 31 December 2014. 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.

The Remuneration Report outlines the Company's key remuneration activities in 2014 and remuneration information pertaining to the Company's Directors, Managing Director and Chief Executive Officer (“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.

## GLOBAL OIL PRICE ENVIRONMENT

The year 2014 was one of significant achievement for the Company including:

- meeting its production target of 54 mmbob, the highest production since 2010;
- meeting all its environmental performance, personnel safety and process safety targets;
- PNG LNG commencing production in April 2014 and shipping its first LNG cargo in May 2014, ahead of schedule;
- GLNG reaching 90% completion, and on track for first LNG in the 2nd half of 2015;
- production commencing from the Peluang gas project, Indonesia, ahead of schedule and on budget; and
- a significant gas-condensate discovery at the Lasseter-1 exploration well in WA-274-P, Browse Basin.

However, despite these significant achievements, the Company's share price declined significantly from a high of \$15.19 to \$8.25 as at 31 December 2014 (closing price of \$8.24 on 19 February 2015). This was due principally to the Brent crude oil price falling by almost 50% in the second half of 2014, closing the year at approximately US\$56 per barrel, its lowest level in more than five years. In response to the challenging economic environment, the Company announced on 11 December 2014 a reduction in its capital expenditure budget by 25%. In doing so, the CEO affirmed the Company's focus on restoring value for shareholders by driving operational efficiency, reducing costs, prudently managing capital and making sure our balance sheet remains strong.

In line with the severe downturn in the global oil price and corresponding loss of value for shareholders:

<b>FROZEN PAY</b>	Fixed pay in 2015 has been frozen at 2014 levels. No pay rises will be awarded except where appropriate on account of a change in role or responsibilities, or other exceptional circumstances.
<b>REDUCED STI AWARD</b>	The Company scored 78% against the Short-term incentive (STI) scorecard measures, however the Board, with the full support of the CEO, exercised its discretion and reduced the Company STI score to 58%. This has resulted in a lower STI payout to the CEO and Senior Executives.
<b>NIL LTI VESTING</b>	None of the performance tested Long-term incentives (LTI) awards granted to the CEO and Senior Executives vested.
<b>NIL DIRECTOR FEE INCREASE</b>	The Directors resolved to defer indefinitely a 4% average fee increase that would otherwise have taken effect from 1 October 2014.

The Board believes the 2014 pay outcomes were fair and appropriate, and reflect the alignment between shareholders' interests and the Company's remuneration policies and practices. It was a critical year in the transition from a high capital expenditure and transformational growth phase to operational delivery and realisation of value in 2014. It was appropriate to reward executives and employees with the reduced STI award for achievement of the operational and strategic targets set by the Board at the start of the year to ensure that they remain focused and motivated to achieve the strategic and operational targets for 2015. The Company's policy of rewarding performance fairly and reasonably was balanced by the reduction in the STI award, and the zero vesting from the performance-based LTI awards.

## 2014 REMUNERATION AT A GLANCE

**Total fixed remuneration (“TFR”)** The CEO and Senior Executives’ TFR increased by an average of 3.2% in the April 2014 annual salary review, in line with CPI.

**Short-term incentive** Although the actual score as assessed against the scorecard was 78%, the Board, with the full support of the CEO, exercised its discretion and reduced it to 58%. This has resulted in a reduced STI payout for the CEO and Senior Executives. The average STI award for 2014 was 58% of maximum, compared to 60% in 2013. The 78% actual score reflected the improved performance against operational targets with the key differences between the 2014 and 2013 performance summarised below.

	2013	2014
Personnel safety	Not achieved	Fully achieved
Production	Not achieved	Fully achieved
Project Delivery (in particular PNG LNG and GLNG)	Partially achieved	Fully achieved – PNG LNG commenced production ahead of schedule and GLNG is on track for first gas in the 2nd half of 2015

Full details of the operational and strategic STI targets and the Company’s performance against them is outlined in Table 3 on page 58.

**Performance-based Long-term incentive** The Company’s total shareholder return (“TSR”) for the period 1 January 2012 to 31 December 2014 of -30.9% ranked at the 20th percentile against the ASX 100. This failure to achieve superior shareholder returns resulted in none of the 2014 performance LTI grant vesting, and is the 4th year in a row that the performance-based LTIs have not vested. As a result the CEO and Senior Executives received no value from their performance-based LTI grants.

**Changes to STI and LTI programs in 2014** As outlined in last year’s report, changes to the STI and LTI program in 2014 included:

- increasing the maximum STI opportunity of Senior Executives in response to independent external benchmarking, which showed that the STI opportunity for the Company’s executives lagged that of their peers;
- deferring 30% of any STI award to the CEO and to Senior Executives for two years;
- extending the performance period applicable to LTI grants from three to four years;
- introducing the S&P Global 1200 Energy Index (“S&P GEI”) as a second relative TSR comparator group for 25% of the LTI grant in addition to the ASX 100 for the remaining 75%; and
- amending the LTI vesting scale so that vesting commences at the 51st percentile of relative TSR performance, instead of the 50th percentile.

**Senior Executives** In 2014, as a result of changes implemented in late 2013 to drive operational efficiencies and excellence, the Senior Executives took on the following increased responsibilities:

- AJ Seaton, Chief Financial Officer (“CFO”), took responsibility for Strategy & Corporate Planning and Legal;
- JH Anderson, Vice President (“VP”) Western Australia & Northern Territory (“WA & NT”), took responsibility for the Asia business (including the PNG LNG project);
- JL Baulderstone, VP Eastern Australia, took responsibility for LNG Marketing, Government & Public Affairs and the development of the Unconventional Gas business; and
- TJ Brown, VP Queensland, took responsibility for developing the operational capability of GLNG, phasing out the large Engineering, Procurement and Construction contractors, and transforming the Upstream unit into a highly efficient and capable gas infrastructure and supply delivery organisation.

In line with these increased responsibilities and in response to the independent external benchmarking, which showed that the STI opportunity for the Company’s executives lagged that of their peers, the maximum STI opportunity of the Senior Executives increased from 50% of TFR, to 85% of TFR. The Company chose to increase the “at risk” component of their remuneration, instead of the fixed component, to continue to incentivise high performance and strengthen the alignment between the executives’ interests and those of shareholders.

**Non-executive Directors** The Directors resolved to defer indefinitely a 4% average fee increase, which would otherwise have taken effect from 1 October 2014.

# Remuneration Report

## continued

### ACTUALLY REALISED REMUNERATION

The following table shows remuneration "actually realised" by the CEO and Senior Executives in relation to 2014:

- cash payments on account of salary and superannuation;
- cash STI awards earned in respect of 2014 performance; and
- Share Acquisition Rights ("SARs") granted as part of the LTI program, only if they vest, valued on the basis of their closing price on the date of vesting.

These amounts differ from the amounts reported in the remainder of this report, which are prepared in accordance with the Corporations Act and Accounting Standards. This is because the Accounting Standards require a value to be placed on "share-based payments" at the time of grant, and for that "accounting value" to be reported as remuneration, even though the CEO and Senior Executives may ultimately NOT realise any actual value from the "share-based payments" (e.g. because the performance conditions are not satisfied, as was the case for the 2012–2014 TSR LTI award tested at the end of 2014).

The Company believes that the additional information provided in Table 1 is useful to investors. The Productivity Commission, in its Report on Executive Remuneration in Australia, 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: Actually Realised Remuneration (non-IFRS)**

	Year	Fixed Pay <sup>1</sup>	Cash STI <sup>2</sup>	LTI <sup>3</sup>	Other <sup>4</sup>	Total
		\$	\$	\$	\$	\$
DJW Knox MD & CEO	2014	2,421,787	983,200	–	–	3,404,987
	2013	2,351,250	1,410,750	–	–	3,762,000
JH Anderson VP Asia and WA&NT	2014	706,830	241,500 <sup>5</sup>	86,226	45,000	1,079,556
	2013	680,730	200,500	78,685	–	959,915
JL Baulderstone VP Eastern Australia	2014	768,947	253,700 <sup>5</sup>	92,694	26,131	1,141,472
	2013	744,968	225,100	334,183	–	1,304,251
TJ Brown VP Queensland	2014	718,786	280,400 <sup>5</sup>	84,350	17,720	1,101,256
	2013	695,301	262,700	66,812	136,441	1,161,254
AJ Seaton CFO	2014	764,596	256,800 <sup>5</sup>	72,338	–	1,093,734
	2013	738,098	231,300	69,734	–	1,039,132

1. "Fixed Pay" comprises base salary and superannuation.

2. 70% of the STI award for 2014 performance will be paid in cash and this is the amount reported in the "Cash STI" column above. The 30% balance will be awarded as Deferred STI shares subject to a two-year service-based period, placing a greater focus on "at risk" deferred remuneration. All STI for 2013 performance was paid in cash.

3. For the value of share-based payments calculated in accordance with the Accounting Standards, see Table 7 "2013 and 2014 Senior Executive remuneration details" on page 66.

In 2014 the only SARs that vested related to the final grant of service based SARs. For the 4th year running none of the performance-based SARs vested. The figures in this "LTI" column show:

- for 2014, the pre-tax vested value of service-based SARs that vested on 11 March 2014 at a share price of \$14.00. No 2012–2014 performance-based SARs vested and no Options were exercised in 2014.
- for 2013, the pre-tax vested value of service-based SARs that vested on 4 March 2013 at a share price of \$13.40. No 2011–2013 performance-based SARs vested and no Options were exercised in 2013.

4. "Other" comprises ad hoc payments treated as remuneration, such as assignment and mobilisation allowances.

5. JH Anderson, JL Baulderstone, TJ Brown and AJ Seaton received higher STI awards than 2013 due to the increase in their roles and responsibilities (see page 53) and the increased maximum STI opportunity as a result of independent external benchmarking, which showed that the STI opportunity for the Company's executives lagged that of their peers.

The total remuneration amounts determined in accordance with the requirements of the Corporations Act and Accounting Standards are set out in Table 7 "2013 and 2014 Senior Executive remuneration details" (see page 66).

## REMUNERATION POLICY AND FRAMEWORK

The Company's remuneration practices have been designed to promote long-term growth in shareholder returns by 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 and how these are implemented through the Company's remuneration framework.

ATTRACTING AND RETAINING TALENTED AND QUALIFIED EXECUTIVES	ENCOURAGING EXECUTIVES TO STRIVE FOR SUPERIOR PERFORMANCE	ALIGNING EXECUTIVE AND SHAREHOLDER INTERESTS
<ul style="list-style-type: none"> <li>Remuneration levels are market-aligned against similar roles in comparable companies.</li> </ul>	<ul style="list-style-type: none"> <li>A significant component of remuneration is "at risk" under short-term and long-term incentive plans. Value to the executive is dependent on meeting challenging targets.</li> <li>Consistently high-performing executives are also rewarded through higher base remuneration.</li> <li>Short-term incentives are aligned to key performance milestones including safety, environment, production, profitability, project delivery and reserves development.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term incentives and deferred short-term incentives are delivered through equity instruments linked to Santos ordinary shares.</li> <li>Vesting of performance-based long-term incentives are contingent on Santos' performance relative to the ASX100 and the S&amp;P Global 1200 Energy Index as measured by the relative total shareholder return at the end of the four-year performance period.</li> <li>Long-term incentives and deferred short-term incentives are "at risk" and executives cannot hedge equity instruments that are invested or subject to restrictions. These incentives are also subject to "clawback".</li> </ul>

### Benchmarking

Fixed pay, STI and LTI are set by reference to market comparable data in order to ensure that the Company is competitive and able to attract and retain the skills it needs for business operations and project delivery. In relation to Senior Executives, the Company has reference to remuneration levels for similar roles in a benchmarking group comprised of peer companies in the oil and gas sector, and closely related mining and engineering sectors.

### At Risk Remuneration

#### **STI ("at risk" because the amount earned (if any) depends on the extent to which targets are met)**

The Company sets a range of short-term operational and financial targets to be achieved annually. These 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, and are reviewed annually by the Board to ensure that they align with business strategy for the year. Table 3 on page 58 outlines the short-term objectives used in 2014 to measure performance for STI purposes and the reasons why these objectives were chosen.

The Company's policy is that 70% of any STI award for the CEO and Senior Executives is paid in cash and the remaining 30% is paid in "Deferred STI shares". These are ordinary shares that will only vest at the end of a two-year deferral period. If a Senior Executive resigns during this period, they will ordinarily forfeit their Deferred STI shares. This promotes a focus on long-term performance as the value of the shares is linked to the ongoing performance of the Company.

Further details are provided in relation to the STI program on page 70.

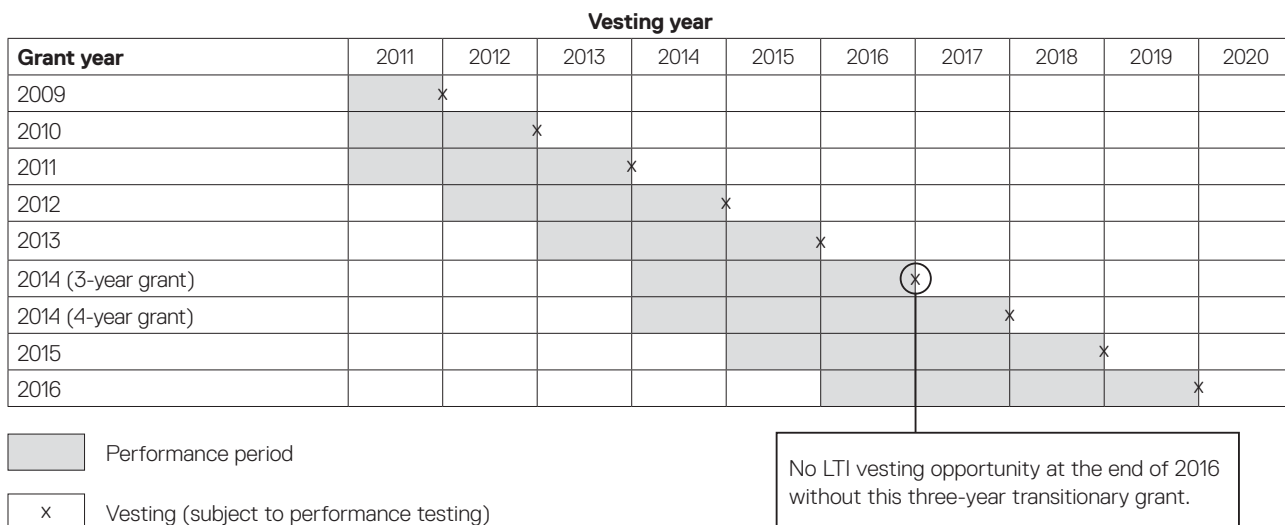
# Remuneration Report

## continued

**LTI (“at risk” because the amount earned (if any) depends on the extent to which vesting conditions are met)**

In order to align the interests of executives with the creation of long-term shareholder value, the Company awards SARs that only vest if the performance conditions are met at the end of the performance period.

In 2014, the performance period was extended from three to four years to further align executives' interests with the creation of long-term shareholder value. This extension would have resulted in a 'gap year' as no LTI awards would have become due for performance testing and potential vesting at the end of 2016. In order to address the 'gap year', a transitional LTI grant with a three-year performance period was made during 2014 at the same time as the four-year grant. This is illustrated in the diagram below.



Although the three-year transitional grant will not result in the executives having more than one opportunity for LTI to vest in each year, the Accounting Standards require a value to be placed on the SARs awarded as part of the transitional grant and reported as remuneration. As a result, the value of the SARs and “share-based payments” in Table 7 on page 66 is higher than the previous year due to the valuation of the transitional grant.

The higher amount of “share based payments” in Table 7 on page 66 accounts for much of the apparent increase in the CEO's and Senior Executives' remuneration against 2013 levels, even though the transitional grant will not necessarily translate into actual value for the Executives as explained in Table 1 on page 54 the “Actually Realised Remuneration (non-IFRS)” table, and the annual LTI opportunity for the CEO and Senior Executives has not changed.

Other changes to the LTI program in 2014 included:

- introducing the S&P GEI as a second relative TSR comparator group for 25% of the grant in addition to the ASX 100 for the remaining 75%; and
- amending the LTI vesting scale so that vesting commences at the 51st percentile of relative TSR performance, instead of at the 50th percentile.

Further details are provided in relation to the LTI program on page 71.

**Clawback**

The share plan rules give the Company the discretion to lapse or forfeit unvested LTI and deferred STI awards, as well as claw back any vested shares or cash paid to an executive if the executive has acted dishonestly, fraudulently or in breach of material obligations. In 2014 the plan rules were broadened so that this discretion is also triggered if there is a material misstatement or omission in the accounts of a group company or there are events that require re-statement of the group's financial accounts in circumstances where an LTI or deferred STI award would otherwise have been granted or would have vested.

This is in addition to any rights the Company has under the plan rules and general legal principles to seek to recover payments made in error.

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## 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](http://www.santos.com). In 2014, the Committee comprised the following independent Non-executive Directors:

- GJW Martin (Committee Chair)
- RA Franklin
- KC Borda (Board Chairman)
- JS Hemstritch

The CEO attends the 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 KMPs are free from undue influence by management.

In 2013, Aon Hewitt ("Aon") was approved by the Committee as a remuneration consultant and was engaged in accordance with the Board-approved protocol to provide remuneration recommendations. The terms of Aon's engagement were finalised by the Chairman of the Committee and all remuneration recommendations were provided directly to the Committee Chair.

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

The following table shows the fees payable to Aon in respect of 2014.

**Table 2: Remuneration consultants**

<b>Remuneration consultant</b>	<b>Advice and/or services provided</b>	<b>Fees</b>
Aon Hewitt	Remuneration recommendations (CEO and Senior Executive Remuneration)	\$48,972
	Other remuneration-related work (benchmarking and market practice data)	\$29,736

# Remuneration Report

## continued

### Link between performance and remuneration

#### STI

The Company's performance against the 2014 STI scorecard as assessed by the Board resulted in a score of 78% however the Board, with the full support of the CEO, exercised its discretion and reduced the Company STI score to 58%. Table 3 below summarises the short-term objectives in the scorecard, their rationale and the Company's performance against them.

**Table 3: STI scorecard**

	STI measure	Rationale	Performance	Score
EHS (20%)	<b>Personnel safety</b> Measured by the number of lost-time injuries per million hours worked.	The Company takes safety and the environment very seriously. The integrated targets represent the Company's holistic approach aimed at reducing the number of injuries to employees and contractors, the likelihood of low frequency but high impact incidents, such as fires and explosions, and the incidence of significant environmental incidents. In addition, ongoing maintenance to facilities, plant and equipment is aimed at providing a safe work environment.	Santos' safety record in 2014 exceeded all targets with a Lost Time Injury Frequency Rate of 0.67, Safety Critical Maintenance of 99% and no environmental incidents of moderate or greater consequence.	19%
	<b>Process safety</b> 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 in enclosed and open areas.			
	<b>Environmental incidents</b> Measured by the number of environmental incidents of moderate or greater consequence.			
Profitability (40%)	<b>Production</b> <b>Underlying net profit after tax ("NPAT")</b>	Production is critical to the Company's profitability, which is a key measure of the Company's overall performance and underpins annual earnings and cash flow for distribution to shareholders and for re-investment for future growth.  For 2014, there was an increased weighting applied to profitability to recognise that prior year's growth projects were now coming on-line and would be captured in the production and NPAT metrics.	Production of 54.1 mmbœ was in line with the 2014 target and was 6% above 2013.  2014 Underlying NPAT exceeded target.	35%



	<b>STI measure</b>	<b>Rationale</b>	<b>Performance</b>	<b>Score</b>
<b>Growth (35%)</b>	<p><b>Project delivery</b></p> <p>Progress against milestones in key projects (including GLNG, PNG LNG, Bonaparte LNG, Cooper Infrastructure Expansion program, Peluang and Dua) are identified and measured.</p>	<p>Project delivery underpins the future production, growth and profitability of the Company. 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.</p>	<p>GLNG is &gt;90% complete and on track for 1st LNG in the 2nd half of 2015. Key 2014 achievements included completion of all major gas field process facilities, completion of the 420-kilometre gas transmission pipeline, last placement of the 111 LNG train modules, completion of the LNG loading jetty and hydrotesting of both LNG storage tanks.</p>	24%
	<p><b>Reserves replacement &amp; resource add</b></p> <p>The volume of proven and probable (2P) reserves and contingent resources (2C) added by the Company organically (through exploration and exploitation efforts as opposed to acquisitions) compared to the volume of reserves used in the current year's production.</p>	<p>The Company's ability to replace the reserves it uses in production and to convert contingent resources into proven and probable reserves is critical to the long-term future of the Company.</p>	<p>Other development project targets were also achieved with PNG LNG online three months ahead of schedule, and Peluang and Dua online as planned. Bonaparte LNG did not proceed to Front End Engineering Design due to a review of alternative development options.</p> <p>While the reserve replacement and resource add targets were not achieved in 2014, Santos still maintains a high level of 2P reserve to production ratio equivalent to 23 years at the 2014 production rate of 54 mmmboe.</p>	
<b>Other value add (5%)</b>	<p><b>Other value add</b></p> <p>To capture any other achievements that were not covered by the rest of the specific objectives.</p>	<p>The Company wishes to incentivise and reward high performance even though some achievements may not be captured in the scorecard.</p>	<p>Having regard to the loss in shareholder value due to the global oil price decline, the Board decided on balance not to allocate any score for this item.</p>	0%
			<b>Total</b>	<b>78%*</b>

\*reduced to 58% by Board discretion

# Remuneration Report

## continued

### LTI

The following figure outlines Santos' TSR performance for the last 10 years.

