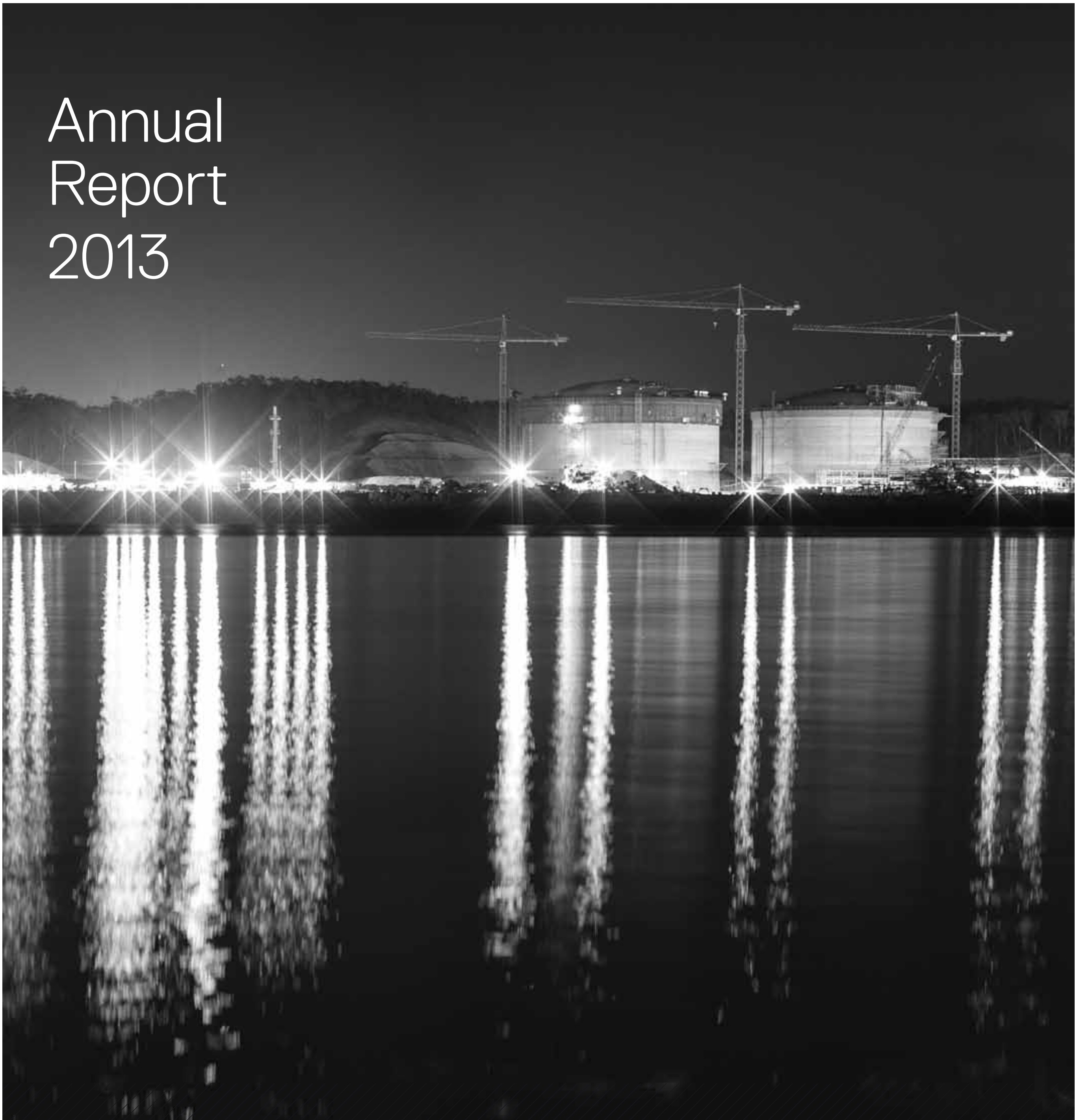
Annual Report 2013



Santos
We have the energy.

Santos Limited ABN 80 007 550 923

CONTENTS

This 2013 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2013.

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**

Organisation chart

BOARD COMMITTEES
Audit
Environment, Health, Safety and Sustainability
Finance
Nomination
People and Remuneration

BOARD OF DIRECTORS
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
SANTOS LEADERSHIP TEAM Comprises the Managing Director and his reports
Drive business strategy and operations

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, Engineering, Safety and Environment
Government and Public Affairs, Commercial and LNG	GLNG	
Corporate Secretariat	Western Australia and Northern Territory	

Cover: Construction of LNG tanks at GLNG plant, Curtis Island, Queensland.

Chairman and Managing Director's review

Ken Borda and David Knox

Dear Shareholder,

As Santos enters its 60th year of operations, we stand on the threshold of delivering our transformational PNG LNG and GLNG projects. Santos' LNG exports are expected to rise from around 300,000 tonnes per annum today from Darwin LNG to over 3 million tonnes per annum once GLNG and PNG LNG are fully ramped up. This step-change in production will result in operating cash flow doubling by 2016, based on current oil prices, providing the foundation for further growth and increased shareholder returns.

After several years of significant capital investment, we are pleased to announce the adoption of a progressive dividend policy. As our production and earnings grow, we intend to increase the dividend to a sustainable level, which will then be maintained or increased each period. We will reward shareholders and strike a balance between higher dividends, debt repayment and ongoing investment for growth.

Santos remains committed to growth. Not only do we have the largest exploration and production acreage position in Australia, but with over 15 years' experience in Asia, we remain focused on growing our regional portfolio of assets and exploration profile. This exploration focus coupled with our ability to deliver greater efficiencies, lower costs and a smaller environmental footprint in the field, make us an industry leader and a company which is set to continue to deliver organic growth for many years to come.

2013 IN REVIEW

In 2013, Santos delivered record sales revenue of $3.6 billion, 12% higher than 2012. This strong result was driven by the Company's highest oil production in six years, strong oil prices and higher third party sales volumes.

Reported net profit after tax of $516 million was in line with 2012. Higher exploration and net finance expenses were partially offset by higher sales revenue and lower impairment losses. Operating cash flow remained strong at $1,628 million.

Production of 51 mmboe was 2% lower than 2012. New production from the start-up of the Fletcher Finucane oil project offshore Western Australia and higher production from Darwin LNG was offset by lower Cooper production and the cessation of production from the Sangu asset in Bangladesh.

In 2013, Santos continued to successfully deliver the corporate strategy to grow our strong domestic base business, deliver our transformational LNG portfolio, and build a focused, exploration-led portfolio in Asia.

Importantly, in this our 'Asian century', construction progress at both our LNG projects made significant headway during the year. PNG LNG is now more than 95% complete and on track for a mid 2014 start-up. GLNG is more than 75% complete and remains on schedule for first LNG in 2015. Capital cost estimates for both projects remain unchanged. Both projects are underpinned by long-term, oil-linked, binding offtake agreements with high quality Asian buyers.

"Our operating cash flow will more than double over the next two years as the PNG LNG and GLNG projects come on line. We are focused on rewarding shareholders as we strike a balance between higher dividends, debt repayment and ongoing investment for growth."

KEN BORDA Chairman

Good progress was also made during the year on our Cooper Basin field and infrastructure upgrades. We remain on track to grow production capacity to not only meet our new LNG contracts but also our commitment to remain a leading supplier of natural gas to Australian customers.

Also in the Cooper, initial flow rates from the Moomba-194 vertical shale gas well were encouraging and critically, the well is located adjacent to Santos operated infrastructure for ready connection to market. We were the first company in Australia to connect shale gas to market and work has now commenced to leverage this expertise across Santos' unconventional acreage.

Santos remains focused on driving efficiencies across the Company. Margin improvement, unlocking production from better technologies and the efficient use of capital remain a key focus for the Board and Management.

Peak capex is now behind us and our liquidity position remains robust with $3.4 billion[1] in balance sheet capacity to fund execution of our business strategy and minimise financing risk.

Santos remains well positioned to deliver between 80-90 mmboe of production by 2020. Delivery of this strong and growing production profile underpins our unwavering commitment to remain one of the leading suppliers of natural gas within Australia as well as to supply growing Asian markets.

SAFETY

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

Tragically, a rig floor incident on Saxon Rig 185 resulted in a contractor fatality on 23 June 2013. All drilling operations by Saxon were suspended while internal and external investigations were conducted. Santos also held a stand down of its entire fleet of rigs for personnel to discuss fatal risks and the mitigations and controls to eliminate or reduce those risks. Other rig contractors with rigs with similar equipment involved in the Saxon fatality also went through a thorough risk assessment prior to restarting. The Board and Management are committed to preventing injuries in the workplace and continue to work hard to instil a safe operating environment for all employees and contractors.

Construction on major projects peaked in 2013 resulting in work hours, including contractors, rising from 19 million in 2012 to 50 million work hours by the end of 2013. Through this significant increase, Santos' commitment to safety resulted in a Lost Time Injury Frequency Rate (LTIFR) of 0.6, 20% below that in 2012.

RESPONSIBLE AND SUSTAINABLE OPERATIONS

For Santos, sustainability means supplying energy for the future, and doing business in a way that improves outcomes for shareholders, employees, business partners, governments and community stakeholders.

We do this by considering a comprehensive set of criteria beyond traditional economic measures that assess the full impact of the Company's activities, thereby enabling better business decisions to be made.

The Board acknowledges that a key determinant of our future success relies on the ability of Santos to gain the trust of the communities in which we operate. We take very seriously our responsibility to deliver safe and sustainable operations and understand that the ongoing support of communities and shareholders is paramount to achieving this outcome.

We have made considerable progress in 2013 in engaging with communities, earning their respect and creating a greater understanding of the natural gas industry. In particular, we now have strong support in Queensland. Santos' commitment to open engagement, underpinned by a policy that the company will not access land to drill a well without prior landholder agreement, has resulted in over 650 agreements with local landholders across the GLNG Project.

We are also working hard to address community and shareholder concerns around our Narrabri Gas Project in New South Wales. We are committed to open, honest and collaborative engagement to reassure and provide confidence that our proposed operations will be safe, sustainable and deliver a positive outcome for the local community and shareholders. These efforts will continue in 2014.

Drawing on our 4 Principles of Responsible Operations, which are embedded in the way we conduct our business each and every day, we are confident Santos can continue to provide enduring and positive value to communities across Australia and Asia. These Principles provide standards ensuring we operate safely, protect the environment, treat people with respect and make a positive difference to the communities in which we operate. You can read more about our Principles of Responsible Operations in the Shareholder Review.

Santos' best practice initiatives and technologies will continue to safely and efficiently extract the energy required to underpin industry and the living standards of families, both in Australia and in Asia.

We also encourage you to read our 2013 Sustainability Report which is available at www.santos.com/sustainability

GROWING PRODUCTION

Behind the PNG LNG and GLNG headlines that have dominated recent reporting, Santos has continued to deliver a strong forward production profile. We have focused on developing significant optionality in our portfolios across both Australia and Asia that will underpin production growth for many years to come.

In Australia, where we are committed to growing our strong domestic base business, we have recently signed a Memorandum of Understanding (MOU) with the New South Wales Government. The MOU ensures the assessment of the Narrabri Gas Project is progressed in a timely manner and reiterates Santos' commitment to meet industry best practice in relation to key environmental safeguards. The in-principle agreement confers 'Strategic Energy Project' status on the Project, aimed at securing affordable

1 As at 31 December 2013

> “In 2013, Santos achieved record sales revenue, the highest oil production in six years and strong operating cash flow while adding to our future production potential through exploration discoveries.”
>
> **DAVID KNOX** Managing Director

natural gas supply for homes and businesses across the State to meet a predicted supply shortfall in NSW post-2015.

In the Northern Territory in 2014, we expect to reach a Front End Engineering and Design (FEED) decision regarding the floating Bonaparte LNG project. The Bonaparte LNG project is a joint venture between GDF SUEZ Bonaparte and Santos to develop a floating liquefaction project in the Timor Sea, 250 kilometres west of Darwin.

In Indonesia, leveraging our experience in offshore, shallow water developments, a project team is in place and work is underway to reach a final investment decision in 2015 on our 50% operated interest in the Ande Ande Lumut oil field.

Beyond these near-term growth options, we have made significant progress in understanding and unlocking our Cooper unconventional acreage, including shale and tight gas. In the Carnarvon Basin offshore Western Australia, our exploration team is currently assessing multiple follow-up opportunities to the Winchester and Bianchi discoveries. Both discoveries are strategically placed near proposed and existing infrastructure. In the Northern Territory, our acreage in the Amadeus and McArthur Basins provides great potential for both liquids and gas production from conventional and unconventional sources.

We are also well placed to benefit from the strong Asian demand for LNG, particularly future expansion of PNG LNG, Darwin LNG or opportunities in the Browse Basin. Santos’ acreage and ability to access adjacent infrastructure ensures that we will be well positioned to participate in proposed expansion or development opportunities.

In Asia, Santos will continue to focus on Indonesia, Vietnam and Papua New Guinea and explore select opportunities that play to our strengths in the region. In 2014, we plan to drill an exploration well in the Nam Con Son Basin off the south coast of Vietnam.

DIVIDEND

The Board maintained the dividend at 30 cents per share fully franked in 2013.

Moving forward we will adopt a progressive dividend policy. As our production and earnings grow, we intend to increase the dividend to a sustainable level, which will then be maintained or increased each period. We will reward shareholders and strike a balance between higher dividends, debt repayment and ongoing investment for growth.

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

BOARD RENEWAL

At the 2014 Annual General Meeting, following a decade’s service to the Santos Board, Mike Harding will retire. We would like to thank Mike for leading the Environment, Health, Safety and Sustainability Committee and making a significant contribution to Santos through a critical period in the Company’s history.

In February 2014, Scott Sheffield was appointed as an independent non-executive director to the Board. Scott brings extensive leadership, technical and operational skills to the Santos Board and has deep experience 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.

EMPLOYEES AND SHAREHOLDERS

The significant progress made in 2013 across the business is a testament to the quality and dedication of Santos employees and contractors who have worked tirelessly and skilfully to deliver projects for the benefit of shareholders and stakeholders alike.

On behalf of the Board we would like to sincerely thank all employees for their hard work, as well as those who have rallied to support their local communities or through volunteering during the year.

Finally, the Board and Management team would like to thank you, our shareholders, for your ongoing support. With your support, Santos now stands on the threshold of delivering its transformational strategy to be a trusted leader in the development and delivery of energy resources across Australia and Asia.

Please note that our Shareholder Review 2013 can be downloaded from our website at www.santos.com

KEN BORDA
Chairman

DAVID KNOX
Managing Director

Board of Directors

KENNETH BORDA
Chairman

LLB, BA

Age 61. Appointed Santos Chairman on May 2013. Previously independent non-executive Director since 14 February 2007. Chairman of Santos Finance Limited. Chairman of the Nomination Committee of the Board and member of the Finance Committee and the People and Remuneration Committee of the Board.

Board member of Fullerton Funds Management Company Limited, owned by Temasek, Singapore, since February 2007. Chairman of Aviva Ltd (Singapore), Aviva Life Insurance Company Ltd (Hong Kong) 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

Age 56. 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 Limited.

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 Business Council of Australia and Royal Institute of Australia. Chair of the CSIRO Energy Strategic 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.

PETER COATES AO

BSc (Mining Engineering), FAICD, FAusIMM

Age 68. 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 March 2008. Member of the Nomination 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 1 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

Age 61. Independent non-executive Director since February 2005. Member of the Audit, 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 (formerly TRUenergy) since June 2012.

Previously Chief Financial Officer of Alumina Limited, October 2005 to February 2009, alternate director of Alumina Limited, October 2005 to February 2009, 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.

Over 30 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.

ROY FRANKLIN OBE

BSc (Hons)

Age 60. Independent non-executive Director since 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 Boart Longyear Limited since October 2010 and of Cuadrilla Resources Holdings Limited since January 2012.

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 StatoilHydro ASA from October 2007 to June 2013.

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

HOCK GOH
BEng (Hons) Mech Eng

Age 59. Independent non-executive Director since October 2012. Member of the Environment, Health, Safety and Sustainability 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, Middle East and Europe.

Chairman of MEC Resources Ltd since October 2006 and Advent Energy Ltd since November 2007. Appointed as non-executive director of Stora Enso Oyj (Finland) in April 2012. Also a non-executive director of BPH Energy Ltd since November 2007 and KS Distribution Pte Ltd (Singapore) since September 2010.

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.

RICHARD HARDING
MSc

Age 64. Independent non-executive Director since March 2004. Member of the Environment, Health, Safety and Sustainability Committee of the Board and member of the Nomination Committee of the Board.

Chairman of Downer EDI Limited since November 2010, having previously been a non-executive director from July 2008 and Deputy Chairman from July 2010. Chairman of Roc Oil Company Ltd since December 2013, having previously been a non-executive director from June 2012. Non-executive director of Transpacific Industries Group Ltd since March 2013.

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

JANE HEMSTRITCH
BSc (Hons), FCA, FAICD

Age 60. Independent non-executive Director since February 2010. Member of the People and Remuneration Committee and the Chairperson of the Audit Committee of the Board.

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. Chairperson 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
BEc, LLB, FAIM, MAICD

Age 54. Independent non-executive Director since October 2009. Chairman of the People and Remuneration and the Finance Committees of the Board. Member of the Audit Committee of the Board.

Non-executive director of a number of listed and unlisted companies, including Energy Developments Limited from May 2006 and Australian Energy Market Operator Limited from July 2009. 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.

Previous Deputy Chairman of the Australian Gas Association and inaugural Chairman of the Energy Supply Association of Australia between 2004 and 2006. Past member of the Business Council of Australia, 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.

SCOTT SHEFFIELD
BS Petroleum Engineering

Age 61. Mr Sheffield is an independent non-executive Director, effective February 2014. 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, America's Natural Gas Alliance 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
ANDREW SEATON
Chief Financial Officer

BEng (Hons) Chemical, Grad Dip BusAdmin

Andrew Seaton was appointed Chief Financial Officer in 2010, and is responsible for Santos' finance, treasury, investor relations, risk, 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 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.

02
JOHN ANDERSON
Vice President Asia & WA/NT

LLB, BEc, GDCL

John Anderson is responsible for Santos' activities in Asia, 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 25 years of legal, commercial and business development experience in the oil and gas industry, including 10 years working as a solicitor with Freehills.

03
JAMES BAULDERSTONE
Vice President 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, NSW and offshore Victoria.

James joined Santos in 2007 as General Counsel and Company Secretary after previously holding similar roles at Mayne Group and BlueScope Steel. James has 23 years of extensive legal, commercial and business development experience.

04
TREVOR BROWN
Vice President Queensland

BSc (Hons)

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

Trevor joined Santos in 2001 from Unocal, where he was part of an active exploration team working in South-East Asia, the United States and South America. Trevor has more than 28 years' experience in the oil and gas industry, including 11 years in Indonesia managing onshore and offshore exploration programs.

05
PETER CLEARY
Vice President LNG Markets and Eastern Australia Commercial

BCom, 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.

06
PETRINA COVENTRY
Chief Human Resources Officer

BEd, Post Dip HR, Master Business Ethics

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

Prior to joining Santos in 2009, Petrina held global leadership roles for The General Electric Company, The Coca Cola Company and Proctor and Gamble. Her industry experience includes energy, oil and gas, financial services and fast-moving consumer goods.

07
ROD DUKE
Vice President Downstream Santos GLNG

BEng (Hons) Chemical, Grad Dip Management

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

Rod has extensive global experience in the LNG industry and joined Santos in February 2013 from Singapore LNG Corporation, where he held the position of Senior Vice President. He has over 28 years of experience in project management, engineering, construction, commissioning, operations, commercial, marketing and business development areas of the upstream natural gas and LNG industry.

08
MARTYN EAMES
Vice President

BSc (Hons)

Martyn Eames is responsible for leading the PNG LNG project to first cargo. Prior to his current role he was Vice President for Asia Pacific.

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

09
DIANA HOFF
Vice President Technical and Engineering

BSc Petroleum Engineering (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.

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.

David has over 20 years of commercial and corporate legal experience. He is an accredited Chartered Secretary.

11
BILL OVENDEN
General Manager Exploration & Subsurface

BSc (Hons) Geology and Geophysics

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

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

12
CHRISTIAN PAECH
General Counsel

LLB (Hons), BCom

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

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

Production and sales

	2013		2012	
	Field units	**mmboe**	Field units	mmboe
Sales gas, ethane and LNG (PJ)				
Carnarvon	**64.9**	**11.1**	65.0	11.2
Cooper	**61.0**	**10.5**	66.6	11.5
Indonesia	**26.9**	**4.6**	28.1	4.8
Otway	**18.4**	**3.2**	19.4	3.3
Darwin LNG	**16.7**	**2.9**	14.4	2.5
Denison/Scotia/Spring Gully	**12.0**	**2.0**	11.2	1.9
GLNG	**9.6**	**1.7**	10.8	1.9
Bangladesh	**1.9**	**0.3**	4.9	0.8
Vietnam	**1.5**	**0.3**	2.1	0.4
PNG LNG	**0.1**	**-**	-	-
Total production	**213.0**	**36.6**	222.5	38.3
Total sales volume	**227.4**	**39.1**	258.0	44.4
Sales revenue ($million)		**1,282**		1,322

	2013		2012	
	Field units	**mmboe**	Field units	mmboe
Condensate ('000 bbls)				
Cooper	**1,043.0**	**1.0**	1,030.7	1.0
Bayu-Undan	**967.5**	**0.9**	1,174.1	1.1
Carnarvon	**627.5**	**0.6**	635.6	0.6
Amadeus	**28.4**	**-**	29.9	-
Otway	**16.9**	**-**	19.7	-
Indonesia	**4.8**	**-**	5.6	-
Bangladesh	**2.2**	**-**	-	-
Queensland	**1.5**	**-**	1.8	-
Total production	**2,691.8**	**2.5**	2,897.4	2.7
Total sales volume	**2,820.2**	**2.6**	3,180.5	3.0
Sales revenue ($million)		**310**		321

	2013		2012	
	Field units	**mmboe**	Field units	mmboe
Crude oil ('000 bbls)				
Cooper	**3,104.4**	**3.1**	3,226.1	3.2
Vietnam	**2,658.5**	**2.7**	2,870.2	2.9
Mutineer-Exeter/ Fletcher Finucane	**2,167.9**	**2.2**	604.0	0.6
Stag	**1,124.3**	**1.1**	1,411.6	1.4
Barrow	**541.5**	**0.6**	566.6	0.5
Indonesia	**203.1**	**0.2**	340.2	0.3
Thevenard	**198.9**	**0.2**	180.6	0.2
Amadeus	**173.1**	**0.2**	198.0	0.2
Queensland	**49.9**	**-**	66.8	0.1
PNG	**49.8**	**-**	73.8	0.1
Total production	**10,271.4**	**10.3**	9,537.9	9.5
Total sales volume	**15,163.4**	**15.2**	12,309.5	12.3
Sales revenue ($million)		**1,834**		1,401

	2013		2012	
	Field units	**mmboe**	Field units	mmboe
LPG ('000 tonnes)				
Cooper	**125.7**	**1.0**	125.1	1.0
Bayu-Undan	**55.9**	**0.6**	69.4	0.6
Total production	**181.6**	**1.6**	194.5	1.6
Total sales volume	**186.8**	**1.6**	191.7	1.6
Sales revenue ($million)		**176**		179

	2013	2012
TOTAL		
Production (mmboe)	**51.0**	52.1
Sales volume (mmboe)	**58.5**	61.3
Sales revenue ($million)	**3,602**	3,223

Reserves Statement

Santos' 1.4 billion barrels oil equivalent of proved plus probable reserves leaves the Company strategically well placed to supply the growing demand for natural gas in Australia and Asia

RESERVES HIGHLIGHTS

- Year-end 2013 proved plus probable (2P) reserves were 1,368 million barrels of oil equivalent (mmboe)
- 102% organic three-year reserves replacement
- Reserves life of 27 years, based on 2013 production of 51 mmboe

Reserves and 2C contingent resources

		2013	2012	% change
Proved	mmboe	**620**	663	(6.4)
Proved plus probable	mmboe	**1,368**	1,406	(2.7)
Contingent resources	mmboe	**1,869**	1,965	(4.9)

Proved plus probable reserves grew by 13 mmboe before production in 2013. The key movements in reserves were:

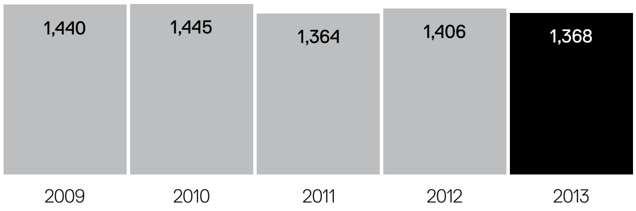
- 25 mmboe addition in Queensland CSG from growth in GLNG reserves, upward reassessments in non-operated assets and the acquisition of an additional interest in the Combabula and Ramyard fields.
- 10 mmboe addition from the commercialisation of the Peluang gas and Meerenie LPG projects.
- 8 mmboe reduction in Bayu-Undan reflecting reservoir performance and updated modelling.
- 8 mmboe net reduction in the Cooper Basin, mainly due to a re-assessment of Greater Tindilpie, partially offset by strong oil performance.
- 4 mmboe reduction in Barrow Island oil reserves reflecting higher future costs.

After deducting 2013 production of 51 mmboe, year-end proved and probable reserves were 1,368 mmboe, 2.7% lower than 2012.

Proved reserves were 620 mmboe, 6.4% lower than 2012.

PROVED PLUS PROBABLE RESERVES

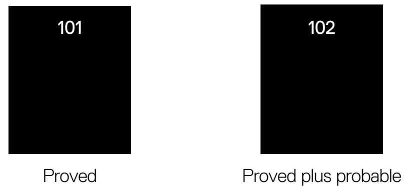
mmboe



Strong reserves replacement over the past five years has enabled Santos to maintain proved plus probable reserves at 1.4 billion barrels oil equivalent, whilst producing over 250 million barrels oil equivalent in the same period.

ORGANIC THREE-YEAR RESERVES REPLACEMENT RATIO

%



Proved plus probable reserves by product

		2013	2012	% change
Sales gas	PJ	**7,035**	7,161	(1.8)
Crude oil	mmbbl	**70**	82	(14.8)
Condensate	mmbbl	**63**	69	(8.8)
LPG	000t	**3,510**	3,371	4.1
Total	mmboe	**1,368**	1,406	(2.7)

Proved plus probable reserves by area

		2013	2012	% change
Eastern Australia	mmboe	**877**	884	(0.8)
WA&NT	mmboe	**221**	249	(11.4)
Asia Pacific	mmboe	**270**	273	(0.9)
Total	mmboe	**1,368**	1,406	(2.7)

Reserves Statement
(continued)

Cooper Basin

Proved plus probable reserves by product

Santos share		2013	2012	% change
Sales gas	PJ	**1,108**	1,213	(8.7)
Crude oil	mmbbl	**29**	30	(1.9)
Condensate	mmbbl	**18**	21	(15.5)
LPG	000t	**2,246**	2,522	(10.9)
Total	mmboe	**256**	280	(8.6)

Sales gas proved plus probable reserves decreased by 3% before production, primarily due to a re-assessment of Greater Tindilpie development based on a review of production performance and reservoir studies, partially offset by growth in Dullingari.

Crude oil proved plus probable reserves increased by 9% before production, due to strong well performance and positive drilling results, particularly in the Cuisinier and Zeus fields.

GLNG

Reserves and 2C contingent resources

GLNG share		2013	2012	% change
Proved	PJ	**1,844**	1,797	2.6
Proved plus probable	PJ	**5,406**	5,376	0.6
Contingent resources	PJ	**1,374**	1,638	(16.2)

GLNG share proved plus probable reserves increased by 60 PJ before production, primarily due to positive re-assessments in the Roma and Scotia fields.

GLNG has 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.
- 100 PJ from Origin Energy over 5 years commencing in 2016.

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.

Santos' share of 2P reserves in the APLNG-operated Combabula, Ramyard and Spring Gully fields was 355 PJ at the end of 2013.

2C Contingent resources

Contingent resources decreased by 5% to approximately 1.9 billion barrels oil equivalent.

Key movements in contingent resources included:

- 114 mmboe addition from exploration discoveries in the Cooper, Carnarvon and Browse Basins.
- 33 mmboe addition from the acquisition of a 50% interest in the Northwest Natuna Production Sharing Contract in Indonesia.
- 140 mmboe net reduction in Cooper Basin unconventional, primarily due to the continued application of new SPE-PRMS guidelines.
- 57 mmboe reduction in Cooper Basin conventional gas, mainly due to a re-assessment of Greater Tindilpie.
- 10 mmboe reduction from the commercialisation of the Peluang gas and Meerenie LPG projects.

During 2013, Santos continued to progress the application of the new SPE-PRMS guidelines for reserves and resources estimation, particularly in relation to unconventional reservoirs. In aggregate, continued application of the new SPE-PRMS guidelines is estimated to have reduced Santos' 2C contingent resources by approximately 150 mmboe in 2013.

Proved reserves

Year-end 2013 (Santos share)

Basin/Area	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe Developed	Undeveloped	Total
Eastern Australia							
Surat/Bowen	660	0	0	-	52	62	114
Cooper/Eromanga	478	11	7	866	47	60	107
Gunnedah	106	-	-	-	6	12	18
Gippsland/Otway	257	-	4	310	28	23	50
Total EA	**1,501**	**11**	**11**	**1,176**	**133**	**156**	**289**
Western Australia & Northern Territory							
Carnarvon	626	6	6	-	88	31	120
Bonaparte	79	-	2	106	15	1	16
Amadeus	36	4	1	298	6	6	13
Total WA&NT	**740**	**10**	**9**	**404**	**110**	**39**	**149**
Asia Pacific							
Papua New Guinea	833	0	17	-	15	144	159
Vietnam	22	12	-	-	13	3	16
Indonesia	44	0	0	-	4	4	8
Total Asia Pacific	**898**	**12**	**17**	**-**	**32**	**151**	**183**
Total 1P	**3,140**	**33**	**36**	**1,580**	**275**	**346**	**620**
Proportion of total proved reserves that are unconventional							21%

Proved reserves reconciliation

Product	Reserves Year-end 2012	Production	Revisions and extensions	Discoveries	Commercial-isation	Net acquisitions and divestments	Reserves Year-end 2013
Sales gas (PJ)	**3,299**	(213)	25	1	19	9	**3,140**
Crude oil (mmbbl)	**42**	(10)	2	0	0	(0)	**33**
Condensate (mmbbl)	**42**	(3)	(3)	(0)	(0)	0	**36**
LPG (000 tonnes)	**1,678**	(181)	(265)	(0)	298	48	**1,580**
Total 1P (mmboe)	**663**	**(51)**	**1**	**0**	**6**	**2**	**620**

Reserves Statement
(continued)

Proved plus probable reserves

Year-end 2013 (Santos share)

					All products mmboe		
Basin/Area	**Sales gas PJ**	**Crude oil mmbbl**	**Condensate mmbbl**	**LPG 000 tonnes**	**Developed**	**Undeveloped**	**Total**
Eastern Australia							
Surat/Bowen	2,805	0	0	-	56	303	359
Cooper/Eromanga	1,108	29	18	2,246	119	136	256
Gunnedah	1,141	-	-	-	6	190	196
Gippsland/Otway	341	-	5	398	37	30	66
Total EA	**4,674**	**30**	**23**	**2,644**	**218**	**659**	**877**
Western Australia & Northern Territory							
Carnarvon	764	17	8	-	113	43	156
Bonaparte	127	-	4	269	25	4	28
Amadeus	123	8	2	597	24	12	36
Total WA&NT	**1,014**	**25**	**15**	**866**	**162**	**58**	**221**
Asia Pacific							
Papua New Guinea	1,228	0	25	-	21	213	235
Vietnam	24	15	-	-	16	4	19
Indonesia	95	0	0	-	10	6	16
Total Asia Pacific	**1,346**	**15**	**25**	**-**	**47**	**223**	**270**
Total 2P	**7,035**	**70**	**63**	**3,510**	**427**	**941**	**1,368**
Proportion of total proved plus probable reserves that are unconventional							40%

Proved plus probable reserves reconciliation

Product	**Reserves Year-end 2012**	**Production**	**Revisions and extensions**	**Discoveries**	**Commercial-isation**	**Net acquisitions and divestments**	**Reserves Year-end 2013**
Sales gas (PJ)	**7,161**	(213)	(27)	1	53	61	**7,035**
Crude oil (mmbbl)	**82**	(10)	(1)	0	0	(1)	**70**
Condensate (mmbbl)	**69**	(3)	(4)	(0)	(0)	1	**63**
LPG (000 tonnes)	**3,371**	(181)	(396)	(0)	570	146	**3,510**
Total 2P (mmboe)	**1,406**	**(51)**	**(13)**	**0**	**14**	**11**	**1,368**

2C Contingent resources

Year-end 2013 (Santos share)

Basin/Area	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe
Eastern Australia	6,787	35	26	3,303	1,254
Western Australia & Northern Territory	2,730	29	27	19	524
Asia Pacific	263	44	2	-	91
Total 2C	**9,779**	**108**	**55**	**3,322**	**1,869**

2C Contingent resources reconciliation

Product	Contingent resources Year-end 2012	Production	Revisions and extensions	Discoveries	Commercial-isation	Net acquisitions and divestments	Contingent resources Year-end 2013
Total 2C (mmboe)	**1,965**	**-**	**(226)**	**114**	**(14)**	**30**	**1,869**

Notes

1. This reserves statement:
   a. 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 13 of this reserves statement. Details of each qualified petroleum reserves and resources evaluator's employment and professional organisation membership are set out in note 13 of this reserves statement; and
   b. as a whole has been approved by Greg Horton, who is a qualified petroleum reserves and resources evaluator and whose employment and professional organisation membership details are set out in note 13 of this reserves statement; and
   c. is issued with the prior written consent of Greg Horton as to the form and context in which the estimated petroleum reserves and contingent resources and the supporting information are presented.
2. 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).
3. 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.
4. Santos engages independent experts Gaffney, Cline & Associates, Netherland, Sewell & Associates, Inc. and DeGolyer and MacNaughton to audit and/or evaluate reserves and contingent resources. Each auditor found, based on the outcomes of its respective audit and evaluation, and its understanding of the estimation processes employed by Santos, that Santos' 31 December 2013 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 2013.
5. Unless otherwise stated, all references to petroleum reserves and contingent resources quantities in this reserves statement are Santos' net share.
6. 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.
7. 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.
8. Petroleum reserves and contingent resources are typically prepared by deterministic methods with support from probabilistic methods.
9. Any material concentrations of undeveloped petroleum reserves that have remained undeveloped for more than 5 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.
10. Petroleum reserves replacement ratio is the ratio of the change in petroleum reserves (excluding production) divided by production.
11. 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 "-".
12. Conversion factors:

Sales gas and ethane, 1 PJ	171,937 boe
LPG, 1 tonne	8.458 boe
Condensate, 1 barrel	0.935 boe
Crude oil, 1 barrel	1 boe

13. Qualified Petroleum Reserves and Resources Evaluators

Name	Employer	Professional Organisation
G Horton	Santos Ltd	SPE
P Lyford	Santos Ltd	SPE
C Greenstreet	Santos Ltd	SPE, AAPG
N Grant	Santos Ltd	SPE, APEGA
E Klettke	Santos Ltd	SPE, APEGA
J Ariyaratnam	Santos Ltd	SPE
A Wisnugroho	Santos Ltd	SPE
M Lees	Santos Ltd	SPE
D Smith	NSAI	SPE
R Shuck	DeGolyer and MacNaughton	SPE

SPE: Society of Petroleum Engineers
AAPG: American Association of Petroleum Geologists
APEGA: The Association of Professional Engineers and Geoscientists of Alberta

Corporate Governance

2013 GOVERNANCE HIGHLIGHTS

- The Board participated in four site visits and a strategy session
- Santos ranked at 100th percentile in Corporate Governance in Dow Jones Sustainability Index, Oil and Gas industry sector
- Policy and procedure updates including review and update of:
  - the Anti-Corruption Policy and Business Conduct Guidelines; and
  - Reporting Misconduct and Issue Resolution policies.

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 is necessary for the Company to meet the highest standards of personnel safety and environmental performance, governance and business conduct across its operations in Australia and internationally.

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

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

ASX RECOMMENDATIONS	HOW SANTOS SATISFIES THE RECOMMENDATIONS
Principle 1 – Lay solid foundations for management and oversight	
Establish and disclose the functions reserved to the Board and those delegated to management.	Section 2 discusses the division of responsibilities between the Board and Management.
Disclose the process for evaluating the performance of Senior Executives.	Section 2.1 details how Senior Executive performance is reviewed.
Principle 2 – Structure the Board to add value	
A majority of the Board should be independent Directors.	Sections 1.1–1.2 confirm that the Board comprises eight independent Directors and one executive Director. In addition to the eight independent Directors, on 24 February 2014, Scott Douglas Sheffield was appointed as an independent Director.
The chairperson should be an independent Director.	Section 1.1 confirms this and explains how the independence of the Directors is assessed and determined.
The roles of chairperson and chief executive officer should not be exercised by the same individual.	Section 1.1 confirms this.
Disclose whether there is a procedure agreed by the Board for Directors to take independent professional advice at the expense of the company.	Section 2.2 details the circumstances and procedures pursuant to which a Director may seek independent advice.
The Board should establish a nomination committee consisting of a minimum of three members, the majority being independent directors.	Sections 3.1–3.3 set out the role, functions and membership of the Board Committees, including the Nomination Committee. Additional detail about the role of the Nomination Committee is set out in section 1.3.
Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Section 1.5 details how the performance of the Board, its Committees and Directors is reviewed.

Principle 3 – Promote ethical and responsible decision-making	
Establish a code of conduct to guide the Directors, the Managing Director and Chief Executive Officer, the CFO and any other key executives.	Section 5.2 provides details regarding the Santos Code of Conduct, which sets out the Company's key rules, values and guidelines.
Adopt and disclose a diversity policy and set measurable objectives relating to gender diversity for disclosure in the Annual Report.	The Company has adopted a Group-wide diversity policy. Further details of the Company's diversity initiatives and measurable objectives are set out in section 5.1.
Disclose the proportion of female employees in the organisation, in senior executive positions and on the Board in the Annual Report.	Section 5.1 provides details of female representation levels across Santos.
Principle 4 – Safeguard integrity in financial reporting	
The Board should establish an Audit Committee, and structure the Committee so that it: • consists only of non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; and • has at least three members.	Sections 3.1–3.3 set out the role and membership of the Board Committees, including the Audit Committee, and confirm compliance with the Audit Committee structure.
The Audit Committee should have a formal charter.	The Audit Committee operates under a Charter approved by the Board. For further details see sections 3.1 and 3.3.
Principle 5 – Make timely and balanced disclosure	
Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Section 5.4 outlines the written policies and processes Santos has adopted to ensure compliance with its continuous disclosure obligations.
Principle 6 – Respect the rights of shareholders	
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Section 5.4 summarises the Company's shareholder communication policies.
Principle 7 – Recognise and manage risk	
Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Sections 4.1–4.3 summarise the Company's risk management systems, including reporting to the Board on risk, and provide examples of how business risks are managed.
Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to the Board on whether those risks are being managed effectively. Disclose whether management has reported to the Board as to the effectiveness of the company's management of its material business risks.	Sections 4.1–4.3 summarise the Company's risk management systems, including reporting to the Board on risk, and provide examples of how business risks are managed. Section 4.2 confirms that the Board has received the report from Management for the 2013 financial year.
Disclose whether the Board has received assurance from the Managing Director and the CFO that the declaration provided under s295A of the Corporations Act is founded on a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.	Section 4.2 confirms that the Board has received such assurance for the 2013 financial year.
Principle 8 – Remunerate fairly and responsibly	
The Board should establish a remuneration committee.	Sections 3.1–3.3 set out the role and membership of the Board Committees, including the People and Remuneration Committee.
Distinguish the structure of non-executive Directors' remuneration from that of executive Directors and Senior Executives.	Further information regarding the structure and details of the remuneration paid to Directors, the Managing Director and other Senior Executives is set out in the Remuneration Report on pages 48–65 of this Annual Report.

Corporate Governance
(continued)

PART 1: COMPOSITION OF THE BOARD

Relevant policies and charters

See **www.santos.com**

- Board Charter
- Company Constitution

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

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

The Board undertook a wholesale review of the Board Charter (previously called the Board Guidelines) in 2012 to ensure that it maintained best market practice. 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. The new 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. The Board Charter is available on the Company's website.

1.1 Director independence

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

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

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

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

Each Director's independence is assessed by the Board on an individual basis, with reference to the above materiality guidelines and focusing on an assessment of each Director's capacity to bring independence of judgement to Board decisions. In this context, Directors are required to 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.

Total Directors: 9*

- 8 independent non-executive Directors
- 1 executive Director (Managing Director)

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

1.2 Board capabilities

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

The diagram on page 17 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.

* In addition to the eight independent, non-executive Directors, Scott Douglas Sheffield was appointed as an independent non-executive Director on 24 February 2014.

DEFINING REQUIRED SKILLS AND EXPERIENCE	IDENTIFYING AREAS FOR FURTHER DEVELOPMENT	IMPROVING BOARD EFFECTIVENESS
In order to ensure that the skills and experience available on the Board align with Santos' goals and strategy, the Board considers: • Current business plan and operations • Future growth plans	Areas for further development, and skills and experience that would complement existing skills and experience, are identified by: • Board performance review to assess current capabilities • Nomination Committee consideration of succession planning	Steps taken to improve the Board include: • Development and site visits to enhance Board effectiveness • Recruitment of new Directors to complement existing Board capabilities
KEY ACTIONS IN 2013		
• Ongoing review • Strategic planning meeting	• External review conducted in early 2013 and results reported to the Board in May 2013 • Internal review commenced in late 2013, completed in February 2014	• Site visits to PNG, Roma, Gladstone and Moomba • Board meetings in various locations including Perth and Gladstone • Search for a new independent non-executive Director, who was appointed in February 2014

In 2013, the Board comprised nine Directors from diverse backgrounds with a range of business experience, skills and attributes. The following table demonstrates the skills and experience of the Directors 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 9)

Managing and leadership	
Senior management positions held outside Santos (past and present)	9
Directorships held outside Santos (past and present)	9
International experience	
Experience globally	8
Experience in the Asia Pacific region	9
Governance and regulatory	
Membership of governance or regulatory bodies (past and present)	4
Experience in governance of a complex organisation	9
Strategy	
Mergers and acquisitions experience	7
Experience in growing a business	9
Experience in implementing capital projects	7
Health, safety and environment	
Experience managing health, safety and environment issues in a large organisation	6
Resources experience and education	
Mining or minerals experience	6
Oil and gas experience	6
Infrastructure experience	6
Tertiary engineering or science background	6
Positions held on industry-related bodies (past and present) or membership of professional industry-related bodies	7
Risk management	
Background in risk-focused positions e.g. CFO or auditor (past and present)	4

The names and details of the experience, qualifications, special responsibilities (including Committee memberships), and term of office of each Director of the Company (including Scott Douglas Sheffield, who was appointed as a non-executive Director on 24 February 2014) and the Company Secretary can be found on pages 4–7 of the Annual Report.

Corporate Governance
(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.

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

- Directors should be appointed primarily based on their capacity to contribute to the Company's development;
- the Board should include at least some members with experience in the upstream oil and gas and/or resources industries; and
- in determining the composition of the Board, consideration should be given to succession planning, board renewal and the optimal mix of background, skills, experience and diversity that will position the Board to guide the Company.

The Board Charter also includes the following principles:

- nomination for re-election is subject to review by the Nomination Committee and endorsement by the Board;
- the expected tenure of a non-executive Director is between six and nine years; and
- the contribution of the Board, Board Committees, and of individual Directors is the subject of formal review and discussion in accordance with the process set out below.

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

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

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

1.4 Director induction and continuing education

Prior to appointment, each Director is provided with a letter of appointment which includes copies of the Company's Constitution, Board 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 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 letter of appointment and the Company's induction procedures, which were last reviewed and updated in 2012, were rolled out in 2013.

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

> Board site visits in 2013 to Papua New Guinea, Roma, Gladstone and Moomba

During 2013, Directors attended site visits to Papua New Guinea, Roma, Gladstone and Moomba, including engagement with local community business and government leaders. In addition, Board meetings were held at various Santos offices and sites including in Adelaide, Sydney, Perth, Gladstone and Moomba, giving the 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. Further details regarding the 2013 internal and external reviews are set out below.

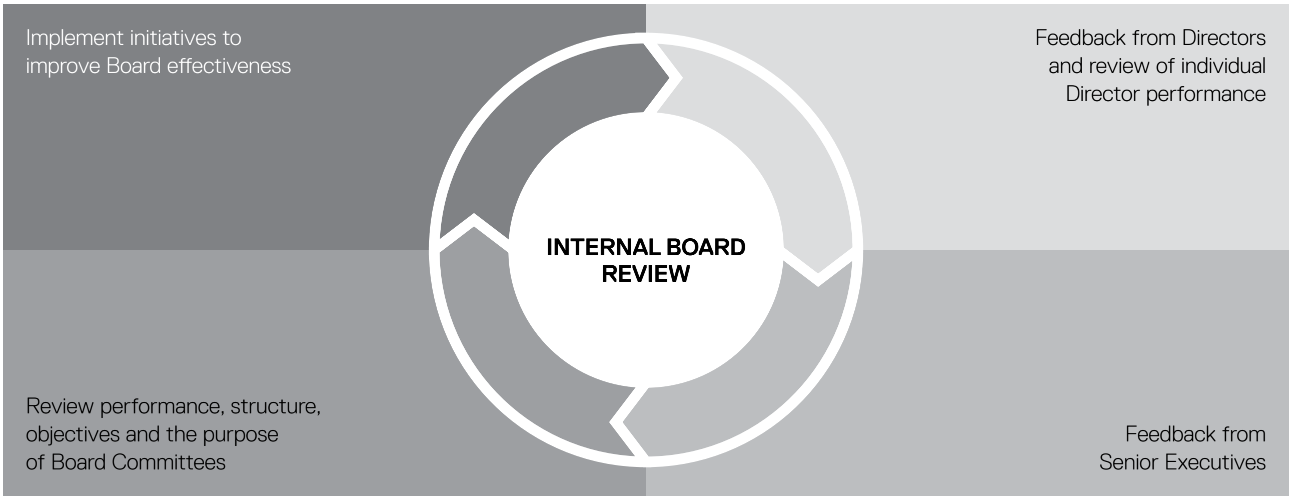
External Board review

An external review of the Board, each Committee and individual Directors was carried out in early 2013 with the assistance of an independent corporate governance expert in accordance with the process outlined in this section. This review included feedback from all Directors on the workings of the Board as a whole, as well as from Senior Executives and included a review of the performance, structure, objectives and purpose of the Board Committees. The external consultant also sat in and observed the conduct of part of a Board meeting, including interactions of the Senior Executives with the Board and the operation of the Board generally during a Board meeting.

The review addressed:

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

Internal Board review process



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.

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.

Corporate Governance
(continued)

PART 2: BOARD RESPONSIBILITIES

Relevant policies and charters

See **www.santos.com**

- Board Charter

The Board Charter was last updated in December 2013. The Board's overriding objective is defined in the Board Charter as "...to safely and sustainably increase shareholder value within a business framework which protects shareholders' interests". The Board seeks to ensure that Management implements sound strategies and develops an integrated framework of risk management and control.

2.1 Responsibilities

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

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

The Board Charter confirms that the Company Secretary, through the Chairman, is accountable to the Board for the effectiveness of corporate governance processes, ensuring adherence to the Board's principles and procedures and coordinating all Board business. All Directors have direct access to the Company Secretary 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 and Company Secretary and generally endorsing the same for the Managing Director's direct reports;
- setting the remuneration of Directors and the Managing Director and generally endorsing the same for the Managing Director'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 Managing Director, to deliver the strategic direction and goals approved by the Board. This is formally documented in the Company's Delegation of Authority.

Responsibilities delegated by the Board to Management:

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

The Company's Delegation of Authority 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 2013.

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. In 2013, the Company also engaged the assistance of independent consultants to conduct a performance evaluation and benchmarking exercise in relation to Senior Executives. Specific and detailed feedback was given to the Senior Executives and development objectives built into their performance scorecards for 2014.

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 in accordance with this process for each of the Senior Executives, including the Managing Director, during the year. These reviews impacted on the short-term incentives for the Senior Executives and included the following criteria:

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

Details of the remuneration received by the 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 48 of this Annual Report. Details of non-executive Director remuneration are also set out in the Remuneration Report.

2.2 Indemnity, access to information and independent professional advice

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

Pursuant to a deed executed by the Company and each Director, a Director also has the right to access all documents which have been presented to meetings of the Board or to any Committee of the Board or otherwise made available to the Director whilst in office. This right continues for a term of seven years after ceasing to be a Director, or such longer period as is necessary to determine any relevant legal proceedings that commenced during that term. Information in respect of indemnity and insurance arrangements for Directors and certain Senior Executives appears in the Directors' Report on page 66 of this Annual Report.

PART 3: BOARD COMMITTEES

Relevant policies and charters

See **www.santos.com**

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

3.1 Role and membership

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

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 this section. Non-Committee members may attend Committee meetings by invitation.

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

Board Committees conduct their own internal review of their performance, structure, objectives and purpose from time to time. A revised Charter for the People and Remuneration Committee was adopted in November 2013, following a review by that Committee. The updated Charter includes a revised indicative annual schedule of matters for consideration by the Committee.

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.

Corporate Governance
(continued)

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

Board Committee membership

		Audit Committee	Environment, Health, Safety and Sustainability Committee	Finance Committee	Nomination Committee	People and Remuneration Committee
KC Borda[1, 2, 3]	Non-executive Director (Chairman)			Member	Chair	Member
PR Coates[1, 2, 3]	Non-executive Director				Member	
KA Dean[1, 4]	Non-executive Director	Member		Member	Member	
RA Franklin[5]	Non-executive Director		Chair			Member
RM Harding[5, 6]	Non-executive Director		Member		Member	
DJW Knox	Executive Director (Managing Director)		Member			
GJW Martin[3, 5, 6]	Non-executive Director	Member		Chair		Chair
JS Hemstrich[4]	Non-executive Director	Chair				Member
H Goh[5]	Non-executive Director		Member			

1. Mr PR Coates ceased to be the Chair of the Nomination Committee, Mr KC Borda was appointed as Chair of the Nomination Committee, and Mr KA Dean was appointed as a member of the Nomination Committee, on 1 July 2013.
2. Mr PR Coates ceased to be a member of the People and Remuneration Committee, and Mr KC Borda was appointed as a member of the People and Remuneration Committee, on 10 May 2013.
3. In relation to the Finance Committee, Mr KC Borda ceased to be Chair, Mr GJW Martin was appointed Chair, and Mr PR Coates ceased to be a member, on 14 August 2013.
4. Mr KA Dean ceased to be Chair of the Audit Committee, and Ms JS Hemstrich was appointed as Chair of the Audit Committee, on 1 January 2014.
5. In relation to the Environment, Health, Safety and Sustainability Committee, Mr GJW Martin ceased to be a member, Mr H Goh was appointed as a member, Mr RM Harding ceased to be Chair, and Mr RA Franklin was appointed as Chair, on 13 August 2013.
6. Mr RM Harding ceased to be a member of the Audit Committee, and Mr GJW Martin was appointed as a member of the Audit Committee, on 7 August 2013.

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 4 and 5 of this Annual Report.

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

3.2 Board and Committee meetings

In 2013, 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 Papua New Guinea (including the PNG LNG Project) in April 2013, to the GLNG Project at Roma and Gladstone in June 2013 and to Moomba in October 2013.

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' Statutory Report on page 36 of this Annual Report.

3.3 Role and activities of Committees

Audit Committee

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

The role of the Audit Committee includes:

- evaluating the truth and fairness of Company financial reports and recommending acceptance to the Board;
- reviewing the process adopted by the Managing Director and Chief Financial Officer ("CFO") when certifying to the Board that the Company's financial reports are true and fair and that they are based on a sound system of risk management and internal compliance and control that is operating effectively in all material respects;
- examining the accounting policies of the Company to determine whether they are appropriate and in accordance with generally accepted practices;
- meeting regularly with the internal and external auditors to reinforce their respective independence and to determine the appropriateness of internal and external audit procedures;
- where the external auditor provides non-audit services, reporting to the Board as to whether the Committee is satisfied that the provision of those services has not compromised the auditor's independence;
- reviewing the process of the Reporting Misconduct Program;
- recommending proposed dividends to the Board for final adoption; and
- recommending to the Board the appointment and dismissal of the head of internal audit.