**Figure 1: 10-year company performance history**

#### TSR OF SANTOS AND S&P/ASX 100 2005–2014

Index Level



Since 2008 and up to late-2014, Santos' share price performed well in comparison to the ASX 100 Index. However, in line with the global oil price decline of more than 50% in 2014, the Company's share price declined from a high of \$15.19 to \$8.25 as at 31 December 2014. This is reflected in the Company's TSR for the period 1 January 2012 to 31 December 2014 of -30.9% ranked at the 20th percentile against the ASX 100.

As a result, none of the performance-based SARs granted to the CEO and Senior Executives as part of the 2012–2014 LTI grant vested.

This reflects the alignment of the LTI program with the interests and long-term returns of shareholders.

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 70 and 71.

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 2010–2014**

	2010	2011	2012	2013	2014
Injury frequency					
total recordable case frequency rate	3.3	3.3	5.0	3.8	3.5
lost time injury frequency rate	0.9	1.2	0.7	0.6	0.67
Production (mmbobe)	49.9	47.2	52.1	51.0	54.1
Reserve replacement rate – 2P organic (%)	330	173	136	3	0
Net profit/(loss) after tax \$m	498	751	518	516	(935)
Dividends per ordinary share (cents)	42	30	30	30	35
Share price – closing price on first trading day of year	\$14.29	\$13.19	\$12.34	\$11.11	\$14.63 <sup>1</sup>
TSR percentile ranking relative to ASX100 –					
3-year performance to 31 December	87th	39th	33rd	46th	20th
LTI performance (% vesting) –					
shown against final year of performance period	83%	0%	0%	0%	0%
Average STI paid (% of maximum)	78%	69%	68%	60%	58% <sup>2</sup>

1. Closing share price at 31 December 2014 was \$8.25.

2. Whilst the 2014 company performance result was 78%, the actual STI payout was reduced by the Board to 58%.

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## CEO REMUNERATION

The People & Remuneration Committee directly engaged and received independent external advice on Mr Knox's remuneration package, which was benchmarked against the remuneration paid to CEOs of peer companies in the oil and gas sector and closely related mining and engineering sectors. This advice was received and considered by the Committee and the Board without the CEO or management being present.

Details of the CEO's 2014 remuneration arrangements are provided below in this overview of earnings:

### Fixed remuneration

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What was the increase in the CEO's fixed remuneration?	In 2014 Mr Knox's TFR, including base salary and superannuation, increased by 3.0% from \$2,351,250 to \$2,421,787. In 2013 the CEO received no TFR increase.
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### Short-term incentives

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What was the maximum STI the CEO could receive?	Mr Knox has a maximum potential STI opportunity of 100% of his TFR, \$2,421,787.
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How is performance assessed for STI purposes?	<p>Mr Knox's performance is assessed by the Board against:</p> <ul style="list-style-type: none"><li>the Company scorecard (see Table 3 "STI scorecard" on page 58) for 75% of his award; and</li><li>for the remaining 25%, a set of additional goals set by the Board at the beginning of the year, which may include the long-term vision of the Company, specific strategic objectives and organisational development.</li></ul> <p>Mr Knox's interests are therefore aligned with the Company's and shareholders' interests.</p>
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How much STI will the CEO receive in respect of 2014 performance?	<p>Following assessment of Mr Knox's performance, and recommendation from the Committee, which took into account the reduced Company STI score of 58%, the Board determined that Mr Knox's STI for 2014 performance would also be reduced to 58% of maximum. This has a total value equivalent to \$1,404,600, 70% (\$983,200) will be paid in cash and the balance as Deferred STI shares.</p> <p>The difference between the actual STI determined by the Board and the CEO's maximum STI potential will not be carried forward.</p>
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### Long-term incentives

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How much LTI was granted to the CEO in 2014?	<p>In accordance with the approval of shareholders at the May 2014 Annual General Meeting ("AGM"), Mr Knox was granted:</p> <ul style="list-style-type: none"><li>277,665 SARs with a three-year performance period from 1 January 2014 to 31 December 2016; and</li><li>283,264 SARs with a four-year performance period from 1 January 2014 to 31 December 2017.</li></ul> <p>The grants were issued on the terms of the annual LTI program outlined on page 71, with the same performance conditions.</p>
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What proportion of prior year LTI grants vested in 2014?	<p><b>Performance Award</b></p> <p>Nil. For the 4th consecutive year, the performance-based LTI award did not vest.</p> <p>The CEO's annual LTI grant for 2011, with a performance period 1 January 2011 to 31 December 2013, was tested in early 2014. As the performance hurdle was not achieved, there was no vesting and the entire grant was forfeited.</p> <p>The testing of the 2012 LTI grant with a performance period 1 January 2012 to 31 December 2014 occurred in early 2015. As the performance hurdle was not achieved, again there was no vesting and the entire grant was forfeited.</p>
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# Remuneration Report

## continued

### 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. Under that approval on cessation of Mr Knox's employment, the Board has discretion to vest or leave on foot any unvested deferred STI.

### SENIOR EXECUTIVE REMUNERATION

#### Overview of 2014 earnings

##### Fixed remuneration

What was the increase in Senior Executives' fixed remuneration?	Senior Executives' TFR increases as part of the annual 2014 salary review were between 3.0%–3.5%. Remuneration details for each individual are provided in Table 7: "2013 and 2014 Senior Executive remuneration details" on page 66.
How were remuneration increases determined?	Senior Executives' TFR increases were determined with reference to the market for similar roles, taking into account individuals' skills, experience and performance, in peer companies in the oil and gas sector and closely related mining and engineering sectors.

##### Short-term incentives

What was the maximum STI Senior Executives could receive?	As outlined in last year's report, the maximum STI opportunity of Senior Executives was increased, in response to independent external benchmarking that showed that the STI opportunity for the Company's executives lagged that of their peers. All Senior Executives had a maximum STI opportunity of 85% of their TFR in 2014.
How were STI payments calculated?	To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 60% of their STI was based on Company performance. The remaining 40% was based on each executive's individual performance against business; operational; financial and qualitative objectives such as specific business units Environment, Health and Safety, and production and profitability targets as well as leadership and staff development measures.
How was performance assessed for STI purposes?	Company performance is assessed by the Committee against the overall Company annual scorecard (see Table 3: "STI scorecard" on page 58 and the section "Detailed Information about Linking Company Performance to Incentives" on pages 70 and 71).  The individual performance of Senior Executives is assessed by the CEO against targets set within their own area of responsibility. The targets may consist of delivery of key project milestones and production and cost targets. The CEO's assessment is reviewed and endorsed by the Committee.
How much STI will Senior Executives receive in respect of 2014 performance?	The Company's performance against the 2014 STI scorecard as assessed by the Board resulted in a score of 78%. However the Board, with the full support of the CEO, exercised its discretion and reduced the Company STI score to 58%.  STI awards made to individual Senior Executives range from 55% to 65% of maximum, depending on each executive's individual performance assessment (see Table 7: "2013 and 2014 Senior Executive remuneration details" on page 66).  The difference between the actual STI endorsed by the Committee and maximum STI potential will not be carried forward.

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## Long-term incentives

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How much LTI was granted to Senior Executives in 2014?	In 2014, all Senior Executives received an LTI award equivalent to 60% of TFR for the three- and four-year performance periods ending on 31 December 2016 and 31 December 2017, respectively. As explained in the 'Remuneration Policy and Framework' section on page 56, the transitional three-year grant was made to avoid a 'gap' in annual vesting opportunity caused by the shift to four-year performance periods.
What are the performance conditions?	Vesting is based on the Company's relative TSR performance over the relevant performance period. The comparator group for 75% of each grant is the ASX 100 and the comparator group for the remaining 25% is the S&P GEI. See the vesting schedule provided in the section "Detailed Information about Linking Company Performance to Incentives" on pages 70 and 71.
What proportion of prior year LTI grants vested in 2014?	<p><b>Performance Award</b></p> <p>Nil. For the 4th consecutive year, the performance based LTI award did not vest.</p> <p>The 2011 LTI grant, with a performance period 1 January 2011 to 31 December 2013, was tested in early 2014. As the performance hurdle was not achieved, there was no vesting of the grant and this was forfeited.</p> <p>The testing of the 2012 LTI grant, with a performance period 1 January 2012 to 31 December 2014, occurred in early 2015. As the performance hurdle was not achieved, again there was no vesting of the grant and this was forfeited.</p> <p><b>Deferred Award</b></p> <p>Grants of deferred rights awarded in 2011 vested on 11 March 2014 and are shown in Table 1: "Actually Realised remuneration (non-IFRS)" on page 54, Table 7: "2013 and 2014 Senior Executive remuneration details" on page 66 and Table 9: "2014 SARs outcomes for Senior Executives" on page 67. Since 2012, the Company has only awarded performance-based SARs as LTI. Accordingly, there are no further deferred rights on foot.</p>

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## Service agreements and termination entitlements

The Company has entered into service agreements with the Senior Executives. For all existing Senior Executives, the service agreements are ongoing until termination by the Company upon giving 12 months' notice, or by the Senior Executive giving six months' notice. For new Senior Executives, the periods have been reduced so that employment may be terminated by both the Company and 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 Senior Executive would have received over the notice period. All Senior Executives' service agreements may be terminated immediately for cause, whereupon no payments in lieu of notice or other termination payments are payable under the agreement.

# Remuneration Report

## continued

### AT-RISK REMUNERATION SUMMARY

#### At-risk remuneration

A higher proportion of the CEO's total remuneration package is "at risk" relative to that of the Senior Executives because the CEO has the greatest scope to personally influence the Company's performance.

**Table 5: Relative weightings of remuneration components for CEO and Senior Executives<sup>1</sup>**

		Fixed remuneration	At-risk Remuneration		Total
			STI <sup>2</sup>	LTI	
CEO	2014	33.33%	33.33%	33.33%	100%
	2013	33.33%	33.33%	33.33%	100%
Senior Executives	2014	40.80%	34.70%	24.50%	100%
	2013	47.60%	23.80%	28.60%	100%

<sup>1</sup> These figures do not reflect the actual relative value derived by the Executive 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.

<sup>2</sup> Also includes deferred STI component.

### NON-EXECUTIVE DIRECTOR REMUNERATION

#### Remuneration policy

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

SECURING AND RETAINING TALENTED, QUALIFIED DIRECTORS	PROMOTING INDEPENDENCE AND IMPARTIALITY	ALIGNING DIRECTOR AND SHAREHOLDER INTERESTS
<p>Fee levels are set with regard to:</p> <ul style="list-style-type: none"> <li>time commitment and workload;</li> <li>the risk and responsibility attached to the role;</li> <li>experience and expertise; and</li> <li>market benchmarking.</li> </ul>	<ul style="list-style-type: none"> <li>Fee levels do not vary according to the performance of the Company or individual Director performance from year to year.</li> <li>Santos' market capitalisation is considered in setting the aggregate fee pool and in benchmarking of Board and Committee fees.</li> </ul>	<ul style="list-style-type: none"> <li>Santos encourages its Non-Executive directors to build a long-term stake in the Company and established a Minimum Shareholding Requirement of 15,000 shares for all Non-executive Directors within three-years.</li> <li>Non-executive Directors can acquire shares through acquisition on market during trading windows.</li> </ul>

#### Maximum aggregate amount

Total fees paid to all Non-executive Directors in a year, including Board Committee fees, must not exceed \$2,600,000, being the amount approved by shareholders at the 2013 AGM.

Directors may also be paid additional fees for special duties or exertions, and are entitled to be reimbursed for all business-related expenses. No additional fees were paid during the year.

#### Remuneration

The Directors resolved to defer indefinitely a 4% average fee increase, which would otherwise have taken effect from 1 October 2014.

Remuneration details for the Non-executive Directors are provided in Table 11: "2013 and 2014 Non-executive Director remuneration details" on page 69.

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## Fee structure

**Table 6: Non-executive Directors' fees per annum<sup>1</sup>**

	<b>Chair<sup>2</sup></b>	<b>Member</b>
Board	\$503,550	\$167,550
Audit & Risk 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 Chair of the Board does not receive any additional fees for serving on or chairing any Board committee. The Chair of the Board is the Chair 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).



# Remuneration Report

## continued

### DETAILED REMUNERATION INFORMATION

Table 7 presents summarised details of the remuneration for the CEO and Senior Executives in 2013 and 2014 as required under the Corporations Act.

**Table 7: 2013 and 2014 Senior Executive remuneration details**

	Short-term employee benefits		Post-employment		Share-based payments <sup>1</sup>				Other long-term benefits (long service) <sup>5</sup>		Total "at risk"		Total in SARs and options		
	Base salary	STI <sup>2</sup>	Other <sup>3</sup>	Superannuation contributions	SARs	Deferred <sup>4</sup> shares	Options	Cash based share-based payments <sup>5</sup>	Termination	Total	Total	%	Total	%	
DJW Knox	2014	2,403,508	983,200	–	18,279	3,131,544	143,705	–	–	3,275,249	–	102,466	6,782,702	63%	46%
	2013	2,334,127	1,410,750	–	17,123	2,422,402	–	–	–	2,422,402	–	79,266	6,263,668	61%	39%
JH Anderson	2014	688,551	241,500	45,000	18,279	455,981	34,406	–	–	490,387	–	19,483	1,503,200	49%	30%
	2013	663,607	200,500	–	17,123	346,074	–	–	–	346,074	–	32,220	1,259,524	43%	27%
JL Baulderstone	2014	750,668	253,700	26,131	18,279	492,284	36,143	–	–	528,427	–	32,790	1,609,995	49%	31%
	2013	727,845	225,100	–	17,123	382,722	–	–	–	382,722	–	28,919	1,381,709	44%	28%
TJ Brown	2014	700,507	280,400	17,720	18,279	455,263	39,948	–	–	495,211	–	20,603	1,532,720	51%	30%
	2013	678,178	262,700	136,411	17,123	338,234	–	–	–	338,234	–	45,390	1,478,036	41%	23%
PJ Cleary <sup>7</sup>	2014	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
	2013	612,863	173,811	–	16,024	358,618	–	–	–	358,618	–	8,924	1,170,240	45%	31%
MEJ Eames <sup>8</sup>	2014	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
	2013	640,263	171,281	160,094	16,024	337,495	–	–	–	337,495	–	18,063	1,343,220	38%	25%
AJ Seaton	2014	746,317	256,800	–	18,279	494,342	36,585	–	–	530,927	–	20,414	1,572,737	50%	31%
	2013	720,975	231,300	–	17,123	363,110	–	–	–	363,110	–	23,384	1,355,892	44%	27%

1. In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the value of the equity-linked compensation determined as at the grant date and progressively expensed over the vesting period. The amount allocated as remuneration is not relative to or indicative of the actual benefit (if any) that the Senior Executives may ultimately realise should the equity instruments vest. The value of equity-linked compensation was determined in accordance with AASB 2 Share-based payments applying the Monte Carlo simulation method. Details of the assumptions underlying the valuation are set out in note 29 to the financial statements.

2. This amount represents the cash portion of the STI performance award for 2014, which will be paid in April 2015.

3. "Other" comprises ad hoc payments treated as remuneration, such as assignment and mobilisation allowances.

4. This amount represents a proportion of the estimated value of the deferred STI, determined in accordance with the requirements of AASB 2 Share-based Payments and progressively expensed over a three-year vesting period being the year of performance and a two-year period of service to which the grant relates. The amount allocated as remuneration is not relative to, or indicative of, the actual benefit (if any) that the Senior Executives may ultimately realise should the equity instruments vest. The value has been calculated in accordance with AASB 2 Share-based Payments based on an estimate of the fair-value of the equity instruments.

5. The number of SARs and value of "Share-based payments" has increased compared to 2013 due to the three-year transitional LTI grant and the introduction of deferred STI into shares, see explanation on pages 55 and 56.

6. "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.

7. Mr Cleary ceased to be a KMP on 8 December 2013.

8. Mr Eames ceased to be a KMP on 8 December 2013.

Table 8 contains details of the number and value of SARs granted, vested and lapsed for Mr Knox in 2014. Mr Knox did not have any options granted, vesting or lapsing in 2014. Mr Knox did not exercise any options in 2014.

**Table 8: 2014 SARs outcomes for CEO**

	Granted		Vested		Lapsed	
	Number	Maximum value <sup>1</sup>	Number	Value	Number	Value <sup>2</sup>
SARs	560,929 <sup>3</sup>	4,648,584 <sup>3</sup>	–	–	(193,935)	(1,599,964)

1. Maximum value represents the fair-value of LTI grants received in 2014 determined in accordance with AASB 2 Share-based payments. The fair-values of the grants as at the grant date of 29 May 2014 were \$8.03 and \$8.28 (weighted \$8.09) for the transitional three-year grants, and \$8.41 and \$8.70 (weighted \$8.48) for the four-year grants. Details of the assumptions underlying the valuations are set out in note 29 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. The value of performance based SARs in respect of the performance period ended 31 December 2014 at the closing share price on that date of \$8.25, for which nil vesting was effected by the Board on 17 February 2015.

3. The number and fair-value of the SARs granted in 2014 is higher than previous years due to the transitional three-year grant, see explanation at page 56.

Table 9 contains details of the number and value of SARs granted, vested and lapsed for Senior Executives in 2014. No Senior Executive had any options granted, vesting or lapsing in 2014. No options were exercised in 2014.

**Table 9: 2014 SARs outcomes for Senior Executives**

	Granted		Vested		Lapsed	
	Number <sup>1</sup>	Maximum value <sup>2</sup>	Number	Value <sup>3</sup>	Number	Value <sup>4</sup>
JH Anderson	98,948 <sup>5</sup>	695,046 <sup>5</sup>	6,159	86,226	(40,274)	(332,261)
JL Baulderstone	107,719 <sup>5</sup>	756,656 <sup>5</sup>	6,621	92,694	(42,737)	(352,580)
TJ Brown	100,740 <sup>5</sup>	707,634 <sup>5</sup>	6,025	84,350	(38,536)	(317,922)
AJ Seaton	107,110 <sup>5</sup>	752,379 <sup>5</sup>	5,167	72,338	(44,302)	(365,492)
<b>Total</b>	<b>414,517</b>	<b>2,911,715</b>	<b>23,972</b>	<b>335,608</b>	<b>(165,849)</b>	<b>(1,368,255)</b>

1. The grants made to the Senior Executives during the year constitute their full LTI awards for the three- and four-year performance periods ending on 31 December 2016 and 31 December 2017, respectively.

2. Maximum value represents the fair-value of the SARs as at the grant date of 9 April 2014, determined in accordance with AASB 2 Share-based payments. The fair values of the grants as at the grant date of 9 April 2014 were \$6.55 and \$6.68 (weighted \$6.65) for the transitional three-year grants and \$7.37 and \$7.40 (weighted \$7.39) for the four-year grants. 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 29 to the financial statements. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil in all cases.

3. These figures show the value of service-based SARs, which vested on 11 March 2014 at a closing share price of \$14.00.

4. These figures show the value of performance-based SARs in respect of the performance period ended 31 December 2014 at the closing share price on that date of \$8.25, for which nil vesting was effected by the Board on 17 February 2014.

5. The number and fair-value of the SARs granted in 2014 is higher than previous years due to the transitional three-year grant, see explanation at page 56.

# Remuneration Report

## continued

Table 10 outlines the LTI grants that were tested or still in progress in 2014.

**Table 10: LTI grants**

Grant year	Grant type	Vesting condition(s)	Performance/ vesting period	Status
2011	Performance award	Relative TSR performance against ASX 100 companies	1 January 2011 to 31 December 2013	Testing completed. Resulted in 0% of the grant vesting.
	Deferred award	Continuous service	2 March 2011 to 1 March 2014	Vested in full to Senior Executives who met the service condition
2012	CEO Strategy grant	See note 29(d) to the financial statements	See note 29(d) to the financial statements	In progress
	Performance award	Relative TSR performance against ASX 100 companies	1 January 2012 to 31 December 2014	Testing completed. Resulted in 0% of the grant vesting.
2013	Performance award	Relative TSR performance against ASX 100 companies	1 January 2013 to 31 December 2015	In progress
2014	Three-year transitional Performance award	Relative TSR performance against ASX 100 companies (75%) and S&P GEI (25%)	1 January 2014 to 31 December 2016	In progress
	Four-year Performance award	Relative TSR performance against ASX 100 companies (75%) and S&P GEI (25%)	1 January 2014 to 31 December 2017	In progress

Full details of all grants made prior to 2014 can be found in note 29 to the financial statements and in prior remuneration reports.

Details of the fees and other benefits paid to Non-executive Directors in 2014 are set out in Table 11. No share-based payments were made to any Non-executive Directors.

**Table 11: 2013 and 2014 Non-executive Director remuneration details**

Director	Year	Short-term benefits			Retirement benefits		Total
		Directors' fees (incl. Committee Fees)	Fees for special duties or exertions	Other	Superannuation <sup>10</sup>	Share-based payments	
		\$	\$	\$	\$	\$	\$
YA Allen <sup>1</sup>	2014	35,314	–	–	3,355	–	38,669
	2013	–	–	–	–	–	–
KC Borda <sup>2</sup>	2014	503,046	–	–	18,279	–	521,325
	2013	382,727	–	–	17,122	–	399,849
PR Coates <sup>3</sup>	2014	186,517	–	–	17,492	–	204,009
	2013	286,249	–	–	16,410	–	302,659
KA Dean <sup>4</sup>	2014	213,046	–	–	18,279	–	231,325
	2013	223,584	–	–	17,122	–	240,706
RA Franklin	2014	222,066	–	–	1,259	–	223,325
	2013	211,102	–	–	1,325	–	212,427
H Goh <sup>5</sup>	2014	203,623	–	–	786	–	204,409
	2013	183,790	–	–	680	–	184,470
RM Harding <sup>6</sup>	2014	72,387	–	–	6,715	–	79,102
	2013	203,568	–	–	17,122	–	220,690
JS Hemstritch <sup>7</sup>	2014	225,046	–	–	18,279	–	243,325
	2013	198,584	–	–	17,122	–	215,706
GJW Martin <sup>8</sup>	2014	240,046	–	–	18,279	–	258,325
	2013	217,658	–	–	17,122	–	234,780
SD Sheffield <sup>9</sup>	2014	166,537	–	–	600	–	167,137
	2013	–	–	–	–	–	–

1 Ms Allen was appointed a Director and became a member of the Environment, Health, Safety and Sustainability Committee ("EHSS") Committee on 22 October 2014.