> Regular meetings held with auditors without Management present.

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

Finance Committee

The role of the Finance Committee includes:

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

> In 2013, the Finance Committee worked closely with Management in actively reviewing the Company's funding plans.

Environment, Health, Safety and Sustainability Committee

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

- monitoring and review of the 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.

> During 2013, a revised category of award, to recognise outstanding contribution by a health and safety representative at non-management level, was added to Directors' EHS Awards categories.

In 2013, the EHSS Committee benefited significantly from the standing agenda item introduced in 2012 in relation to reviewing lessons learnt from high potential incidents ("HiPos"). HiPos were presented to the Committee by senior line management personnel or a Vice President. The Committee's discussions centred on learning from the critical factors underpinning each incident presented, and most importantly, the proposed corrective action to be taken by Management to prevent reoccurrence.

Corporate Governance
(continued)

In this ninth year of the Directors' EHS Awards, which are judged by the EHSS Committee, there were five categories of awards, open to both employees and contractors, attracting 46 entries. The existing 'Health and Safety Representative of the year' category of the Awards was revised and expanded to include any non-management individual nominated for exhibiting outstanding leadership and contribution to safety. An awards ceremony was held in May 2013, to which all employees were invited. This is an important annual opportunity to bring EHSS matters, and the Board and EHSS Committee's commitment to EHSS, to the attention of the whole Company.

In 2013, the EHSS Committee conducted a specific EHS-focused site visit of the Moomba plant. The Committee assessed a strong safety culture amongst the workforce and in the work systems and processes. A number of observations were communicated to Management for action which were followed up and confirmed as completed in February 2014.

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.

During 2013, the Committee focused on succession planning for the Board and conducted a review of the membership of the Board.

During 2013, the Nomination Committee developed a brief for a search for candidates for a new Director, having regard to the desire of Mr RM Harding to retire after ten years' service on the Board and having reviewed the existing and future requirements for diversity, skills and experience on the Board. The Nomination Committee oversaw the conduct of that search which included the services of an external service provider and recommended the final candidate to the Board for approval, resulting in the appointment of Mr Scott Douglas Sheffield as a new independent non-executive Director on 24 February 2014. This appointment enhances the skills, technical and geographical experience represented on the Board. Further information about the composition of the Board is provided in section 1.2 (Board Capabilities) and section 5.1 (Diversity), and Directors' biographical details are provided on pages 4 and 5 of this Annual Report.

One of the areas that the Nomination Committee is focused on is Board renewal and diversity, as a number of Directors are in their third term and a search for potential candidates is currently in progress. The Board is committed to enhancing the diversity of the Board including, where appropriate, appointing additional female Directors.

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 Executives;
- 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.

The Committee has access to, and regularly uses, independent advice and comparative studies on the appropriateness of remuneration arrangements. Further details of 2013 activities are set out in the Remuneration Report commencing on page 48 of this Annual Report.

The People and Remuneration Committee Charter was reviewed in November 2013 to update the indicative calendar of business to be considered by the Committee in 2013 onwards.

The structure and details of, and policies and strategy in relation to, the remuneration paid to Directors, the Managing Director and other Senior Executives during the period are set out in the Remuneration Report commencing on page 48 of this Annual Report and notes 29 and 30 to the financial statements commencing on page 122 of this Annual Report.

Further detail about the People and Remuneration Committee's oversight of diversity objectives and reporting, including in relation to gender diversity, is provided in section 5.1 (Diversity) on page 28.

PART 4: RISK MANAGEMENT

Relevant policies and charters

See **www.santos.com**

- Board Charter
- Risk Management Policy

4.1 Risk management systems

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

The Board Charter specifies that risk management arrangements will include: Board Committees; financial reporting; management reporting; organisational structures, procedures, manuals and policies; audits; environment, health and safety standards; comprehensive insurance programs and appointment of specialist staff and external advisors.

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

4.2 Management reporting on risk

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

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

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

During 2013, the Company implemented amendments to the Risk Management Policy, risk management system and processes that were endorsed by the Board in December 2012.

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 2013 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 2013 financial year, the Managing Director and CFO provided assurance that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and the system is operating effectively in all material respects in relation to financial reporting risks.

4.3 Examples of business risks

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

Type of risk	Managed through
Project development risk	• A comprehensive Santos Quality Asset Development (SQAD) system, which applies in full to all projects greater than $100 million and key selected principles to all smaller projects; • project managers who are identified as the key risk and control owners with accountability to ensure all identified actions are taken; • reports to the Board on the material projects; • formal look back process to identify key lessons for application to future projects; and • use of internal and external experts to peer review projects at defined points.
Environmental and safety risk	• A comprehensive Environmental Health and Safety Management System based on Australian Standard 4801 and International Standard 14001; • environment, health, safety and sustainability committees at Board and Management levels; • the retention of specialist environmental, health and safety staff and advisors; • regular internal and external environmental, health and safety audits and reviews, including process safety reviews; • regular training of employees with respect to environment, health and safety; and • imposing environmental care and health and safety accountability as line management responsibilities.

Corporate Governance
(continued)

Type of risk	Managed through:
Exploration and reserves risk	• Implementation of risk management processes, including reporting mechanisms in respect of each exploration project; • internal control systems that include resource assessment of exploration prospects, resource development plans and project assurance processes; • corporate review, both forward-looking and retrospective; • independent audit of reserves and resources estimations; • Board approval of exploration budgets; and • a Reserves Management System that is consistent with the Society of Petroleum Engineers' Petroleum Resources Management System, in respect of which external reserves reviews and audits are undertaken regularly.
Reputational risk/social licence to operate	• Formal processes to ensure that the Company's operations and interactions with our stakeholders and communities are of the highest standard; • consideration of the impacts of all operations to communities; • participation with the industry body and other oil and gas operators; and • regular briefings to stakeholders and communities where the Company operates.
Operational and regulatory risk	• All significant areas of Company operations being subject to regular reporting to the Board; • receipt by the Board of regular reports on the performance of each business unit, functional area and major project, including: Eastern Australia; Western Australia and the Northern Territory; Asia Pacific; GLNG; PNG LNG; Corporate Development; Legal; Finance and Investor Relations; Human Resources; Government and Media; Environment, Health Safety and Sustainability; • identification of key safety critical equipment and maintenance processes; • dedicated teams working closely with joint venture partners to mitigate any misalignment in joint venture activities; and • monitoring by the Company of legislative and regulatory changes, and engagement with regulators.
Investment risk	Clearly defined procedures for capital allocation and expenditure, including: • a portfolio management system; • annual budgets approved by the Board; • Board approval for all new strategies prior to implementation; • short- and long-term funding strategies which are approved by the Finance Committee; • detailed appraisal and review procedures, including the appointment of independent advisers; • project management processes, including cost reporting, project forecasts and monitoring; • levels of authority; and • due diligence requirements where assets are being acquired or new country entry is contemplated.

Type of risk	Managed through
Financial reporting and treasury	• A comprehensive budgeting system with an annual budget approved by the Board; • preparation and reporting to the Board of monthly actual results against budget and quarterly forecasts for the year; • treasury operations being subject to a comprehensive system of internal control underpinned by Board-approved policies, and the prohibition of speculative financial transactions; and • regular treasury and market risk reports being made to the Finance Committee of the Board. Further details relating to financial instruments and commodity price risk management are included in note 37 to the financial statements.
Organisational capability risk	• Conducting regular reviews of the organisational capacity; • developing the workforce development and succession plans for all employees with focus on key roles within the Company; • maintaining a personal and professional development curriculum with general and industry programs; • conducting a biennial survey of employees to ensure both qualitative and quantitative measures are in place to communicate with all employees and take appropriate actions; and • conducting regular reviews of Human Resources policy and practice.

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

4.4 Independence of auditors and non-audit services

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

- the Board will not invite any past or present lead audit partner of the firm currently engaged as the Company's external auditor to fill a vacancy on the Board;
- audit partners who have had significant roles in the statutory audit will be required to rotate off the audit after a maximum of five years and there will be a period of at least two successive years before that partner can again be involved in the Company's audit; and
- the internal audit function, if outsourced, will be provided by a firm other than the external audit firm. The nature and amount of non-audit services provided by the external auditors is set out in the Directors' Statutory Report on page 66 of this Annual Report, together with the Directors' reasons for being satisfied that the provision of those services did not compromise the auditor independence requirements of the Corporations Act.

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

Non-assurance service work in 2013 represented 3% 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
(continued)

PART 5: DIVERSITY, ETHICS AND CONDUCT

Relevant policies and charters

See **www.santos.com**

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

5.1 Diversity

The Board and Senior Leadership Team of Santos are 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; 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. 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 regularly to ensure ongoing relevance.

In addition to concentrating on the 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 new contracts with recruitment firms and suppliers. This will continue to be implemented as contracts are re-negotiated over the next few years.

The Company's focus on improving gender balance has a high level of corporate accountability, with Senior Executives reporting annually to the Managing Director on progress towards achieving measurable objectives and implementing initiatives. To ensure a consistent focus on diversity related matters, the Company requires business units and corporate leaders to report on diversity progress at their quarterly business reviews and is a major part of its annual people and succession planning reviews.

During 2013, the Company initiated a review involving the Senior Leadership Team to discuss and determine what additional commitments were needed from the Company to increase the number of females in senior technical and non-technical roles and opportunities for developing female leaders within Santos.

The Company's recruitment and retention strategies were also reviewed and updated to ensure system bias did not exist when conducting reviews of talent. In addition, a number of existing policies were reviewed and updated to enable flexible work practices to be extended.

The table below sets out the measurable objectives adopted by the Board and a summary of the progress towards achieving them that was reported to the People and Remuneration Committee during 2013 by the Managing Director and Chief HR Officer, in accordance with the Company's Diversity Policy. Although the ASX Principles only require gender diversity to be reported, the objectives below are broader, as the Company adopts an integrated holistic approach to diversity.

Objective	Initiatives and progress
1. Representation Increase representation of females and Aboriginal employees at Santos. In particular increase representation in the non-traditional areas such as apprentices, trainees and graduates.	• 27% of Santos' workforce is female. • 11% of senior leadership roles are held by women compared with 10% in 2012. The Company is continuing to make progress on increasing female representation through regular discussion forums with senior leaders and formal talent reviews. • The proportion of females recruited in 2013 was 28%. • The Santos Graduate Program continues to drive gender balance in engineering and geoscience with 40% of graduates employed in 2013 being female. • Santos has increased Aboriginal workforce participation in the energy and resources sectors through the creation of 481 employment, education and training opportunities within Santos and its contractor companies since 2011, of which 168 were created in 2013. These opportunities include cadetships, traineeships and apprenticeships, including within the GLNG Project.

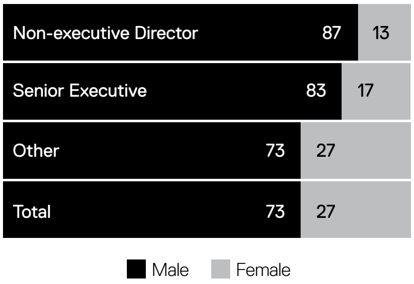
2. Leadership and culture development Deliver development solutions to remove gender bias and create an inclusive culture.	• Workforce flexibility policies and practices continue to be reinforced and Santos had a 94% return rate of employees from parental leave during 2013. • The Leave Policy was updated in 2013 to allow purchase of leave beyond statutory requirements. This has increased support for parents during school holiday periods. • Diversity awareness tools are embedded into leadership development programs to ensure that the drive for diversity is part of the overall Santos system. Those programs were updated in 2013 to incorporate research and learning in relation to the way bias affects communication, decision making and cultural acceptance. • The Company's Code of Conduct was revised to include unconscious bias training in 2013. The digitised learning program was modernised to provide greater access to the updated Code for all employees and contractors.
3. Personal and career development Equal representation of women and men to receive opportunities for in-house development programs.	• Female representation at the Company's leadership development programs comprised 31%. • The company-sponsored MBA program continued to drive the development of women in management positions and strengthen their networks. Female participation in the MBA program increased to 27% in 2013. • Personal development programs such as confidence building and resilience tools were continued in 2013 to assist employees with their ability to manage work/life balance challenges.
4. Systems and processes Review practices to identify inequities, specifically review gender pay equity and take necessary actions.	• Policies have been reviewed, updated and communicated. • Service providers are measured on their ability to provide diverse and gender balanced candidate pools. • Improved reporting systems to track participation in indigenous recruitment and development have been implemented. Regular assessments are made in relation to job grading and reporting levels to ensure equity of roles, responsibilities and reward across the Company. • The pay equity review process is conducted on an annual basis. This year's review continued to highlight that there was no significant difference in pay levels for male and female employees in similar roles.
5. Government and industry participation Involvement with initiatives designed to improve gender equity.	• 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. • In 2013, Santos entered into a secondment partnership with the Workplace Gender Equality Agency to further improve understanding of requirements and contemporary issues. • Santos continues to support industry and community initiatives designed to improve gender equity including Australian Women in Resources alliances, Boardlinks, Women on Boards and Australian Institute of Company Directors programs. Santos supported a number of women joining boards in 2013 through these programs.

Corporate Governance
(continued)

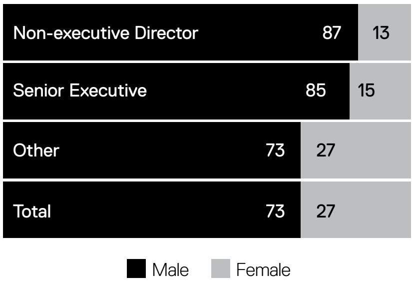
The Company remains committed to attracting, retaining and engaging people with diversity of experience, skills, qualities and backgrounds, and to providing an inclusive culture. The five objectives listed above will continue to ensure Santos maintains focus in these key areas. Progress against these objectives will be reported in the Company's 2014 Annual Report.

The following graphs show the proportional representation of men and women at various levels within the Santos workforce. In 2013, overall female representation across the Group remained at 27%, and female representation at the Senior Executive level increased.

WORKFORCE GENDER PROFILE 2013



WORKFORCE GENDER PROFILE 2012



There was no reduction in the number of females in the non-executive Director and Senior Executive groups in 2013. In 2014, Mr SD Sheffield was appointed as an additional non-executive Director and Mr RM Harding, non-executive Director, will retire at the Company's 2014 Annual General Meeting (see section 3.3). The Board has engaged an external consultant to assist in identifying potential candidates to enhance the diversity of the Board. The 2013 Senior Executives included above comprise the Company's Senior Leadership Team and are those who are described in the Annual Report on pages 6 and 7, reflecting changes to the comparable group as described on pages 26 and 27 of the 2012 Annual Report.

5.2 Ethical standards and code of conduct

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

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

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

Key issues addressed by the Code of Conduct include:

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

The Code of Conduct and its associated training was 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. In October 2013, the Anti-Corruption Policy and Business Conduct Guidelines were reviewed and updated. One of the key changes to the Policy was the prohibition of facilitation payments. The Company's Gifts and Benefits Policy and Conflict of Interest Policy were also reviewed and updated and a new Government Engagement and Political Donations Policy was introduced. The Company also continued a roll-out of anti-corruption workshops and web-based training for employees in roles or locations where there is a higher risk of exposure to corrupt practices by third parties.

The standards of conduct expected of Santos staff, including when dealing with the broader stakeholder constituency of shareholders, customers and the community, are also recorded in separate guidelines and policies relating to dealing in securities (see section 5.3), 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. These policies were reviewed and updated in 2013 to ensure best practice standards continue to be set for the Company. 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 which is not in the public domain. Directors, executives and employees (and their connected persons) are also prohibited from dealing in the Company's securities during defined 'blackout periods', except:

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

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

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

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

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

In 2013, the Company continued to implement and roll-out the significant improvements to the Company-wide visibility of the Securities Trading Policy and related materials on the Company's intranet site, which is available to all employees, including:

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

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

5.4 Continuous disclosure and shareholder communication

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

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

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

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

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

The Company also has in place a detailed investor relations program of scheduled and ad hoc briefings with shareholders, analysts and financial media. These forums provide 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.

10-year summary

As at 31 December	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Average realised oil price (A$/bbl)[1]	51.83	73.83	89.35	92.00	117.45	78.83	87.35	115.29	113.78	**120.96**
Financial Performance ($million)[2,3]										
Product sales revenue[1]	1,501	2,463	2,750	2,489	2,762	2,181	2,228	2,721	3,223	**3,602**
Total revenue[1,4]	1,526	2,492	2,779	2,518	2,805	2,251	2,306	2,803	3,289	**3,651**
Foreign currency gains/(losses)	3	(4)	1	-	24	(28)	(10)	18	(2)	**24**
Profit from ordinary activities before tax	519	1,133	964	719	2,533	717	793	1,282	911	**869**
Income tax relating to ordinary activities	164	371	321	196	768	205	244	440	318	**296**
Royalty-related taxes[5]				164	115	78	51	91	75	**57**
Net profit after tax attributable to the shareholders of Santos Ltd	355	762	643	359	1,650	434	500	753	519	**516**
Financial Position ($million)[2,3]										
Total assets	4,837	6,191	6,903	7,320	9,802	11,361	13,769	15,814	16,988	**20,609**
Net debt/(cash)	1,133	1,599	1,450	1,839	506	(605)	(1,201)	(205)	1,334	**4,918**
Total equity	2,358	2,964	3,356	3,093	4,478	6,967	7,603	8,963	9,354	**10,212**
Reserves and production (mmboe)										
Proven plus probable reserves (2P)	643	774	819	879	1,013	1,440	1,445	1,364	1,406	**1,368**
Production	47.1	56.0	61.0	59.1	54.4	54.4	49.9	47.2	52.1	**51.0**
Exploration[6]										
Wells drilled (number)	16	22	25	10	13	6	3	4	4	**12**
Expenditure ($million)[2]	126	187	259	150	233	181	90	151	162	**391**
Other capital expenditure ($million)[2,3]										
Delineation and development[6]	673	666	866	955	1,290	1,204	1,684	2,769	2,960	**3,704**
Buildings, plant and equipment	131	106	182	202	105	172	107	149	231	**274**
General										
Number of employees (excluding contractors)	1,526	1,521	1,679	1,786	1,940	2,096	2,367	2,847	3,289	**3,502**
Number of shareholders	78,976	78,157	83,566	77,498	78,933	107,138	112,145	113,173	111,135	**112,397**
Market capitalisation ($million)	4,965	7,280	5,907	8,274	8,696	11,721	11,506	11,560	10,669	**14,222**
Netback ($/boe)[1]	19.8	29.5	32.9	32.9	35.9	22.9	23.0	27.6	31.1	**33.9**

As at 31 December	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Share Information										
Share issues	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Preference Share Buy-Back/ Issue of FUELS/ Convertible Preference Shares	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan	Employee Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Buy Back	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/2 for 5 Rights Issue/ Redemption of FUELS/ Convertible Preference Shares	Employee Share Plan/ Executive Share Plan/ Non-executive Director Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ Placement (institutional)	Employee Share Plan/ Executive Share Plan/ Exercise of Options/ Dividend Reinvestment Plan/ ESG 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
Number of issued ordinary shares at year end (million)	585.7	594.4	598.5	586.1	584.9	831.9	875.1	944.6	961.2	**972.1**
Weighted average number of issued ordinary shares (million)	635.1	638.4	647.3	641.2	641.4	781.1	836.3	888.7	954.9	**967.3**
Dividends – ordinary shares										
Paid during the period (cents per share)	30	36	40	40	42	42	42	30	30	**30**
Declared in respect of the period (cents per share)	33	38	40	40	42	42	37	30	30	**30**
Paid during the period ($million)[2]	176	212	238	235	248	299	350	263	285	**289**
Number of issued preference shares at year end (million)	6.0	6.0	6.0	6.0	6.0	-	-	-	-	**-**
Dividends – preference shares										
Paid during the period ($ per share)										
- ordinary	6.6	5.1	5.1	5.6	6.3	4.6	-	-	-	**-**
- special	5.0	-	-	-	-	-	-	-	-	**-**
Declared in respect of the period ($ per share)										
- ordinary	5.7	5.2	5.3	5.9	6.3	-	-	-	-	**-**
- special	5.0	-	-	-	-	-	-	-	-	**-**
Paid during the period ($million)[5]										
- ordinary	23	31	30	34	38	28	-	-	-	**-**
- special	14	-	-	-	-	-	-	-	-	**-**
Earnings per share (cents)	50.0	114.6	94.7	50.8	251.4	52.0	59.8	84.8	54.4	**53.3**
Return on total revenue (%)[1,4]	23.2	30.6	23.1	14.3	58.8	19.3	21.7	26.9	15.7	**14.1**
Return on average ordinary equity (%)	18.6	35.5	23.9	12.4	50.6	7.5	6.9	9.1	5.7	**5.3**
Return on average capital employed (%)	11.7	19.8	15.1	9.0	34.1	7.3	7.3	8.7	4.4	**3.8**
Net debt/(net debt + equity) (%)	32.5	35.0	30.2	37.3	10.2	(9.5)	(18.7)	(2.3)	12.4	**32.5**
Net interest cover (times)	9.1	14.9	10.1	7.4	38.5	(45.3)	(19.1)	700.9	14.6	**4.8**

1 *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.*

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

3 *2012 figures have been restated to reflect adjustments required from the adoption of AASB 11 Joint Arrangements. Prior year amounts have not been restated.*

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

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

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

Directors' Report

CONTENTS

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 2013, 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.

Surname	Other names	Shareholdings in Santos Limited
Borda	Kenneth Charles (Chairman)	75,971
Coates	Peter Roland	37,928
Dean	Kenneth Alfred	16,712
Franklin	Roy Alexander	3,625
Goh	Hock	3,000
Harding	Richard Michael	2,701
Hemstritch	Jane Sharman	14,000
Knox	David John Wissler (Managing Director)	85,227
Martin	Gregory John Walton	10,750

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

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

At the date of this report, Mr DJW Knox holds 257,512 options and 642,926 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 48.

Details of the qualifications, experience and special responsibilities of each Director and the Company Secretary can be found on pages 4–7 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' meeting		Audit Committee		Environment Health, Safety and Sustainability Committee		People and Remuneration Committee		Finance Committee		Nomination Committee	
		Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Borda[1,2]	Kenneth C.	10	9	–	–	–	–	4	4	4	4	6	5
Coates[3]	Peter R.	10	8	–	–	–	–	1	1	3	2	6	5
Dean[4]	Kenneth A.	10	9	4	4	–	–	–	–	4	4	4	4
Franklin	Roy A.	10	10	–	–	4	4	5	5	–	–	–	–
Goh[5]	Hock	10	9	–	–	2	2	–	–	–	–	–	–
Harding[6]	Richard M.	10	9	3	2	4	3	–	–	–	–	6	5
Hemstritch	Jane S.	10	9	4	4	–	–	5	4	–	–	–	–
Knox	David J. W.	10	10	–	–	4	4	–	–	–	–	–	–
Martin[5,6]	Gregory J. W.	10	10	1	1	2	2	5	5	1	1	–	–

1. Mr KC Borda absented himself from the meeting specially convened to consider his appointment as Chairman.
2. Mr KC Borda was appointed Chairman at the AGM on 9 May 2013.
3. Mr PR Coates was a member of the Finance Committee until 13 August 2013 and the People & Remuneration Committee until 10 May 2013.
4. Mr KA Dean became a member of the Nomination Committee on 1 July 2013.
5. Mr H Goh replaced Mr GJW Martin on the Environment Health, Safety and Sustainability Committee from 13 August 2013.
6. Mr GJW Martin replaced Mr RM Harding on the Audit Committee from 7 August 2013.

Note:

Held and Attended reflects the number of meetings held and attended during the time the Director held office as a Director, or as a member of the relevant Committee.
In addition to formal meetings, the Directors participated in site visits to PNG in April, Roma and Gladstone in June and Moomba in October 2013.

OPERATING AND FINANCIAL REVIEW

Santos' principal activities during 2013 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

	2013 mmboe	2012[2] mmboe	Variance %
Production volume	**51.0**	52.1	(2)
Sales volume	**58.5**	61.3	(5)
	$million	$million	
Product sales	**3,602**	3,223	12
EBITDAX[1]	**1,992**	1,861	7
Exploration and evaluation expensed	**(192)**	(165)	16
Depreciation and depletion	**(888)**	(758)	17
Net impairment loss	**(26)**	(106)	(75)
EBIT[1]	**886**	832	6
Net finance (costs)/income	**(17)**	79	(122)
Taxation expense	**(353)**	(393)	(10)
Net profit for the period	**516**	518	–
Net loss attributable to non-controlling interest	**–**	(1)	
Net profit attributable to equity holders of Santos	**516**	519	(1)
Underlying profit for the period[1]	**504**	606	(17)

1. 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 40 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.
2. Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013.

Production and sales

Production was 51.0 million barrels of oil equivalent (mmboe), 1.0 mmboe or 2% lower than the prior year. New production from the start-up of the Fletcher Finucane oil project offshore Western Australia and higher production from Darwin LNG were offset by natural field decline in mature assets and the cessation of production from the Sangu asset in Bangladesh.

Sales volumes fell by 5% to 58.5 mmboe, reflecting the lower production outcome partially offset by growth in third party product sales primarily due to higher third party Cooper Basin oil volumes.

Sales revenue grew by 12% to a record $3.6 billion primarily due to higher oil and gas prices, and higher third party crude oil sales. The average realised oil price for the year of $121 per barrel and the average realised gas price of $5.64 per gigajoule were 6% and 10% respectively higher than 2012.

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.

Natural gas demand in eastern Australia is expected to increase significantly over the next few years as LNG exports commence from Queensland in 2014. Santos is responding to the higher demand by lifting gas capacity in the Cooper Basin and progressing appraisal activity for the proposed Narrabri gas project in New South Wales.

Eastern Australia Business Unit EBITDAX in 2013 was $646 million, 3% lower than 2012 primarily due to lower production volumes, partially offset by higher gas and oil prices, and higher third party crude oil sales volumes.

Santos' share of Cooper Basin gas production of 61 petajoules (PJ) during 2013 was 8% lower than 2012, mainly due to lower gas well capacity combined with planned maintenance to prepare the Moomba plant for higher demand going forward. Santos' share of condensate production was 1.0 million barrels (mmbbl), in line with 2012. Santos' share of gas production from the Surat/Bowen/Denison areas in Queensland and the Otway Basin offshore Victoria was 30.4 PJ, also in line with 2012.

Santos produced 3.1 mmbbl of oil from the Cooper Basin in 2013, 4% lower than 2012 mainly due to minor delays in bringing some new wells on line during the year. 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 2013. The Moomba-191 well, Australia's first commercial production of gas from a shale well, was commissioned in late September 2012 and continued to flow strongly at the end of 2013. A follow-up vertical shale well, Moomba-194, was drilled in late-2013 and also flowed gas. Santos' first horizontal shale well in the Cooper Basin, Roswell-2H, was also drilled in late-2013 and will be fracture stimulated in 2014.

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, and interests in the Amadeus and McArthur basins, in the Northern Territory.

Western Australia and Northern Territory Business Unit EBITDAX in 2013 was $979 million, 25% higher than 2012 primarily due to higher oil production following the start-up of Fletcher Finucane in May 2013 combined with higher liquids and gas prices.

Santos' Western Australia gas production of 64.9 PJ was in line with the record volume produced in 2012. With partner Apache Energy, Santos processes gas through the Varanus Island and Devil Creek facilities in the Carnarvon Basin, and supplies it to domestic resource and industrial customers. Santos' share of Western Australia condensate production of 627,500 barrels was in line with 2012.

Santos' share of WA oil production was 4.0 mmbbl, 46% higher than 2012 due to commencement of production from the Santos-operated Fletcher Finucane oil project in May 2013.

Santos' share of gas production from the Darwin LNG plant of 16.7 PJ was 16% higher than 2012 primarily due to strong production from the LNG plant following the planned maintenance shutdown in the first half of the prior year.

Following on from the success with the Crown exploration well drilled in the Browse Basin offshore Western Australia in late-2012, Santos participated in three successful exploration discoveries in 2013 with the Bassett West (Browse Basin), and Bianchi and Winchester (both Carnarvon Basin) wells. Santos and its partners are expecting to spud the Lasseter-1 well in the Browse Basin in the second quarter of 2014.

Asia Pacific

Santos is building a high margin business in Asia with a focus on three core countries: Papua New Guinea, Indonesia and Vietnam. In 2013, the PNG LNG project made strong progress and is on track for first LNG in the third quarter of 2014, whilst Santos grew its business in Indonesia through the acquisition of a 50% operated-interest in the Northwest Natuna Production Sharing Contract, which contains the undeveloped Ande Ande Lumut oil field.

Asia Pacific Business Unit EBITDAX in 2013 was $318 million, 14% lower than 2012 primarily due to lower oil and gas production, and higher production costs, partially offset by higher prices.

Santos' net entitlement to oil production from the Chim Sáo asset (Santos 31.875% interest) offshore Vietnam was 2.7 mmbbl for the year, 7% lower than 2012. Gross production from the asset was lower than the prior year primarily due to power system constraints on the FPSO combined with an unplanned shutdown of the gas export pipeline for repairs in the second half of the year. Construction continued on the Dua oil project (Santos 31.875% interest) during 2013. Dua is a three-well subsea tie-back to Chim Sáo, and is expected to produce at a gross rate of approximately 8,000 bopd for the first 12 months of production. First oil is expected in mid-2014.

The PNG LNG project (Santos 13.5% interest) was more than 90% complete at the end of December with the first LNG delivery now expected in the third quarter of 2014. Operated by ExxonMobil, the project involves gas production and processing facilities in the Southern Highlands, Hela and Western provinces of Papua New Guinea and pipeline infrastructure to an LNG plant located near Port Moresby with capacity of 6.9 million tonnes of LNG per year. The project has an estimated gross capital cost of US$19 billion.

Construction of the project is now nearing completion, with the focus shifting to commissioning key facilities and equipment. Drilling of four of the eight production wells is complete and commissioning of the upstream gas conditioning plant is underway. Construction of the onshore pipeline is well progressed and the offshore pipeline is complete. Commissioning is ramping-up at the LNG plant with gas circulating in train 1 and the refrigeration compressors being test run. All gas turbine generators are operable, and the LNG loading jetty and both LNG tanks are complete.

Santos' net entitlement to gas production in Indonesia of 26.9 PJ was 4% lower than 2012, primarily due to natural field decline and lower customer nominations from the Maleo field. Santos and its partners sanctioned the Peluang development (Santos 67.5% interest) during 2013. Peluang is a tie-back to the existing Santos-operated Maleo field and first production is expected in mid-2014.

GLNG

The GLNG project (Santos 30% interest) was approaching 75% complete at the end of December and remains on track for first LNG in 2015. GLNG involves the development of CSG resources in the Bowen and Surat basins in south-east Queensland, construction of a 420-kilometre underground gas transmission pipeline to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 mtpa on Curtis Island. The project has an estimated gross capital cost of US$18.5 billion from final investment decision ("FID") to the end of 2015 when the second train is expected to be ready for start-up, based on foreign exchange rates consistent with the assumptions used at FID (A$/US$ 0.87 average over 2011–2015).

Strong construction progress was recorded across the project in 2013. Upstream drilling is ahead of schedule with over 230 wells drilled during 2013. Construction of the three upstream gas hubs continued to progress and the first of the new development wells at Fairview and Roma were commissioned. Construction of the pipeline is progressing well and remains on track for completion in the second quarter of 2014. On the Curtis Island LNG plant site, construction of LNG trains, tanks and supporting infrastructure is progressing well.

GLNG Business Unit results include domestic gas production and sales from the GLNG coal seam gas fields in south-western Queensland. GLNG Business Unit EBITDAX in 2013 was $12 million, 9% higher than 2012 primarily due to lower cost of sales partially offsetting lower customer nominations.

Santos' share of GLNG gas production into the domestic market and underground storage in 2013 was 9.6 PJ, 11% lower than 2012.

Net profit

The 2013 net profit attributable to equity holders of Santos Limited of $516 million is $3 million lower than in 2012. This decrease is primarily due to higher cost of sales, offset by higher liquids volumes and higher prices in the current period.

Net profit includes items before tax of $31 million ($12 million after tax), as referred to in the reconciliation of net profit to underlying profit below.

Reconciliation of net profit to underlying profit[1]

	2013 $million			2012 $million		
	Gross	**Tax**	**Net**	**Gross**	**Tax**	**Net**
Net profit after tax attributable to equity holders of Santos Limited			**516**			**519**
Add/(deduct) the following:						
Net gains on sales of non-current assets	(14)	4	**(10)**	(11)	3	**(8)**
Impairment losses	26	2	**28**	106	(29)	**77**
Foreign exchange (gains)/losses	(24)	7	**(17)**	2	(1)	**1**
Fair value adjustments on embedded derivatives and hedges	(7)	2	**(5)**	(7)	2	**(5)**
Remediation (income)/costs for incidents net of related insurance recoveries	(9)	2	**(7)**	2	(1)	**1**
Other (income)/expense items	(3)	2	**(1)**	4	(1)	**3**
Tax adjustments relating to prior years	–	–	**–**	–	17	**17**
Other tax adjustments	–	–	**–**	–	1	**1**
	(31)	19	**(12)**	96	(9)	**87**
Underlying profit[1]			**504**			**606**

1. Underlying profit is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited, however the gross numbers presented above have been extracted from the audited financial statements. 'Other (income)/expense items' in 2013 relates to a prior year re-determination adjustment.

Financial position

Summary of financial position

	2013 $million	2012 $million	Variance $million
Exploration and evaluation assets	**1,964**	1,510	454
Oil and gas assets and other land, buildings, plant and equipment	**16,082**	11,816	4,266
Restoration provision	**(1,768)**	(1,633)	(135)
Other net assets/(liabilities)[1]	**72**	(7)	79
Total funds employed	**16,350**	11,686	4,664
Net debt[2]	**(4,918)**	(1,334)	(3,584)
Net tax liabilities[3]	**(1,220)**	(998)	(222)
Net assets/equity	**10,212**	9,354	858

1. Other net assets comprise trade and other receivables, prepayments, inventories, other financial assets, share of investments in joint ventures and intangibles, 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.

Exploration and evaluation assets

Exploration and evaluation assets were $1,964 million compared to $1,510 million at the end of 2012. This increase of $454 million was mainly due to 2013 capital expenditure including WA offshore assets and the Gunnedah Basin, acquisition costs comprising a 50% interest in the Northwest Natuna PSC offshore Indonesia, offset by exploration and evaluation expensed.

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

Oil and gas assets of $16,082 million were $4,266 million higher than in 2012 mainly due to 2013 capital expenditure on major development projects including PNG LNG, GLNG and the Cooper Basin, offset by depreciation and depletion charges.

Restoration provision

Restoration provision balances have increased by $135 million to $1,768 million mainly due to unwinding of the effect of discounting the provision, revised restoration cost estimates and additional restoration provisions for work completed on the PNG LNG and GLNG projects, offset by change in the discount rate.

Net debt

Net debt of $4,918 million was $3,584 million higher than at the end of 2012 primarily as a result of drawdowns on debt and cash balances to fund the capital expenditure program and the impact of the A$ exchange rate on US$ denominated debt, partially offset by net operating cash inflows.

Net assets/equity

Total equity increased by $858 million to $10,212 million at year end. The increase primarily reflects additional shares issued in relation to the dividend reinvestment plan ($132 million), the 2013 net profit after tax attributable to owners of Santos Limited of $516 million and the impact of the A$ exchange rate on foreign operations ($460 million), less dividends paid during the year ($289 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 ten and twenty years with varying renewal options. At reporting date, no liability for the 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 ten years, with an option to renew the lease after that date.

Dividends

In 2013, the dividend was maintained at 30 cents per share fully franked. Santos will adopt a progressive dividend policy. As production and earnings grow, Santos intends to initially increase the dividend per share to a level which is sustainable and then steadily increase or maintain the dividend each year.

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

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: Growing our strong domestic base businesses
- LNG: Delivering our transformational LNG portfolio
- Asia: Building a focused exploration-led portfolio

Strong progress was made in 2013 in the delivery of all elements of the strategy, including:

Australia Growing our strong domestic base business	• Fletcher Finucane project (Western Australia) first oil ahead of schedule and under budget. • Exploration success offshore Western Australia with the Bianchi and Winchester wells. • Further shale gas success in the Cooper Basin with the Moomba-194 unconventional well. • Santos uniquely positioned to meet higher demand for domestic and export natural gas.
LNG Delivering our transformational LNG portfolio	• PNG LNG more than 90% complete and on track for first LNG in the third quarter of 2014. • GLNG approaching 75% complete and on track for first LNG in 2015. • Capital cost estimates for both projects unchanged.
Asia Building a focused exploration-led portfolio	• Dua (Vietnam) and Peluang (Indonesia) projects on track for first production by mid-2014. • Acquisition of a 50% interest in the Ande Ande Lumut oil field offshore Indonesia. • Farm-in to exploration licences in the PNG Foreland. • Multiple options for PNG LNG expansion.

Prospects for future financial years

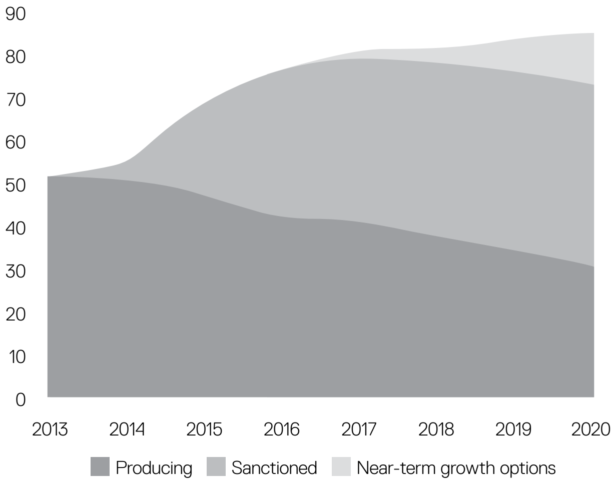
Santos expects to grow production in 2014 to between 52 and 57 mmboe. The key driver of increased production will be the expected start-up of the PNG LNG project in the third quarter of 2014, combined with commencement of production from the Dua and Peluang projects in Asia.

The GLNG project is expected to produce first LNG in 2015 and will provide a further boost to the Company's production.

Looking forward, Santos expects to grow production to 80 to 90 mmboe by 2020. Production growth will be driven by delivery of our LNG project portfolio, including the PNG LNG and GLNG projects, and various other sanctioned projects currently under development and the sanction of other potential projects in the future, as represented by the chart on the following page.

SANTOS PRODUCTION

mmboe



UPSIDE POTENTIAL

Australia:	Cooper shale, Cooper tight gas, Zola, Winchester, Amadeus, McArthur
LNG:	PNG LNG expansion, Darwin expansion, Browse
Asia:	Vietnam, Indonesia CSG

NEAR-TERM GROWTH OPTIONS

Australia:	Narrabri
LNG:	Bonaparte LNG
Asia:	Ande Ande Lumut

SANCTIONED

Australia:	Cooper infill, Kipper
LNG:	PNG LNG, GLNG
Asia:	Dua, Peluang

PRODUCING

Australia:	Cooper Basin, Carnarvon Basin, Queensland CSG, offshore Victoria, Mereenie
LNG:	Darwin LNG
Asia:	Chim Sáo, Indonesia, SE Gobe

The Company also intends to drive revenue and margin growth through the increasing proportion of Santos' product sales which are oil-price linked (from around 35% in 2012 to around 70% in 2015), rises in the average realised gas price (in particular, due to the increase in demand for natural gas in eastern Australia) and continuing its focus on operational efficiency and cost control.

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. The steps Santos takes to manage these risks are also outlined below. This summary refers to significant risks identified at a whole of entity level. It is not an exhaustive list of all risks that may affect the Company nor have they 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-term and long-term contracts and the proportion of revenue that is derived from oil-linked pricing is increasing. A downward movement in oil prices could have a significant effect on the Company's performance and future prospects. Crude oil prices are affected by numerous factors beyond the Company's control and have fluctuated widely historically.
- Santos has the option of entering into commodity crude oil price swap and option contracts to manage its oil price risk, and continually monitors oil price volatility to assess the need for commodity price hedging. During 2013, and at the time of publishing this report, the Company did not have any hedging positions in place.

Project development risk

- Santos is investing a significant amount of capital in the PNG LNG and GLNG projects. These 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. For example, the Company's ambition to grow production to 80 to 90 mmboe by 2020 may not be achieved if any of the projects currently under development are not delivered successfully or any of the yet to be sanctioned projects are not sanctioned for development.
- 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.

Directors' Report
(continued)

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.
- 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, relating 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.
- Santos continually monitors legislative and regulatory developments and engages appropriately with legislative and regulatory bodies to manage this risk.

Environmental and safety risks and social licence to operate

- A range of health, safety and environmental risks exists with 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 shutdown 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 who engage with local communities to ensure that 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 the 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 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.

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 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:

Dividends

On 21 February 2014, the Directors resolved to pay a fully franked final dividend of 15 cents per fully paid ordinary share on 26 March 2014 to shareholders registered in the books of the Company at the close of business on 5 March 2014 ("Record Date"). This final dividend amounts to approximately $146 million. The Board also resolved that the Dividend Reinvestment Plan ("DRP") will continue to be in operation for this dividend. Shares issued under the DRP will be allocated at the arithmetic average of the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Record Date less a 2.5% discount ("DRP Price"). The last date to elect to participate in the DRP in respect of the year ended 31 December 2013 is the Record Date.

A fully franked final dividend of $144 million (15 cents per fully paid ordinary share) was paid on 28 March 2013 in respect of the year ended 31 December 2012, as disclosed in the 2012 Annual Report. In addition, a fully franked interim dividend of $145 million (15 cents per fully paid ordinary share) was paid to members on 30 September 2013. The DRP was in operation for both of these dividends and shares were allocated based on the DRP Price.

Environmental regulation

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

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 Bibblewindi water treatment plant which Santos has since decommissioned and removed.

During the financial year, the consolidated entity received $34,800 in fines relating to 17 Infringement Notices issued pursuant to the *Environmental Protection Act 1994* (Qld). The consolidated entity undertook corrective measures in respect of the infringements to preclude re-occurrences.

The consolidated entity received nine other environmental regulatory instruments: eight pursuant to the *Petroleum and Geothermal Energy Act 2000* (SA) and one pursuant to the *Environmental Protection Act 1994* (Qld), for which it was not fined and no penalties were issued.

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 21 February 2014, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. The dividend has not been provided for in the 31 December 2013 financial statements. Refer to note 22 of the financial statements for dividends declared after 31 December 2013.

SHARES UNDER OPTION AND UNVESTED SHARE ACQUISITION RIGHTS

Options

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

Date options granted	Expiry date	Issue price of shares[1]	Number of options
23 May 2005	22 May 2015	$8.46	8,350
23 May 2005	22 May 2015	$8.46	61,100
24 October 2006	24 October 2016	$10.48	362,700
4 May 2006	3 May 2016	$11.36	2,500,000
1 July 2007	30 June 2017	$14.14	203,900
1 July 2007	30 June 2017	$14.14	47,400
3 September 2007	2 September 2017	$12.81	100,000
3 May 2008	2 May 2018	$15.39	483,348
3 May 2008	2 May 2018	$15.39	243,443
28 July 2008	27 July 2018	$17.36	81,948
02 March 2009	2 March 2019	$14.81	50,549
			4,142,738

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

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

Unvested SARs

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

Date SARs granted	Number of shares under unvested SARs
1 March 2011	204,365
4 July 2011	283,067
4 January 2012	34,771
1 March 2012	1,323,770
3 May 2012	205,339
2 July 2012	410,333
3 January 2013	53,468
6 March 2013	1,686,989
1 July 2013	436,345
21 January 2014	35,555
	4,674,002

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

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 2013 on the exercise of options granted under the Santos Executive Share Option Plan. No further shares have been issued since then on the exercise of options granted under the Santos Executive Share Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
24 October 2006	$10.48	10,000
		10,000

Vested SARs

The following ordinary shares of Santos Limited were issued during the year ended 31 December 2013 on the vesting of SARs granted under the Santos Employee Equity Incentive Plan ("SEEIP") (formerly known as the Santos Employee Share Purchase Plan ("SESAP")) and ShareMatch Plan ("ShareMatch"). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares issued
2 March 2010	204,375
4 January 2011	271,700
1 March 2011	9,186
4 July 2011	7,950
4 Jan 2012	1,206
2 July 2012	11,942
3 Jan 2013	1,922
1 July 2013	2,020
	510,301

Since 31 December 2013, the following ordinary shares of Santos Limited have been issued on the vesting of SARs granted under the SEEIP and ShareMatch.

Date SARs granted	Number of shares issued
4 January 2011	375
4 January 2012	201
2 July 2012	928
1 July 2013	808
	2,312

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 48 of this report and in notes 29 and 30 to the financial statements.

Remuneration Report

The Directors of Santos Limited present this Remuneration Report for the consolidated entity for the year ended 31 December 2013. The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) ("Corporations Act") and forms part of the Directors' Report.

It outlines the Company's key remuneration activities in 2013 and remuneration information pertaining to the Company's Directors, Managing Director and Chief Executive Officer ("Managing Director") and Senior Executives who are the key management personnel ("KMP") of the consolidated entity for the purposes of the Corporations Act and the Accounting Standards.

REMUNERATION AT A GLANCE

Fixed remuneration	The Managing Director and Senior Executives' total fixed remuneration ("TFR") increased by an average of 2.3% in 2013.
Short-term incentive ("STI")	The Company met its process safety, environment, sustainability and net profit after tax ("NPAT") targets, and partially met its production cost and project delivery targets. Personnel safety, production, reserves replacement and resource add targets were not met. This performance, as assessed by the Board, resulted in an average STI award of 60% of maximum.
Long-term incentive ("LTI")	The Company's three-year total shareholder return ("TSR") was 16.35%, which ranked at the 46th percentile against the ASX 100, compared to the 33rd percentile in the previous year's grant. This failure to achieve superior returns for shareholders resulted in none of the performance-tested share acquisition rights ("SARs") granted to the Managing Director and Senior Executives vesting.
Changes to STI and LTI programs for 2014	The Board approved changes to the STI and LTI program, to take effect in 2014, which include deferring 30% of STI awards for two years and extending the performance period of LTI awards from three years to four years as well as including the S&P Global 1200 Energy Index as a second relative TSR comparator group. These changes are outlined in the section 'Changes to incentives commencing 2014' on page 65.
Non-executive Directors	After considering the results of a benchmarking exercise against ASX 30 and ASX 50 companies, non-executive Director fees were increased by 5%, effective 1 October 2013. The last increase to non-executive Director fees was in 2011.

REALISED REMUNERATION

Continuing the Company's practice since 2009, the following table shows remuneration 'actually realised' by the Managing Director and Senior Executives in respect of 2013 performance. This is in addition to and different from the disclosures required by the Corporations Act and Accounting Standards, particularly in relation to LTI. As a general principle, the Accounting Standards require a value to be placed on LTI based on probabilistic calculations at the time of grant (that is, before the SARs or Options vest and even if they ultimately do not vest because the performance hurdles are not met, as was the case in 2013). By contrast, Table 1 values the LTI, in the case of SARs, only if the SARs vest and shares are issued to the executive, on the basis of their closing price on the date of vesting. In the case of Options, a value is attributed only if the Options vest and are exercised resulting in the issue of shares to the executive, and is calculated on the basis of the difference between the exercise price and the market price on the date of exercise of the Options.

The Company believes that the additional information provided in Table 1 is useful to investors. 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: Realised remuneration (non-IFRS)

	Year	Fixed remuneration[1]	STI[2]	LTI[3]	Other[4]	Total
		$	$	$	$	$
DJW Knox	2013	2,351,250	1,410,750	-	-	3,762,000
Managing Director and Chief Executive Officer	2012	2,351,250	1,598,850	-	-	3,950,100
JH Anderson	2013	680,730	200,500	78,685	-	959,915
Vice President Western Australia and Northern Territory	2012	642,098	253,100	62,478	-	957,676
JL Baulderstone	2013	744,968	225,100	334,183	-	1,304,251
Vice President Eastern Australia	2012	689,484	250,100	75,804	-	1,015,388
TJ Brown	2013	695,301	262,700	66,812	136,441[7]	1,161,254
Vice President Queensland	2012	639,567	248,200	44,385	6,892	939,044
PJ Cleary[5]	2013	670,603	185,500	-	-	856,103
Vice President Strategy and Corporate Development	2012	652,695	200,800	N/A	-	853,495
MEJ Eames[6]	2013	699,765	182,800	87,649	68,642	1,038,856
Vice President Asia Pacific	2012	684,404	203,400	67,020	77,754	1,032,578
AJ Seaton	2013	738,098	231,300	69,734	-	1,039,132
Chief Financial Officer	2012	705,500	246,300	59,181	-	1,010,981

1. 'Fixed Remuneration' comprises base salary and superannuation.
2. 'STI' represents the amount of the STI that will be paid to the executive for 2013 performance.
3. For the value of share-based payments calculated in accordance with the Accounting Standards, see Table 8 '2012 and 2013 Senior Executive remuneration details' on page 59. The figures in this 'LTI' column show:
   - for 2013, the pre-tax vested value of service-based SARs which vested on 4 March 2013 at a share price of $13.40. No 2011–2013 performance SARs vested and no Options were exercised in 2013; and
   - for 2012, the pre-tax vested value of service-based SARs which vested on 2 March 2012 at a share price of $13.68. No 2010–2012 performance SARs vested and no Options were exercised in 2012.
4. 'Other' comprises ad hoc payments treated as remuneration, such as assignment allowance and foreign service premium.
5. As a result of organisational changes implemented in late 2013 to prepare for the Company's transition from its current transformational growth phase to an operational focus, Mr Cleary ceased to be a KMP on 8 December 2013, with his title changing to Vice President LNG Markets and Eastern Australia Commercial from that date. Remuneration for the entire year is included here for Mr Cleary.
6. The role of Vice President Asia Pacific was relocated to Santos' new Singapore office in January 2012. Mr Eames commenced an expatriate assignment at this time, and has been receiving compensatory remuneration including foreign service premium for the duration of his assignment. The 'Other' figure shown above for Mr Eames is the net value of the applicable allowances excluding the significant taxation related adjustments required due to the overseas assignment. The gross values inclusive of tax are shown in Table 8 '2012 and 2013 Senior Executive remuneration details' on page 59. Assignment-related payments are made in accordance with the standard policy applied to all Santos employees.

   As part of the organisational changes mentioned in footnote 5 above, Mr Eames ceased to be a KMP on 8 December 2013, with his title changing to Vice President PNG from that date. Remuneration for the entire year is included here for Mr Eames.
7. See Table 8 '2012 and 2013 Senior Executive remuneration details', footnote 6 on page 59.

The total remuneration amounts determined in accordance with the requirements of the Corporations Act are set out in Table 8 '2012 and 2013 Senior Executive remuneration details' (see page 59).

Remuneration Report
(continued)

REMUNERATION POLICY AND FRAMEWORK

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

- aligning remuneration outcomes with strategic, operational and financial goals;
- rewarding performance fairly and reasonably; and
- striking a balance between short-term and long-term growth-related objectives, and providing an incentive for superior performance without encouraging irresponsible risk taking.

The diagram below shows the key objectives of Santos' remuneration policy for the Managing Director and Senior Executives 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
• Remuneration levels are market-aligned against similar roles in comparable companies.	• A significant component of remuneration is 'at risk' under short-term and long-term incentive plans. Value to the executive is dependent on meeting challenging targets. • Consistently high-performing executives are also rewarded through higher base remuneration. • Short-term incentives are aligned to key performance milestones including safety, environment, production, profitability, project delivery and reserves development.	• Long-term incentives are delivered through equity instruments linked to Santos ordinary shares. • Vesting of performance-based long-term incentives are contingent on Santos' performance relative to the ASX 100 as measured by the relative total shareholder return at the end of the three year performance period. • Long-term incentives are 'at risk' and executives cannot hedge equity instruments that are unvested or subject to restrictions.