2 Mr Borda became Chair of the Board on 10 May 2013.

3 Mr Coates retired from the position of Chair of the Board on 10 May 2013. However, he remained a Director of the Board. He became a member of the EHSS Committee on 14 May 2014.

4 Mr Dean ceased to be Chair of the Audit & Risk Committee as at 1 January 2014.

5 Mr Goh became a member of the Audit & Risk Committee on 22 October 2014.

6 Mr Harding retired from the Board on 16 May 2014.

7 Ms Hemstritch became Chair of the Audit & Risk Committee on 1 January 2014.

8 Mr Martin became a member of the Audit & Risk Committee and Chair of the Finance Committee in August 2013.

9 Mr Sheffield was appointed as a Director on 24 February 2014 and became a member of the Finance Committee on 14 May 2014.

10 Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin, Mr Goh and Mr Sheffield only in relation to days worked in Australia.

# Remuneration Report

## continued

### DETAILED INFORMATION ABOUT LINKING COMPANY PERFORMANCE TO INCENTIVES

#### Short-term incentives

<p>How are the Company's short-term performance targets determined?</p>	<p>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.</p>
<p>What is measured in the Company's annual performance scorecard?</p>	<p>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.</p> <p>As described in Table 3: "STI scorecard" on page 58, the areas covered by the scorecard include:</p> <ul style="list-style-type: none"> <li>• environment, health, safety and sustainability (20% weighting);</li> <li>• profitability, namely production and NPAT (40% weighting);</li> <li>• growth, namely project delivery, reserves replacement and resources add (35% weighting); and</li> <li>• other value add, namely other achievements not specifically captured in the scorecard (5% weighting).</li> </ul> <p>The Board believes that this scorecard is balanced and focuses CEO and Senior Executive attention on achieving the key conditions and milestones necessary to deliver Santos' strategic plan.</p>
<p>How is Company performance assessed?</p>	<p>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.</p> <p>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.</p> <p>The Board believes the above method of assessment is rigorous and provides a balanced assessment of the Company's performance.</p>
<p>How does Company performance impact the STI program?</p>	<p>Firstly, the Company's overall performance score sets the 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.</p> <p>Secondly, the Company's overall performance score contributes to the actual STI payment made to individuals in a given year. For the CEO, the Company performance outcome determines 75% of his STI payment. The other 25% is based on performance against additional goals. For Senior Executives, the Company performance outcome determines 60% of their STI payments. The other 40% is based on their individual performance assessments.</p> <p>Finally, from 2014, 30% of the STI award for the CEO and Senior Executives will be delivered in the form of Deferred STI shares subject to a two-year deferral period. This ensures that the CEO and Senior Executives remain exposed to changes in the share price between the date of grant and the date of vesting, and promotes long-term performance in alignment with long-term shareholder returns.</p>

## Long-term incentives

How are long-term incentives linked to Company performance?	<p>LTI aligns the rewards received by the CEO and Senior Executives with the longer-term performance of Santos relative to other ASX 100 companies and international energy sector peers. Recipients also have the opportunity to grow the long-term value of their LTI by delivering results for the Company that increase the share price.</p> <p>All 2014 LTI grants were solely performance based, ensuring further alignment with shareholder interests.</p>										
How is LTI awarded?	All LTI grants are delivered in the form of SARs, i.e. a conditional entitlement to a fully paid ordinary share at zero price subject to satisfaction of the performance condition. Nothing is payable by Executives if and when SARs vest. For SARs granted since 2012, the Board has discretion to settle them in cash if they vest.										
What is the performance period?	SARs issued under the annual LTI program after 2014 will have a four-year performance period. This period represents an appropriate balance between providing a genuine and foreseeable incentive to Senior Executives and fostering a long-term view of shareholder interests.										
What performance hurdles are applied to the LTI?	Vesting of the 2014 LTI grants is based on the Company's relative TSR against the companies comprising the ASX 100 (75%) and S&P GEI (25%) on 1 January 2014. The Board has discretion to adjust the comparator group; for example, to take account of takeovers, mergers and demergers that occur during the performance period. Relative TSR performance is tested by an independent third party and reviewed by the Board prior to vesting.										
Why has relative TSR been chosen as the company's LTI performance hurdle?	The Board believes that relative TSR effectively aligns the interests of individual Executives with that of the Company's shareholders by motivating Executives to achieve superior shareholder outcomes relative to Santos' competitors for investor capital and its energy sector peers. TSR takes into account share price and dividend yield and is, therefore, a robust and objective measure of shareholder returns. Individual LTI awards in 2014 were divided so that the TSR hurdle for 75% of the award is measured relative to companies in the ASX 100 and 25% is measured against companies in the S&P GEI.										
Why have the ASX 100 and S&P Global Energy Index been chosen?	<p>The ASX 100 represents the companies in which most of the Company's shareholders would invest as an alternative to Santos. If Santos performs well relative to these companies, it means that Santos shareholders' investments have performed well relative to alternative investments.</p> <p>The S&amp;P GEI was chosen as a second comparator group because the global energy market is of increasing relevance to Santos. Many of the companies that comprise the S&amp;P GEI have oil and gas operations and are likely to be affected by similar global cyclical issues as Santos. Santos' major competitors are included in the index, along with other leading industry players based in various countries.</p>										
How is vesting determined?	<p>Vesting of the 2014 LTI grants will be in accordance with the following schedule:</p> <table border="1"> <thead> <tr> <th>TSR percentile ranking</th> <th>% of grant vesting</th> </tr> </thead> <tbody> <tr> <td>&lt;51st percentile</td> <td>0%</td> </tr> <tr> <td>=51st percentile</td> <td>50%</td> </tr> <tr> <td>52nd to 75th percentile</td> <td>Further 2% for each percentile improvement above the 50th percentile</td> </tr> <tr> <td>76th to 100th percentile</td> <td>100%</td> </tr> </tbody> </table> <p>This vesting scale applies to both the CEO and Senior Executives' annual LTI grants. There is no re-testing of the performance condition. SARs that do not vest upon testing of the performance condition will lapse.</p>	TSR percentile ranking	% of grant vesting	<51st percentile	0%	=51st percentile	50%	52nd to 75th percentile	Further 2% for each percentile improvement above the 50th percentile	76th to 100th percentile	100%
TSR percentile ranking	% of grant vesting										
<51st percentile	0%										
=51st percentile	50%										
52nd to 75th percentile	Further 2% for each percentile improvement above the 50th percentile										
76th to 100th percentile	100%										
When can vested SARs be traded?	Upon vesting of SARs, shares will automatically be allocated to the Executive. Trading in these shares is subject to compliance with the Company's Securities Trading Policy.										

As a result of changes to the Accounting Standards and the Corporations Regulations the information that follows in the tables overleaf was in prior years included as notes in the financial statements.

# Remuneration Report

## continued

### KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Loans to key management personnel

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

#### (b) 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:

	Opening balance <sup>1</sup>	Granted <sup>2</sup>	Options exercised/ rights vested <sup>3</sup>	Other changes <sup>4</sup>	Sold/ transferred	Closing balance	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
<b>2014</b>									
<b>Options</b>									
<b>Directors</b>									
Knox, David John Wissler	257,512	-	-	-	-	257,512	257,512	257,512	-
<b>Senior Executives</b>									
Anderson, John Hugh	117,693	-	-	-	-	117,693	117,693	117,693	-
Baulderstone, James Leslie	86,238	-	-	-	-	86,238	86,238	86,238	-
Brown, Trevor John	37,137	-	-	-	-	37,137	37,137	37,137	-
Seaton, Andrew John	22,213	-	-	-	-	22,213	22,213	22,213	-
<b>Total</b>	<b>520,793</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>520,793</b>	<b>520,793</b>	<b>520,793</b>	<b>-</b>
<b>SARs</b>									
<b>Directors</b>									
Knox, David John Wissler	642,926	560,929	-	(193,935)	-	1,009,920	-	-	-
<b>Senior Executives</b>									
Anderson, John Hugh	89,414	98,948	(6,159)	(40,274)	-	141,929	-	-	-
Baulderstone, James Leslie	96,013	107,719	(6,621)	(42,737)	-	154,374	-	-	-
Brown, Trevor John	88,109	100,740	(6,025)	(38,536)	-	144,288	-	-	-
Seaton, Andrew John	95,861	107,110	(5,167)	(44,302)	-	153,502	-	-	-
<b>Total</b>	<b>1,012,323</b>	<b>975,446</b>	<b>(23,972)</b>	<b>(359,784)</b>	<b>-</b>	<b>1,604,013</b>	<b>-</b>	<b>-</b>	<b>-</b>

1 Opening balance of SARs and options has been adjusted to reflect changes in Accounting Standards with disclosures now contained within this report.

2 SARs granted to Senior Executives, including the CEO, relate to the three-year and four-year transitional grants as disclosed in tables 8 and 9.

3 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 the SARs.

4 SARs that did not vest due to the non-fulfilment of vesting conditions and were forfeited during the year.

## SHARE HOLDINGS

2014	Opening balance	Received vesting of SARs	Purchased on-market	Sold	Other Changes <sup>1</sup>	Closing balance	Balance held nominally at end of the year
<b>Ordinary shares – fully paid</b>							
<b>Directors</b>							
Allen, Yasmin Anita	–	–	10,000	–	–	10,000	–
Borda, Kenneth Charles	75,971	–	10,000	–	1,903	87,874	–
Coates, Peter Roland	37,928	–	10,000	–	951	48,879	–
Dean, Kenneth Alfred	16,712	–	15,000	–	418	32,130	–
Franklin, Roy Alexander	3,625	–	11,500	–	90	15,215	–
Goh, Hock	3,000	–	12,000	–	–	15,000	–
Harding, Richard Michael	2,701	–	–	–	(2,701)	–	–
Hemstritch, Jane Sharman	14,000	–	25,000	–	192	39,192	–
Knox, David John Wissler	94,339	–	14,000	–	326	108,665	–
Martin, Gregory John Walton	10,750	–	13,750	–	–	24,500	–
Sheffield, Scott Douglas	–	–	40,000	–	–	40,000	–
<b>Senior Executives</b>							
Anderson, John Hugh	63,666	6,159	–	–	–	69,825	–
Baulderstone, James Leslie	54,596	6,621	–	–	–	61,217	–
Brown, Trevor John	391,655	6,025	–	–	–	397,680	–
Seaton, Andrew John	26,100	5,167	–	58	–	31,325	–
<b>Total</b>	<b>795,043</b>	<b>23,972</b>	<b>161,250</b>	<b>–</b>	<b>1,237</b>	<b>981,502</b>	<b>–</b>

<sup>1</sup> Other changes include:

- (i) Dividend Reinvestment Plan allocations; and
- (ii) Mr. R.M. Harding retired from the Board on 16 May 2014.



# 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.

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 2014 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 2014 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 2015. 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 and other services	\$116,000
Assurance services	\$798,000

The Directors are satisfied, based on the advice of the Audit & Risk 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 & Risk 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 156.

### 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 20 February 2015 in accordance with a resolution of the Directors.



Director



Director

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# Financial Report

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# Consolidated Income Statement

## for the year ended 31 December 2014

	Note	2014 \$million	2013 \$million
Product sales	3	4,037	3,602
Cost of sales	4	(2,899)	(2,505)
<b>Gross profit</b>		<b>1,138</b>	1,097
Other revenue	3	62	49
Other income	3	12	24
Impairment of non-current assets	4	(2,356)	(26)
Other expenses	4	(320)	(272)
Finance income	5	19	45
Finance costs	5	(116)	(62)
Share of net profit of joint ventures	26(b)	17	14
<b>(Loss)/profit before tax</b>		<b>(1,544)</b>	869
Income tax benefit/(expense)	6	482	(296)
Royalty-related taxation benefit/(expense)	6	127	(57)
Total taxation benefit/(expense)		609	(353)
<b>Net (loss)/profit for the period</b>		<b>(935)</b>	516
<b>Net (loss)/profit attributable to:</b>			
<b>Owners of Santos Limited</b>		<b>(935)</b>	516
<b>Non-controlling interests</b>		<b>-</b>	-
		<b>(935)</b>	516
<b>Earnings per share attributable to the equity holders of Santos Limited (¢)</b>			
Basic (loss)/earnings per share	23	(95.6)	53.3
Diluted (loss)/earnings per share	23	(95.6)	53.0
<b>Dividends per share (¢)</b>			
Paid during the period	22	35	30
Declared in respect of the period	22	35	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 2014

	Note	2014 \$million	2013 \$million
<b>Net (loss)/profit for the period</b>		<b>(935)</b>	516
<b>Other comprehensive income, net of tax:</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange gain on translation of foreign operations		<b>623</b>	768
Tax effect	6	-	(1)
	21	<b>623</b>	767
Loss on foreign currency loans designated as hedges of net investments in foreign operations		<b>(450)</b>	(433)
Tax effect	6	<b>135</b>	130
	21	<b>(315)</b>	(303)
Loss on derivatives designated as cash flow hedges		<b>(13)</b>	(5)
Tax effect	6	<b>4</b>	1
	21	<b>(9)</b>	(4)
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>299</b>	460
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement of defined benefit obligation	28	-	20
Tax effect	6	-	(6)
	21	-	14
<b>Net other comprehensive income not being reclassified to profit or loss in subsequent periods</b>		-	14
<b>Other comprehensive income, net of tax</b>		<b>299</b>	474
<b>Total comprehensive (loss)/income</b>		<b>(636)</b>	990
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of Santos Limited		<b>(636)</b>	990
Non-controlling interests		-	-
		<b>(636)</b>	990

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 2014

	Note	2014 \$million	2013 \$million
<b>Current assets</b>			
Cash and cash equivalents	7	775	644
Trade and other receivables	8	633	793
Prepayments		91	202
Inventories	9	443	419
Other financial assets	10	66	3
Tax receivable		57	17
<b>Total current assets</b>		<b>2,065</b>	2,078
<b>Non-current assets</b>			
Receivables	8	10	31
Prepayments		189	96
Investments in joint ventures	26	97	110
Other financial assets	10	166	236
Exploration and evaluation assets	11	1,106	1,964
Oil and gas assets	12	18,422	15,823
Other land, buildings, plant and equipment	13	267	259
Deferred tax assets	15	23	12
<b>Total non-current assets</b>		<b>20,280</b>	18,531
<b>Total assets</b>		<b>22,345</b>	20,609
<b>Current liabilities</b>			
Trade and other payables	16	1,382	1,235
Deferred income		51	91
Interest-bearing loans and borrowings	17	327	189
Current tax liabilities		14	22
Provisions	18	169	185
Other financial liabilities	19	3	4
<b>Total current liabilities</b>		<b>1,946</b>	1,726
<b>Non-current liabilities</b>			
Deferred income		150	82
Interest-bearing loans and borrowings	17	7,925	5,582
Deferred tax liabilities	15	594	1,227
Provisions	18	2,136	1,748
Other financial liabilities	19	181	32
<b>Total non-current liabilities</b>		<b>10,986</b>	8,671
<b>Total liabilities</b>		<b>12,932</b>	10,397
<b>Net assets</b>		<b>9,413</b>	10,212
<b>Equity</b>			
Issued capital	20	6,905	6,749
Reserves	21	346	47
Retained earnings	21	2,166	3,420
Equity attributable to owners of Santos Limited		9,417	10,216
Non-controlling interests		(4)	(4)
<b>Total equity</b>		<b>9,413</b>	10,212

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 2014

	Note	2014 \$million	2013 \$million
<b>Cash flows from operating activities</b>			
Receipts from customers		4,399	3,726
Interest received		18	54
Overriding royalties received		11	12
Insurance proceeds received		5	1
Dividends received		18	14
Pipeline tariffs and other receipts		130	67
Income taxes refunded		30	26
Royalty-related taxation refunded		–	22
Payments to suppliers and employees		(2,222)	(1,785)
Exploration and evaluation – seismic and studies		(150)	(109)
Royalty and excise paid		(97)	(83)
Borrowing costs paid		(49)	–
Carbon costs paid		(52)	(41)
Income taxes paid		(145)	(214)
Overriding royalty costs		(4)	(4)
Royalty-related taxation paid		(49)	(58)
<b>Net cash provided by operating activities</b>	27	<b>1,843</b>	1,628
<b>Cash flows from investing activities</b>			
Payments for:			
Exploration and evaluation assets		(455)	(472)
Oil and gas assets		(2,834)	(3,514)
Other land, buildings, plant and equipment		(52)	(51)
Acquisitions of exploration and evaluation assets		–	(143)
Acquisitions of oil and gas assets		(33)	(62)
Acquisitions of controlled entities	25	(8)	–
Proceeds from disposal of oil and gas assets	3	1	46
Income taxes paid on disposal of non-current assets		–	(8)
Borrowing costs paid		(223)	(218)
Other investing activities		(7)	3
<b>Net cash used in investing activities</b>		<b>(3,611)</b>	(4,419)
<b>Cash flows from financing activities</b>			
Dividends paid		(196)	(157)
Drawdown of borrowings		2,167	1,432
Repayment of borrowings		(86)	(22)
Proceeds from issues of ordinary shares		10	9
<b>Net cash provided by financing activities</b>		<b>1,895</b>	1,262
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>127</b>	(1,529)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>644</b>	2,147
Effects of exchange rate changes on the balances of cash held in foreign currencies		4	26
<b>Cash and cash equivalents at the end of the period</b>	7	<b>775</b>	644

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

# Consolidated Statement of Changes in Equity

## for the year ended 31 December 2014

	Note	Equity attributable to owners of Santos Limited				Total equity \$million	Non-controlling interests \$million	Total equity \$million
		Issued capital \$million	Translation reserve \$million	Hedging reserve \$million	Retained earnings \$million			
Balance at 1 January 2013		6,608	(407)	(6)	3,163	9,358	(4)	9,354
Profit for the period		–	–	–	516	516	–	516
Other comprehensive income/(loss) for the period		–	464	(4)	14	474	–	474
Total comprehensive income/(loss) for the period		–	464	(4)	530	990	–	990
Transactions with owners in their capacity as owners:								
Shares issued	20	141	–	–	–	141	–	141
Dividends to shareholders	22	–	–	–	(289)	(289)	–	(289)
Share-based payment transactions	29	–	–	–	16	16	–	16
<b>Balance at 31 December 2013</b>		<b>6,749</b>	<b>57</b>	<b>(10)</b>	<b>3,420</b>	<b>10,216</b>	<b>(4)</b>	<b>10,212</b>
Balance at 1 January 2014		<b>6,749</b>	<b>57</b>	<b>(10)</b>	<b>3,420</b>	<b>10,216</b>	<b>(4)</b>	<b>10,212</b>
Loss for the period		–	–	–	(935)	(935)	–	(935)
Other comprehensive income/(loss) for the period		–	308	(9)	–	299	–	299
Total comprehensive income/(loss) for the period		–	308	(9)	(935)	(636)	–	(636)
Transactions with owners in their capacity as owners:								
Shares issued	20	156	–	–	–	156	–	156
Dividends to shareholders	22	–	–	–	(341)	(341)	–	(341)
Share-based payment transactions	29	–	–	–	22	22	–	22
<b>Balance at 31 December 2014</b>		<b>6,905</b>	<b>365</b>	<b>(19)</b>	<b>2,166</b>	<b>9,417</b>	<b>(4)</b>	<b>9,413</b>

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

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial report of Santos Limited ("the Company") for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the Directors on 20 February 2015.

The consolidated financial report of the Company for the year ended 31 December 2014 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 report. 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 ("AASB"). The consolidated financial report complies with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

#### (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 or 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.

#### **Changes in accounting policies and disclosures**

The Group applied the following mandatory amendments to accounting standards applicable for the first time for the financial year beginning 1 January 2014:

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*;
- AASB 1053 *Application of Tiers of Australian Accounting Standards*;
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*;
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*;
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*;
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*;
- AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders*;
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*;
- Interpretation 21 *Levies*; and
- AASB 1031 *Materiality*.

With the exception of the standards below, these standards did not impact the consolidated financial statements and disclosures of the Group.

AASB 2011-4 *Amendments to Australian Accounting Standards to*

#### *Remove Individual Key Management Personnel Disclosure Requirements*

This amendment removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions. This information is disclosed in the Remuneration Report.

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

This amendment increases the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about recoverable amounts and the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

#### **New standards and interpretations not yet adopted**

The Group has not elected to apply any pronouncements before their effective date for the annual reporting period ended 31 December 2014.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, 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*  
AASB 9 as issued replaces AASB 139 and includes a logical model for classification, measurement and derecognition of financial assets, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard is not applicable until 1 January 2018, but is available for early adoption. The main changes to the classification and measurement of financial assets and liabilities are:



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Financial assets that are debt instruments will be classified based on: (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows;
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases; and
- Where the fair value option is used for financial liabilities, the change attributable to changes in credit risk are presented in other comprehensive income, and the remaining change is presented in profit or loss.
- AASB 15 *Revenue from Contracts with Customers*  
AASB 15 as issued replaces AASB 111, AASB 118 and related IFRIC Interpretations. The core principle of AASB 15 is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the

entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*

This standard sets out the guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

AASB 2015-2 provides clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.

- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 – Materiality*

AASB 2015-3 effects the withdrawal of AASB 1031 by amending AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to supersede AASB 1031 and deletes references to AASB 1031 in certain Australian Accounting Standards.

These amendments have not yet been adopted by the Group and the Group is currently assessing the impact of these standards.

Several other amendments to standards and interpretations will apply on or after 1 January 2015, and have not yet been applied, however they are not expected to impact the Group's annual consolidated financial statements or half-year condensed consolidated financial statements.

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

#### (c) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. There is a general presumption that a majority of voting rights results in control. Where the Group has less than a majority of voting rights, all other relevant facts and circumstances, including other contractual arrangements and potential voting rights, are considered in assessing whether the Group has power over an investee. 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

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## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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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 in 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.

### **Joint arrangements**

The Group's investments in joint arrangements are classified as either joint operations or joint ventures; depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement.

### **Joint operations**

Santos' exploration and production activities are often conducted through joint arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships. A summary of the Group's interests in its material joint operations is included in note 26.

A joint operation involves the joint control, and often the joint ownership, of one or more assets contributed to, or acquired for the purpose of, the joint operation and dedicated to the purposes of the joint operation. The assets are used to obtain benefits for the parties to the joint operation. Each party may take a share of the output from the assets and each bears an agreed share of expenses incurred. Each party has control over its share of future economic benefits through its share of the joint operation. The interests of the Group in joint operations 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 operation in accordance with the revenue policy in note 1(x).

### **Joint ventures**

The Group has interests in joint ventures, whereby the venturers have contractual arrangements that establish joint control over the economic activities of the entities. The Group recognises its interest in joint ventures using the equity method of accounting.

Under the equity method, the investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of post-acquisition changes to the Group's share of net assets of the joint venture. Goodwill relating to the joint venture 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 joint venture.

The Group's share of the joint venture'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 joint venture reduce the carrying amount of the investment in the consolidated financial statements of the Group. The Group's share in the joint venture's profits and losses resulting from transactions between the Group and the joint venture is eliminated.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, 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 joint venture. The reporting dates of the joint venture and the Group are identical and the joint venture's accounting policies are consistent with those used by the Group for like transactions and events in similar circumstances.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Foreign currency

##### **Functional and presentation currency**

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

##### **Transactions and balances**

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

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

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

##### **Group companies**

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, 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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

periods during which the asset acquired or liability assumed affects the income statement.

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

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

### **Hedge of monetary assets and liabilities**

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

### **Hedge of net investment in a foreign operation**

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

### **(g) Acquisition of assets**

All assets acquired are recorded at their cost of acquisition, being the amount of cash or cash equivalents paid, and the fair value of assets given, shares issued or liabilities incurred. The cost of an asset comprises

the purchase price including any incidental costs directly attributable to the acquisition; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating; and the estimate of the costs of dismantling and removing the asset and restoring the site on which it is located determined in accordance with note 1(q).

### **Business combinations**

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

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

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

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

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 acquisition date. 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 acquiring interests in new exploration and evaluation assets, the costs of successful wells and appraisal costs relating to determining development feasibility, which are capitalised as intangible exploration and evaluation assets.

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

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

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

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

- (i) tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or
- (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned; or
- (iii) exploration for and evaluation of resources in the specific area have 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 approval of commercial development of a discovered oil or gas field occurs, 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 and approval of commercial development occurs, 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 rotatable 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



## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the previous major cyclical maintenance is derecognised. All other repairs and maintenance are recognised in the income statement as incurred.

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

### (k) Depreciation and depletion

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

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

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

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

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

Depletion charges are calculated using the units of production method based on heating value which will

amortise the cost of carried forward exploration, evaluation and subsurface development expenditure ("subsurface assets") over the life of the estimated Proven plus Probable ("2P") hydrocarbon reserves for an asset or group of assets, together with future subsurface costs necessary to develop the hydrocarbon reserves in the respective asset or group of assets.

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

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

### (l) Available-for-sale financial assets

Financial instruments classified as being available for sale are stated at fair value, where that fair value can be reliably measured, with any resultant gain or loss being recognised directly in equity. In the instance that an instrument's fair value cannot be reliably measured, the instrument is carried at cost and tested for impairment, with any impairment charge being recorded within profit or loss.

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:

- (i) drilling and maintenance stocks, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted average cost; and
- (ii) petroleum products, which comprise extracted crude oil, liquefied petroleum gas, condensate and naphtha stored in tanks and pipeline systems and processed sales gas and ethane stored in subsurface reservoirs, are valued using the absorption cost method in a manner which approximates specific identification.

### (n) Trade and other receivables

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

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

### (o) Cash and cash equivalents

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

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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, the most significant of which are 2P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Under a fair value less costs to sell calculation, future cash flows are based on estimates of 2P hydrocarbon reserves in addition to other relevant factors, such as value attributable to additional resource and exploration opportunities beyond 2P reserves based on production plans.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually. Where volumes are contracted, future prices are based on the contracted price. Future Brent price estimates assume US\$55/bbl in 2015, US\$70/bbl in 2016, US\$80/bbl in 2017, US\$90/bbl in 2018 and US\$90/bbl (2014 real) from 2019.

Forecasts of the foreign exchange rate for foreign currencies, where relevant,

are estimated with reference to observable external market data and forward values, including analysis of broker and consensus estimates. The future estimated rate applied is A\$/US\$ of 0.80 in all years.

The discount rates applied to the future forecast cash flows are based on the Group's post-tax weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the countries in which the asset operates.

#### **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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

On 17 July 2014, the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* (Cth) received Royal Assent, abolishing carbon tax with effect from 1 July 2014. The carrying amount of the provision for carbon, relating to the liability incurred up to the date of repeal, is disclosed in note 18.

## **(r) Employee benefits**

### **Wages, salaries and sick leave**

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled within 12 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**

Liabilities for long service leave and annual leave that is not expected to be taken within 12 months of the respective service being provided, are 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.

The obligations are presented as current liabilities in the statement of financial position if the Group does not have the unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### **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.



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Share Acquisition Rights ("SARs") issued under the Santos Employee Equity Incentive Plan ("SEEIP") allow eligible executives to receive SARs upon the satisfaction of set market and 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.

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

##### *Cash-settled share-based payment plans*

The Group recognises the fair value of cash-settled share-based payment transactions as an employee expense with a corresponding increase in the liability for employee benefits. The fair value of the liability is measured initially, and at the end of each reporting period until settled, at the fair value of the cash-settled share-based payment transaction, by using a Monte Carlo

simulation method, taking into account the terms and conditions on which the cash-settled share-based payment transactions were granted, and the extent to which the employees have rendered service to date.

##### *General employee share plans*

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

The fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the 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 12-month period, and to receive matched 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Santos Eastern Star Gas Limited Employee Incentive Plan*

Under the Santos Eastern Star Gas Limited Employee Incentive Plan, eligible employees were granted ordinary shares in Santos, in exchange for Eastern Star Gas Limited ("ESG"), (now Santos NSW Pty Ltd), 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.

### **(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.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **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**

On 17 July 2014, the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* (Cth) received Royal Assent, abolishing carbon tax with effect from 1 July 2014.

Carbon costs incurred to the date of repeal are recognised as an operating expense in the income statement as emissions are produced.

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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

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

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

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

### **Royalty-related taxation**

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

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

### **(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.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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 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 reviews the carrying values of its oil and gas assets on a semi-annual basis. This requires an assessment to determine if there are any indicators of impairment or reversals of impairment. Where such an indication exists, the recoverable amount of the cash-generating unit to which the assets belong is then estimated based on the present value of future cash flows. For oil and gas assets, the expected future cash flow estimation is always based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future oil price and discount rates. A change in the modelled assumptions in isolation could materially change the recoverable amount. However, due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments or reversals of impairments under different sets of assumptions in subsequent reporting periods. In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could



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## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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change materially and result in impairment losses or the reversal of previous impairment losses. The carrying amount of oil and gas assets are discussed further 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 are discussed in notes 13 and 14 respectively.

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## 2. SEGMENT INFORMATION

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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, Malaysia 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. 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.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations			Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
<b>2. SEGMENT INFORMATION (CONTINUED)</b>													
Revenue	1,964	1,817	1,057	1,278	972	467	44	40	-	-	4,037	3,602	
Sales to external customers	-	-	-	-	-	-	13	15	(13)	(15)	-	-	
Inter-segment sales*	37	28	-	2	13	11	2	3	10	5	62	49	
Other revenue from external customers	2,001	1,845	1,057	1,280	985	478	59	58	(3)	(10)	4,099	3,651	
Total segment revenue	3												
<b>Results</b>													
Earnings before interest, tax, exploration and evaluation, impairment and gains/(losses) on sale of non-current assets and controlled entities ("EBITX")	250	267	378	634	525	208	(44)	(12)	52	(7)	1,161	1,090	
Depreciation and depletion	438	379	257	331	218	110	34	24	41	44	988	888	
Gains/(losses) on sale of non-current assets and controlled entities	5	-	-	14	-	-	-	-	(1)	-	4	14	
Earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment ("EBITDAX")	693	646	635	979	743	318	(10)	12	92	37	2,153	1,992	
Depreciation and depletion	(438)	(379)	(257)	(331)	(218)	(110)	(34)	(24)	(41)	(44)	(988)	(888)	
Exploration and evaluation expensed	-	-	-	-	-	-	-	-	(256)	(192)	(256)	(192)	
Net impairment (loss)/reversal	(1,666)	(10)	(456)	(26)	(220)	10	-	-	(14)	-	(2,356)	(26)	
Earnings before interest and tax ("EBIT")	(1,411)	257	(78)	622	305	218	(44)	(12)	(219)	(199)	(1,447)	886	
Net finance costs									(97)	(17)	(97)	(17)	
<b>(Loss)/profit before tax</b>													
Income tax benefit/(expense)									482	(296)	(1,544)	869	
Royalty-related taxation benefit/(expense)	6	26	100	(111)	-	-	1	1	-	-	127	(57)	
<b>Net (loss)/profit for the period</b>													
													516

\* Intersegment pricing is determined on an arm's length basis. Intersegment sales are eliminated on consolidation.

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total
		2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
		\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	
<b>Amounts included in (loss)/profit before tax that are unusual because of their nature, size or incidence:</b>												
Gain on sale of exploration and evaluation assets	3	-	-	-	9	-	-	-	-	-	-	9
Gain on sale of oil and gas assets	3	5	-	-	7	-	-	-	-	-	-	5
Loss on sale of other land, buildings, plant and equipment	3	-	-	-	(2)	-	-	-	-	(1)	-	(2)
Prior year redetermination adjustment		-	-	-	(3)	-	-	-	-	-	-	(3)
Remediation income for incidents, net of related insurance recoveries		3	9	-	-	3	-	-	-	-	-	6
<b>Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets):</b>												
Exploration and evaluation assets	11	278	234	61	253	166	191	10	4	-	-	515
Oil and gas assets	12	1,255	987	280	115	428	697	1,574	2,006	-	-	3,537
Other land, buildings, plant and equipment	13	7	4	-	2	-	-	-	9	46	43	53
		<b>1,540</b>	<b>1,225</b>	<b>341</b>	<b>370</b>	<b>594</b>	<b>888</b>	<b>1,584</b>	<b>2,019</b>	<b>46</b>	<b>43</b>	<b>4,105</b>
												<b>4,545</b>



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

2. SEGMENT INFORMATION (CONTINUED)	Note	2014 \$million	2013 \$million
<b>Revenue from external customers by geographical location of production</b>			
Australia		3,115	3,173
Vietnam		337	307
Papua New Guinea		492	17
Other countries		155	154
Total revenue	3	<b>4,099</b>	3,651
During the year, revenue from one customer amounted to \$1,153 million (2013: \$1,405 million from two customers), arising from sales from all segments of the Group.			
<b>Non-current assets (other than financial assets and deferred tax assets) by geographical location</b>			
Australia		15,410	14,117
Papua New Guinea		3,561	3,051
Other countries		921	988
		<b>19,892</b>	18,156

### 3. REVENUE AND OTHER INCOME

Product sales:			
Gas, ethane and liquefied gas		1,687	1,282
Crude oil		1,878	1,834
Condensate and naphtha		317	310
Liquefied petroleum gas		155	176
Total product sales*		<b>4,037</b>	3,602
Other revenue:			
Overriding royalties		12	10
Pipeline tariffs and processing tolls		25	20
Other		25	19
Total other revenue		<b>62</b>	49
Total revenue		<b>4,099</b>	3,651
Other income:			
Insurance recoveries		5	1
Net gain on sale of exploration and evaluation assets		-	9
Net gain on sale of oil and gas assets		5	7
Net loss on sale of other land, buildings, plant and equipment		(1)	(2)
Other		3	9
Total other income		<b>12</b>	24

\* Total product sales include third-party product sales of \$932 million (2013: \$830 million).

<b>3. REVENUE AND OTHER INCOME (CONTINUED)</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>Net gain on sale of non-current assets</b>		
Proceeds on disposals	<b>7</b>	55
Book value of oil and gas assets disposed	<b>(2)</b>	(38)
Book value of other land, buildings, plant and equipment disposed	<b>(1)</b>	(2)
Recoupment of prior year exploration and evaluation expenditure	<b>-</b>	(1)
Book value of working capital disposed	<b>-</b>	-
Total net gain on sale of non-current assets	<b>4</b>	14
<b>Comprising:</b>		
Net gain on sale of exploration and evaluation assets	<b>-</b>	9
Net gain on sale of oil and gas assets	<b>5</b>	7
Net loss on sale of other land, buildings, plant and equipment	<b>(1)</b>	(2)
	<b>4</b>	14
<b>Reconciliation to cash inflows from proceeds on disposal of non-current assets</b>		
Proceeds after recoupment of current year exploration and evaluation expenditure	<b>7</b>	55
Amounts received in prior periods	<b>-</b>	(9)
Amounts receivable	<b>(6)</b>	-
Amounts received from current year disposals	<b>1</b>	46
Total proceeds on disposal of non-current assets	<b>1</b>	46
<b>Comprising:</b>		
Proceeds from disposal of oil and gas assets	<b>1</b>	46
	<b>1</b>	46

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

4. EXPENSES	Note	2014 \$million	2013 \$million
Cost of sales:			
Cash cost of production:			
Production costs:			
Production expenses		762	617
Production facilities operating leases		101	73
Total production costs		<b>863</b>	690
Other operating costs:			
Pipeline tariffs, processing tolls and other		136	122
Royalty and excise		99	85
Carbon costs		30	57
Shipping costs		18	–
Total other operating costs		<b>283</b>	264
Total cash cost of production		<b>1,146</b>	954
Depreciation and depletion		988	885
Third-party product purchases		786	745
Increase in product stock		(21)	(79)
Total cost of sales		<b>2,899</b>	2,505
Impairment of non-current assets:			
Net impairment loss on exploration and evaluation assets	14	1,170	6
Net impairment loss on oil and gas assets	14	1,163	9
Net impairment loss on other land, buildings, plant and equipment	14	–	11
Net impairment loss on investments in joint ventures	26(b)	14	–
Net impairment loss on other assets		9	–
Total impairment of non-current assets		<b>2,356</b>	26
Other expenses:			
Selling		25	30
Corporate		93	78
Depreciation		–	3
Foreign exchange losses/(gains)*		5	(24)
Losses from change in fair value of derivative financial assets designated as fair value through profit or loss		4	2
Fair value hedges, (gains)/losses:			
On the hedging instrument		(83)	(91)
On the hedged item attributable to the hedged risk		20	82
Exploration and evaluation expensed		256	192
Total other expenses		<b>320</b>	272
* The foreign exchange losses for the year ended 31 December 2014 include the following significant amounts in relation to foreign functional currency subsidiaries: \$166 million loss (2013: \$171 million loss) relating to the effects of foreign exchange on Australian dollar denominated tax bases and \$166 million gain (2013: \$171 million gain) on foreign functional currency intercompany loans.			
<b>(Loss)/profit before tax includes the following:</b>			
Depreciation and depletion:			
Depletion of subsurface assets		459	441
Depreciation of plant and equipment		527	444
Depreciation of buildings		2	3
Total depreciation and depletion		<b>988</b>	888
Minimum lease payments		101	73

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<b>5. NET FINANCE COSTS</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
Finance income:		
Interest income	<b>19</b>	45
Total finance income	<b>19</b>	45
Finance costs:		
Interest expense:		
Interest paid to third parties	<b>290</b>	228
Deduct borrowing costs capitalised	<b>(236)</b>	(228)
	<b>54</b>	–
Unwind of the effect of discounting on provisions	<b>62</b>	62
Total finance costs	<b>116</b>	62
Net finance costs	<b>97</b>	17

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# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

6. TAXATION EXPENSE	2014 \$million	2013 \$million
<b>Recognised in the income statement:</b>		
<b>Income tax expense</b>		
<i>Current tax (benefit)/expense</i>		
Current year	(156)	52
Adjustments for prior years	(4)	2
	<b>(160)</b>	54
<i>Deferred tax (benefit)/expense</i>		
Origination and reversal of temporary differences	(310)	245
Adjustments for prior years	(12)	(3)
	<b>(322)</b>	242
Total income tax (benefit)/expense	<b>(482)</b>	296
<b>Royalty-related taxation expense</b>		
<i>Current tax expense</i>		
Current year	47	49
Adjustments for prior years	-	8
	<b>47</b>	57
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	(174)	-
Adjustments for prior years	-	-
	<b>(174)</b>	-
Total royalty-related taxation (benefit)/expense	<b>(127)</b>	57
<b>Numerical reconciliation between tax expense and pre-tax net (loss)/profit:</b>		
(Loss)/profit before tax	<b>(1,544)</b>	869
Prima facie income tax (benefit)/expense at 30% (2013: 30%)	<b>(463)</b>	261
Increase/(decrease) in income tax (benefit)/expense due to:		
Foreign losses not recognised	17	14
Non-deductible expenses	12	5
Exchange and other translation variations	(16)	13
Tax adjustments relating to prior years	(6)	(2)
Other	(26)	5
Income tax (benefit)/expense	<b>(482)</b>	296
Royalty-related taxation (benefit)/expense	<b>(127)</b>	57
Total taxation (benefit)/expense	<b>(609)</b>	353
<b>Deferred tax charged/(credited) directly to equity:</b>		
Net exchange loss on translation of foreign operations	-	1
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	(135)	(130)
Net gain on derivatives designated as cash flow hedges	(4)	(1)
Remeasurement of defined benefit obligation	-	6
	<b>(139)</b>	(124)

<b>7. CASH AND CASH EQUIVALENTS</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
Cash at bank and in hand	<b>775</b>	563
Short-term deposits	–	81
	<b>775</b>	644

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 2014, no cash was placed in term deposits with original maturities greater than three months (2013: nil). Deposits held with financial institutions approved by the Board 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, held cash and cash equivalents at 31 December 2014 of US\$4 million (2013: US\$3 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.

In accordance with the terms of the PNG LNG project financing, cash relating to the Group's interest in undistributed cash flows of the PNG LNG project is required to be held in secured bank accounts. As at 31 December 2014, US\$35 million (2013: nil) was held in these accounts.

<b>8. TRADE AND OTHER RECEIVABLES</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>Current</b>		
Trade receivables	<b>424</b>	523
Other receivables	<b>209</b>	270
	<b>633</b>	793
<b>Non-current</b>		
Other receivables	<b>10</b>	31
<b>Ageing of trade and other receivables at the reporting date:</b>		
Trade and other receivables not yet due	<b>630</b>	757
Past due not impaired:		
Less than one month	<b>7</b>	33
One to three months	<b>1</b>	6
Three to six months	–	9
Six to twelve months	–	15
Greater than twelve months	<b>5</b>	4
Considered impaired:		
Greater than twelve months	–	–
	<b>643</b>	824

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 (2013: nil) was recognised by the Group during the year.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

<b>9. INVENTORIES</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
Petroleum products	<b>293</b>	260
Drilling and maintenance stocks	<b>150</b>	159
Total inventories at lower of cost and net realisable value	<b>443</b>	419
Inventories included above that are stated at net realisable value	<b>53</b>	59

### 10. OTHER FINANCIAL ASSETS

#### Current

Amounts held in escrow	<b>61</b>	–
Receivables due from other related entities	<b>–</b>	1
Interest rate swap contracts	<b>5</b>	2
	<b>66</b>	3

#### Non-current

Interest rate swap contracts	<b>136</b>	142
Cross-currency swap contracts	<b>–</b>	65
Embedded derivatives	<b>1</b>	5
Available-for-sale financial assets	<b>10</b>	10
Other	<b>19</b>	14
	<b>166</b>	236

Included within other non-current financial assets of \$19 million at 31 December 2014 is an allowance for impairment loss of \$9 million (2013: nil) in relation to the Group's decision to withdraw from the Indonesian coal bed methane production sharing contract.

11. EXPLORATION AND EVALUATION ASSETS	2014			2013		
	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Subsurface assets \$million	Plant and equipment \$million	Total \$million
Cost	2,310	26	2,336	1,984	28	2,012
Less impairment	(1,230)	–	(1,230)	(48)	–	(48)
<b>Balance at 31 December</b>	<b>1,080</b>	<b>26</b>	<b>1,106</b>	1,936	28	1,964
<b>Reconciliation of movements</b>						
Balance at 1 January	1,936	28	1,964	1,482	28	1,510
Acquisitions of exploration and evaluation assets	64	–	64	149	–	149
Additions	450	1	451	533	–	533
Disposals and recoupment	–	–	–	(1)	–	(1)
Exploration and evaluation expensed	(92)	(3)	(95)	(90)	–	(90)
Impairment losses	(1,170)	–	(1,170)	(6)	–	(6)
Transfer to oil and gas assets in development	(10)	–	(10)	(9)	–	(9)
Transfer to oil and gas assets in production	(123)	–	(123)	(131)	–	(131)
Exchange differences	25	–	25	9	–	9
<b>Balance at 31 December</b>	<b>1,080</b>	<b>26</b>	<b>1,106</b>	1,936	28	1,964
<b>Comprising:</b>						
Acquisition costs	391	18	409	1,205	17	1,222
Successful exploration wells	573	8	581	669	11	680
Exploration and evaluation assets pending determination of success	116	–	116	62	–	62
	<b>1,080</b>	<b>26</b>	<b>1,106</b>	1,936	28	1,964



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

	2014			2013		
	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Subsurface assets \$million	Plant and equipment \$million	Total \$million
<b>12. OIL AND GAS ASSETS</b>						
Cost	12,494	19,259	31,753	11,120	15,843	26,963
Less accumulated depreciation, depletion and impairment	(7,864)	(5,467)	(13,331)	(6,478)	(4,662)	(11,140)
<b>Balance at 31 December</b>	<b>4,630</b>	<b>13,792</b>	<b>18,422</b>	4,642	11,181	15,823
<b>Reconciliation of movements</b>						
<b>Assets in development</b>						
Balance at 1 January	1,225	7,832	9,057	899	4,499	5,398
Acquisition of oil and gas assets	–	–	–	30	–	30
Additions	248	1,637	1,885	304	2,485	2,789
Capitalised depreciation	–	15	15	–	11	11
Transfer from exploration and evaluation assets	10	–	10	9	–	9
Transfer to oil and gas assets in production	(1,094)	(4,386)	(5,480)	(162)	(96)	(258)
Net impairment reversals	–	–	–	9	20	29
Exchange differences	35	469	504	136	913	1,049
<b>Balance at 31 December</b>	<b>424</b>	<b>5,567</b>	<b>5,991</b>	1,225	7,832	9,057
<b>Producing assets</b>						
Balance at 1 January	3,417	3,349	6,766	3,071	3,088	6,159
Acquisitions of oil and gas assets	6	10	16	13	–	13
Additions	757	879	1,636	403	570	973
Transfer from exploration and evaluation assets	123	–	123	131	–	131
Transfer from oil and gas assets in development	1,094	4,386	5,480	162	96	258
Disposals	(7)	(3)	(10)	(34)	(21)	(55)
Depreciation and depletion	(459)	(499)	(958)	(441)	(410)	(851)
Net impairment losses	(820)	(273)	(1,093)	(28)	(10)	(38)
Impairment of exploration and evaluation expenditure pending commercialisation	(70)	–	(70)	–	–	–
Exchange differences	165	376	541	140	36	176
<b>Balance at 31 December</b>	<b>4,206</b>	<b>8,225</b>	<b>12,431</b>	3,417	3,349	6,766
<b>Total oil and gas assets</b>	<b>4,630</b>	<b>13,792</b>	<b>18,422</b>	4,642	11,181	15,823
<b>Comprising:</b>						
Exploration and evaluation expenditure pending commercialisation	184	–	184	190	–	190
Other capitalised expenditure	4,446	13,792	18,238	4,452	11,181	15,633
	<b>4,630</b>	<b>13,792</b>	<b>18,422</b>	4,642	11,181	15,823

13. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	2014			2013		
	Land and buildings \$million	Plant and equipment \$million	Total \$million	Land and buildings \$million	Plant and equipment \$million	Total \$million
Cost	92	483	575	91	501	592
Less accumulated depreciation and impairment	(10)	(298)	(308)	(11)	(322)	(333)
<b>Balance at 31 December</b>	<b>82</b>	<b>185</b>	<b>267</b>	80	179	259
<b>Reconciliation of movements</b>						
Balance at 1 January	80	179	259	76	183	259
Additions	4	49	53	8	50	58
Disposals	–	(1)	(1)	–	–	–
Impairment losses	–	–	–	(2)	(9)	(11)
Depreciation	(2)	(43)	(45)	(3)	(45)	(48)
Exchange differences	–	1	1	1	–	1
<b>Balance at 31 December</b>	<b>82</b>	<b>185</b>	<b>267</b>	80	179	259

#### 14. IMPAIRMENT OF NON-CURRENT ASSETS

At 31 December 2014, the Group reassessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy (refer notes 1(h) and 1(p)).

Estimates of recoverable amount are based on an asset's value in use or fair value less costs to sell (level 3 fair value hierarchy), using a discounted cash flow method, and are most sensitive to the key assumptions described in note 1(p).

Recoverable amounts and resulting impairment write-downs recognised in the year ended 31 December 2014 are:

2014 Area of interest/CGU	Segment	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Recoverable amount* \$million
<b>Exploration and evaluation assets</b>					
Gunnedah Basin	Eastern Australia	808	–	808	543
Carnarvon Basin (Winchester, Zola/Bianchi)	WA & NT	198	–	198	nil
Browse Basin (Bassett-West)	WA & NT	57	–	57	nil
Bangladesh (Magnama)	Asia Pacific	49	–	49	nil
Indonesia (CBM interests)	Asia Pacific	58	–	58	nil
Total impairment of exploration and evaluation assets		1,170	–	1,170	
<b>Oil and gas assets</b>					
Cooper Basin (specific oil assets)	Eastern Australia	574	114	688	883
Cooper Basin (unconventional resources)	Eastern Australia	70	–	70	70
Mereenie	Eastern Australia	68	32	100	145
Carnarvon Basin (Stag, Barrow, Thevenard, Mutineer-Exeter/ Fletcher Finucane)	WA & NT	113	88	201	456
Vietnam (Chim São/Dua)	Asia Pacific	60	37	97	336
SE Gobe	Asia Pacific	5	2	7	nil
Total impairment of oil and gas assets		890	273	1,163	
Total impairment of non-current assets		2,060	273	2,333	

\*Recoverable amounts represent the carrying values of assets before deducting the carrying value of restoration liabilities.

The post-tax discount rates that have been applied to the above non-current assets range between 8.6% and 14.4%. The impairment charges noted above primarily result from the lower oil price environment and, in some cases, a consequential reduction in future capital expenditure that diminishes or removes the path to commercialisation. With regards to Gunnedah Basin, lower reserves and a delayed start-up were also significant contributors to a lower recoverable amount.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

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

2013 Area of interest/CGU	Segment	Subsurface assets \$million	Plant and equipment \$million	Total \$million
<b>Exploration and evaluation assets</b>				
Indonesia	Asia Pacific	5	–	5
Amadeus	Eastern Australia	1	–	1
Total impairment of exploration and evaluation assets		6	–	6
<b>Oil and gas assets</b>				
Thevenard, Jabiru Challis	WA & NT	14	12	26
Kipper	Eastern Australia	(9)	(20)	(29)
Cooper Basin (SE Queensland, conventional and near field exploration)	Eastern Australia	25	2	27
Other	Asia Pacific	(11)	(4)	(15)
Total impairment/(reversal) of oil and gas assets		19	(10)	9
Total impairment/(reversal) of non-current assets		25	(10)	15

In 2013 the Group recorded a number of minor impairment/(reversal) charges, the most significant of which was a \$29 million reversal to the Kipper CGU as a result of improved projected cash flows as the commercialisation strategy of the asset matures, and \$25 million impairment to Thevenard as a result of changes in abandonment and restoration estimates. The post-tax discount rates that have been applied to the above non-current assets range between 8.8% and 17.0%.

#### Other land, buildings, plant and equipment

At 31 December 2014, the Group reassessed the carrying amount of its other land, buildings, plant and equipment assets for indicators of impairment. As a result, no impairment charges were identified (2013: \$11 million).

15. DEFERRED TAX ASSETS AND LIABILITIES	Assets		Liabilities		Net	
	2014 \$million	2013 \$million	2014 \$million	2013 \$million	2014 \$million	2013 \$million
<b>Recognised deferred tax assets and liabilities</b>						
Deferred tax assets and liabilities are attributable to the following:						
Exploration and evaluation assets	19	16	(274)	(556)	(255)	(540)
Oil and gas assets	–	–	(721)	(613)	(721)	(613)
Other land, buildings, plant and equipment	–	6	(3)	–	(3)	6
Available-for-sale financial assets	–	–	(24)	(24)	(24)	(24)
Trade receivables	3	–	–	(3)	3	(3)
Other receivables	–	–	(7)	(6)	(7)	(6)
Inventories	–	–	(5)	(2)	(5)	(2)
Derivative financial instruments	4	–	–	(64)	4	(64)
Other assets	–	7	(16)	(10)	(16)	(3)
Interest-bearing loans and borrowings	151	100	(7)	–	144	100
Other liabilities	3	33	–	(2)	3	31
Provisions	130	271	–	–	130	271
Royalty-related taxation	–	–	(120)	(411)	(120)	(411)
Other items	–	–	(7)	(11)	(7)	(11)
Tax value of carry-forward losses recognised	303	54	–	–	303	54
Tax assets/(liabilities)	613	487	(1,184)	(1,702)	(571)	(1,215)
Set-off of tax	(590)	(475)	590	475	–	–
Net tax assets/(liabilities)	23	12	(594)	(1,227)	(571)	(1,215)
					2014 \$million	2013 \$million

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Temporary differences in relation to investments in subsidiaries	5,536	3,396
Deductible temporary differences relating to royalty-related taxation (net of income tax)	5,567	4,286
Other deductible temporary differences	172	250
Tax losses	443	390
	11,718	8,322

Deferred tax assets have not been recognised in respect of these items because it is not probable that the temporary differences will reverse in the future and that there will be sufficient future taxable profits against which the benefits can be utilised. Tax losses of \$79 million (2013: \$58 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	2014 \$million	2013 \$million
Trade payables	1,235	1,127
Non-trade payables	147	108
	1,382	1,235

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

<b>17. INTEREST-BEARING LOANS AND BORROWINGS</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>Current</b>		
Finance leases	<b>2</b>	1
Commercial paper	<b>140</b>	100
Bank loans – unsecured	<b>19</b>	17
Medium-term notes	<b>102</b>	–
Long-term notes	<b>64</b>	71
	<b>327</b>	189
<b>Non-current</b>		
Finance leases	<b>7</b>	5
Bank loans – secured	<b>2,282</b>	1,860
Bank loans – unsecured	<b>3,269</b>	1,119
Medium-term notes	<b>–</b>	105
Long-term notes	<b>777</b>	838
Subordinated notes	<b>1,590</b>	1,655
	<b>7,925</b>	5,582

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 4.32% as at 31 December 2014 (2013: 5.21%).

All borrowings are unsecured, with the exception of the secured bank loans and finance leases.

All interest-bearing loans and borrowings, with the exception of secured bank loans and 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.

### Details of major credit facilities

#### (a) Bank loans – secured

Secured assets	Year of maturity	Currency	Effective interest rate		2014 \$million	2013 \$million
			2014 %	2013 %		
PNG LNG	2024/2026	USD	<b>4.26</b>	4.73	<b>2,282</b>	1,860

#### **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 financial completion of the PNG LNG project) of December 2024 and December 2026 respectively.

During 2013 supplemental loan financing was raised by the joint venture participants. The funds were sourced from co-venturer and commercial bank lenders.

As at 31 December 2014, US\$109 million (A\$133 million) (2013: US\$313 million (A\$351 million)) of the facility limit remains undrawn.

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

### Details of major credit facilities (continued)

#### (a) Bank loans – secured (continued)

##### *PNG LNG (continued)*

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:

	2014 \$million	2013 \$million
Trade and other receivables	176	96
Oil and gas assets – Producing assets	3,498	2,994
	<b>3,674</b>	3,090

As referred to in note 7, under the terms of the project financing, cash relating to the Group's interest in undistributed project cash flows is required to be held in secured bank accounts. Funds held in these accounts attributable to the Group may be withdrawn on the provision of acceptable credit support to the lenders. As at 31 December 2014, letters of credit totalling US\$290 million (A\$354 million) (2013: nil) had been issued.

#### (b) Bank loans – unsecured

##### *Term bank loans*

Year of maturity	Currency	Effective interest rate		2014 \$million	2013 \$million
		2014 %	2013 %		
2015 – 2017	USD	0.40	0.60	59	71

Term bank loans bear interest at the relevant interbank reference rate. The amount outstanding at 31 December 2014 is US\$48 million (A\$59 million) (2013: US\$63 million (A\$71 million)).

##### *Export credit agency supported loan facilities*

At 31 December 2014, the Group had loan facilities of US\$1,730 million (A\$2,115 million) (2013: US\$1,200 million (A\$1,347 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.

Year of maturity	Currency	Effective interest rate		2014 \$million	2013 \$million
		2014 %	2013 %		
2016 – 2024	USD	2.79	3.39	2,083	966

Export credit agency loans bear interest at the relevant interbank reference rate plus a margin. The principal outstanding at 31 December 2014 is US\$1,730 million (A\$2,115 million) (2013: US\$888 million (A\$997 million)).

##### *Bilateral bank loan facility*

During the year the Group entered into an additional loan facility of A\$1,000 million which matures in 2018.

As at 31 December 2014, the Group had bilateral bank loan facilities of A\$2,050 million (2013: A\$1,050 million) and US\$1,100 million (A\$1,345 million) (2013: US\$1,100 million (A\$1,235 million)) which mature between 2016 and 2018.

As at 31 December 2014, the Group had drawn A\$1,150 million (2013: \$100 million) of these bank loan facilities.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

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

#### Details of major credit facilities (continued)

##### (c) Medium-term notes

The Group has a \$1,000 million (2013: \$1,000 million) Australian medium-term note program under which the following were issued in 2005:

Year of issue	Year of maturity	Effective interest rate		2014 \$million	2013 \$million
		2014 %	2013 %		
2005	2015	3.23	3.58	102	105

The principal outstanding at 31 December 2014 is A\$100 million (2013: A\$100 million).

##### (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 notes on issue:

Year of issue	Year of maturity	Effective interest rate		2014 \$million	2013 \$million
		2014 %	2013 %		
2000	2015	2.00	1.98	64	62
2002	2017 – 2022	1.87	1.80	105	174
2007	2017 – 2027	1.28	1.24	672	673
				841	909

Long-term notes bear interest at 6.05% to 8.44% (2013: 5.95% to 8.44%) fixed rate interest, which has been swapped to floating rate commitments. In January 2013, the Group entered into interest rate swap contracts, under which it has a right to receive interest at floating US dollar rates and pay interest at fixed US dollar interest rates. These contracts are in place to cover coupon payments through to the end of 2016.

The principal outstanding at 31 December 2014 is US\$627 million (A\$766 million) (2013: US\$688 million (A\$772 million)).

##### (e) Subordinated notes

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

Year of issue	Year of maturity	Effective interest rate		2014 \$million	2013 \$million
		2014 %	2013 %		
2010	2070	6.11	6.25	1,590	1,655

The subordinated notes accrue fixed coupons at a rate of 8.25% (2013: 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) Commercial paper

The Group has an A\$800 million (2013: A\$800 million) uncommitted, revolving Australian dollar commercial paper program. As at 31 December 2014, the Group had drawn A\$140 million (2013: A\$100 million) of commercial paper.

<b>18. PROVISIONS</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>Current</b>		
Employee benefits	<b>104</b>	96
Restoration	<b>36</b>	42
Remediation	–	2
Carbon	<b>20</b>	34
Other	<b>9</b>	11
	<b>169</b>	185
<b>Non-current</b>		
Employee benefits	<b>13</b>	12
Defined benefit obligations (refer note 28)	<b>2</b>	3
Restoration	<b>2,121</b>	1,726
Carbon	–	7
	<b>2,136</b>	1,748

#### **Movement in provisions**

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

	<b>Total restoration</b>	<b>Total remediation</b>	<b>Total carbon</b>	<b>Total</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Balance at 1 January 2014	<b>1,768</b>	<b>2</b>	<b>41</b>	<b>1,811</b>
Provisions made during the year	<b>74</b>	–	<b>29</b>	<b>103</b>
Provisions used during the year	<b>(53)</b>	<b>(2)</b>	<b>(50)</b>	<b>(105)</b>
Unwind of discount	<b>62</b>	–	–	<b>62</b>
Disposal of provision	<b>(8)</b>	–	–	<b>(8)</b>
Change in discount rate	<b>278</b>	–	–	<b>278</b>
Exchange differences	<b>36</b>	–	–	<b>36</b>
<b>Balance at 31 December 2014</b>	<b>2,157</b>	–	<b>20</b>	<b>2,177</b>

#### **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.

<b>19. OTHER FINANCIAL LIABILITIES</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>Current</b>		
Other	<b>3</b>	4
	<b>3</b>	4
<b>Non-current</b>		
Cross-currency swap contracts	<b>154</b>	–
Other	<b>27</b>	32
	<b>181</b>	32



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

<b>20. ISSUED CAPITAL</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
983,750,151 (2013: 972,088,279) listed ordinary shares, fully paid	<b>6,905</b>	6,749
43,000 (2013: 54,500) ordinary shares, paid to one cent	–	–
	<b>6,905</b>	6,749

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	2014	2013	2014	2013
		<b>Number of shares</b>		<b>\$million</b>	\$million
<b>Movement in fully paid ordinary shares</b>					
Balance at 1 January		<b>972,088,279</b>	961,184,172	<b>6,749</b>	6,608
Santos Dividend Reinvestment Plan ("DRP")		<b>10,342,340</b>	9,744,359	<b>145</b>	132
Santos Employee Share1000 Plan	29(a)	<b>111,507</b>	138,408	<b>2</b>	2
Santos Employee ShareMatch Plan	29(a)	<b>536,383</b>	501,039	<b>8</b>	6
Shares issued on exercise of options	29(b)	<b>99,400</b>	10,000	<b>1</b>	–
Shares issued on vesting of Share Acquisition Rights	29(a,b)	<b>560,742</b>	510,301	–	–
Santos ESG Employee Incentive Plan	29(c)	–	–	–	1
Santos Executive Share Plan	29(f)	<b>11,500</b>	–	–	–
<b>Balance at 31 December</b>		<b>983,750,151</b>	972,088,279	<b>6,905</b>	6,749

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 2014 was \$8.25 (2013: \$14.63).

### 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 10 business days commencing on the second business day after the Dividend Record Date. At this time, the Board has determined that a 1.5% discount will apply to the Santos Dividend Reinvestment Plan on the final dividend for the year ended 31 December 2014. The last date for the receipt of an election notice to participate in the Santos Dividend Reinvestment Plan is the record date, 27 February 2015.

### 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 December 2014, Santos Limited's corporate credit rating was lowered to BBB with negative outlook by Standard & Poor's.

<b>21. RESERVES AND RETAINED EARNINGS</b>	<b>Translation reserve \$million</b>	<b>Hedging reserve \$million</b>	<b>Total \$million</b>
<b>Reserves</b>			
Balance at 1 January 2013	(407)	(6)	(413)
Net exchange gain on translation of foreign operations	767	–	767
Net loss on foreign currency loans designated as hedges of net investments in foreign operations	(303)	–	(303)
Net loss on derivatives designated as cash flow hedges	–	(4)	(4)
<b>Balance at 31 December 2013</b>	<b>57</b>	<b>(10)</b>	<b>47</b>
Balance at 1 January 2014	<b>57</b>	<b>(10)</b>	<b>47</b>
Net exchange gain on translation of foreign operations	<b>623</b>	–	<b>623</b>
Net loss on foreign currency loans designated as hedges of net investments in foreign operations	<b>(315)</b>	–	<b>(315)</b>
Net loss on derivatives designated as cash flow hedges	–	<b>(9)</b>	<b>(9)</b>
<b>Balance at 31 December 2014</b>	<b>365</b>	<b>(19)</b>	<b>346</b>

#### **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.

##### **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**

	<b>2014 \$million</b>	2013 \$million
Balance at 1 January	<b>3,420</b>	3,163
Net (loss)/profit after tax	<b>(935)</b>	516
Remeasurement of defined benefit obligation	–	14
Share-based payments	<b>22</b>	16
Dividends paid	<b>(341)</b>	(289)
<b>Balance at 31 December</b>	<b>2,166</b>	3,420

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 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
<b>2014</b>				
Interim 2014 ordinary	20	195	Franked	30 Sep 2014
Final 2013 ordinary	15	146	Franked	26 Mar 2014
	<b>35</b>	<b>341</b>		
<b>2013</b>				
Interim 2013 ordinary	15	145	Franked	30 Sep 2013
Final 2012 ordinary	15	144	Franked	28 Mar 2013
	30	289		

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
<b>2014</b>				
Final 2014 ordinary*	15	148	Franked	25 Mar 2015
Interim 2014 ordinary	20	195	Franked	30 Sep 2014
	<b>35</b>	<b>343</b>		
<b>2013</b>				
Final 2013 ordinary	15	146	Franked	26 Mar 2014
Interim 2013 ordinary	15	145	Franked	30 Sep 2013
	30	291		

\*After the reporting date, the final 2014 ordinary dividend of 15 cents 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 2014 and will be recognised in subsequent financial reports.

	2014 \$million	2013 \$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	<b>737</b>	845

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 \$63 million (2013: \$63 million).