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 Managing Director and Senior Executives.

The Committee's Charter can be viewed or downloaded from **www.santos.com**. In 2013, the Committee comprised the following non-executive Directors, including Mr KC Borda, the Chairman of the Board:

GJW Martin	Committee Chair
KC Borda	(from 10 May 2013)
PR Coates	(up to 9 May 2013)
RA Franklin	
JS Hemstritch	

The Managing Director 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 KMP 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 engagements were finalised by the Chairman of the Committee and all remuneration recommendations were provided directly to the Committee Chairman.

The Board is satisfied that the remuneration recommendations received from Aon during the year were free of undue influence. All communications between the Company and Aon in relation to the remuneration recommendations were 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.

Table 2 shows the fees payable to Aon in respect of 2013.

Table 2: Remuneration consultants

Remuneration consultant	Advice and/or services provided	Fees
Aon Hewitt	Remuneration recommendations (Managing Director and Senior Executive remuneration)	$113,802
	Other remuneration-related work (benchmarking and market practice data)	$53,372

Remuneration Report
(continued)

LINK BETWEEN PERFORMANCE AND REMUNERATION

Short-term incentives ("STI")

The Company sets stretch operational and financial targets to be achieved annually. These short-term targets are chosen to encourage outcomes and behaviours that support the safe operation and delivery of the base business while pursuing long-term growth in shareholder value, and are reviewed annually by the Board to ensure that they align with business strategy for the year. Below are the targets used in 2013 to measure performance for STI purposes and an explanation of the reason they were chosen.

Table 3: STI scorecard

Strategic driver	STI measure	Rationale
Environment, health and safety, and corporate sustainability (20% weighting)	• Personnel safety – measured by the number of lost-time injuries per million hours worked. • Process safety – measured by the number of Tier 1 incidents of loss of containment of hydrocarbons and the level of Safety Critical Maintenance performed on plant and equipment. • Environmental incidents – measured by the number of environmental incidents of moderate or greater consequence. • Corporate sustainability – measured by the Company's performance in the Dow Jones Sustainability Index which covers a variety of areas including corporate governance, disclosure, environmental performance, risk management, human capital development, stakeholder engagement and social reporting.	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 significant environmental incidents. Strong safety and environmental performance provides the Company with its 'licence to operate'. The Company strives to maintain a strong track record in relation to its safety and environmental performance. Corporate sustainability is integral to the creation of long-term shareholder value by ensuring opportunities are captured in an economic, environmental and socially responsible manner.
Profitability (30% weighting)	• Production • Cost of production • Net profit after tax ("NPAT")	Production and the cost of production are critical to the Company's profitability, which is a key measure of the Company's performance and underpins annual earnings and cash flow for distribution to shareholders and re-investment for future growth.
Growth (50% weighting)	• Project delivery – progress against milestones in key projects including GLNG, PNG LNG, Bonaparte LNG, Fletcher Finucane, Gunnedah, Peluang, Dua and other opportunities are identified and measured. • Reserves replacement and resource add – the volume of proven and probable (2P) reserves and contingent reserves added by the Company organically (through exploration and exploitation efforts as opposed to acquisitions) compared to the volume of reserves used in production.	Project delivery underpins future production and growth. In the current climate of rising costs and large capital expenditure commitments, it is essential that the Company delivers its long-term projects on time and within budget to achieve future production. The Company's ability to replace the reserves it runs down in production and to convert contingent resources into proven and probable reserves is critical to the long-term future of the Company.

Long-term incentives ("LTI")

Relative total shareholder return ("TSR") performance against the ASX 100 effectively aligns the interests of individual executives with that of the Company's shareholders. TSR is a robust measure of shareholder returns and the ASX 100 represents the companies in which most of the Company's shareholders would invest as an alternative to Santos. Notwithstanding the appropriateness of the ASX 100 as a comparator group, the Board has resolved to include a second comparator group for future grants as outlined in the section 'Changes to incentives commencing 2014' on page 65.

Clawback

LTI plan rules provide the Company with the discretion to lapse unvested SARs 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 to the Group.

Furthermore, commencing in 2014, deferral of part of any STI awarded to Senior Executives (see 'Changes to incentives commencing 2014' on page 65) will provide an additional clawback mechanism, in addition to any rights the Company has under general legal principles to seek to recover payments made in error.

2013 performance

In 2013, the Company met its process safety, environment, sustainability and NPAT targets, and partially met its production cost and project delivery targets. Personnel safety, production, reserves replacement and resource add targets were not met. Despite meeting most targets, certain key targets were not met and this performance, as assessed by the Board, resulted in an average STI award of 60% of maximum.

In respect of LTI, the Company's three-year TSR was 16.35%, which ranked at the 46th percentile against the ASX 100, compared to the 33rd percentile in the previous year's grant. As a result, none of the performance-tested SARs granted to the Managing Director and Senior Executives vested.

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 63 and 64.

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 2009–2013

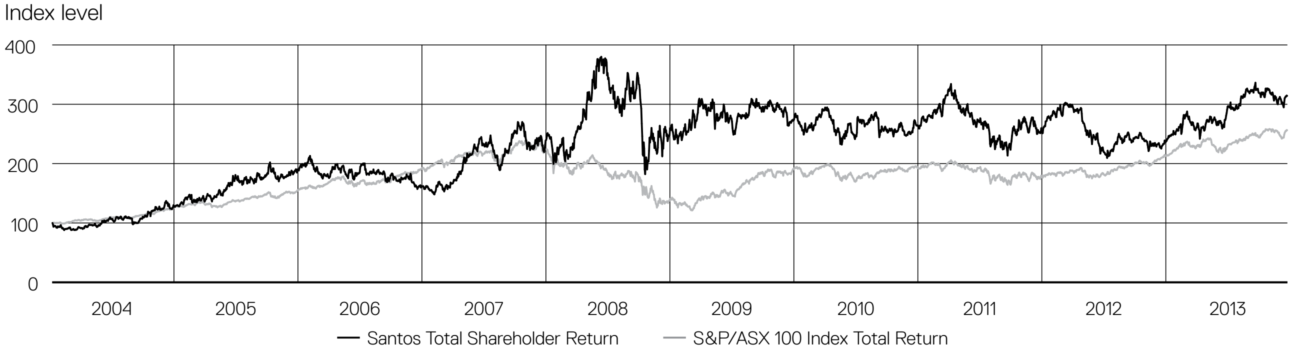
	2009	2010	2011	2012	2013
Injury frequency					
total recordable case frequency rate	3.6	3.3	3.3	5.0	3.8
lost time injury frequency rate	1.1	0.9	1.2	0.7	0.6
Production (mmboe)	54.4	49.9	47.2	52.1	51.0
Reserve replacement rate – 2P organic (%)	965	330	173	136	3
Net profit after tax ($m)	434	498	751	518	516
Dividends per ordinary share (cents)[1]	42	42	30	30	30
Share price – closing price on first trading day of year ($)	14.67	14.29	13.19	12.34	11.11[2]
TSR percentile ranking relative to ASX100 – three year performance to 31 December	88th[3]	87th	39th	33rd	46th
LTI performance (% vesting) – shown against final year of performance period	100	83	0	0	0
Average STI paid (% of maximum)	80	78	69	68	60

1. The following capital return was made in the 2009–2013 period:
   - On 30 September 2009, the Company redeemed the 6,000,000 Franked Unsecured Equity Listed Securities ("FUELS") on issue at the price of $100 each.
2. Closing share price at 31 December 2013 was $14.63.
3. In respect of the 2007 LTI Grant (with performance period ending 31 December 2009) Santos' TSR performance was measured against a comparator group of Australian and international exploration and production (E&P) companies. Relative TSR performance against this E&P group is shown for 2009.

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

Figure 1: 10-year company performance history

TSR OF SANTOS AND S&P/ASX 100 2004-2013



MANAGING DIRECTOR REMUNERATION

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

Details of the Managing Director 2013 remuneration arrangements are provided below in this overview of earnings:

Fixed remuneration	
What was the increase in the Managing Director's fixed remuneration?	Mr Knox's TFR, including base salary and superannuation, was not increased in 2013, remaining at $2,351,250.
Short-term incentives	
What was the maximum STI the Managing Director could receive?	Mr Knox has a maximum potential STI opportunity of 100% of his TFR, subject to delivery of strategic milestones and performance targets set by the Board (outlined in the section 'Detailed information about linking company performance to incentives' on pages 63 and 64). For 2013, the maximum value of this opportunity was $2,351,250.
How much STI will the Managing Director receive in respect of 2013 performance?	The Board has determined that $1,410,750, or 60% of the maximum STI payable, will be paid to Mr Knox for 2013 performance. This reflects the recommendation from the Committee after reviewing the Company's performance in 2013. The difference between actual STI paid and maximum STI will not be carried forward.
How is performance assessed for STI purposes?	While the Board ultimately retains the discretion to take other factors into account, Mr Knox's performance is effectively assessed against the Company scorecard (see Table 3 'STI scorecard' on page 52 and the section 'Detailed information about linking company performance to incentives' on pages 63 and 64). Mr Knox's interests are therefore aligned with the Company's and shareholders' interests.
Long-term incentives	
How much annual LTI was granted to the Managing Director in 2013?	Mr Knox received an annual LTI grant of 243,652 SARs as approved by shareholders at the May 2013 AGM. This grant was issued on the terms of the annual LTI program outlined in the section 'Detailed information about linking company performance to incentives' on pages 63 and 64.
What proportion of prior year LTI grants vested in 2013?	The Managing Director annual LTI grant for 2010 with a performance period 1 January 2010 to 31 December 2012 was tested in early 2013. As the performance hurdle was not achieved, there was no vesting and the entire grant was forfeited. The testing of the 2011 LTI grant with a performance period 1 January 2011 to 31 December 2013 occurred in early 2014. As the performance hurdle was not achieved, again there was no vesting and the entire grant was forfeited.

At-risk Remuneration

A higher proportion of the Managing Director total package is ‘at risk’ relative to other Senior Executives because he has the greatest scope to personally influence the Company’s performance. The LTI weighting in 2013 was lower than it was in 2012, reflecting the addition of the Managing Director Strategy Grant in 2012.

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

	Fixed remuneration	STI	LTI
2013	33.33%	33.33%	33.33%
2012	25%	25%	50%

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

Service agreement and termination entitlements

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

The service agreement provides that the Company may terminate the Managing Director employment on giving 12 months’ notice. Where the Company exercises this general right to terminate, it must make a payment to the Managing Director 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 Managing Director 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.

Remuneration Report
(continued)

SENIOR EXECUTIVE REMUNERATION

Overview of 2013 earnings

Fixed Remuneration	
What was the increase in Senior Executives' fixed remuneration?	Senior Executives' TFR increases in 2013 were between 2% and 6.5%, with an average increase of 3.65%. Remuneration details for each individual are provided in Table 8 '2012 and 2013 Senior Executive remuneration details' on page 59.
How were remuneration increases determined?	Senior Executives' TFR increases were determined with reference to the market for similar roles in comparable companies and with consideration of individuals' skills, experience and performance.
Short-term incentives	
What was the maximum STI Senior Executives could receive?	All Senior Executives had a maximum STI opportunity of 50% of their TFR in 2013.
How were STI payments calculated?	To promote collaboration among Senior Executives and to focus their efforts towards the overall benefit of the Company, 70% of their STI was based on Company performance. The remaining 30% was based on each executive's individual performance.
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 52 and the section 'Detailed information about linking company performance to incentives' on pages 63 and 64). The individual performance of Senior Executives is assessed by the Managing Director by considering progress against targets set within each executive's own area of responsibility; for example the delivery of key project milestones for those Senior Executives with responsibility for growth LNG businesses, and production and cost targets for those managing operating assets.
How much STI will Senior Executives receive in respect of 2013 performance?	Company performance against the measures in 2013 resulted in an average STI of 60% of maximum payable to all eligible employees. STI awards made to individual Senior Executives range from 52% to 75% of maximum, depending on each executive's individual performance assessment (see Table 8 '2012 and 2013 Senior Executive remuneration details' on page 59). The Managing Director's proposed STI payments for Senior Executives are reviewed and endorsed by the Committee. The difference between actual STI paid and maximum STI will not be carried forward.
Long-term incentives	
How much annual LTI was granted to Senior Executives in 2013?	All Senior Executives received an LTI award equivalent to 60% of TFR in 2013.
What are the performance conditions?	The 2013 LTI grant has a performance period from 1 January 2013 to 31 December 2015, with vesting based on the Company's TSR performance relative to the ASX 100. See the vesting schedule provided in the section 'Detailed information about linking company performance to incentives' on pages 63 and 64.
What proportion of prior year LTI grants vested in 2013?	The 2010 LTI grant with a performance period 1 January 2010 to 31 December 2012 was tested in early 2013. As the performance hurdle was not achieved, there was no vesting of the performance component of the grant, and this was forfeited. The testing of the 2011 LTI grant with a performance period 1 January 2011 to 31 December 2013 occurred in early 2014. As the performance hurdle was not achieved, again there was no vesting of the performance portion of the grant and this was forfeited. Grants of deferred rights awarded in 2010 vested in 4 March 2013 and are shown in Table 1 'Realised remuneration (non-IFRS)' on page 49, Table 8 '2012 and 2013 Senior Executive remuneration details' on page 59 and Table 10 '2013 SARs outcomes for Senior Executives' on page 60.

At-risk remuneration

The ‘at risk’ portion of Senior Executive remuneration in 2013 was unchanged from the previous year.

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

	Fixed remuneration	STI	LTI
2013	47.6%	23.8%	28.6%

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

Service agreements and termination entitlements

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

NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration policy

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

SECURING AND RETAINING TALENTED, QUALIFIED DIRECTORS

Fee levels are set with regard to:

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

PROMOTING INDEPENDENCE AND IMPARTIALITY

- Fee levels do not vary according to the performance of the Company or individual director performance from year to year.
- Santos’ market capitalisation is considered in setting the aggregate fee pool and in benchmarking of board and committee fees.

ALIGNING DIRECTOR AND SHAREHOLDER INTERESTS

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

Maximum aggregate amount

Total non-executive Directors’ fees paid in a year, including Board Committee fees, must not exceed $2,600,000, being the amount approved by shareholders at the AGM held on 9 May 2013.

Directors may also be paid additional fees for special duties or exertions, and are entitled to be reimbursed for all business-related expenses. These payments are not included in the maximum aggregate amount approved by shareholders. No additional fees were paid during the year.

Remuneration

The last increase in non-executive Directors’ fees was on 1 October 2011. A benchmarking exercise conducted in 2013 indicated that non-executive Directors’ fees were below the median of ASX 30 and ASX 50 companies.

As a result, base non-executive Directors’ fees were increased with effect from 1 October 2013, as shown in Table 7 on page 58. Committee fees remained unchanged. Remuneration details for the non-executive Directors are provided at Table 12 ‘2012 and 2013 non-executive Director remuneration details’ on page 62.

Remuneration Report
(continued)

Fee structure

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

	Chair[2]	Member
Board (from 1 October 2013)	$503,550	$167,550
Board (before 1 October 2013)	$480,030	$160,030
Audit Committee	$42,000	$21,000
Environment, Health, Safety and Sustainability Committee	$22,000	$15,000
Finance Committee	$22,000	$15,000
Nomination Committee[2]	N/A	$10,000
People and Remuneration Committee	$30,000	$16,000

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

Superannuation and retirement benefits

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

DETAILED REMUNERATION INFORMATION

Table 8 presents summarised details of the remuneration for the Managing Director and Senior Executives in 2012 and 2013 as required under the Corporations Act.

Table 8: 2012 and 2013 Senior Executive remuneration details

		Short-term employee benefits			Post-employment	Share-based payments[1]								
		Base salary	STI[2]	Other	Superannuation contributions	SARs	Options	Cash-based	Total share-based payments	Termination	Other long-term benefits (long service)[3]	Total	Total 'at risk'	Total in SARs and options
		$	$	$	$	$	$	$	$	$	$	$	%	%
DJW Knox	2013	2,334,127	1,410,750	-	17,123	2,422,402	-	-	2,422,402	-	79,266	6,263,668	61	39
	2012	2,335,128	1,598,850	-	16,122	1,783,865	119,358	15,660	1,918,883	-	67,690	5,936,673	59	32
JH Anderson	2013	663,607	200,500	-	17,123	346,074	-	-	346,074	-	32,220	1,259,524	43	27
	2012	625,976	253,100	-	16,122	292,987	-	527	293,514	-	9,335	1,198,047	46	24
JL Baulderstone	2013	727,845	225,100	-	17,123	382,722	-	-	382,722	-	28,919	1,381,709	44	28
	2012	673,362	250,100	-	16,122	386,547	-	640	387,187	-	22,743	1,349,514	47	29
TJ Brown	2013	678,178	262,700	136,411[6]	17,123	338,234	-	-	338,234	-	45,390	1,478,036	41	23
	2012	267,967	100,365	6,892	6,641	110,636	-	-	110,636	-	4,056	496,557	42	22
PJ Cleary[4]	2013	612,863	173,811	-	16,024	358,618	-	-	358,618	-	8,924	1,170,240	45	31
	2012	636,573	200,800	-	16,122	270,769	-	-	270,769	-	10,752	1,135,016	42	24
MEJ Eames[5]	2013	640,263	171,281	160,094	16,024	337,495	-	-	337,495	-	18,063	1,343,220	38	25
	2012	668,282	203,400	193,166	16,122	311,893	-	566	312,459	-	12,207	1,405,636	37	22
MS Macfarlane[7]	2013	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
	2012	384,134	119,364	8,835	9,481	201,192	-	525	201,717	-	8,146	731,677	44	27
AJ Seaton	2013	720,975	231,300	-	17,123	363,110	-	-	363,110	-	23,384	1,355,892	44	27
	2012	689,378	246,300	-	16,122	275,808	-	988	276,796	-	27,889	1,256,485	42	22

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 STI performance award for 2013 which will be paid in March 2014.
3. 'Other long-term benefits' represents the movement in the Senior Executive's long service leave entitlements measured as the present value of the estimated future cash outflows to be made in respect of the Senior Executive's service between the respective reporting dates.
4. Mr Cleary ceased to be a KMP on 8 December 2013. Figures shown for 2013 are for the period 1 January 2013 to 8 December 2013.
5. Mr Eames ceased to be a KMP on 8 December 2013. Figures shown for 2013 are for the period 1 January 2013 to 8 December 2013. Mr Eames became eligible for expatriate benefits, including Foreign Service Premium, as a result of his international assignment to Singapore when the position of Vice President Asia Pacific was relocated in January 2012 (reflected as 'Other' short-term employee benefits). Assignment-related payments are made in accordance with the standard policy applied to all Santos employees, and include significant taxation-related adjustments.
6. Including an additional $100,000 incentive payment for achievements in relation to the GLNG project including progression of the field development and gas supply plans, and successful delivery of the upstream and downstream organisation design.
7. Mr Macfarlane ceased to be a KMP on 5 August 2012.

Table 9 contains details of the number and value of SARs granted, vested and lapsed for Mr Knox in 2013. Mr Knox did not have any Options granted, vesting or lapsing in 2013. Mr Knox did not exercise any Options in 2013.

Table 9: 2013 SARs outcomes for Managing Director

	Granted		Vested		Lapsed	
	Number	Maximum value[1]	Number	Value	Number	Value[2]
SARs[2]	243,652	2,226,979	-	-	(157,232)	(2,300,304)

1. Maximum value represents the fair value of the Managing Director's 2013 LTI grant determined in accordance with AASB 2 Share-based Payments. The fair value per instrument as at the grant date of 17 May 2013 was $9.14. 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 2013 at the closing share price on that date of $14.63, for which nil vesting was effected by the Board on 19 February 2014.

Table 10 contains details of the number and value of SARs granted, vested and lapsed for Senior Executives in 2013. No Senior Executive had any Options granted, vesting or lapsing in 2013. No Options were exercised in 2013.

Table 10: 2013 SARs outcomes for Senior Executives

	Granted		Vested		Lapsed	
	Number[1]	Maximum value[2]	Number	Value[3]	Number	Value[3]
JH Anderson	42,981	349,865	5,872	78,685	(17,794)	(260,326)
JL Baulderstone	46,655	379,772	24,939	334,183	(18,882)	(276,244)
TJ Brown	43,548	354,481	4,986	66,812	(17,108)	(250,290)
PJ Cleary	41,951	341,481	-	-	(38,220)[5]	(569,359)[4]
MEJ Eames	43,723	355,905	6,541	87,649	(19,175)[5]	(280,530)
AJ Seaton	46,392	377,631	5,204	69,734	(17,762)	(259,858)
Total	**265,250**	**$2,159,135**	**47,542**	**637,063**	**(128,941)**	**(1,896,607)**

1. The grants made to the Senior Executives during the year constitute their full LTI awards for 2013.
2. Maximum value represents the fair value of the SARs as at the grant date of 9 April 2013, determined in accordance with AASB 2 Share-based Payments. The fair value per instrument at the grant date was $8.14. 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 performance-based SARs in respect of the performance period ended 31 December 2013 at the closing share price on that date of $14.63, for which nil vesting was effected by the Board on 19 February 2014, plus service-based SARs which vested on 4 March 2013 at a closing share price of $13.40.
4. In addition to the value of 18,220 performance-based SARs with the performance period ended 31 December 2013 referred to in footnote 3, this figure also includes the value of an ad hoc tranche of 20,000 performance-based SARs granted to Mr Cleary on 15 November 2010, with the performance period 1 September 2010 to 31 August 2013, for which nil vesting was effected at a closing share price of $15.14 on 2 September 2013.
5. These figures include SARs which lapsed after Mr Cleary and Mr Eames ceased to be key management personnel on 8 December 2013.

Table 11 outlines the LTI grants that were tested or still in progress in 2013.

Table 11: LTI grants

Grant year	Grant type	Vesting condition(s)	Performance/vesting period	Status
2010	Performance award	Relative TSR performance against ASX 100 companies	1 January 2010 to 31 December 2012	Testing completed. Resulted in 0% of the grant vesting.
	Deferred award	Continuous service	2 March 2010 to 1 March 2013	Vested in full to Senior Executives who met the continuous service condition.
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	In progress.
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	In progress.
2013	Performance award	Relative TSR performance against ASX 100 companies	1 January 2013 to 31 December 2015	In progress.

Full details of all grants made prior to 2013 can be found in note 29 to the financial statements and in prior remuneration reports.

Remuneration Report
(continued)

Details of the fees and other benefits paid to non-executive Directors in 2013 are set out in Table 12 below. No share-based payments were made to any non-executive Directors.

Table 12: 2012 and 2013 non-executive Director remuneration details

		Short-term benefits			Retirement benefits		
Director	**Year**	**Directors' fees (incl committee fees)[1]**	**Fees for special duties or exertions**	**Other**	**Superannuation[1]**	**Share-based payments**	**Total**
		$	**$**	**$**	**$**	**$**	**$**
KC Borda[2]	2013	382,727	-	-	17,122	-	399,849
	2012	192,551	-	-	16,123	-	208,674
PR Coates[3]	2013	286,249	-	-	16,410	-	302,659
	2012	480,551	-	-	16,123	-	496,674
KA Dean	2013	223,584	-	-	17,122	-	240,706
	2012	217,551	-	-	16,123	-	233,674
RA Franklin	2013	211,102	-	-	1,325	-	212,427
	2012	204,299	-	-	1,212	-	205,511
H Goh	2013	183,790	-	-	680	-	184,470
	2012	34,105	-	-	134	-	34,239
RM Harding	2013	203,568	-	-	17,122	-	220,690
	2012	215,518	-	-	16,123	-	231,641
JS Hemstritch	2013	198,584	-	-	17,122	-	215,706
	2012	197,551	-	-	16,123	-	213,674
GJW Martin	2013	217,658	-	-	17,122	-	234,780
	2012	205,551	-	-	16,123	-	221,674

1. Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Franklin and Mr Goh only in relation to days worked in Australia.
2. Non-executive Director up to and including 8 May 2013, then Chairman.
3. Chairman up to and including 9 May 2013, then non-executive Director.

DETAILED INFORMATION ABOUT LINKING COMPANY PERFORMANCE TO INCENTIVES

Short-term incentives

How are the Company's short-term performance targets determined?	The Company's short-term performance targets comprise a combination of strategic, financial and operational targets, all of which are agreed with the Board and directly related to Santos' strategic plan. These are captured in the Company's annual performance scorecard.
What is measured in the Company's annual performance scorecard?	The Company scorecard includes a range of Company performance measures used to drive balanced business performance. These measures include lagging indicators to assess the Company's past performance, as well as forward-looking indicators to ensure the Company is positioning itself effectively for future growth. As described in Table 3 'STI scorecard' on page 52, the areas covered by the scorecard include: • Environment, health and safety and corporate sustainability (20% weighting); • Profitability, namely production, cost of production and NPAT (30% weighting); and • Growth, namely project delivery, reserves replacement and resources add (50% weighting). The Board believes that this scorecard is balanced and focuses Managing Director and Senior Executive attention on achieving the key conditions and milestones necessary to deliver Santos' strategic plan.
How is Company performance assessed?	Company performance is formally assessed by the Committee against the overall Company scorecard at the end of each financial year, and this forms the basis of a recommendation to the Board. Each metric is assessed against an agreed target and assigned a percentage weighting of the total scorecard. The actual versus target performance of each metric is assigned a score between 0% and 100%. The weightings are then applied to these scores to derive a rating for that metric. The sum of each metric's rating is used to determine the Company's overall performance score. The Board believes the above method of assessment is rigorous and provides a balanced assessment of the Company's performance.
How does Company performance impact the STI program?	Firstly, the Company's overall performance score sets the budget available for STI allocations across the organisation in respect of that performance year. This is calculated by applying the percentage performance score to the maximum potential STIs of all eligible employees. Secondly, the Company's overall performance score contributes to the actual STI payment made to individuals in a given year. For the Managing Director, this Company performance outcome is the sole input for determining STI payment. For Senior Executives, the Company performance outcome determines 70% of their STI payment. The other 30% is based on their individual performance assessment.