## 23. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit or loss 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 or loss 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 or loss after tax in the income statement as follows:

	<b>2014</b> \$million	2013 \$million
Earnings used in the calculation of basic and diluted earnings per share	<b>(935)</b>	516

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:

	<b>2014</b> Number of shares	2013
Basic earnings per share	<b>978,166,528</b>	967,518,485
Partly paid shares	-	41,933
Executive share options	-	493,628
Share acquisition rights	-	4,690,743
Diluted earnings per share	<b>978,166,528</b>	972,744,789

<b>Earnings per share attributable to the equity holders of Santos Limited</b>	<b>2014</b> ¢	2013 ¢
Basic earnings per share	<b>(95.6)</b>	53.3
Diluted earnings per share	<b>(95.6)</b>	53.0

Partly paid shares issued under the Santos Executive Share Plan, options 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 2013, but excluded in 2014 as the impact is anti-dilutive due to the net loss after tax. The number of shares included in the calculation in 2013 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 2013 was retrospectively adjusted for the effect of a 2.5% discount applicable to the Dividend Reinvestment Plan in respect of the 2013 final dividend and 2014 interim dividend.

During the year 99,400 (2013: 10,000) options, 560,742 (2013: 482,799) SARs and 11,500 (2013: 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 in 2014 is nil (2013: 134,381) as the resulting impact is anti-dilutive owing to the net loss after tax.

During the year 51,300 (2013: 142,235) options and 803,868 (2013: 737,503) 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 in 2014 is nil (2013: 25,097) as the resulting impact is anti-dilutive, owing to the net loss after tax.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 24. CONSOLIDATED ENTITIES

Name	Country of incorporation	Name	Country of incorporation
<b>Santos Limited (Parent Company)</b>	AUS	<i>Controlled entities of Santos International Holdings Pty Ltd (cont)</i>	
<b>Controlled Entities<sup>1</sup>:</b>		Santos (BBF) Pty Ltd	AUS
Alliance Petroleum Australia Pty Ltd <sup>2</sup>	AUS	<i>Controlled entities of Santos (BBF) Pty Ltd</i>	
Basin Oil Pty Ltd <sup>2</sup>	AUS	Santos (SPV) Pty Ltd	AUS
Bridgefield Pty Ltd	AUS	<i>Controlled entity of Santos (SPV) Pty Ltd</i>	
Bridge Oil Developments Pty Ltd <sup>2</sup>	AUS	Santos (Madura Offshore) Pty Ltd	AUS
Bronco Energy Pty Ltd	AUS	Santos Belida Pty Ltd	AUS
Canso Resources Pty Ltd	AUS	Santos (Donggala) Pty Ltd	AUS
Doce Pty Ltd	AUS	Santos Egypt Pty Ltd	AUS
Fairview Pipeline Pty Ltd	AUS	Santos EOM Pty Ltd	AUS
Farmout Drillers Pty Ltd	AUS	Santos Hides Ltd	PNG
Gidgealpa Oil Pty Ltd	AUS	Santos International Pte Ltd	SGP
Kipper GS Pty Ltd	AUS	Santos International Operations Pty Ltd	AUS
<i>Controlled entities of Kipper GS Pty Ltd</i>		Santos Niugini Exploration Ltd	PNG
Santos Carbon Pty Ltd	AUS	Santos OIG Pty Ltd	AUS
<i>Controlled entity of Santos Carbon Pty Ltd</i>		Santos (Papalang) Pty Ltd	AUS
SB Jethro Pty Ltd	AUS	Santos (Popodi) Pty Ltd	AUS
Moonie Pipeline Company Pty Ltd	AUS	Santos Sabah Block R Limited <sup>5</sup>	GBR
Reef Oil Pty Ltd <sup>2</sup>	AUS	Santos Sangu Field Ltd	GBR
Santos Asia Pacific Pty Ltd	AUS	Santos (UK) Limited	GBR
<i>Controlled entities of Santos Asia Pacific Pty Ltd</i>		<i>Controlled entities of Santos (UK) Limited</i>	
Santos (Sampang) Pty Ltd	AUS	Santos Northwest Natuna B.V.	NLD
Santos (Warim) Pty Ltd	AUS	Santos Sabah Block S Limited <sup>5</sup>	GBR
Santos Australian Hydrocarbons Pty Ltd	AUS	Santos Petroleum Ventures B.V.	NLD
Santos (BOL) Pty Ltd <sup>2</sup>	AUS	Santos Vietnam Pty Ltd	AUS
<i>Controlled entity of Santos (BOL) Pty Ltd</i>		Zhibek Resources Ltd <sup>1</sup>	GBR
Bridge Oil Exploration Pty Ltd	AUS	Santos (JB1) Pty Ltd	AUS
Santos Browse Pty Ltd	AUS	<i>Controlled entities of Santos (JB1) Pty Ltd</i>	
Santos CSG Pty Ltd	AUS	Santos (JB2) Pty Ltd	AUS
Santos Darwin LNG Pty Ltd <sup>2</sup>	AUS	<i>Controlled entity of Santos (JB2) Pty Ltd</i>	
Santos Direct Pty Ltd	AUS	Shaw River Power Station Pty Ltd	AUS
Santos Facilities Pty Ltd	AUS	Santos (JPDA 06-104) Pty Ltd	AUS
Santos Finance Ltd	AUS	Santos (JPDA 91-12) Pty Ltd	AUS
Santos GLNG Pty Ltd	AUS	Santos (NARNL Cooper) Pty Ltd <sup>2</sup>	AUS
<i>Controlled entity of Santos GLNG Pty Ltd</i>		Santos NSW Pty Ltd	AUS
Santos GLNG Corp	USA	<i>Controlled entities of Santos NSW Pty Ltd</i>	
Santos (Globe) Pty Ltd	AUS	Santos NSW (Betel) Pty Ltd	AUS
Santos International Holdings Pty Ltd	AUS	Santos NSW (Hillgrove) Pty Ltd	AUS
<i>Controlled entities of Santos International Holdings Pty Ltd</i>		Santos NSW (Holdings) Pty Ltd	AUS
Barracuda Ltd	PNG	<i>Controlled entities of Santos NSW (Holdings) Pty Ltd</i>	
CJSC South Petroleum Company <sup>1</sup>	KGZ	Santos NSW (LNGN) Pty Ltd	AUS
Lavana Ltd	PNG	Santos NSW (Pipeline) Pty Ltd	AUS
Sanro Insurance Pte Ltd	SGP	Santos NSW (Sales) Pty Ltd	AUS
Santos Americas and Europe Corporation	USA	Santos NSW (Narrabri Energy) Pty Ltd	AUS
<i>Controlled entities of Santos Americas and Europe Corp</i>		<i>Controlled entities of Santos NSW (Narrabri Energy) Pty Ltd</i>	
Santos TPY Corp	USA	Santos NSW (Eastern) Pty Ltd	AUS
<i>Controlled entities of Santos TPY Corp</i>		Santos NSW (Sulu) Pty Ltd	AUS
Santos Queensland Corp	USA	Santos NSW (Tooncomet) Pty Ltd	AUS
Santos TOG Corp	USA	Santos NSW (Narrabri Power) Pty Ltd	AUS
<i>Controlled entities of Santos TOG Corp</i>		Santos NSW (Operations) Pty Ltd	AUS
Santos TOGA Pty Ltd	AUS	Santos (N.T.) Pty Ltd	AUS
Santos TPY CSG Corp	USA	<i>Controlled entity of Santos (N.T.) Pty Ltd</i>	
Santos Bangladesh Ltd	GBR	Bonaparte Gas & Oil Pty Ltd	AUS
Santos Baturaja Pty Ltd	AUS		

## 24. CONSOLIDATED ENTITIES (continued)

Name	Country of incorporation	Name	Country of incorporation
Santos Offshore Pty Ltd <sup>2</sup>	AUS	<i>Controlled entities of Santos QNT (No. 2) Pty Ltd</i>	
Santos Petroleum Pty Ltd <sup>2</sup>	AUS	<i>(cont)</i>	
Santos QLD Upstream Developments Pty Ltd	AUS	Santos Upstream Pty Ltd	AUS
Santos QNT Pty Ltd <sup>2</sup>	AUS	Santos TPC Pty Ltd	AUS
<i>Controlled entities of Santos QNT Pty Ltd</i>		Santos Wilga Park Pty Ltd	AUS
Outback Energy Hunter Pty Ltd	AUS	Santos Resources Pty Ltd	AUS
Santos QNT (No. 1) Pty Ltd <sup>2</sup>	AUS	Santos (TGR) Pty Ltd	AUS
<i>Controlled entities of Santos QNT (No. 1) Pty Ltd</i>		Santos Timor Sea Pipeline Pty Ltd	AUS
Santos Petroleum Management Pty Ltd	AUS	Santos Ventures Pty Ltd	AUS
Santos Petroleum Operations Pty Ltd	AUS	(formerly Santos International Ventures Pty Ltd)	
TMOG Exploration Pty Ltd	AUS	SESAP Pty Ltd	AUS
Santos QNT (No. 2) Pty Ltd <sup>2</sup>	AUS	Vamgas Pty Ltd <sup>2</sup>	AUS
<i>Controlled entities of Santos QNT (No. 2) Pty Ltd</i>			
Moonie Oil Pty Ltd	AUS		
Petromin Pty Ltd	AUS		
Santos (299) Pty Ltd (in liquidation)	AUS		
Santos Exploration Pty Ltd	AUS		
Santos Gnuco Pty Ltd	AUS		

### Notes

- Beneficial interests in all controlled entities are 100%, except:
  - CJSC South Petroleum Company (70%); and
  - Zhibek Resources Ltd (75%).
- Company is party to a Deed of Cross Guarantee. Refer note 36.
- Company incorporated during the year.

### 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

### (a) Acquisitions

During the financial year the following controlled entities were acquired and their operating results have been included in the income statement from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest acquired %	Purchase consideration \$million	Contribution to consolidated profit since acquisition \$million
Outback Energy Hunter Pty Ltd	29 October 2014	100%	8	–
Outback Energy Hunter Pty Ltd owns a 35% entitlement of the PEL570 licence.				
Reconciliation to cash (inflow)/outflow from payments for acquisition of controlled entities:				
Cash paid				8
Net cash acquired with subsidiaries				–
Total cash paid for current year acquisition				8
Deferred consideration paid				–
Net consolidated cash outflow				8

There were no acquisitions of controlled entities during 2013.

### (b) Disposal of controlled entity

There were no disposals of controlled entities during 2014.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 26. JOINT ARRANGEMENTS

#### (a) Joint operations

The following are the material joint operations in which the Group has an interest:

Joint operation	Cash-generating unit	Principal activities	Interest 2014 %	Interest 2013 %
<b>Oil and gas assets – Producing assets</b>				
Bayu-Undan	Bayu-Undan	Gas and liquids production	11.5	11.5
Casino	Casino	Gas production	50.0	50.0
Chim São	Vietnam (Block 12W)	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	37.5	37.5
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
Fletcher	Mutineer-Exeter	Oil production	50.0	50.0
Finucane	Mutineer-Exeter	Oil production	37.5	37.5
PNG LNG	PNG LNG	Gas and liquids production	13.5	13.5
Spar WA-45-L	Varanus Island	Gas production	45.0	45.0
<b>Oil and gas assets – Assets in development</b>				
GLNG Downstream	GLNG	LNG facilities in development	30.0	30.0
Kipper	Kipper	Gas development	35.0	35.0
<b>Exploration and evaluation assets</b>				
EPP43	Ceduna Basin	Contingent oil or gas resource	50.0	–
EP161, 162 and 189	McArthur Basin	Contingent gas resource	50.0	–
Caldita/Barossa	–	Contingent gas resource	25.0	25.0
Tern & Frigate	–	Gas development	40.0	40.0
Petrel	–	Gas development	35.0	35.0
PEL1 and 12	–	Contingent gas resource	65.0	65.0
PEL238 and PAL2	–	Contingent gas resource	80.0	80.0
PEL238 and PAL2 (Conventional)	–	Contingent gas resource	69.2	69.2
Northwest Natuna	–	Oil resource	50.0	50.0
WA-274-P	–	Gas development	30.0	30.0
WA-323-P	–	Contingent gas resource	75.0	75.0
WA-49-R	–	Contingent gas resource	24.8	24.8

## 26. JOINT ARRANGEMENTS (CONTINUED)

### (b) Share of investments in joint ventures

The Group recognises its interests in the following joint ventures using the equity method of accounting:

Joint venture	Interest 2014 %	Interest 2013 %
CJSC KNG Hydrocarbons	–	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

The Group's only material joint venture is Darwin LNG Pty Ltd, which is accounted for using the equity method in the consolidated financial report. Darwin LNG Pty Ltd operates the Darwin LNG liquefaction facility which currently processes gas from the Bayu Undan gas fields.

Summarised financial information of the joint venture, based on the amounts presented in its financial statements, and a reconciliation to the carrying amount of the investment in the consolidated financial statements, are set out below:

Name of entity	Place of business or incorporation	% of ownership interest		Nature of relationship	Measurement method	Quoted* fair value	
		2014 %	2013 %			2014	2013
Darwin LNG Pty Ltd	Australia	11.5	11.5	Joint venture	Equity method	–	–

\* Private entity – no quoted price is available.



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 26. JOINT ARRANGEMENTS (CONTINUED)

#### (b) Share of investments in joint ventures (continued)

	Darwin LNG Pty Ltd	
	2014	2013
	\$million	\$million
<b>Summarised balance sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	65	128
Other current assets	286	216
<b>Total current assets</b>	<b>351</b>	344
<b>Non-current assets</b>		
	<b>880</b>	883
<b>Current liabilities</b>		
Financial liabilities (excluding trade payables)	150	147
Other current liabilities	182	182
<b>Total current liabilities</b>	<b>332</b>	329
<b>Non-current liabilities</b>		
Other non-current liabilities	52	54
<b>Total non-current liabilities</b>	<b>52</b>	54
<b>Net assets</b>		
	<b>847</b>	844
<b>Reconciliation to carrying amount</b>		
<b>Opening net assets 1 January</b>	<b>844</b>	769
Profit for the period	141	115
Exchange gain on translation of foreign operations	67	124
Reduction in capital	(65)	(63)
Dividends paid	(140)	(101)
<b>Closing net assets</b>	<b>847</b>	844
Group's share (%)	11.5	11.5
Group's share of closing net assets (\$million)	97	97
Carrying amount of investments in joint ventures (\$million)	97	97
<b>Summarised statement of comprehensive income</b>		
Revenue	3,317	3,029
Depreciation and amortisation	(133)	(101)
Income tax expense	(67)	(44)
<b>Profit for the period</b>	<b>141</b>	115
Other comprehensive income	67	124
<b>Total comprehensive income</b>	<b>208</b>	239
Dividends received from joint venture	16	12

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## 26. JOINT ARRANGEMENTS (CONTINUED)

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### (b) Share of investments in joint ventures (continued)

Individually immaterial joint ventures	2014 \$million	2013 \$million
In addition to its interest in the joint venture disclosed above, the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.		
Aggregate carrying amount of individually immaterial joint ventures*	–	13
Aggregate amounts of the Group's share of:		
Profit for the period	1	1
Other comprehensive income	–	–
<b>Total comprehensive income</b>	<b>1</b>	<b>1</b>

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

Capital expenditure commitments	<b>1,302</b>	1,535
Minimum exploration commitments	<b>608</b>	247

\* At 31 December 2014 the Group reassessed the carrying amount of its investments in joint ventures for indicators of impairment. As a result, the recoverable amount of the investment in Easternwell Drilling was reassessed, resulting in an impairment loss of \$14 million (2013: \$nil).

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# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

27. NOTES TO THE STATEMENT OF CASH FLOWS	2014 \$million	2013 \$million
<b>(a) Reconciliation of cash flows from operating activities</b>		
<b>(Loss)/profit after income tax</b>	<b>(935)</b>	516
Add/(deduct) non-cash items:		
Depreciation and depletion	<b>988</b>	888
Exploration and evaluation expensed	<b>95</b>	90
Net impairment loss on exploration and evaluation assets	<b>1,170</b>	6
Net impairment loss on oil and gas assets	<b>1,163</b>	9
Net impairment loss on receivables	<b>9</b>	–
Net impairment loss on investments in joint ventures	<b>14</b>	–
Net impairment loss on other land, buildings, plant and equipment	<b>–</b>	11
Net gains on fair value hedges	<b>(63)</b>	(9)
Share-based payment expense	<b>24</b>	18
Unwind of the effect of discounting on provisions	<b>62</b>	62
Change in fair value of financial assets designated as at fair value through profit or loss	<b>4</b>	2
Defined benefit plan expense	<b>2</b>	1
Foreign exchange losses/(gains)	<b>5</b>	(24)
Net gain on sale of exploration and evaluation assets	<b>–</b>	(9)
Net (gain)/loss on sale of oil and gas assets	<b>(5)</b>	(7)
Net loss on sale of other land, buildings, plant and equipment	<b>1</b>	2
Share of net profit of joint ventures	<b>(17)</b>	(14)
Amortisation of prepaid loan transaction costs	<b>11</b>	7
Net cash provided by operating activities before changes in assets or liabilities	<b>2,528</b>	1,549
Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
Decrease/(increase) in trade and other receivables	<b>155</b>	(94)
Increase in inventories	<b>(12)</b>	(100)
Increase in other assets	<b>(42)</b>	(80)
(Decrease)/increase in net deferred tax liabilities	<b>(669)</b>	251
Decrease in current tax liabilities	<b>(52)</b>	(75)
(Decrease)/increase in trade and other payables	<b>(50)</b>	151
(Decrease)/increase in provisions	<b>(15)</b>	26
<b>Net cash provided by operating activities</b>	<b>1,843</b>	1,628
<b>(b) Non-cash financing and investing activities</b>		
Santos Dividend Reinvestment Plan	<b>145</b>	132
<b>(c) Total taxation paid</b>		
<b>Income taxes paid</b>		
Cash outflow from operating activities	<b>(115)</b>	(188)
Cash outflow from investing activities	<b>–</b>	(8)
<b>Royalty-related taxation paid</b>		
Cash outflow from operating activities	<b>(49)</b>	(36)
	<b>(164)</b>	(232)
<b>(d) Total borrowing costs paid</b>		
Cash outflow from operating activities	<b>(49)</b>	–
Cash outflow from investing activities	<b>(223)</b>	(218)
	<b>(272)</b>	(218)

## 28. 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.

The Superannuation Industry (Supervision) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The Superannuation Industry (Supervision) Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

The Santos Superannuation Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. Funding levels are reviewed regularly. Where assets are less than vested benefits, being those payable upon exit, a management plan must be formed to restore the coverage to at least 100%. Responsibility for governance of the Santos Superannuation Plan, including investment decisions and plan rules, rests solely with the Trustee. The defined contribution section receives fixed contributions from the Group.

The Santos Superannuation Plan is exposed to Australia's inflation and interest rate risks and changes in the life expectancy of members.

	2014 \$million	2013 \$million
<b>Amount recognised in the statement of financial position</b>		
Deficit in plan recognised in non-current provisions (refer note 18)	2	3
Non-current receivables	-	(1)
	<b>2</b>	<b>2</b>
<b>Movements in the liability for net defined benefit obligations recognised in the statement of financial position</b>		
Liability at 1 January	2	24
Expense recognised in income statement	2	1
Amount capitalised in oil and gas assets	2	2
Amount recognised in retained earnings	-	(20)
Employer contributions	(4)	(5)
<b>Liability at 31 December</b>	<b>2</b>	<b>2</b>
<b>Expense recognised in the income statement</b>		
Service cost	2	2
Net interest income	-	(1)
	<b>2</b>	<b>1</b>
<b>The expense is recognised in the following line item in the income statement:</b>		
Cost of sales	2	1
<b>Amounts recognised in other comprehensive income</b>		
Remeasurement of defined benefit obligation	-	20
Tax effect	-	(6)
Net remeasurement of defined benefit obligation in the year	-	14
Cumulative net remeasurement of defined benefit obligation recognised in other comprehensive income, net of tax	<b>(8)</b>	<b>(8)</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

28. EMPLOYEE BENEFITS (CONTINUED)	2014 \$million	2013 \$million
<b>(a) Defined benefit plan (continued)</b>		
<b>Reconciliation of the fair value of plan assets</b>		
Opening fair value of plan assets	155	150
Expected return on plan assets, excluding interest income	8	16
Interest income	6	4
Employer contributions	7	8
Contributions by plan participants	4	3
Benefits paid	(15)	(25)
Taxes and premiums paid	(2)	(2)
Transfers in	–	1
Closing fair value of plan assets	<b>163</b>	155
<b>Reconciliation of the present value of the defined benefit obligations</b>		
Opening defined benefit obligations	158	190
Service cost	6	6
Interest cost	6	3
Contribution by plan participants	4	3
Actuarial loss/(gain) arising from changes in financial assumptions	8	(18)
Benefits paid	(15)	(25)
Transfers in	–	1
Taxes and premiums paid	(2)	(2)
Closing defined benefit obligations	<b>165</b>	158
<b>Fair value of plan assets</b>		
All plan assets are held within investment funds which do not have a quoted market price in an active market.		
The fair value of plan assets includes no amounts relating to:		
<ul style="list-style-type: none"> <li>• any of the Group's own financial instruments; or</li> <li>• any property occupied by, or other assets used by, the Group.</li> </ul>		
<b>Actuarial assumptions</b>		
The principal actuarial assumptions at reporting date (expressed as weighted averages) are as follows:		
	2014 % p.a.	2013 % p.a.
<b>Defined benefit superannuation expense</b>		
Discount rate	4.2	2.9
Expected average salary increase rate over the life of the plan	4.0	5.0
<b>Defined benefit obligation</b>		
Discount rate	2.9	4.2
Expected average salary increase rate over the life of the plan	4.0	4.0

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## 28. EMPLOYEE BENEFITS (CONTINUED)

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### (a) Defined benefit plan (continued)

The sensitivity of the defined benefit obligation to changes in the assumptions set out above is:

	Impact on defined benefit obligation	
	0.5% increase	0.5% decrease
	\$million	\$million
Discount rate	(4)	4
Expected average salary increase rate over the life of the plan	3	(3)

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The above sensitivities are based on the last full actuarial valuation at 31 December 2014 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned.