Remuneration Report
(continued)

Long-term incentives

How are long-term incentives linked to Company performance?	LTI aligns the rewards received by the Managing Director and Senior Executives with the longer-term performance of Santos relative to other ASX 100 companies. Recipients also have the opportunity to grow the long-term value of their LTI by delivering results for the Company that increase the share price. All 2013 LTI grants were solely performance-based, ensuring further alignment with shareholder interests.
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 for 2013 have a three-year performance period from 1 January 2013 to 31 December 2015. 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 2013 grant is based on the Company's relative TSR against the companies comprising the ASX 100 on 1 January 2013. 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, as TSR is a fair measure of shareholder returns, and the ASX 100 represents the companies in which most of the Company's shareholders could invest as an alternative to Santos.
How is vesting determined?	Vesting of the 2013 LTI grant will be in accordance with the following schedule:

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

	This vesting scale applies to both the Managing Director and Senior Executives' annual LTI grants. There is no re-testing of the performance condition. SARs that do not vest upon testing of the performance condition will lapse.
When can vested SARs be traded?	Upon vesting of SARs, shares will automatically be allocated to the executive. Shares will be allocated without restriction unless the executive has elected an extended restriction period. Restricted shares cannot be traded until the earlier of five or seven years from the grant date (depending on the period elected by the executive) or cessation of employment, whichever is earlier.

Changes to incentives commencing 2014

In 2013, the Board continued to consider opportunities to deliver contemporary and competitive incentive remuneration programs, with the overall objectives of fostering a high-performance culture, driving effective execution of the business strategy, motivating stretch performance and rewarding appropriately for the achievement of results while ensuring alignment with shareholder interests. Below is a summary of changes approved by the Board for implementation in 2014.

Broadly speaking the changes to the Managing Director and Senior Executives' STI and LTI programs include:

- 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 Managing Director and Senior Executives into shares for two years;
- changing the mix of the company and individual components of Senior Executives' STI so that 60% of the STI will be based on Company performance and 40% will be based on each executive's individual performance against business, operational, financial and qualitative objectives such as specific business unit EHS, production and profitability targets as well as leadership and staff development measures (previously the STI has been based on 70% for Company performance and 30% for individual performance);
- extending the performance period applicable to the Managing Director and Senior Executives' LTI grants from three to four years; and in order to manage the transition to four years and ensure the Managing Director and Senior Executives continue to have the opportunity of LTI vesting in each year, two LTI grants will be made in 2014 (one with a three-year performance period and the other with a four-year performance period);
- introducing the S&P Global 1200 Energy Index as a second relative TSR comparator group for 25% of the grant in addition to the S&P/ASX 100 for the remaining 75%; and
- amending the LTI vesting scale such that vesting commences at the 51st percentile of relative TSR performance (instead of the 50th) and maximum vesting occurs at the 76th percentile (instead of the 75th).

These changes will be discussed in more detail in the 2014 Remuneration Report.

Directors' Report
(continued)

INDEMNIFICATION

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

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

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain senior executives of the consolidated entity. The indemnities operate to the full extent permitted by law and are not subject to a monetary limit. Santos is not aware of any liability having arisen, and no claims have been made, during or since the financial year ending 31 December 2013 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 2013 and since the end of the year the Company has paid, or agreed to pay, premiums in respect of such contracts for the year ending 31 December 2013. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company and its controlled entities. A condition of the contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

NON-AUDIT SERVICES

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

Taxation services	$74,000
Assurance services	$531,000

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

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

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act is set out on page 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 21 February 2014 in accordance with a resolution of the Directors.

Director

David Knox

Director

Financial Report

CONTENTS

Consolidated Income Statement
for the year ended 31 December 2013

	Note	2013 $million	2012 Restated* $million
Product sales	3	**3,602**	3,223
Cost of sales	4	**(2,505)**	(2,104)
Gross profit		**1,097**	1,119
Other revenue	3	**49**	66
Other income	3	**24**	16
Other expenses	4	**(298)**	(381)
Finance income	5	**45**	138
Finance costs	5	**(62)**	(59)
Share of net profit of joint ventures	26(b)	**14**	12
Profit before tax		**869**	911
Income tax expense	6	**(296)**	(318)
Royalty-related taxation expense	6	**(57)**	(75)
Total taxation expense		**(353)**	(393)
Net profit for the period		**516**	518
Net profit/(loss) attributable to:			
Owners of Santos Limited		**516**	519
Non-controlling interests		**–**	(1)
		516	518
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic earnings per share	23	**53.3**	54.4
Diluted earnings per share	23	**53.1**	54.1
Dividends per share ($)			
Paid during the period	22	**0.30**	0.30
Declared in respect of the period	22	**0.30**	0.30

* *Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013, as detailed in note 1(b).*

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 2013

	Note	**2013 $million**	2012 $million
Net profit for the period		**516**	518
Other comprehensive income, net of tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange gain/(loss) on translation of foreign operations		**768**	(89)
Tax effect	6	**(1)**	(12)
	21	**767**	(101)
(Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations		**(433)**	46
Tax effect	6	**130**	(14)
	21	**(303)**	32
(Loss)/gain on derivatives designated as cash flow hedges		**(5)**	11
Tax effect	6	**1**	(3)
	21	**(4)**	8
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**460**	(61)
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of defined benefit obligation	28	**20**	2
Tax effect	6	**(6)**	(1)
	21	**14**	1
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		**14**	1
Other comprehensive income/(loss), net of tax		**474**	(60)
Total comprehensive income		**990**	458
Total comprehensive income/(loss) attributable to:			
Owners of Santos Limited		**990**	459
Non-controlling interests		**–**	(1)
		990	458

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 2013

	Note	2013 $million	2012 Restated* $million	1 January 2012 Restated* $million
Current assets				
Cash and cash equivalents	7	**644**	2,147	3,330
Trade and other receivables	8	**793**	501	885
Prepayments		**202**	261	200
Inventories	9	**419**	317	278
Other financial assets	10	**3**	5	9
Tax receivable		**17**	6	24
Total current assets		**2,078**	3,237	4,726
Non-current assets				
Receivables	8	**31**	17	25
Prepayments		**96**	30	16
Investments in joint ventures	26	**110**	100	107
Other financial assets	10	**236**	255	195
Exploration and evaluation assets	11	**1,964**	1,510	1,386
Oil and gas assets	12	**15,823**	11,557	8,941
Other land, buildings, plant and equipment	13	**259**	259	231
Deferred tax assets	15	**12**	23	142
Total non-current assets		**18,531**	13,751	11,043
Total assets		**20,609**	16,988	15,769
Current liabilities				
Trade and other payables	16	**1,235**	951	1,005
Deferred income		**91**	40	60
Interest-bearing loans and borrowings	17	**189**	15	169
Current tax liabilities		**22**	88	82
Provisions	18	**185**	173	135
Other financial liabilities	19	**4**	4	2
Total current liabilities		**1,726**	1,271	1,453
Non-current liabilities				
Deferred income		**82**	53	47
Interest-bearing loans and borrowings	17	**5,582**	3,689	3,092
Deferred tax liabilities	15	**1,227**	939	978
Provisions	18	**1,748**	1,643	1,165
Other financial liabilities	19	**32**	39	82
Total non-current liabilities		**8,671**	6,363	5,364
Total liabilities		**10,397**	7,634	6,817
Net assets		**10,212**	9,354	8,952
Equity				
Issued capital	20	**6,749**	6,608	6,392
Reserves	21	**47**	(413)	(352)
Retained earnings	21	**3,420**	3,163	2,915
Equity attributable to owners of Santos Limited		**10,216**	9,358	8,955
Non-controlling interests		**(4)**	(4)	(3)
Total equity		**10,212**	9,354	8,952

* *Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013, as detailed in note 1(b).*

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 2013

	Note	2013 $million	2012 Restated* $million
Cash flows from operating activities			
Receipts from customers		**3,726**	3,367
Interest received		**54**	155
Overriding royalties received		**12**	10
Insurance proceeds received		**1**	1
Dividends received		**14**	14
Pipeline tariffs and other receipts		**67**	64
Income taxes refunded		**26**	26
Royalty-related taxation refunded		**22**	2
Payments to suppliers and employees		**(1,785)**	(1,564)
Exploration and evaluation – seismic and studies		**(109)**	(131)
Royalty and excise paid		**(83)**	(85)
Borrowing costs paid		**–**	(19)
Carbon costs paid		**(41)**	–
Income taxes paid		**(214)**	(50)
Overriding royalty costs		**(4)**	(4)
Royalty-related taxation paid		**(58)**	(144)
Net cash provided by operating activities	27	**1,628**	1,642
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		**(472)**	(200)
Oil and gas assets		**(3,514)**	(2,789)
Other land, buildings, plant and equipment		**(51)**	(59)
Acquisitions of exploration and evaluation assets		**(143)**	(68)
Acquisitions of oil and gas assets		**(62)**	(52)
Receipts from loans to related entities		**–**	3
Proceeds from:			
Disposal of exploration and evaluation assets	3	**–**	51
Disposal of oil and gas assets	3	**46**	223
Disposal of controlled entity		**–**	2
Disposal of available-for-sale financial assets	3	**–**	1
Income taxes paid on disposal of non-current assets		**(8)**	(124)
Borrowing costs paid		**(218)**	(175)
Refundable deposit received		**–**	9
Refundable deposit paid		**–**	(7)
Other investing activities		**3**	1
Net cash used in investing activities		**(4,419)**	(3,184)
Cash flows from financing activities			
Dividends paid		**(157)**	(159)
Drawdown of borrowings		**1,432**	627
Repayments of borrowings		**(22)**	(190)
Proceeds from issues of ordinary shares		**9**	88
Net cash provided by financing activities		**1,262**	366
Net decrease in cash and cash equivalents		**(1,529)**	(1,176)
Cash and cash equivalents at the beginning of the period		**2,147**	3,330
Effects of exchange rate changes on the balances of cash held in foreign currencies		**26**	(7)
Cash and cash equivalents at the end of the period	7	**644**	2,147

* *Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013, as detailed in note 1(b).*

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 2013

	Note	Equity attributable to owners of Santos Limited						
		Issued capital $million	Translation reserve $million	Hedging reserve $million	Retained earnings $million	Total equity $million	Non-controlling interests $million	Total equity $million
Balance at 1 January 2012 (restated)*		6,392	(338)	(14)	2,915	8,955	(3)	8,952
Profit/(loss) for the period		–	–	–	519	519	(1)	518
Other comprehensive income/(loss) for the period		–	(69)	8	1	(60)	–	(60)
Total comprehensive income/(loss) for the period		–	(69)	8	520	459	(1)	458
Transactions with owners in their capacity as owners:								
Shares issued	20	216	–	–	–	216	–	216
Dividends to shareholders	22	–	–	–	(285)	(285)	–	(285)
Share-based payment transactions	29	–	–	–	13	13	–	13
Balance at 31 December 2012		6,608	(407)	(6)	3,163	9,358	(4)	9,354
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**
Balance at 31 December 2013		**6,749**	**57**	**(10)**	**3,420**	**10,216**	**(4)**	**10,212**

* *Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013, as detailed in note 1(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 2013

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial report of Santos Limited ("the Company") for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors on 21 February 2014.

The consolidated financial report of the Company for the year ended 31 December 2013 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. The consolidated financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The consolidated financial report is presented in Australian dollars.

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

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

The consolidated financial report provides comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the financial statements. An additional statement of financial position as at 1 January 2012 is presented in this consolidated financial report due to retrospective application of certain accounting policies, as described in note 1(b) *Changes in accounting policies and disclosures*.

Changes in accounting policies and disclosures

The Group applied, for the first time, certain accounting standards and amendments that require restatement of previously reported balances. These include AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 119 *Employee Benefits* and amendments to AASB 101 *Presentation of Financial Statements*. In addition, the application of AASB 12 *Disclosures of Interests in Other Entities* resulted in additional disclosures in the consolidated financial report.

The nature and effect of each new standard and amendment on the Group's consolidated financial report are described below.

AASB 10 *Consolidated Financial Statements*

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

AASB 11 *Joint Arrangements* and AASB 128 *Investments in Associates and Joint Ventures*

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under AASB 11 must be accounted for using the equity method of accounting.

As a result of the adoption of AASB 11, the Group has changed its accounting policy with respect to its interests in its joint arrangements. Under AASB 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures, depending upon the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the contractual terms of the arrangements and other facts and circumstances. Prior to transition to AASB 11, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its interests in its joint arrangements and has reclassified certain of its jointly controlled entities as joint ventures and upon transition to AASB 11, the Group was required to apply the equity method of accounting to these entities. The transition was applied retrospectively as required by AASB 11 and the comparative information for the immediately preceding period was restated. The impact of applying AASB 11 on the individual line items in the Group's consolidated financial statements is shown below.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 12 *Disclosure of Interests in Other Entities*

AASB 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Application of this standard by the Group does not affect any of the amounts recognised in the financial statements, but impacts the type of information disclosed in relation to the Group's investments. AASB 12 disclosures are provided in note 24 and note 26.

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

AASB 13 establishes a single source of guidance for all fair value measurements and enhances fair value disclosures. Application of AASB 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

AASB 119 *Employee Benefits* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (2011)*

The revised standard changes the accounting for defined benefit plans. Interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a net interest amount, calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

The revised standard has also changed the accounting for the Group's annual leave obligations. As the Group does not expect all annual leave to be taken within twelve months of the respective service being provided, annual leave obligations are now classified as long-term employee benefits in their entirety. This change requires the entire obligation to be measured on a discounted basis.

These changes do not have a material impact on the financial performance or position of the Group in the current and comparative periods. The Group applied revised AASB 119 retrospectively in the current period, in accordance with the transitional provisions set out in the revised standard.

Amendments to AASB 101 *Presentation of Financial Statements*

The amendment to AASB 101, as part of AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*, requires that items presented in other comprehensive income that could be reclassified to profit or loss at a future point in time be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance for the year ended 31 December 2013.

The amendment to AASB 101, as part of AASB 2012-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements 2009-2011 Cycle*, clarifies the difference between voluntary additional comparative information and the minimum required comparative information. The amendment clarifies that the opening statement of financial position as at 1 January 2012, presented as a result of a retrospective change in accounting policy, restatement or reclassification of items in the consolidated financial statements, does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in the notes to the financial statements in respect of the opening statement of financial position as at 1 January 2012.

Several other amendments apply for the first time in 2013, however they do not impact the Group's annual consolidated financial statements or half-year condensed financial statements.

Impact on the financial statements

As a result of the changes to the Group's accounting policies arising from the implementation of new accounting standards from 1 January 2013, prior year financial statements have been restated. The following tables show the adjustments recognised for each individual line item. Line items in the statement of financial position that were not affected by the changes are not included. As a result, the net impact on equity cannot be recalculated from the balances provided.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income statement	31 Dec 2012 As reported $million	AASB 11 Adjustments $million	31 Dec 2012 Restated $million
Product sales	3,220	3	3,223
Cost of sales	(2,089)	(15)	(2,104)
Gross profit	1,131	(12)	1,119
Other revenue	79	(13)	66
Other income	16	–	16
Other expenses	(390)	9	(381)
Finance income	138	–	138
Finance expenses	(59)	–	(59)
Share of profit of joint ventures	–	12	12
Profit before tax	915	(4)	911
Total taxation expense	(397)	4	(393)
Net profit for the period	518	–	518
Net profit/(loss) attributable to:			
Owners of Santos Limited	519	–	519
Non-controlling interests	(1)	–	(1)
	518	–	518

Statement of financial position (extract)	31 Dec 2012 As reported $million	AASB 11 Adjustments $million	31 Dec 2012 Restated $million	1 Jan 2012 As reported $million	AASB 11 Adjustments $million	1 Jan 2012 Restated $million
Cash and cash equivalents	2,151	(4)	2,147	3,332	(2)	3,330
Trade and other receivables	514	(13)	501	899	(14)	885
Prepayments	263	(2)	261	200	–	200
Inventories	321	(4)	317	283	(5)	278
Other financial assets (current)	3	2	5	6	3	9
Investments in joint ventures	–	100	100	–	107	107
Other financial assets (non-current)	254	1	255	192	3	195
Oil and gas assets	11,675	(118)	11,557	9,068	(127)	8,941
Other land, buildings, plant and equipment	268	(9)	259	241	(10)	231
Trade and other payables	(950)	(1)	(951)	(1,005)	–	(1,005)
Current tax liabilities	(121)	33	(88)	(109)	27	(82)
Deferred tax liabilities	(934)	(5)	(939)	(977)	(1)	(978)
Provisions (non-current)	(1,652)	9	(1,643)	(1,173)	8	(1,165)
Net impact on equity	9,365	(11)	9,354	8,963	(11)	8,952

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2013.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014 and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below:

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

  AASB 9, as issued, reflects the first phase of the replacement of AASB 139 *Financial Instruments: Recognition and Measurement* and applies to the classification and measurement of financial assets and liabilities as defined in AASB 139. The AASB recently released AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* to incorporate the IASB's equivalent hedge accounting chapter of IFRS 9. The Group will quantify the effect of the application of AASB 9 when the final standard, including all phases, is issued.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

  AASB 2011-4 removes the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove duplication with the *Corporations Act 2001*. Detailed key management personnel disclosures will be included in the Group's Remuneration Report for the year beginning on 1 January 2014. Aggregate disclosures will still be required in the notes to the financial statements.

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

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial 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, directly or indirectly, to govern the financial and operating policies of the entity. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

If the Group loses control over a subsidiary it will:

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

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

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

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

Non-controlling interests

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

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.

(d) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

(e) Derivative financial instruments

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Embedded derivatives

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

(f) Hedging

Hedge effectiveness

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

Fair value hedge

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

Cash flow hedge

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

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

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

Hedge of monetary assets and liabilities

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

Hedge of net investment in a foreign operation

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

(g) Acquisition of assets

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

Business combinations

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

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

(iii) exploration for and evaluation of resources in the specific area 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(k) Depreciation and depletion

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

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

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

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

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

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

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

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

(l) Available-for-sale financial assets

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(p) Impairment

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

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

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

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

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

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

Calculation of recoverable amount

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reversals of impairment

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

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

(q) Provisions

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

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

Restoration

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

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

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

Remediation

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

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

Carbon tax

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

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

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

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

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

(r) Employee benefits

Wages, salaries, annual leave and sick leave

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

Long-term service benefits

Liabilities for long service leave and annual leave that is not expected to be taken within twelve 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 twelve 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.

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

Cash-settled share-based payment plans

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

General employee share plans

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Santos Eastern Star Gas Limited Employee Incentive Plan

Under the Santos Eastern Star Gas Limited Employee Incentive Plan, eligible employees 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales revenue

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

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

Dividends

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

Overriding royalties

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

Pipeline tariffs and processing tolls

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

Trading revenue

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

(y) Interest income

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

(z) Other income

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

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

(aa) Leases

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

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

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

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

(ab) Carbon tax

Carbon costs are recognised as an operating expense in the income statement as emissions are incurred.

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

(ac) Goods and services tax

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) Taxation

Income tax

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

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

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

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

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

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

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

Royalty-related taxation

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

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

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

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

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

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

(af) Significant accounting judgements, estimates and assumptions

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

Estimates of reserve quantities

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

Exploration and evaluation

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

Provision for restoration

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Royalty-related taxation

The consolidated financial report for 31 December 2012 included judgement in respect of the Group's assessment of the applicability of the decision in the Full Federal Court's decision in Esso Australia Resources Pty Ltd v Commissioner of Taxation ("Esso Case") to the projects subject to Petroleum Resource Rent Tax ("PRRT") in which it holds an interest. The Australian Government issued an announcement on 14 December 2012 that stipulated that the result of the Esso Case was inconsistent with the policy intent of the PRRT regime and the way it has been administered and that it would introduce amendments to the legislation to remove the uncertainty on taxpayers' ability to deduct contract expenditures which are apportioned between projects.

Tax Laws Amendment (2013 Measures No 2) Act 2013 (Cth) commenced on 29 June 2013 and amended the *Petroleum Resource Rent Tax Assessment Act (1987)* (Cth) to address the difficulties arising from the Esso Case. Consequently, the uncertainty surrounding the Group's assessment of its royalty-related taxation position has been resolved. Enactment of the legislation has had no impact on the amounts recorded in respect of the Group's royalty-related income tax expense, assets or liabilities in the consolidated financial report.

2. SEGMENT INFORMATION

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

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

The Chief Executive Officer monitors the operating results of its business units separately for the purposes of making decisions about allocating resources and assessing performance. 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.

2. SEGMENT INFORMATION (CONTINUED)	Note	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
		2013 $million	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million
Revenue													
Sales to external customers		**1,817**	1,614	**1,278**	1,068	**467**	497	**40**	44	**–**	–	**3,602**	3,223
Inter-segment sales*		**–**	–	**–**	–	**–**	–	**15**	38	**(15)**	(38)	**–**	–
Other revenue from external customers		**28**	46	**2**	2	**11**	10	**3**	3	**5**	5	**49**	66
Total segment revenue	3	**1,845**	1,660	**1,280**	1,070	**478**	507	**58**	85	**(10)**	(33)	**3,651**	3,289
Results													
Earnings before interest, tax, exploration and evaluation, impairment and gains/(losses) on sale of non-current assets and controlled entities ("EBITX")		**267**	286	**634**	571	**208**	256	**(12)**	(18)	**(7)**	(3)	**1,090**	1,092
Depreciation and depletion	4	**379**	380	**331**	203	**110**	116	**24**	29	**44**	30	**888**	758
Gains/(losses) on sale of non-current assets and controlled entities	3	**–**	2	**14**	9	**–**	(1)	**–**	–	**–**	1	**14**	11
Earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment ("EBITDAX")		**646**	668	**979**	783	**318**	371	**12**	11	**37**	28	**1,992**	1,861
Depreciation and depletion	4	**(379)**	(380)	**(331)**	(203)	**(110)**	(116)	**(24)**	(29)	**(44)**	(30)	**(888)**	(758)
Exploration and evaluation expensed	4	**–**	–	**–**	–	**–**	–	**–**	–	**(192)**	(165)	**(192)**	(165)
Net impairment (loss)/reversal		**(10)**	–	**(26)**	(64)	**10**	(42)	**–**	–	**–**	–	**(26)**	(106)
Earnings before interest and tax ("EBIT")		**257**	288	**622**	516	**218**	213	**(12)**	(18)	**(199)**	(167)	**886**	832
Net finance (costs)/income	5									**(17)**	79	**(17)**	79
Profit before tax												**869**	911
Income tax expense	6									**(296)**	(318)	**(296)**	(318)
Royalty-related taxation expense	6	**53**	20	**(111)**	(96)	**–**	–	**1**	1	**–**	–	**(57)**	(75)
Net profit for the period												**516**	518

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

2. SEGMENT INFORMATION (CONTINUED)

		Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
	Note	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million	**2013 $million**	2012 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:													
Gain on sale of exploration and evaluation assets	3	**–**	–	**9**	–	**–**	–	**–**	–	**–**	–	**9**	–
Gain on sale of oil and gas assets	3	**–**	2	**7**	9	**–**	–	**–**	–	**–**	–	**7**	11
Loss on sale of other land, buildings, plant and equipment	3	**–**	–	**(2)**	–	**–**	–	**–**	–	**–**	–	**(2)**	–
Gain on sale of a controlled entity	3	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1	**–**	1
Loss on sale of available-for-sale financial assets	3	**–**	–	**–**	–	**–**	(1)	**–**	–	**–**	–	**–**	(1)
Restructuring provision		**–**	(4)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(4)
Prior year redetermination adjustment		**–**	–	**(3)**	–	**–**	–	**–**	–	**–**	–	**(3)**	–
Remediation income/(costs) for incidents, net of related insurance recoveries		**9**	(2)	**–**	–	**–**	–	**–**	–	**–**	–	**9**	(2)
Additions and acquisitions of non-current assets (other than financial assets and deferred tax assets):													
Exploration and evaluation assets	11	**234**	152	**253**	96	**191**	25	**4**	5	**–**	–	**682**	278
Oil and gas assets	12	**987**	616	**115**	520	**697**	878	**2,006**	1,463	**–**	–	**3,805**	3,477
Other land, buildings, plant and equipment	13	**4**	–	**2**	2	**–**	1	**9**	2	**43**	57	**58**	62
		1,225	768	**370**	618	**888**	904	**2,019**	1,470	**43**	57	**4,545**	3,817

2. SEGMENT INFORMATION (CONTINUED)

	Note	2013 $million	2012 $million
Revenue from external customers by geographical location of production			
Australia		**3,173**	2,782
Vietnam		**307**	314
Other countries		**171**	193
Total revenue	3	**3,651**	3,289

During the year, revenue from two separate customers amounted to $1,405 million (2012: $1,127 million), arising from sales from all segments of the Group.