### Expected contributions

The Group expects to contribute \$1 million to the defined benefit superannuation plan in 2015 (2014: \$5 million).

	2015	2014
	\$million	\$million
Expected defined benefit payment for the year ending:		
within one year	17	21
between two and five years	82	84
after five years	76	77
Total expected defined benefit payments	175	182

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The weighted average duration of the defined benefit obligation is 6.3 years (2013: 5.8 years).

### (b) Defined contribution plans

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was \$12 million (2013: \$13 million).

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# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS

#### (a) Current general employee share plans

The Company operated two general employee share plans in 2014:

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

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

#### Share1000 Plan

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

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

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

Date	Issued shares	Fair value per share Number	\$
<b>2014</b>			
21 Jan 2014		5,037	14.3508
1 Jul 2014		106,470	14.1598
		111,507	
<b>2013</b>			
3 Jan 2013		13,528	11.1618
1 Jul 2013		124,880	12.3542
		138,408	

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:

	2014 \$000	2013 \$000
Employee expenses	1,580	1,694
Issued ordinary share capital	1,580	1,694

## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (a) Current general employee share plans (continued)

#### ShareMatch Plan

The ShareMatch Plan was also introduced in 2010 as an alternative to the Share1000 Plan with the first issue of shares pursuant to the plan being made in 2011. The ShareMatch Plan provides an opportunity for eligible employees to purchase shares through salary sacrifice, up to a maximum value of \$5,000, and to receive a matched Share Acquisition Right ("SAR") at a ratio set by the Board and with vesting subject to conditions of service. The salary sacrifice deductions are made over a maximum 12-month period.

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. In 2014, the restriction period of two-and-a-half and three years that applied to the SARs issued under the ShareMatch Plan in 2011 and 2012 expired and the SARs were converted into issued shares.

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

Date	Issued shares Number	Fair value per share \$
<b>2014</b>		
21 Jan 2014	35,412	14.3508
1 Jul 2014	500,971	14.1598
	536,383	
<b>2013</b>		
3 Jan 2013	56,319	11.1618
1 Jul 2013	444,720	12.3542
	501,039	

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

Original tranche	Reallocated tranche	Number of shares
<b>2014</b>		
1 Jul 2013	21 Jan 2014	491
1 Jul 2013	1 Jul 2014	501
21 Jan 2014	1 Jul 2014	70
		1,062
<b>2013</b>		
4 Jan 2012	1 Jul 2013	402
2 Jul 2012	3 Jan 2013	2,930
2 Jul 2012	3 Jan 2013	163
2 Jul 2012	1 Jul 2013	639
3 Jan 2013	1 Jul 2013	376
		4,510

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.



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

#### (a) Current general employee share plans (continued)

During the year the Company issued \$8 million (2013: \$6 million) of share capital under the ShareMatch Plan. Cash of \$7 million (2013: \$6 million) was received from employees under loan arrangements. The movement in loans receivable from employees during the year was:

	2014 \$000	2013 \$000
Employee loans at 1 January	2,807	2,439
Ordinary share capital issued during the year	7,617	6,175
Cash received during the year	(6,813)	(5,807)
<b>Employee loans at 31 December</b>	<b>3,611</b>	<b>2,807</b>

During the financial year, the Company granted 537,445 (2013: 505,549) 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
<b>2014</b>							
R18	2014	21 Jul 2016	–	35,903	(2,227)	(626)	33,050
R19	2014	1 Jul 2016	–	501,542	(10,165)	(7,343)	484,034
R04 – R06	2011	4 Jul 2014	284,717	–	(3,262)	(281,455)	–
R07 – R09	2012	4 Jul 2014	35,615	–	(1,045)	(34,570)	–
R10 – R12	2012	2 Jul 2015	413,395	–	(16,424)	(11,136)	385,835
R13 – R15	2013	3 Jul 2015	54,362	–	(2,458)	(4,917)	46,987
R16 – R17	2013	1 Jul 2016	438,744	–	(14,330)	(12,590)	411,824
<b>Total</b>			<b>1,226,833</b>	<b>537,445</b>	<b>(49,911)</b>	<b>(352,637)</b>	<b>1,361,730</b>
<b>2013</b>							
R13 – R15	2013	3 Jul 2015	–	59,412	(3,128)	(1,922)	54,362
R16 – R17	2013	1 Jul 2016	–	446,137	(5,373)	(2,020)	438,744
R01 – R03	2011	4 Jul 2013	276,217	–	(4,517)	(271,700)	–
R04 – R06	2011	4 Jul 2014	305,808	–	(13,141)	(7,950)	284,717
R07 – R09	2012	4 Jul 2014	39,828	–	(3,007)	(1,206)	35,615
R10 – R12	2012	2 Jul 2015	446,033	–	(20,696)	(11,942)	413,395
<b>Total</b>			<b>1,067,886</b>	<b>505,549</b>	<b>(49,862)</b>	<b>(296,740)</b>	<b>1,226,833</b>

## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (a) Current general employee share plans (continued)

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.

Matched SARs grant	2014	
	R18	R19
Fair value at grant date (\$)	<b>13.69</b>	<b>13.13</b>
Share price on grant date (\$)	<b>14.41</b>	<b>14.32</b>
Exercise price (\$)	<b>nil</b>	<b>nil</b>
Right life (weighted average, years)	<b>2.5</b>	<b>3.0</b>
Expected dividends (% p.a.)	<b>2.1</b>	<b>2.9</b>
	2013	
Matched SARs grant	R13 – R15	R16 – R17
Fair value at grant date (\$)	10.66	11.44
Share price on grant date (\$)	11.37	12.30
Exercise price (\$)	nil	nil
Right life (weighted average, years)	2.5	3.0
Expected dividends (% p.a.)	2.6	2.4
	2014	
	<b>\$000</b>	2013
		<b>\$000</b>
Employee expenses	<b>5,090</b>	4,576
Retained earnings	<b>5,090</b>	4,576

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:

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

#### (b) Executive Long-term Incentive Program

The Company's Executive Long-term Incentive ("LTI") Program provides for invitations to be extended to eligible executives selected by the Board. The Program 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.

If an employee resigns or ceases employment by summary dismissal, unvested SARs and options will in general lapse and be forfeited. However, if cessation occurs in certain circumstances including death, disability or redundancy, 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). The Board has an overriding discretion in all these circumstances. Where there is a change in control, the Board may determine whether, and the extent to which, SARs and options may vest.

The 2014 LTI Program 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 Program. Performance Awards only were granted to eligible executives in 2014 who were granted two grants of SARs, a three-year grant (1 January 2014 – 31 December 2016) and a four-year grant (1 January 2014 – 31 December 2017).

In each of the three-year and four-year grants, 75% of the SARs are subject to Santos' Total Shareholder Return ("TSR") relative to the performance of the ASX 100 companies ("ASX 100 comparator group") over the performance period.

In each of the three-year and four-year grants, 25% of the SARs are subject to Santos' TSR relative to the performance of the Standard & Poor's Global 1200 Energy Index companies ("S&P GEI comparator group") over the performance period.

#### **Vesting of Performance Awards**

All Performance Awards are subject to hurdles based on the Company's 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:

<b>Grants J1 – J6, K1, K2, K5</b>		<b>Grants L1, L5</b>	
<b>TSR percentile ranking</b>	<b>% of grant vesting</b>	<b>TSR percentile ranking</b>	<b>% of grant vesting</b>
< 50th percentile	–	< 51st percentile	–
= 50th percentile	50	= 51st percentile	51
51st to 75th percentile	Further 2.0% for each percentile	52nd to 75th percentile	Further 2.0% for each percentile over 52nd
>= 75th percentile	100	>= 75th percentile	100 over 76th

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## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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### (b) Executive Long-term Incentive Program (continued)

#### ***Vesting of Performance Awards***

Performance Awards are subject to hurdles based on the Company's TSR relative to the ASX over a four-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:

<b>TSR percentile ranking</b>	<b>Grants L3, L7 % of grant vesting</b>
< 51st percentile	–
= 51st percentile	51
52nd to 75th percentile	Further 2.0% for each percentile over 52nd
>= 75th percentile	100 over 76th

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#### ***Vesting of Performance Awards***

Performance Awards are subject to hurdles based on the Company's TSR relative to the S&P GEI Comparator Group 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:

<b>TSR percentile ranking</b>	<b>Grants L2, L6 % of grant vesting</b>
< 51st percentile	–
= 51st percentile	51
52nd to 75th percentile	Further 2.0% for each percentile over 52nd
>= 75th percentile	100 over 76th

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#### ***Vesting of Performance Awards***

Performance Awards are subject to hurdles based on the Company's TSR relative to the S&P GEI Comparator Group over a four-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:

<b>TSR percentile ranking</b>	<b>Grants L4, L8 % of grant vesting</b>
< 51st percentile	–
= 51st percentile	51
52nd to 75th percentile	Further 2.0% for each percentile over 52nd
>= 75th percentile	100 over 76th

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#### ***Vesting of Deferred Awards***

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

The last tranche of Deferred Awards under the regular Executive LTI Program was granted in March 2011. Since then no further Deferred Awards have been granted as part of the regular Executive LTI Program. From time to time, an ad-hoc LTI grant may be made to a specific executive, usually for retention purposes.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

#### (b) Executive Long-term Incentive Program (continued)

##### Restriction period

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 10 years after the original grant date. No amount is payable on grant or vesting of the 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
<b>2014 Performance</b>							
L1 – L2	2014	31 Dec 2016	–	1,612,141	(28,120)	–	1,584,021
L3 – L4	2014	31 Dec 2017	–	1,644,649	(53,465)	–	1,591,184
L5 – L6	2014	31 Dec 2016	–	277,665	–	–	277,665
L7 – L8	2014	31 Dec 2017	–	283,264	–	–	283,264
K1 – K2	2013	31 Dec 2015	1,401,808	–	(69,131)	–	1,332,677
K5	2013	31 Dec 2015	243,652	–	–	–	243,652
J1 – J3	2012	31 Dec 2014	1,129,835	–	(20,107)	–	1,109,728
J4 – J6	2012	31 Dec 2014	193,935	–	–	–	193,935
I1 – I3	2011	31 Dec 2013	424,069	–	(424,069)	–	–
I4 – I6	2011	31 Dec 2013	157,232	–	(157,232)	–	–
<b>Deferred</b>							
K3	2013	28 Feb 2014	5,573	–	–	(5,573)	–
K4	2013	31 Aug 2015	15,127	–	–	–	15,127
DI1 – DI3	2011	28 Feb 2014	204,365	–	(1,833)	(202,532)	–
<b>Total</b>			<b>3,775,596</b>	<b>3,817,719</b>	<b>(753,957)</b>	<b>(208,105)</b>	<b>6,631,253</b>
<b>2013 Performance</b>							
K1 – K2	2013	31 Dec 2015	–	1,438,721	(36,913)	–	1,401,808
K5	2013	31 Dec 2015	–	243,652	–	–	243,652
J1 – J3	2012	31 Dec 2014	1,231,938	–	(102,103)	–	1,129,835
J4 – J6	2012	31 Dec 2014	193,935	–	–	–	193,935
I1 – I3	2011	31 Dec 2013	476,643	–	(52,574)	–	424,069
I4 – I6	2011	31 Dec 2013	157,232	–	–	–	157,232
H4	2010	31 Aug 2013	40,000	–	(40,000)	–	–
H1	2010	31 Dec 2012	397,496	–	(397,496)	–	–
F5	2008	31 Dec 2012	50,403	–	(50,403)	–	–
<b>Deferred</b>							
K3	2013	28 Feb 2014	–	5,573	–	–	5,573
K4	2013	31 Aug 2015	–	15,127	–	–	15,127
DI1 – DI3	2011	28 Feb 2014	224,271	–	(10,720)	(9,186)	204,365
H2	2010	1 Mar 2013	206,317	–	(1,942)	(204,375)	–
<b>Total</b>			<b>2,978,235</b>	<b>1,703,073</b>	<b>(692,151)</b>	<b>(213,561)</b>	<b>3,775,596</b>

## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (b) Executive Long-term Incentive Program (continued)

The Company has not granted options over unissued shares under the Executive Long-term Incentive Program since 2009. The information as set out below relates to options issued under the Executive Long-term Incentive Program 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 the end of the year Number
<b>2014</b>							
<b>Vested in prior years</b>			<b>4,142,738</b>	<b>(51,300)</b>	<b>(99,400)</b>	<b>3,992,038</b>	<b>3,992,038</b>
Weighted average exercise price (\$)			<b>12.31</b>	<b>15.39</b>	<b>10.48</b>	<b>12.31</b>	<b>12.31</b>
<b>2013</b>							
<b>Performance</b>							
F5	2008	31 Dec 2012	131,976	(131,976)	–	–	–
<b>Vested in prior years</b>			4,162,997	(10,259)	(10,000)	4,142,738	4,142,738
<b>Total</b>			4,294,973	(142,235)	(10,000)	4,142,738	4,142,738
Weighted average exercise price (\$)			12.46	17.20	10.48	12.31	12.31

The options outstanding at 31 December 2014 have an exercise price in the range of \$8.46 to \$17.36 and a weighted average remaining contractual life of 1.9 years (2013: 2.9 years).

During the year 99,400 (2013: 10,000) options were exercised with an exercise price of \$10.48.

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:

	<b>2014</b>	2013
	<b>\$000</b>	\$000
Issued ordinary share capital	<b>1,042</b>	105

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

#### (b) Executive Long-term Incentive Program (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:

Performance Awards	2014							
	L1	L2	L3	L4	L5	L6	L7	L8
Fair value at grant date (\$)	6.68	6.55	7.40	7.37	8.03	8.28	8.41	8.70
Share price on grant date (\$)	13.69	13.69	13.69	13.69	14.55	14.55	14.55	14.55
Exercise price (\$)	nil	nil	nil	nil	nil	nil	nil	nil
Expected volatility (weighted average, % p.a.)	26.5	26.5	31.0	31.0	25.9	25.9	30.2	30.2
Right life (weighted average, years)	3	3	4	4	3	3	4	4
Expected dividends (% p.a.)	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	2.9	2.9	3.2	3.2	2.7	2.7	2.9	2.9

Performance Awards	2013	
	K1 – K2	K5
Fair value at grant date (\$)	8.14	9.14
Share price on grant date (\$)	12.29	12.93
Exercise price (\$)	nil	nil
Expected volatility (weighted average, % p.a.)	28.4	28.4
Right life (weighted average, years)	3.0	3.0
Expected dividends (% p.a.)	2.4	2.3
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	2.8	2.5

##### 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 Program were:

	2014	2013
	\$000	\$000
Employee expenses:		
SARs	16,557	11,575
Options	–	(25)
Total employee expenses	16,557	11,550
Retained earnings	16,557	11,550

## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (b) Executive Long-term Incentive Program (continued)

#### *Cash-settled share-based payments (continued)*

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 Program were:

	<b>2014</b>	2013
	<b>\$000</b>	\$000
Balance of liability at 1 January	<b>1,590</b>	1,693
Employee expenses	–	–
Revaluation	<b>(68)</b>	(92)
Cash payments	–	(11)
<b>Balance of liability at 31 December</b>	<b>1,522</b>	1,590
Intrinsic value of vested liability	<b>1,522</b>	1,590

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

Santos acquired Eastern Star Gas Limited (“ESG”), (now Santos NSW Pty Ltd), 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 2014 no employee loans were repaid (2013: \$1 million). At 31 December 2014, loans were still outstanding in respect of 84,290 (2013: 84,290) shares at a weighted average exercise price of \$13.57 (2013: \$13.57). The weighted average remaining contractual life for the outstanding employee loans in respect of these shares is 0.19 years (2013: 1.1 years). The range of exercise prices for shares outstanding at the end of the year was \$11.48 to \$15.26 (2013: \$11.48 to \$15.26).

#### **Valuation of Santos ESG Plan Shares**

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



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

##### Valuation of Santos ESG Plan Shares (continued)

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 CEO Strategy Grant

In 2012 the Company granted 205,339 SARs to the CEO under the Santos Employee Equity Incentive Plan ("SEEIP"), referred to as the 2012–2015 Four-year CEO 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.

##### 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 the 2012–2015 Four-year CEO Strategy Grant granted during 2012:

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

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

	2014 \$000	2013 \$000
Employee expenses	370	364
Retained earnings	370	364

## 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

### (e) 2013–2015 Three-year Executive Strategy Grant

In 2013 the Company granted 20,829 SARs under the SEEIP, referred to as the 2013–2015 Three-year Executive Strategy Grant.

The award is split into three equal tranches with separate performance targets that relate to GLNG Start up, GLNG Cost and Operations Integrity, similar to the corresponding targets in the 2012–2015 Four-year CEO Strategy Grant in note 29(d).

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 recipient 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 2015.

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

#### Valuation of SARs

The following table includes the valuation assumptions used for the 2013–2015 Three-year Executive Strategy Grant granted during the current year:

2013–2015 Three-year Executive Strategy Grant	2013
Fair value at grant date (\$)	11.81
Share price on grant date (\$)	12.59
Exercise price (\$)	nil
Right life (weighted average, years)	2.7
Expected dividends (% p.a.)	2.38

The amounts recognised in the financial statements of the Group during the financial year in relation to the 2013–2015 Three-year Executive Strategy Grant were:

	2014 \$000	2013 \$000
Employee expenses	68	49
Retained earnings	68	49

### (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 54,500 SESP shares on issue. During the financial year, 11,500 (2013: nil) SESP shares were fully paid and \$32,885 (2013: \$nil) was received by the Company. As at 31 December 2014 there were 43,000 (2013: 54,500) 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 2014, the total number of shares acquired under SESEP since its commencement was 220,912 (2013: 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 the beginning of the financial year there were 3,890 SESEP shares on issue. During the financial year, the restrictions were removed due to the maximum of 10 years after the original grant date, expired. At 31 December 2014, nil shares (2013: 3,890) remain on trust applicable to the 2004 grant.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 29. SHARE-BASED PAYMENT PLANS (CONTINUED)

#### (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 10 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 2014, 2013, 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 2014, 43,919 (2013: 46,279) are still subject to restrictions, for periods up to 2020.

#### (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	2014 \$000	2013 \$000
Statement of financial position:			
Current general employee share plans – ShareMatch Plan	29(a)	7,617	6,175
Executive long-term incentive program:			
Share options	29(b)	1,042	105
Cash-settled	29(b)	68	92
		<b>8,727</b>	6,372
Issued capital:			
Current general employee share plans:			
Share1000 Plan	29(a)	1,580	1,694
ShareMatch Plan	29(a)	7,617	6,175
Executive long-term incentive program – share options	29(b)	1,042	105
		<b>10,239</b>	7,974
Retained earnings:			
Current general employee share plans – matched SARs	29(a)	5,090	4,576
Executive long-term incentive program – equity settled	29(b)	16,557	11,550
2012–2015 Four-year CEO Strategy Grant	29(d)	370	364
2013–2015 Three-year Executive Strategy Grant	29(e)	68	49
		<b>22,085</b>	16,539
Employee expenses:			
Current general employee share plans:			
Share1000 Plan	29(a)	(1,580)	(1,694)
Matched SARs	29(a)	(5,090)	(4,576)
Executive long-term incentive program:			
Equity-settled	29(b)	(16,557)	(11,550)
Cash-settled	29(b)	68	92
2012–2015 Four-year CEO Strategy Grant	29(d)	(370)	(364)
2013–2015 Three-year Executive Strategy Grant	29(e)	(68)	(49)
		<b>(23,597)</b>	(18,141)
		<b>8,727</b>	6,372

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### 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

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#### (a) Key management personnel compensation

	2014 \$000	2013 \$000
Short-term employee benefits	9,462	11,257
Post-employment benefits	195	222
Other long-term benefits	196	236
Share-based payments	5,320	4,549
	<b>15,173</b>	16,264

#### (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.

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### 31. RELATED PARTIES

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#### 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 matters are set out in:

- note 10 as to amounts owing from other related entities;
  - notes 17 and 35 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 joint arrangements; and
  - note 30 as to disclosures relating to key management personnel.
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### 32. REMUNERATION OF AUDITORS

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	2014 \$000	2013 \$000
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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)	1,490	1,435
Overseas network firms of Ernst & Young (Australia)	217	205
	<b>1,707</b>	1,640

#### (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 services	798	531
Ernst & Young (Australia) for taxation and other services	96	54
Overseas network firms of Ernst & Young (Australia) for taxation services	20	20
	<b>914</b>	605

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# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 33. COMMITMENTS FOR EXPENDITURE

	<b>2014</b>	2013
	<b>\$million</b>	\$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	879	1,336
Later than one year but not later than five years	229	291
Later than five years	294	75
	<b>1,402</b>	1,702

#### (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	180	142
Later than one year but not later than five years	745	413
Later than five years	2	1
	<b>927</b>	556

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	122	124
Later than one year but not later than five years	298	318
Later than five years	219	150
	<b>639</b>	592

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 10 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 2014 the Group recognised \$101 million (2013: \$73 million) as an expense in the income statement in respect of operating leases.