	2013 $million	2012 $million
Non-current assets (other than financial assets and deferred tax assets) by geographical location		
Australia	**14,117**	10,870
Papua New Guinea	**3,051**	2,025
Other countries	**988**	531
	18,156	13,426

3. REVENUE AND OTHER INCOME

	2013 $million	2012 $million
Product sales:		
Gas, ethane and liquefied gas	**1,282**	1,322
Crude oil	**1,834**	1,401
Condensate and naphtha	**310**	321
Liquefied petroleum gas	**176**	179
Total product sales*	**3,602**	3,223
Other revenue:		
Overriding royalties	**10**	12
Pipeline tariffs and processing tolls	**20**	34
Other	**19**	20
Total other revenue	**49**	66
Total revenue	**3,651**	3,289
Other income:		
Insurance recoveries	**1**	1
Net gain on sale of exploration and evaluation assets	**9**	–
Net gain on sale of oil and gas assets	**7**	11
Net loss on sale of other land, buildings, plant and equipment	**(2)**	–
Net gain on sale of a controlled entity	**–**	1
Net loss on sale of available-for-sale financial assets	**–**	(1)
Other	**9**	4
Total other income	**24**	16

* *Total product sales include third-party product sales of $830 million (2012: $527 million).*

3. REVENUE AND OTHER INCOME (CONTINUED)	2013 $million	2012 $million
Net gain on sale of non-current assets		
Proceeds on disposals	**55**	23
Book value of oil and gas assets disposed	**(38)**	(11)
Book value of other land, buildings, plant and equipment disposed	**(2)**	–
Recoupment of prior year exploration and evaluation expenditure	**(1)**	–
Book value of working capital disposed	**–**	(1)
Total net gain on sale of non-current assets	**14**	11
Comprising:		
Net gain on sale of exploration and evaluation assets	**9**	–
Net gain on sale of oil and gas assets	**7**	11
Net loss on sale of other land, buildings, plant and equipment	**(2)**	–
	14	11
Reconciliation to cash inflows from proceeds on disposal of non-current assets		
Proceeds after recoupment of current year exploration and evaluation expenditure	**55**	23
Amounts received in prior periods	**(9)**	–
Amounts received from current year disposals	**46**	23
Amounts received from prior year disposals	**–**	252
Total proceeds on disposal of non-current assets	**46**	275
Comprising:		
Proceeds from disposal of exploration and evaluation assets	**–**	51
Proceeds from disposal of oil and gas assets	**46**	223
Proceeds from disposal of available-for-sale financial assets	**–**	1
	46	275

4. **EXPENSES**	Note	**2013 $million**	2012 $million
Cost of sales:			
Cash cost of production:			
Production costs:			
Production expenses		**617**	604
Production facilities operating leases		**73**	84
Total production costs		**690**	688
Other operating costs:			
Pipeline tariffs, processing tolls and other		**122**	117
Royalty and excise		**85**	88
Carbon costs		**57**	26
Total other operating costs		**264**	231
Total cash cost of production		**954**	919
Depreciation and depletion		**885**	755
Third-party product purchases		**745**	465
Increase in product stock		**(79)**	(35)
Total cost of sales		**2,505**	2,104
Other expenses:			
Selling		**30**	23
Corporate		**78**	89
Depreciation		**3**	3
Foreign exchange (gains)/losses*		**(24)**	2
Losses from change in fair value of derivative financial assets designated as at fair value through profit or loss		**2**	1
Fair value hedges, (gains)/losses:			
On the hedging instrument		**(91)**	(57)
On the hedged item attributable to the hedged risk		**82**	49
Exploration and evaluation expensed		**192**	165
Net impairment loss on exploration and evaluation assets	14(a)	**6**	5
Net impairment loss on oil and gas assets	14(b)	**9**	101
Net impairment loss on other land, buildings, plant and equipment	14(c)	**11**	–
Total other expenses		**298**	381

* *The foreign exchange losses for the year ended 31 December 2013 include the following significant amounts in relation to foreign functional currency subsidiaries: $171 million loss (2012: $17 million gain) relating to the effects of foreign exchange on Australian dollar denominated tax bases and $171 million gain (2012: $17 million loss) on foreign functional currency intercompany loans.*

Profit before tax includes the following:		**2013 $million**	2012 $million
Depreciation and depletion:			
Depletion of subsurface assets		**441**	404
Depreciation of plant and equipment		**444**	353
Depreciation of buildings		**3**	1
Total depreciation and depletion		**888**	758
Minimum lease payments		**73**	85

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

5. NET FINANCE (COSTS)/INCOME	2013 $million	2012 $million
Finance income:		
Interest income	**45**	138
Total finance income	**45**	138
Finance costs:		
Interest expense:		
Interest paid to third parties	**228**	197
Deduct borrowing costs capitalised	**(228)**	(183)
	–	14
Unwind of the effect of discounting on provisions	**62**	45
Total finance costs	**62**	59
Net finance (costs)/income	**(17)**	79

6. TAXATION EXPENSE	2013 $million	2012 $million
Recognised in the income statement:		
Income tax expense		
Current tax expense		
Current year	**52**	159
Adjustments for prior years	**2**	17
	54	176
Deferred tax expense		
Origination and reversal of temporary differences	**245**	142
Adjustments for prior years	**(3)**	–
	242	142
Total income tax expense	**296**	318
Royalty-related taxation expense		
Current tax expense		
Current year	**153**	158
Adjustments for prior years	**8**	3
	161	161
Deferred tax expense		
Origination and reversal of temporary differences	**(104)**	(86)
Adjustments for prior years	**–**	–
	(104)	(86)
Total royalty-related taxation expense	**57**	75
Numerical reconciliation between tax expense and pre-tax net profit:		
Profit before tax	**869**	911
Prima facie income tax at 30% (2012: 30%)	**261**	273
Increase in income tax expense due to:		
Foreign losses not recognised	**14**	26
Non-deductible expenses	**5**	10
Exchange and other translation variations	**13**	(2)
Tax adjustments relating to prior years	**(2)**	17
Other	**5**	(6)
Income tax expense	**296**	318
Royalty-related taxation expense	**57**	75
Total taxation expense	**353**	393
Deferred tax charged/(credited) directly to equity:		
Net exchange loss on translation of foreign operations	**1**	12
Net (gain)/loss on foreign currency loans designated as hedges of net investments in foreign operations	**(130)**	14
Net (gain)/loss on derivatives designated as cash flow hedges	**(1)**	3
Remeasurement of defined benefit obligation	**6**	1
	(124)	30

7. CASH AND CASH EQUIVALENTS	2013 $million	2012 $million
Cash at bank and in hand	**563**	261
Short-term deposits	**81**	1,886
	644	2,147

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 2013, no cash was placed in term deposits with original maturities greater than three months (2012: $49 million). All deposits are held with financial institutions approved by the Board and are readily convertible to cash with commensurate interest adjustments if required.

Restricted cash balances

Barracuda Ltd, a wholly-owned subsidiary incorporated in Papua New Guinea, held cash and cash equivalents at 31 December 2013 of US$3 million (2012: US$16 million) which can only be repatriated to Australia with the permission of the Internal Revenue Commission of Papua New Guinea in accordance with the financing plan submitted in respect of PDL 3.

At 31 December 2013, no cash was held in short-term deposits to support the issue of bank guarantees (2012: $8 million).

8. TRADE AND OTHER RECEIVABLES	2013 $million	2012 $million
Current		
Trade receivables	**523**	359
Other receivables	**270**	142
	793	501
Non-current		
Other receivables	**31**	17
Ageing of trade and other receivables at the reporting date:		
Trade and other receivables not yet due	**757**	453
Past due not impaired:		
Less than one month	**33**	33
One to three months	**6**	17
Three to six months	**9**	8
Six to twelve months	**15**	7
Greater than twelve months	**4**	–
Considered impaired:		
Greater than twelve months	**–**	–
	824	518

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 (2012: nil) was recognised by the Group during the year.

9. INVENTORIES	2013 $million	2012 $million
Petroleum products	**260**	179
Drilling and maintenance stocks	**159**	138
Total inventories at lower of cost and net realisable value	**419**	317
Inventories included above that are stated at net realisable value	**59**	52

10. OTHER FINANCIAL ASSETS		
Current		
Receivables due from other related entities	**1**	5
Interest rate swap contracts	**2**	–
	3	5
Non-current		
Interest rate swap contracts	**142**	182
Cross-currency swap contracts	**65**	41
Embedded derivatives	**5**	7
Available-for-sale financial assets	**10**	10
Receivables due from other related entities	**–**	1
Other	**14**	14
	236	255

11. EXPLORATION AND EVALUATION ASSETS	2013 Subsurface assets $million	2013 Plant and equipment $million	2013 Total $million	2012 Subsurface assets $million	2012 Plant and equipment $million	2012 Total $million
Cost	**1,984**	**28**	**2,012**	1,519	28	1,547
Less impairment	**(48)**	**–**	**(48)**	(37)	–	(37)
Balance at 31 December	**1,936**	**28**	**1,964**	1,482	28	1,510
Reconciliation of movements						
Balance at 1 January	**1,482**	**28**	**1,510**	1,358	28	1,386
Acquisitions of exploration and evaluation assets	**149**	**–**	**149**	68	–	68
Additions	**533**	**–**	**533**	210	–	210
Disposals and recoupment	**(1)**	**–**	**(1)**	–	–	–
Exploration and evaluation expensed	**(90)**	**–**	**(90)**	(41)	–	(41)
Impairment losses	**(6)**	**–**	**(6)**	(1)	–	(1)
Transfer to oil and gas assets in development	**(9)**	**–**	**(9)**	(81)	–	(81)
Transfer to oil and gas assets in production	**(131)**	**–**	**(131)**	(30)	–	(30)
Exchange differences	**9**	**–**	**9**	(1)	–	(1)
Balance at 31 December	**1,936**	**28**	**1,964**	1,482	28	1,510
Comprising:						
Acquisition costs	**1,205**	**17**	**1,222**	1,195	17	1,212
Successful exploration wells	**669**	**11**	**680**	251	11	262
Exploration and evaluation assets pending determination of success	**62**	**–**	**62**	36	–	36
	1,936	**28**	**1,964**	1,482	28	1,510

12. OIL AND GAS ASSETS	2013 Subsurface assets $million	2013 Plant and equipment $million	2013 Total $million	2012 Subsurface assets $million	2012 Plant and equipment $million	2012 Total $million
Cost	**11,120**	**15,843**	**26,963**	9,989	11,807	21,796
Less accumulated depreciation, depletion and impairment	**(6,478)**	**(4,662)**	**(11,140)**	(6,019)	(4,220)	(10,239)
Balance at 31 December	**4,642**	**11,181**	**15,823**	3,970	7,587	11,557
Reconciliation of movements						
Assets in development						
Balance at 1 January	**899**	**4,499**	**5,398**	508	2,533	3,041
Acquisition of oil and gas assets	**30**	**–**	**30**	22	–	22
Additions	**304**	**2,485**	**2,789**	305	2,047	2,352
Capitalised depreciation	**–**	**11**	**11**	–	–	–
Disposals	**–**	**–**	**–**	(8)	(3)	(11)
Transfer from exploration and evaluation assets	**9**	**–**	**9**	81	–	81
Transfer to oil and gas assets in production	**(162)**	**(96)**	**(258)**	–	–	–
Net impairment reversals	**9**	**20**	**29**	–	–	–
Exchange differences	**136**	**913**	**1,049**	(9)	(78)	(87)
Balance at 31 December	**1,225**	**7,832**	**9,057**	899	4,499	5,398
Producing assets						
Balance at 1 January	**3,071**	**3,088**	**6,159**	2,987	2,913	5,900
Acquisitions of oil and gas assets	**13**	**–**	**13**	27	3	30
Additions	**403**	**570**	**973**	529	544	1,073
Transfer from exploration and evaluation assets	**131**	**–**	**131**	30	–	30
Transfer from oil and gas assets in development	**162**	**96**	**258**	–	–	–
Disposals	**(34)**	**(21)**	**(55)**	–	(2)	(2)
Depreciation and depletion	**(441)**	**(410)**	**(851)**	(404)	(323)	(727)
Net impairment losses	**(28)**	**(10)**	**(38)**	(68)	(33)	(101)
Impairment of exploration and evaluation expenditure pending commercialisation	**–**	**–**	**–**	(4)	–	(4)
Exchange differences	**140**	**36**	**176**	(26)	(14)	(40)
Balance at 31 December	**3,417**	**3,349**	**6,766**	3,071	3,088	6,159
Total oil and gas assets	**4,642**	**11,181**	**15,823**	3,970	7,587	11,557
Comprising:						
Exploration and evaluation expenditure pending commercialisation	**190**	**–**	**190**	26	–	26
Other capitalised expenditure	**4,452**	**11,181**	**15,633**	3,944	7,587	11,531
	4,642	**11,181**	**15,823**	3,970	7,587	11,557

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

13. OTHER LAND, BUILDINGS, PLANT AND EQUIPMENT	2013 Land and buildings $million	2013 Plant and equipment $million	2013 Total $million	2012 Land and buildings $million	2012 Plant and equipment $million	2012 Total $million
Cost	**91**	**501**	**592**	84	446	530
Less accumulated depreciation and impairment	**(11)**	**(322)**	**(333)**	(8)	(263)	(271)
Balance at 31 December	**80**	**179**	**259**	76	183	259
Reconciliation of movements						
Balance at 1 January	**76**	**183**	**259**	66	165	231
Additions	**8**	**50**	**58**	11	51	62
Disposals	**–**	**–**	**–**	–	(3)	(3)
Impairment losses	**(2)**	**(9)**	**(11)**	–	–	–
Depreciation	**(3)**	**(45)**	**(48)**	(1)	(30)	(31)
Exchange differences	**1**	**–**	**1**	–	–	–
Balance at 31 December	**80**	**179**	**259**	76	183	259

14. IMPAIRMENT OF NON-CURRENT ASSETS

(a) Exploration and evaluation assets

At 31 December 2013 the Group reassessed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the Group's accounting policy (refer note 1(h)). As a result, the recoverable amounts of some specific exploration and evaluation assets were formally reassessed, resulting in an impairment loss of $6 million (2012: $5 million). Estimates of recoverable amounts of exploration and evaluation assets are based on the asset's fair value less costs to sell.

Area of interest	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2013					
Indonesia	Asia Pacific	Exploration area	**5**	**–**	**5**
Amadeus	Eastern Australia	Near field exploration	**1**	**–**	**1**
Total impairment of exploration and evaluation assets			**6**	**–**	**6**
2012					
Carnarvon Basin	WA & NT	Exploration area	4	–	4
Tajikistan	Asia Pacific	Exploration area	1	–	1
Total impairment of exploration and evaluation assets			5	–	5

(b) Oil and gas assets

At 31 December 2013 the Group reassessed the carrying amount of its oil and gas assets for indicators of impairment such as changes in future prices, future costs and reserves. As a result, the recoverable amounts of cash-generating units and some specific oil and gas assets were formally reassessed, resulting in an impairment loss of $9 million (2012: $101 million).

Estimates of recoverable amounts of oil and gas assets are based on either fair value less costs to sell or value in use, determined by discounting each asset's estimated future cash flows at asset-specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates between 8.8% and 17.0% (2012: 8.0% and 14.7%), depending on the nature of the risks specific to each asset.

14. IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

(b) Oil and gas assets (continued)

Cash-generating unit ("CGU")	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2013					
Impairment/(reversal) of CGUs:					
Thevenard	WA & NT	Oil field	**13**	**12**	**25**
Jabiru/Challis	WA & NT	Oil field	**1**	**–**	**1**
Kipper	Eastern Australia	Gas field	**(9)**	**(20)**	**(29)**
Sampang	Asia Pacific	Oil and gas PSC	**(8)**	**(4)**	**(12)**
Other	Asia Pacific		**(3)**	**–**	**(3)**
Impairment/(reversal) of specific oil and gas assets:					
Cooper Basin	Eastern Australia	Oil and gas field	**8**	**2**	**10**
South East Queensland Conventional	Eastern Australia	Gas field	**14**	**–**	**14**
Cooper Basin	Eastern Australia	Near field exploration	**3**	**–**	**3**
Total impairment of oil and gas assets			**19**	**(10)**	**9**
2012					
Impairment/(reversal) of CGUs:					
Thevenard	WA & NT	Oil field	34	27	61
Legendre	WA & NT	Oil field	(4)	–	(4)
Jabiru/Challis	WA & NT	Oil field	6	–	6
Elang-Kakatua	WA & NT	Oil field	(3)	–	(3)
Sangu	Asia Pacific	Gas PSC	26	–	26
Sampang	Asia Pacific	Oil and gas PSC	10	6	16
SE Gobe	Asia Pacific	Oil and gas field	(1)	–	(1)
Total impairment of oil and gas assets			68	33	101

(c) Other land, buildings, plant and equipment

At 31 December 2013 the Group reassessed the carrying amount of its other land, buildings, plant and equipment assets for indicators of impairment. As a result, the recoverable amounts of some specific other land, buildings, plant and equipment assets were formally reassessed, resulting in an impairment loss of $11 million (2012: $nil). Estimates of recoverable amounts of other land, buildings, plant and equipment assets are based on its fair value less costs to sell.

Asset	Segment	Description	Subsurface assets $million	Plant and equipment $million	Total $million
2013					
Other land, buildings, plant and equipment	Eastern Australia	Site of proposed power station	–	11	11
Total impairment of other land, buildings, plant and equipment			–	11	11

15. DEFERRED TAX ASSETS AND LIABILITIES	Assets 2013 $million	Assets 2012 $million	Liabilities 2013 $million	Liabilities 2012 $million	Net 2013 $million	Net 2012 $million
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Exploration and evaluation assets	**16**	–	**(556)**	(477)	**(540)**	(477)
Oil and gas assets	**–**	–	**(613)**	(191)	**(613)**	(191)
Other land, buildings, plant and equipment	**6**	16	**–**	–	**6**	16
Available-for-sale financial assets	**–**	–	**(24)**	(27)	**(24)**	(27)
Trade receivables	**–**	1	**(3)**	–	**(3)**	1
Other receivables	**–**	–	**(6)**	(7)	**(6)**	(7)
Inventories	**–**	–	**(2)**	(2)	**(2)**	(2)
Derivative financial instruments	**–**	–	**(64)**	(69)	**(64)**	(69)
Other assets	**7**	–	**(10)**	(36)	**(3)**	(36)
Equity-raising costs	**–**	6	**–**	–	**–**	6
Interest-bearing loans and borrowings	**100**	–	**–**	(26)	**100**	(26)
Other liabilities	**33**	26	**(2)**	–	**31**	26
Provisions	**271**	243	**–**	–	**271**	243
Royalty-related taxation	**–**	–	**(411)**	(371)	**(411)**	(371)
Other items	**–**	–	**(11)**	(1)	**(11)**	(1)
Tax value of carry-forward losses recognised	**54**	–	**–**	(1)	**54**	(1)
Tax assets/(liabilities)	**487**	292	**(1,702)**	(1,208)	**(1,215)**	(916)
Set-off of tax	**(475)**	(269)	**475**	269	**–**	–
Net tax assets/(liabilities)	**12**	23	**(1,227)**	(939)	**(1,215)**	(916)

	2013 $million	2012 $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	**3,396**	2,939
Deductible temporary differences relating to royalty-related taxation (net of income tax)	**4,286**	3,625
Other deductible temporary differences	**250**	269
Tax losses	**390**	349
	8,322	7,182

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 $58 million (2012: $67 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	2013 $million	2012 $million
Trade payables	**1,127**	788
Non-trade payables	**108**	163
	1,235	951

17. INTEREST-BEARING LOANS AND BORROWINGS

	2013 $million	2012 $million
This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 37.		
Current		
Finance leases	**1**	1
Commercial paper	**100**	–
Bank loans – unsecured	**17**	14
Long-term notes	**71**	–
	189	15
Non-current		
Finance leases	**5**	1
Bank loans – secured	**1,860**	1,168
Bank loans – unsecured	**1,119**	170
Medium-term notes	**105**	107
Long-term notes	**838**	846
Subordinated notes	**1,655**	1,397
	5,582	3,689

The Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.21% as at 31 December 2013 (2012: 5.61%).

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

			Effective interest rate			
Secured assets	**Year of maturity**	**Currency**	**2013 %**	2012 %	**2013 $million**	2012 $million
PNG LNG	2024/2026	USD	**4.73**	4.61	**1,860**	1,168

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 2013, US$313 million (A$351 million) (2012: US$557 million (A$537 million)) of the facility limit remains undrawn.

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

	2013 $million	2012 $million
Trade and other receivables	**96**	94
Oil and gas assets – Assets in development	**2,994**	2,041
	3,090	2,135

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Details of major credit facilities (continued)

(b) Bank loans – unsecured

Term bank loans

Year of maturity	Currency	Effective interest rate 2013 %	2012 %	2013 $million	2012 $million
2013 – 2017	USD	**0.60**	0.82	**71**	75

Term bank loans bear interest at the relevant interbank reference rate. The amount outstanding at 31 December 2013 is US$63 million (A$71 million) (2012: US$78 million (A$75 million)).

Export credit agency supported loan facilities

At 31 December 2013, the Group had loan facilities of US$1,200 million (A$1,347 million) (2012: US$1,200 million (A$1,157 million)) supported by various export credit agencies, which have estimated maturity dates (subject to the date of practical completion of the GLNG project) between 2016 and 2024.

Year of maturity	Currency	Effective interest rate 2013 %	2012 %	2013 $million	2012 $million
2016 – 2024	USD	**3.39**	3.64	**966**	109

Export credit agency loans bear interest at the relevant interbank reference rate plus a margin. The principal outstanding at 31 December 2013 is US$888 million (A$997 million) (2012: US$130 million (A$126 million)).

(c) Medium-term notes

The Group has a $1,000 million (2012: $1,000 million) Australian medium-term note programme under which the following were issued in 2005:

Year of issue	Year of maturity	Effective interest rate 2013 %	2012 %	2013 $million	2012 $million
2005	2015	**3.58**	4.74	**105**	107

The principal outstanding at 31 December 2013 is A$100 million (2012: A$100 million).

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

Details of major credit facilities (continued)

(d) Long-term notes

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

Year of issue	Year of maturity	Effective interest rate 2013 %	Effective interest rate 2012 %	2013 $million	2012 $million
2000	2010 – 2015	**1.98**	2.05	**62**	57
2002	2010 – 2022	**1.80**	1.92	**174**	162
2007	2017 – 2027	**1.24**	1.06	**673**	627
				909	846

Long-term notes bear interest at 5.95% to 8.44% (2012: 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 2013 is US$688 million (A$772 million) (2012: US$688 million (A$663 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 2013 %	Effective interest rate 2012 %	2013 $million	2012 $million
2010	2070	**6.25**	6.46	**1,655**	1,397

The subordinated notes accrue fixed coupons at a rate of 8.25% (2012: 8.25%) per annum for the first seven years, and thereafter on a floating rate basis plus a 6.85% margin. The subordinated notes are not convertible into Santos Limited ordinary shares.

(f) Bilateral bank loan facility

As at 31 December 2013 the Group had bilateral bank loan facilities of A$1,050 million (2012: A$1,050 million) and US$1,100 million (A$1,235 million) (2012: US$1,100 million (A$1,060 million)) which mature between 2016 and 2018.

As at 31 December 2013 the Group had drawn A$100 million (2012: nil) of these bank loan facilities.

(g) Commercial paper

The Group has an A$800 million (2012: A$800 million) uncommitted, revolving Australian dollar commercial paper programme.

As at 31 December 2013 the Group had drawn A$100 million (2012: nil) of commercial paper.

18. PROVISIONS	2013 $million	2012 $million
Current		
Employee benefits	**96**	89
Restoration	**42**	53
Remediation	**2**	7
Carbon	**34**	20
Other	**11**	4
	185	173
Non-current		
Employee benefits	**12**	12
Defined benefit obligations (refer note 28)	**3**	40
Restoration	**1,726**	1,580
Remediation	**–**	5
Carbon	**7**	6
	1,748	1,643

Movement in provisions

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

	Total restoration $million	Total remediation $million	Total carbon $million	Total $million
Balance at 1 January 2013	**1,633**	**12**	**26**	**1,671**
Provisions made during the year	**344**	**(7)**	**57**	**394**
Provisions used during the year	**(47)**	**(3)**	**(41)**	**(91)**
Unwind of discount	**62**	**–**	**–**	**62**
Disposal of provision	**(16)**	**–**	**(1)**	**(17)**
Change in discount rate	**(261)**	**–**	**–**	**(261)**
Exchange differences	**53**	**–**	**–**	**53**
Balance at 31 December 2013	**1,768**	**2**	**41**	**1,811**

Restoration

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

Remediation

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

Carbon

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

19. OTHER FINANCIAL LIABILITIES

	2013 $million	2012 $million
Current		
Other	**4**	4
	4	4
Non-current		
Other	**32**	39
	32	39

20. ISSUED CAPITAL

	2013 $million	2012 $million
972,088,279 (2012: 961,184,172) listed ordinary shares, fully paid	**6,749**	6,608
54,500 (2012: 54,500) ordinary shares, paid to one cent	**–**	–
	6,749	6,608

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	2013 Number of shares	2012 Number of shares	2013 $million	2012 $million
Movement in fully paid ordinary shares					
Balance at 1 January		**961,184,172**	944,469,750	**6,608**	6,392
Santos Dividend Reinvestment Plan ("DRP")		**9,744,359**	10,274,438	**132**	126
DRP underwriting agreement		**–**	5,509,612	**–**	77
Santos Employee Share1000 Plan	29(a)	**138,408**	142,008	**2**	2
Santos Employee ShareMatch Plan	29(a)	**501,039**	491,856	**6**	6
Shares issued on exercise of options	29(b)	**10,000**	–	**–**	–
Shares issued on vesting of Share Acquisition Rights	29(a,b)	**510,301**	268,008	**–**	–
Santos ESG Employee Incentive Plan	29(c)	**–**	–	**1**	5
Santos Executive Share Plan	29(g)	**–**	28,500	**–**	–
Balance at 31 December		**972,088,279**	961,184,172	**6,749**	6,608

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 2013 was $14.63 (2012: $11.10).

20. ISSUED CAPITAL (CONTINUED)

Santos Dividend Reinvestment Plan

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the arithmetic average of the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Dividend Record Date. At this time, the Board has determined that a 2.5% discount will apply to the Santos Dividend Reinvestment Plan on the final dividend for the year ended 31 December 2013. The last date for the receipt of an election notice to participate in the Santos Dividend Reinvestment Plan is the record date, 5 March 2014.

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 April 2013, Santos Limited's corporate rating of BBB+ with a negative outlook was confirmed by Standard & Poor's.

21. RESERVES AND RETAINED EARNINGS

	Translation reserve $million	Hedging reserve $million	Total $million
Reserves			
Balance at 1 January 2012	(338)	(14)	(352)
Net exchange loss on translation of foreign operations	(101)	–	(101)
Net gain on foreign currency loans designated as hedges of net investments in foreign operations	32	–	32
Net gain on derivatives designated as cash flow hedges	–	8	8
Balance at 31 December 2012	(407)	(6)	(413)
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)**
Balance at 31 December 2013	**57**	**(10)**	**47**

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

	2013 $million	2012 $million
Balance at 1 January	**3,163**	2,915
Net profit after tax	**516**	519
Remeasurement of defined benefit obligation	**14**	1
Share-based payments	**16**	13
Dividends paid	**(289)**	(285)
Balance at 31 December	**3,420**	3,163

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
2013				
Interim 2013 ordinary	**0.15**	**145**	**Franked**	**30 Sep 2013**
Final 2012 ordinary	**0.15**	**144**	**Franked**	**28 Mar 2013**
	0.30	**289**		
2012				
Interim 2012 ordinary	0.15	143	Franked	28 Sep 2012
Final 2011 ordinary	0.15	142	Franked	30 Mar 2012
	0.30	285		

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
2013				
Final 2013 ordinary*	**0.15**	**146**	**Franked**	**26 Mar 2014**
Interim 2013 ordinary	**0.15**	**145**	**Franked**	**30 Sep 2013**
	0.30	**291**		
2012				
Final 2012 ordinary	0.15	144	Franked	28 Mar 2013
Interim 2012 ordinary	0.15	143	Franked	28 Sep 2012
	0.30	287		

* *After the reporting date, the final 2013 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 2013 and will be recognised in subsequent financial reports.*

	2013 $million	2012 $million
Dividend franking account		
30% franking credits available to the shareholders of Santos Limited for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December	**845**	993

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 (2012: $62 million).