<b>33. COMMITMENTS FOR EXPENDITURE (CONTINUED)</b>	<b>2014</b>	2013
	<b>\$million</b>	\$million
<b>(d) Finance lease commitments</b>		
Finance lease commitments are payable as follows:		
Not later than one year	<b>8</b>	2
Later than one year but not later than five years	<b>42</b>	32
Later than five years	<b>173</b>	198
Minimum lease payments	<b>223</b>	232
Future finance charges	<b>(140)</b>	(151)
Leases not commenced at reporting date	<b>(74)</b>	(75)
Total lease liabilities	<b>9</b>	6

The Group leases LNG carriers and tug facilities under finance leases. The leases have terms of between 10 and 20 years with varying renewal options. The LNG carrier finance leases had not commenced at reporting date. Title does not pass to the Group on expiration of the relevant lease period.

**(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	<b>5</b>	7
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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 Program specified in the deed totalling \$60 million over a 10-year period from the date the legislation was enacted. As at 31 December 2014, approximately \$10 million (2013: \$17 million) remains to be paid over the remainder of the 10-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 10-years subsequent to the date the legislation was enacted. At 31 December 2014, if this condition had not been met, the Company would have been liable to pay a maximum of \$50 million (2013: \$50 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 has an adverse discriminatory effect in their application to the Company relative to other companies domiciled in South Australia.

**34. CONTINGENT LIABILITIES**

Contingent liabilities arise in the ordinary course of business through claims against the Group, including contractual, third-party and contractor claims. In most instances it is not possible to reasonably predict the outcome of these claims, and as at reporting date the Group believes that the aggregate of such claims will not materially impact the Group's financial report.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 35. PARENT ENTITY DISCLOSURES

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

	2014 \$million	2013 \$million
Net profit for the period	529	434
Total comprehensive income	529	448
Current assets	841	1,005
Total assets	13,911	15,099
Current liabilities	894	1,473
Total liabilities	5,791	7,345
Issued capital	6,905	6,749
Retained earnings	1,215	1,005
Total equity	8,120	7,754

#### (a) Commitments of the parent entity

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

Capital expenditure commitments	222	204
Minimum exploration commitments	49	13

#### (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

Contingent liabilities arise in the ordinary course of business through claims against Santos Limited, including contractual, third-party and contractor claims. In most instances it is not possible to reasonably predict the outcome of these claims, and as at reporting date Santos Limited believes that the aggregate of such claims will not materially impact the Company's financial report.

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## 36. DEED OF CROSS GUARANTEE

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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 Pty Ltd;
- Santos QNT Pty Ltd;
- Santos QNT (No. 1) Pty Ltd;
- Santos QNT (No. 2) Pty Ltd; and
- Vamgas Pty Ltd.



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 36. 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 2014 of the Closed Group:

	2014 \$million	2013 \$million
<b>Consolidated income statement</b>		
Product sales	2,550	2,630
Cost of sales	(2,186)	(2,044)
<b>Gross profit</b>	<b>364</b>	586
Other revenue	1,012	397
Other income	24	44
Other expenses	(2,167)	(244)
Interest income	10	43
Finance costs	(56)	(86)
<b>(Loss)/profit before tax</b>	<b>(813)</b>	740
Income tax benefit/(expense)	417	(233)
Royalty-related taxation benefit/(expense)	121	(39)
Total taxation benefit/(expense)	538	(272)
<b>Net (loss)/profit for the period</b>	<b>(275)</b>	468
<b>Consolidated statement of comprehensive income</b>		
<b>Net (loss)/profit for the period</b>	<b>(275)</b>	468
<b>Other comprehensive income, net of tax:</b>		
Net exchange gain on translation of foreign operations	4	30
Net actuarial gain on defined benefit plan	-	14
<b>Total comprehensive (loss)/income</b>	<b>(271)</b>	512
<b>Summary of movements in the Closed Group's retained earnings</b>		
Retained earnings at 1 January	1,490	1,275
Adjustment to retained earnings for companies removed/added to Deed during the year	-	6
Net (loss)/profit for the period	(275)	468
Net actuarial gain on defined benefit plan	-	14
Dividends to shareholders	(341)	(289)
Share-based payment transactions	22	16
<b>Retained earnings at 31 December</b>	<b>896</b>	1,490

### 36. DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated statement of financial position as at 31 December 2014 of the Closed Group:

	2014 \$million	2013 \$million
<b>Current assets</b>		
Cash and cash equivalents	426	423
Trade and other receivables	963	1,609
Prepayments	29	36
Inventories	313	344
Other financial assets	–	1
Tax receivable	41	6
<b>Total current assets</b>	<b>1,772</b>	<b>2,419</b>
<b>Non-current assets</b>		
Receivables	–	1
Prepayments	179	82
Other financial assets	9,003	3,787
Exploration and evaluation assets	399	901
Oil and gas assets	5,322	5,525
Other land, buildings, plant and equipment	202	189
Deferred tax assets	351	–
<b>Total non-current assets</b>	<b>15,456</b>	<b>10,485</b>
<b>Total assets</b>	<b>17,228</b>	<b>12,904</b>
<b>Current liabilities</b>		
Trade and other payables	790	699
Deferred income	38	69
Interest-bearing loans and borrowings	212	–
Tax liabilities	–	–
Provisions	160	175
<b>Total current liabilities</b>	<b>1,200</b>	<b>943</b>
<b>Non-current liabilities</b>		
Deferred income	101	48
Interest-bearing loans and borrowings	6,564	2,003
Deferred tax liabilities	–	360
Provisions	1,546	1,299
Other non-current liabilities	5	5
<b>Total non-current liabilities</b>	<b>8,216</b>	<b>3,715</b>
<b>Total liabilities</b>	<b>9,416</b>	<b>4,658</b>
<b>Net assets</b>	<b>7,812</b>	<b>8,246</b>
<b>Equity</b>		
Issued capital	6,905	6,749
Reserves	11	7
Retained earnings	896	1,490
<b>Total equity</b>	<b>7,812</b>	<b>8,246</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 37. 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 of assets and liabilities that are denominated in a currency that is not the entity's functional currency.

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

The Group has certain investments in domestic and foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposures arising from the net assets of these operations are managed primarily through borrowings denominated in the relevant foreign currency.

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 (2014: US\$2,855 million; 2013: US\$1,639 million), or swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2014: US\$1,410 million; 2013: US\$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 2014.

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 that are capitalised in oil and gas assets.

Based on the Group's net financial assets and liabilities at 31 December 2014, the following table demonstrates the estimated sensitivity to a  $\pm 15$  cent movement in the US dollar exchange rate (2013:  $\pm 15$  cent) and a  $\pm 10$  cent movement in the euro exchange rate (2013:  $\pm 10$  cent) with all other variables held constant, on post-tax profit and equity:

	2014 \$million	2013 \$million
Impact on post-tax profit:		
AUD/USD +15 cents (2013: +15 cents)	20	23
AUD/USD -15 cents (2013: -15 cents)	(20)	(23)
AUD/EUR +10 cents (2013: +10 cents)	-	-
AUD/EUR -10 cents (2013: -10 cents)	-	-
Impact on equity:		
AUD/USD +15 cents (2013: +15 cents)	20	23
AUD/USD -15 cents (2013: -15 cents)	(20)	(23)
AUD/EUR +10 cents (2013: +10 cents)	-	-
AUD/EUR -10 cents (2013: -10 cents)	-	-

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The  $\pm 15$  cent sensitivity in the US dollar exchange rate and  $\pm 10$  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.

## 37. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Market risk

#### Cash flow and fair value interest rate risk

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

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes, long-term notes and subordinated debt. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes.

During 2013, the Group entered into US dollar denominated interest rate swaps, which fix the interest rate associated with the coupon payments on US\$670 million of uncovered export credit agency supported loan through to the end of 2016. These instruments have been designated as cash flow hedges.

At 31 December 2014, the Group had interest rate swaps with a notional contract amount of \$2,452 million (2013: \$2,397 million).

The net fair value of swaps at 31 December 2014 was \$141 million (2013: \$144 million), comprising assets of \$141 million and liabilities of nil (2013: assets of \$144 million and liabilities of nil). These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2014, taking into account interest rate swaps, it is estimated that if US London Interbank Offered Rate ("LIBOR") interest rates changed by  $\pm 0.50\%$  (2013:  $\pm 0.50\%$ ), Euro Interbank Offered Rate ("EURIBOR") by  $\pm 0.50\%$  (2013:  $\pm 0.50\%$ ) and Australian Bank Bill Swap reference rate ("BBSW") by  $\pm 0.50\%$  (2013:  $\pm 0.50\%$ ), with all other variables held constant, the impact on post-tax profit and equity would be:

	2014 \$million	2013 \$million
Impact on post-tax profit as a result of changing interest rates:		
US +0.50%/EU +0.50%/AU +0.50%		
(2013: US +0.50%/EU +0.50%/AU +0.50%)	14	7
US -0.50%/EU -0.50%/AU -0.50%		
(2013: US -0.50%/EU -0.50%/AU -0.50%)	(14)	(7)
Impact on equity as a result of changing interest rates:		
US +0.50%/EU +0.50%/AU +0.50%		
(2013: US +0.50%/EU +0.50%/AU +0.50%)	14	7
US -0.50%/EU -0.50%/AU -0.50%		
(2013: US -0.50%/EU -0.50%/AU -0.50%)	(14)	(7)

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  $\pm 0.50\%$ , EURIBOR  $\pm 0.50\%$  and the Australian BBSW  $\pm 0.50\%$  sensitivity employed in the estimates above.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 37. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Market risk (continued)

##### Cash flow hedge accounting

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

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

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

At December 2014, the Group has fully drawn the US\$1,200 million Uncovered export credit agency supported loan facility, which is repayable in 2019.

In May 2013 the Group entered into US dollar interest rate swap contracts, under which it has a right to receive interest at floating US dollar rates and pay interest at fixed US dollar interest rates. These contracts are in place to cover coupon payments on US\$670 million Uncovered export credit agency supported loans through to the end of 2016.

The cross-currency and 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:

	2014 \$million	2013 \$million
Opening balance	(10)	(6)
Charged to comprehensive income	(9)	(4)
Closing balance	(19)	(10)

##### 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 2014, the Group has no open oil price swap contracts (2013: 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. Santos employs credit policies which include monitoring exposure to credit risk 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 approximately 30% 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	2,024	0 – 1,693
A+, A, A-	13	7,550	1,051	0 – 269

### 37. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) Credit risk (continued)

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

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

At the reporting date there were no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions to minimise the risk of counterparty default. The maximum exposure to financial institution credit risk is represented by the sum of all cash deposits plus accrued interest, bank account balances, undrawn credit facility limits and derivative mark-to-market gains.

#### (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 2014.

	<b>Less than 1 year \$million</b>	<b>1 to 2 years \$million</b>	<b>2 to 5 years \$million</b>	<b>More than 5 years \$million</b>
<b>2014</b>				
<b>Financial assets held to manage liquidity risk</b>				
Cash and cash equivalents	775	-	-	-
<b>Derivative financial assets</b>				
Interest rate swap contracts	41	40	60	29
<b>Derivative financial liabilities</b>				
Cross-currency swap contracts	22	10	(241)	-
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(1,382)	-	-	-
Obligations under finance leases	(2)	-	(7)	(7)
Commercial paper	(140)	-	-	-
Bank loans	(170)	(480)	(4,154)	(2,134)
Medium-term notes	(106)	-	-	-
Long-term notes	(111)	(45)	(532)	(338)
Subordinated debt	(123)	(123)	(1,609)	-
	<b>(1,196)</b>	<b>(598)</b>	<b>(6,483)</b>	<b>(2,450)</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2014

### 37. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Liquidity risk (continued)

	Less than 1 year \$million	1 to 2 years \$million	2 to 5 years \$million	More than 5 years \$million
2013				
<b>Financial assets held to manage liquidity risk</b>				
Cash and cash equivalents	645	–	–	–
<b>Derivative financial assets</b>				
Interest rate swap contracts	40	38	70	21
Cross-currency swap contracts	35	33	(10)	–
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(1,235)	–	–	–
Obligations under finance leases	(1)	–	(5)	–
Commercial paper	(100)	–	–	–
Bank loans	(215)	(138)	(1,201)	(2,712)
Medium-term notes	(6)	(106)	–	–
Long-term notes	(118)	(102)	(334)	(506)
Subordinated debt	(128)	(128)	(1,804)	–
	(1,083)	(403)	(3,284)	(3,197)

#### (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 initial fair values of receivables, payables, interest-bearing liabilities and other financial assets and liabilities, which are not subsequently measured at fair value, approximate 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.

At 31 December 2014, the Group held available-for-sale financial assets of \$10 million (2013: \$10 million) at cost. The asset relates to an equity instrument in an unlisted public company that carries out exploration activities. The Group expects to continue to hold the investment for the foreseeable future.

##### **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.

## 37. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (e) Fair values (continued)

#### *Interest rates used for determining fair value*

The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve and credit spreads at the reporting date. The interest rates including credit spreads used to determine fair value were as follows:

	2014 %	2013 %
Derivatives	0.1 – 5.1	0.3 – 5.0
Loans and borrowings	0.1 – 5.1	0.3 – 5.0

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	Total \$million	Level 1 \$million	Level 2 \$million	Level 3 \$million
<b>2014</b>				
<b>Assets measured at fair value</b>				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	141	–	141	–
Embedded derivatives	1	–	1	–
<b>Liabilities measured at fair value</b>				
Financial liabilities at fair value through profit and loss:				
Cross-currency swap contracts	(154)	–	(154)	–
Long-term notes	(841)	–	(841)	–
Medium-term notes	(102)	–	(102)	–
<b>2013</b>				
<b>Assets measured at fair value</b>				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	144	–	144	–
Cross-currency swap contracts	65	–	65	–
Embedded derivatives	5	–	5	–
<b>Liabilities measured at fair value</b>				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(909)	–	(909)	–
Medium-term notes	(105)	–	(105)	–

During the reporting periods ended 31 December 2014 and 31 December 2013, 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.

## 38. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 February 2014, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2014 financial year. Consequently, the dividend has not been provided for in the 31 December 2014 financial statements. Refer to note 22 for dividends declared after 31 December 2014.



## Directors' Declaration

### for the year ended 31 December 2014

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 2014 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and the *Corporations Regulations 2001* (Cth); and
  - (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(a); 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 2014.
3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 36 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 20th day of February 2015

On behalf of the Board:



Director  
Adelaide



Director

# Independent Auditor's Report to the members of Santos Limited

## Report on the financial report

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 2014, 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:

- a. the financial report of Santos Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in note 1(a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 52 to 73 of the Directors' report for the year ended 31 December 2014. 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

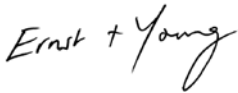
In our opinion, the Remuneration Report of Santos Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

T S Hammond  
Partner  
Adelaide  
20 February 2015

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

In relation to our audit of the financial report of Santos Limited for the financial year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



T S Hammond  
Partner  
Adelaide  
20 February 2015

# Information for shareholders

## NOTICE OF MEETING

The Annual General Meeting of Santos Limited will be held in Hall L at Adelaide Convention Centre, North Terrace, Adelaide, South Australia, on Thursday 30 April 2015 at 10:00 am.

## FINAL DIVIDEND

The 2014 final ordinary dividend will be paid on 25 March 2015 to shareholders registered in the books of the Company at the close of business on 27 February 2015 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

KC Borda (Chairman), DJW Knox, (Managing Director), YA Allen, PR Coates, KA Dean, RA Franklin, H Goh, JS Hemstritch, GJW Martin, SD Sheffield.

## COMPANY SECRETARY

DTJ Lim

## CHANGE OF SHAREHOLDER DETAILS

Shareholders can access their current shareholding details and change many of these details online via the website, [www.investorcentre.com/sto](http://www.investorcentre.com/sto). 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.

## INVESTOR INFORMATION AND SERVICES

### Santos website

A wide range of information for investors is available from Santos' website, [www.santos.com](http://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, Shareholder Review 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)

Investor enquiries online:

[www.investorcentre.com/contact](http://www.investorcentre.com/contact)

Website: [www.investorcentre.com/sto](http://www.investorcentre.com/sto)

## 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](mailto:investor.relations@santos.com)

Electronic enquiries can also be submitted through the 'Contact Us' section of the Santos website, [www.santos.com](http://www.santos.com)

## SHAREHOLDERS' CALENDAR

2014 full-year Results announcement  
20 February 2015

Ex-dividend date for 2014 full-year dividend  
25 February 2015

Record date for 2014 full-year dividend  
27 February 2015

Payment date for 2014 full-year dividend  
25 March 2015

Annual General Meeting  
30 April 2015

2015 interim results announcement  
21 August 2015

Ex-dividend date for 2015 interim dividend  
26 August 2015

Record date for 2015 interim dividend  
28 August 2015

Payment date for 2015 interim dividend  
30 September 2015

Dates may be subject to change.

## QUARTERLY REPORTING CALENDAR

2015 First Quarter Activities Report  
17 April 2015

2015 Second Quarter Activities Report  
17 July 2015

2015 Third Quarter Activities Report  
23 October 2015

2015 Fourth Quarter Activities Report  
22 January 2016

Dates are subject to change and are published on the Santos website, [www.santos.com](http://www.santos.com)

# Securities Exchange and Shareholder Information

Listed on the Australian Securities Exchange at 27 February 2015 were 982,396,796 fully paid ordinary shares. Unlisted were 21,500 partly paid Plan 0 shares, 21,500 partly paid Plan 2 shares, 423,961 fully paid restricted ordinary shares issued pursuant to the ShareMatch Plan, 745,958 restricted fully paid ordinary shares issued to eligible Senior Executives pursuant to the Santos Employee Share Purchase Plan ("SESPP"), 43,919 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan ("NED Share Plan"), 24,083 restricted fully paid ordinary shares pursuant to the Eastern Star Gas Limited Employee Incentive Plan ("ESG Plan"), 105,052 fully paid ordinary shares issued with further restrictions pursuant to the ShareMatch Plan and 30,102 fully paid ordinary shares issued with further restrictions pursuant to the Santos Employee Share Purchase Plan ("SESPP").

There were 148,740 holders of all classes of issued ordinary shares, including: 3 holders of Plan 0 shares; 3 holders of Plan 2 shares; 985 holders of ShareMatch shares; 53 holders of restricted shares pursuant to the SESPP; 3 holders of NED Share Plan shares; 2 holders of ESG Plan shares; 114 holders of ShareMatch shares with further restrictions and 9 holders of SESPP shares with further restrictions. This compared with 113,714 holders of all classes of issued ordinary shares a year earlier.

On 27 February 2015 there were also: 38 holders of 3,992,038 Options granted pursuant to the Santos Executive Share Option Plan; 103 holders of 5,553,758 Share Acquisition Rights pursuant to the SESPP and 1,695 holders of 1,333,218 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 51.39% of the total voting power in Santos (64.15% on 28 February 2014). The largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 27 February 2015 were:

<b>Name</b>	<b>No. of Shares</b>	<b>%</b>
HSBC Custody Nominees (Australia) Limited	150,525,351	15.32
JP Morgan Nominees Australia Limited	110,377,415	11.24
National Nominees Limited	77,923,963	7.93
Citicorp Nominees Pty Limited	56,693,350	5.77
BNP Paribas Noms Pty Ltd <DRP>	17,644,288	1.80
CS Fourth Nominees Pty Ltd	14,950,172	1.52
Ecapital Nominees Pty Limited <Settlement A/c>	13,514,181	1.38
HSBC Custody Nominees (Australia) Limited-GSCO ECA	10,766,894	1.10
Citicorp Nominees Pty Limited <Colonial First State Inv A/c>	8,784,497	0.89
Australian Foundation Investment Company Limited	7,989,581	0.81
Argo Investments Limited	6,164,473	0.63
Warbont Nominees Pty Ltd <Settlement Entrepot A/c>	4,825,772	0.49
BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	4,184,000	0.43
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/c>	3,346,873	0.34
QIC Limited	3,335,243	0.34
Bainpro Nominees Pty Limited	2,999,701	0.31
UBS Wealth Management Australia Nominees Pty Ltd	2,988,024	0.30
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/c>	2,780,294	0.28
AMP Life Limited	2,556,549	0.26
Mr John Charles Ellice-Flint	2,483,873	0.25
<b>Total:</b>	<b>504,834,494</b>	<b>51.39</b>

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## ANALYSIS OF SHARES – RANGE OF SHARES HELD

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1–1,000	63,320	42.57	3.23
1,001–5,000	66,890	44.97	16.35
5,001–10,000	12,000	8.07	8.76
10,001–100,000	6,352	4.27	13.36
100,001 and over	178	0.12	58.30
<b>Total</b>	<b>148,740</b>	<b>100.00</b>	<b>100.00</b>
Less than a marketable parcel of \$500	4,321		

Substantial Shareholders as disclosed by notices received by the Company as at 27 February 2015: Nil.

For Directors' Shareholdings see the Directors' Report as set out on page 38 of this Annual Report.

## VOTING RIGHTS

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

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# Glossary

## 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<sub>2</sub>-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.

## proven, probable plus possible reserves contingent resources (2C)

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.

## 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.

## hydrocarbon

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

## joules

Joules are the metric measurement unit for energy.

A gigajoule (GJ) is equal to 1 joule × 10<sup>9</sup>

A terajoule (TJ) is equal to 1 joule × 10<sup>12</sup>

A petajoule (PJ) is equal to 1 joule × 10<sup>15</sup>

## 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 frequency rate (LTIFR)

A statistical measure of health and safety performance, calculated as the number of hours worked. A lost-time injury is a work-related injury or illness that results in a persons 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.

## medical treatment injury

A work-related injury or illness, other than a lost-time injury, that 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.

## 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.

## 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](http://www.santos.com)



Santos Limited  
ABN 80 007 550 923

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**SHARE REGISTER**

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Abbotsford VIC 3067  
GPO Box 2975  
Melbourne VIC 3001

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**Santos**  
We have the energy.