23. EARNINGS PER SHARE

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

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

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

	2013 $million	2012 $million
Earnings used in the calculation of basic and diluted earnings per share	**516**	519

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:

	2013	2012
	Number of shares	
Basic earnings per share	**967,288,518**	954,858,091
Partly paid shares	**41,933**	53,854
Executive share options	**493,628**	237,610
Share acquisition rights	**4,690,743**	3,993,374
Diluted earnings per share	**972,514,822**	959,142,929

Earnings per share attributable to the equity holders of Santos Limited	**2013 ¢**	2012 ¢
Basic earnings per share	**53.3**	54.4
Diluted earnings per share	**53.1**	54.1

Partly paid shares outstanding issued under the Santos Executive Share Plan, options outstanding issued under the Santos Executive Share Option Plan and Share Acquisition Rights ("SARs") issued to eligible executives and employees have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2013. The number of shares included in the calculation is that assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price. The weighted average number of shares used for the purposes of calculating diluted earnings per share in 2012 was retrospectively adjusted for the effect of a 2.5% discount applicable to the Dividend Reinvestment Plan in respect of the 2011 final dividend and 2012 interim dividend (refer note 20).

During the year 10,000 (2012: nil) options, 482,799 (2012: 268,008) SARs and nil (2012: 28,500) partly paid shares were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options, SARs and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 134,381 (2012: 88,829).

During the year 142,235 (2012: 308,101) options and 737,503 (2012: 679,939) SARs lapsed. The diluted earnings per share calculation includes that portion of these options and SARs assumed to be issued for nil consideration, weighted with reference to the date the options and SARs lapsed. The weighted average number included is 25,097 (2012: 275,241).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

24. CONSOLIDATED ENTITIES

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

24. CONSOLIDATED ENTITIES (CONTINUED)

Notes

1. Beneficial interests in all controlled entities are 100%, except:
   - CJSC South Petroleum Company (70%); and
   - Zhibek Resources Ltd (75%).
2. Company is party to a Deed of Cross Guarantee. Refer note 36.
3. 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

There were no acquisitions of controlled entities during the current or previous year.

(b) Disposal of controlled entity

There were no disposals of controlled entities during 2013.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

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 2013 %**	Interest 2012 %
Oil and gas assets – Producing assets				
Bayu-Undan	Bayu-Undan	Gas and liquids production	11.5	11.5
Casino	Casino	Gas production	50.0	50.0
Chim Sáo	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	41.6
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
Oil and gas assets – Assets in development				
GLNG Downstream	GLNG	LNG facilities in development	30.0	30.0
Kipper	Kipper	Gas development	35.0	35.0
PNG LNG	PNG LNG	Gas and liquids development	13.5	13.5
Exploration and evaluation assets				
Caldita/Barossa	–	Contingent gas resource	25.0	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	–

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 2013 %	Interest 2012 %
CJSC KNG Hydrocarbons	**54.0**	54.0
Darwin LNG Pty Ltd	**11.5**	11.5
Easternwell Drilling Services Holdings Pty Ltd	**50.0**	50.0
GLNG Operations Pty Ltd	**30.0**	30.0
GLNG Property Pty Ltd	**30.0**	30.0
Lohengrin Pty Ltd	**50.0**	50.0

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:

		% of ownership interest				Quoted* fair value	
Name of entity	**Place of business or incorporation**	**2013 %**	2012 %	**Nature of relationship**	**Measurement method**	**2013**	2012
Darwin LNG Pty Ltd	Australia	11.5	11.5	Joint venture	Equity method	–	–

* *Private entity – no quoted price is available.*

26. JOINT ARRANGEMENTS (CONTINUED)

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

	Darwin LNG Pty Ltd	
	31 Dec 2013 $million	31 Dec 2012 $million
Summarised balance sheet		
Current assets		
Cash and cash equivalents	**128**	89
Other current assets	**216**	185
Total current assets	**344**	274
Non-current assets	**883**	816
Current liabilities		
Financial liabilities (excluding trade payables)	**147**	231
Other current liabilities	**182**	48
Total current liabilities	**329**	279
Non-current liabilities		
Other non-current liabilities	**54**	42
Total non-current liabilities	**54**	42
Net assets	**844**	769
Reconciliation to carrying amount		
Opening net assets 1 January	**769**	852
Profit for the period	**115**	101
Exchange gain/(loss) on translation of foreign operations	**124**	(1)
Reduction in capital	**(63)**	(67)
Dividends paid	**(101)**	(116)
Closing net assets	**844**	769
Group's share (%)	**11.5**	11.5
Group's share of closing net assets ($million)	**97**	88
Carrying amount of investments in joint ventures ($million)	**97**	88

26. JOINT ARRANGEMENTS (CONTINUED)

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

Summarised statement of comprehensive income	Darwin LNG Pty Ltd 31 Dec 2013 $million	31 Dec 2012 $million
Revenue	**3,029**	2,646
Depreciation and amortisation	**(101)**	(92)
Income tax expense	**(44)**	(50)
Profit for the period	**115**	101
Other comprehensive income	**124**	(1)
Total comprehensive income	**239**	100
Dividends received from joint venture	**12**	13

Individually immaterial joint ventures	31 Dec 2013 $million	31 Dec 2012 $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**	12
Aggregate amounts of the Group's share of:		
Profit for the period	**1**	1
Other comprehensive income	**–**	–
Total comprehensive income	**1**	1
The Group's share of capital expenditure commitments and minimum exploration commitments in respect of joint ventures are:		
Capital expenditure commitments	**1,535**	2,968
Minimum exploration commitments	**247**	139

27. NOTES TO THE STATEMENT OF CASH FLOWS	2013 $million	2012 $million
(a) Reconciliation of cash flows from operating activities		
Profit after income tax	**516**	518
Add/(deduct) non-cash items:		
Depreciation and depletion	**888**	758
Exploration and evaluation expensed	**90**	41
Net impairment loss on exploration and evaluation assets	**6**	5
Net impairment loss on oil and gas assets	**9**	101
Net impairment loss on other land, buildings, plant and equipment	**11**	–
Net gains on fair value hedges	**(9)**	(8)
Share-based payment expense	**18**	15
Unwind of the effect of discounting on provisions	**62**	45
Change in fair value of financial assets designated as at fair value through profit or loss	**2**	1
Defined benefit plan expense	**1**	3
Foreign exchange (gains)/losses	**(24)**	2
Net gain on sale of exploration and evaluation assets	**(9)**	–
Net gain on sale of oil and gas assets	**(7)**	(11)
Net loss on sale of other land, buildings, plant and equipment	**2**	–
Net gain on sale of controlled entities	**–**	(1)
Net loss on sale of available-for-sale financial assets	**–**	1
Share of net profit of joint ventures	**(14)**	(12)
Amortisation of prepaid loan transaction costs	**7**	6
Net cash provided by operating activities before changes in assets or liabilities	**1,549**	1,464
Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
(Increase)/decrease in trade and other receivables	**(94)**	25
Increase in inventories	**(100)**	(34)
Increase in other assets	**(80)**	(54)
Increase in net deferred tax liabilities	**251**	81
(Decrease)/increase in current tax liabilities	**(75)**	121
Increase/(decrease) in trade and other payables	**151**	(2)
Increase in provisions	**26**	41
Net cash provided by operating activities	**1,628**	1,642
(b) Non-cash financing and investing activities		
Santos Dividend Reinvestment Plan	**132**	126
(c) Total taxation paid		
Income taxes paid		
Cash outflow from operating activities	**(188)**	(24)
Cash outflow from investing activities	**(8)**	(124)
Royalty-related taxation paid		
Cash outflow from operating activities	**(36)**	(142)
	(232)	(290)
(d) Total borrowing costs paid		
Cash outflow from operating activities	**–**	(19)
Cash outflow from investing activities	**(218)**	(175)
	(218)	(194)

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, interest rate risks and changes in the life expectancy for members.

	2013 $million	2012 $million
Amount recognised in the statement of financial position		
Deficit in plan recognised in non-current provisions (refer note 18)	**3**	40
Non-current receivables	**(1)**	(16)
	2	24
Movements in the liability for net defined benefit obligations recognised in the statement of financial position		
Liability at 1 January	**24**	27
Expense recognised in income statement	**1**	3
Amount capitalised in oil and gas assets	**2**	2
Amount recognised in retained earnings	**(20)**	(2)
Employer contributions	**(5)**	(6)
Liability at 31 December	**2**	24
Expense recognised in the income statement		
Service cost	**2**	4
Net interest cost	**(1)**	(1)
	1	3
The expense is recognised in the following line item in the income statement:		
Cost of sales	**1**	3
Amounts recognised in other comprehensive income		
Remeasurement of defined benefit obligation	**20**	2
Tax effect	**(6)**	(1)
Net remeasurement of defined benefit obligation in the year	**14**	1
Cumulative net remeasurement of defined benefit obligation recognised in other comprehensive income, net of tax	**(8)**	(22)

28. EMPLOYEE BENEFITS (CONTINUED)	2013 $million	2012 $million
(a) Defined benefit plan (continued)		
Reconciliation of the fair value of plan assets		
Opening fair value of plan assets	**150**	142
Expected return on plan assets, excluding interest income	**16**	10
Interest income	**4**	6
Employer contributions	**8**	9
Contributions by plan participants	**3**	4
Benefits paid	**(25)**	(19)
Taxes and premiums paid	**(2)**	(2)
Transfers in	**1**	–
Closing fair value of plan assets	**155**	150
Reconciliation of the present value of the defined benefit obligations		
Opening defined benefit obligations	**190**	192
Service cost	**6**	8
Interest cost	**3**	7
Contribution by plan participants	**3**	4
Actuarial gains arising from changes in financial assumptions	**(18)**	–
Benefits paid	**(25)**	(19)
Transfers in	**1**	–
Taxes and premiums paid	**(2)**	(2)
Closing defined benefit obligations	**158**	190

28. EMPLOYEE BENEFITS (CONTINUED)

(a) Defined benefit plan (continued)

Fair value of plan assets

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:

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

Actuarial assumptions

The principal actuarial assumptions at reporting date (expressed as weighted averages) are as follows:

	2013 % p.a.	2012 % p.a.
Superannuation expense		
Discount rate	**2.9**	3.8
Expected average salary increase rate over the life of the plan	**5.0**	6.0
Defined benefit obligation		
Discount rate	**4.2**	2.9
Expected average salary increase rate over the life of the plan	**4.0**	5.0

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

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

The above sensitivities are based on the last full actuarial valuation at 31 December 2013 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 $5 million to the defined benefit superannuation plan in 2014.

Expected defined benefit payments for the financial year ending:

	$million
Within one year	**21**
Between two and five years	**84**
After five years	**77**
Total expected defined benefit payments	**182**

(b) Defined contribution plans

The Group makes contributions to several defined contribution plans. The amount recognised as an expense for the year was $13 million (2012: $11 million).

29. SHARE-BASED PAYMENT PLANS

(a) Current general employee share plans

The Company operated two general employee share plans in 2013:

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

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

Share1000 Plan

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

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

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

Date	Issued shares Number	Fair value per share $
2013		
3 Jan 2013	**13,528**	**11.1618**
1 Jul 2013	**124,880**	**12.3542**
	138,408	
2012		
4 Jan 2012	6,400	12.4090
2 Jul 2012	135,608	10.7600
	142,008	

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:

	2013 $000	2012 $000
Employee expenses	**1,694**	1,539
Issued ordinary share capital	**1,694**	1,539

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 twelve-month period. In 2011, 2012 and 2013 the ratio was one matched SAR for each share purchased.

The employee's ownership of shares allocated under the ShareMatch Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period (which will be approximately three, five or seven years from the date of the offer, depending on any election made by the employee) and the time when he or she ceases to be an employee. During the restriction period, participants are entitled to receive dividends, participate in bonus and rights issues and exercise voting rights. In 2013, the restriction period of 2.5 years that applied to the SARs issued under the ShareMatch Plan in 2010 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 $
2013		
3 Jan 2013	**56,319**	**11.1618**
1 Jul 2013	**444,720**	**12.3542**
	501,039	
2012		
4 Jan 2012	39,248	12.4090
2 Jul 2012	452,608	10.7600
	491,856	

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

Original tranche	Reallocated tranche	Number of shares
2013		
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
2012		
4 Jan 2011	2 Jul 2012	378
4 Jul 2011	2 Jul 2012	500
4 Jul 2011	4 Jan 2012	982
		1,860

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.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(a) Current general employee share plans (continued)

During the year the Company issued $6 million (2012: $5 million) of share capital under the ShareMatch Plan. Cash of $6 million (2012: $5 million) was received from employees under loan arrangements. The movement in loans receivable from employees during the year was:

	2013 $000	2012 $000
Employee loans at 1 January	**2,439**	2,215
Ordinary share capital issued during the year	**6,175**	5,379
Cash received during the year	**(5,807)**	(5,155)
Employee loans at 31 December	**2,807**	2,439

During the financial year, the Company granted 505,549 (2012: 493,716) 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
2013							
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**
Total			**1,067,886**	**505,549**	**(49,862)**	**(296,740)**	**1,226,833**
2012							
R07 – R09	2012	3 Jul 2014	–	40,230	(402)	–	39,828
R10 – R12	2012	1 Jul 2015	–	453,486	(4,202)	(3,251)	446,033
R01 – R03	2011	3 Jul 2013	297,748	–	(12,648)	(8,883)	276,217
R04 – R06	2011	3 Jul 2014	326,589	–	(14,594)	(6,187)	305,808
Total			624,337	493,716	(31,846)	(18,321)	1,067,886

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.

	2013		2012	
Matched SARs grant	**R13 – R15**	**R16 – R17**	R07 – R09	R10 – R12
Fair value at grant date ($)	**10.66**	**11.44**	11.93	10.06
Share price on grant date ($)	**11.37**	**12.30**	12.65	10.91
Exercise price ($)	**–**	**–**	–	–
Right life (weighted average, years)	**2.5**	**3.0**	2.5	3.0
Expected dividends (% p.a.)	**2.6**	**2.4**	2.4	2.8

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:

	2013 $000	2012 $000
Employee expenses	**4,576**	3,651
Retained earnings	**4,576**	3,651

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(b) Executive Long-term Incentive Programme

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

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

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

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

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

The 2013 LTI Programme offers consisted only of SARs. Eligible executives were granted both Performance Awards and Deferred Awards in 2011, but Deferred Awards were then discontinued as part of the regular LTI Programme. Performance Awards only were granted to eligible executives in 2013.

Vesting of Performance Awards

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

TSR percentile ranking	Grants I1 – I6, J1 – J6, K1, K2, K5 % of grant vesting	Grants F5 % of grant vesting
< 50th percentile	–	–
= 50th percentile	50	37.5
51st to 75th percentile	Further 2.0% for each percentile	Further 1.5% for each percentile
≥ 75th percentile	100	Further 1.0% for each percentile over 75th

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

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

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 Programme was granted in March 2011. Since then no further Deferred Awards have been granted as part of the regular Executive LTI Programme. From time to time, an ad-hoc LTI grant may be made to a specific executive, usually for retention purposes.

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 ten 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
2013							
Performance							
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)**	**–**	**–**
Deferred							
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)**	**–**
Total			**2,978,235**	**1,703,073**	**(692,151)**	**(213,561)**	**3,775,596**
2012							
Performance							
J1 – J3	2012	31 Dec 2014	–	1,365,011	(133,073)	–	1,231,938
J4 – J6	2012	31 Dec 2014	–	193,935	–	–	193,935
I1 – I3	2011	31 Dec 2013	544,186	–	(66,325)	(1,218)	476,643
I4 – I6	2011	31 Dec 2013	157,232	–	–	–	157,232
H4	2010	31 Aug 2013	40,000	–	–	–	40,000
H1	2010	31 Dec 2012	481,998	–	(84,502)	–	397,496
G1	2009	31 Dec 2011	255,279	–	(255,279)	–	–
F5	2008	31 Dec 2012	50,403	–	–	–	50,403
F4	2008	31 Dec 2011	50,403	–	(50,403)	–	–
Deferred							
DI1 – DI3	2011	28 Feb 2014	259,310	–	(27,219)	(7,820)	224,271
H6	2010	7 Nov 2012	15,000	–	–	(15,000)	–
H2	2010	1 Mar 2013	249,284	–	(29,490)	(13,477)	206,317
G3	2009	1 Mar 2012	82,671	–	(945)	(81,726)	–
G2	2009	1 Mar 2012	132,285	–	(1,839)	(130,446)	–
Total			2,318,051	1,558,946	(649,075)	(249,687)	2,978,235

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

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

Grant	Year of grant	End of vesting period	Beginning of the year Number	Lapsed Number	Exercised Number	End of the year Number	Exercisable at end of the year Number
2013							
Performance							
F5	2008	31 Dec 2012	**131,976**	**(131,976)**	**–**	**–**	**–**
Vested in prior years			**4,162,997**	**(10,259)**	**(10,000)**	**4,142,738**	**4,142,738**
Total			**4,294,973**	**(142,235)**	**(10,000)**	**4,142,738**	**4,142,738**
Weighted average exercise price ($)			**12.46**	**17.20**	**10.48**	**12.31**	**12.31**
2012							
Performance							
G1	2009	31 Dec 2011	176,125	(176,125)	–	–	–
F5	2008	31 Dec 2012	131,976	–	–	131,976	–
F4	2008	31 Dec 2011	131,976	(131,976)	–	–	–
Deferred							
G2	2009	1 Mar 2012	54,621	–	–	54,621	54,621
Vested in prior years			4,108,376	–	–	4,108,376	4,108,376
Total			4,603,074	(308,101)	–	4,294,973	4,162,997
Weighted average exercise price ($)			12.69	15.90	N/A	12.46	12.31

The options outstanding at 31 December 2013 have an exercise price in the range of $8.46 to $17.36, and a weighted average remaining contractual life of 2.9 years (2012: 3.95 years).

During the year 10,000 (2012: nil) 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:

	2013 $000	2012 $000
Issued ordinary share capital	**105**	–

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

Valuation of SARs – Performance Awards

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

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

	2013		2012	
Performance Awards	**K1 – K2**	**K5**	J1 – J3	J4 – J6
Fair value at grant date ($)	**8.14**	**9.14**	9.97	10.45
Share price on grant date ($)	**12.29**	**12.93**	14.08	14.08
Exercise price ($)	**–**	**–**	–	–
Expected volatility (weighted average, % p.a.)	**28.4**	**28.4**	29.8	30.1
Right life (weighted average, years)	**3.0**	**3.0**	3.0	3.0
Expected dividends (% p.a.)	**2.4**	**2.3**	2.1	2.1
Risk-free interest rate (based on Commonwealth Government bond yields, % p.a.)	**2.8**	**2.5**	3.3	3.7

Valuation of SARs – Deferred Awards

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

The following table includes the valuation assumptions used for Deferred Awards SARs granted during 2013:

Deferred Awards	**2013 K3**	**2013 K4**
Fair value at grant date ($)	12.26	11.83
Share price on grant date ($)	12.53	12.53
Exercise price ($)	–	–
Right life (weighted average, years)	0.9	2.4
Expected dividends (% p.a.)	2.4	2.4

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

Financial statement effect

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

	2013 $000	2012 $000
Employee expenses:		
SARs	**11,575**	8,983
Options	**(25)**	20
Total employee expenses	**11,550**	9,003
Retained earnings	**11,550**	9,003

Cash-settled share-based payments

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

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

	2013 $000	2012 $000
Balance of liability at 1 January	**1,693**	2,051
Employee expenses	**–**	49
Revaluation	**(92)**	(129)
Cash payments	**(11)**	(278)
Balance of liability at 31 December	**1,590**	1,693
Intrinsic value of vested liability	**1,590**	1,604

(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.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

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

Financial statement effect

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

In the period from 17 November 2011 to 31 December 2011, employee loans in respect of 1,061,634 shares were repaid at a weighted average exercise price of $7.40, resulting in trading restrictions being lifted on those shares and an increase in the Company's share capital. During 2013 a total of $1 million employee loans were repaid (2012: $5 million). At 31 December 2013, loans were still outstanding in respect of 84,290 (2012: 223,628) shares at a weighted average exercise price of $13.57 (2012: $11.37). The weighted average remaining contractual life for the outstanding employee loans in respect of these shares is 1.1 years (2012: 2.2 years). The range of exercise prices for shares outstanding at the end of the year was $11.48 to $15.26 (2012: $9.01 to $15.26).

Valuation of Santos ESG Plan Shares

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

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

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

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(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 ($)	–
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:

	2013 $000	2012 $000
Employee expenses	**364**	375
Retained earnings	**364**	375

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(e) 2013–2015 Three-year Executive Strategy Grant

During the financial year the Company granted 20,829 SARs (2012: nil) 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 ($)	–
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:

	2013 $000	2012 $000
Employee expenses	**49**	–
Retained earnings	**49**	–

(f) Legacy plan – general employees

SESAP

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

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

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

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

At 31 December 2013, the total number of shares acquired under the plan since its commencement was 2,408,566.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(g) 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, nil (2012: 28,500) SESP shares were fully paid and $nil (2012: $87,690) was received by the Company. As at 31 December 2013 there were 54,500 (2012: 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 2013, the total number of shares acquired under SESEP since its commencement was 220,912.

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

In general, the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board, in its discretion, could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. At 31 December 2013, 3,890 (2012: 30,430) shares remain on trust until July 2014, applicable to the 2004 grant. During this time, the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group company. During the period the shares are held on trust, participants are entitled to receive dividends, participate in bonus and rights issues and instruct the trustee as to the exercise of voting rights.

(h) Non-executive Director Share Plan

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

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

The NED Share Plan was suspended in 2011 and closed in 2012. Accordingly, no non-executive Directors participated in the NED Share Plan in 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 2013, 46,279 (2012: 46,279) are still subject to restrictions, for periods up to 2020.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

(i) 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	**2013 $000**	2012 $000
Statement of financial position:			
Current general employee share plans – ShareMatch Plan	29(a)	**6,175**	5,379
Executive long-term incentive programme:			
Share options	29(b)	**105**	–
Cash-settled	29(b)	**92**	80
		6,372	5,459
Issued capital:			
Current general employee share plans:			
Share1000 Plan	29(a)	**1,694**	1,539
ShareMatch Plan	29(a)	**6,175**	5,379
Executive long-term incentive programme – share options	29(b)	**105**	–
		7,974	6,918
Retained earnings:			
Current general employee share plans – matched SARs	29(a)	**4,576**	3,651
Executive long-term incentive programme – equity-settled	29(b)	**11,550**	9,003
2012–2015 Four-year CEO Strategy Grant	29(d)	**364**	375
2013–2015 Three-year Executive Strategy Grant	29(e)	**49**	–
		16,539	13,029
Employee expenses:			
Current general employee share plans:			
Share1000 Plan	29(a)	**(1,694)**	(1,539)
Matched SARs	29(a)	**(4,576)**	(3,651)
Executive long-term incentive programme:			
Equity-settled	29(b)	**(11,550)**	(9,003)
Cash-settled	29(b)	**92**	80
2012–2015 Four-year CEO Strategy Grant	29(d)	**(364)**	(375)
2013–2015 Three-year Executive Strategy Grant	29(e)	**(49)**	–
		(18,141)	(14,488)
		6,372	5,459

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2013 $000	2012 $000
Short-term employee benefits	**11,257**	11,210
Post-employment benefits	**222**	211
Other long-term benefits	**236**	163
Share-based payments	**4,549**	3,772
	16,264	15,356

(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.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Equity holdings of key management personnel

Options and SARs holdings

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

	Balance at beginning of the year	Granted[1]	Options exercised/ rights vested[2]	Other changes[3]	Sold/ transferred	Balance at end of the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
2013									
Options									
Directors									
Knox, David John Wissler	389,488	–	–	(131,976)	–	257,512	257,512	257,512	–
Executives									
Anderson, John Hugh	117,693	–	–	–	–	117,693	117,693	117,693	–
Baulderstone, James Leslie	86,238	–	–	–	–	86,238	86,238	86,238	–
Brown, Trevor John	37,137	–	–	–	–	37,137	37,137	37,137	–
Cleary, Peter John	–	–	–	–	–	–	–	–	–
Eames, Martyn Edward James	71,662	–	–	(71,662)	–	–	–	–	–
Seaton, Andrew John	22,213	–	–	–	–	22,213	22,213	22,213	–
Total	724,431	–	–	(203,638)	–	520,793	520,793	520,793	–
SARs									
Directors									
Knox, David John Wissler	606,909	243,652	–	(50,403)	–	800,158	–	–	–
Executives									
Anderson, John Hugh	87,787	42,981	(5,872)	(17,688)	–	107,208	–	–	–
Baulderstone, James Leslie	112,036	46,655	(24,939)	(18,857)	–	114,895	–	–	–
Brown, Trevor John	83,275	43,548	(4,986)	(16,620)	–	105,217	–	–	–
Cleary, Peter John	84,927	41,951	–	(126,878)	–	–	–	–	–
Eames, Martyn Edward James	94,035	43,723	(6,541)	(131,217)	–	–	–	–	–
Seaton, Andrew John	80,241	46,392	(5,204)	(7,806)	–	113,623	–	–	–
Total	1,149,210	508,902	(47,542)	(369,469)	–	1,241,101	–	–	–

1. *SARs granted to executives including the Managing Director on 6 March 2013 for the 2013 LTI Performance Grant.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of the SARs.*
3. *Other changes include:*
   (i) Options and SARs which did not vest due to non-fulfilment of vesting conditions and were forfeited during the year, but excludes 228,778 SARs which, subsequent to reporting date, lapsed as effected by the Board on 19 February 2014; and
   (ii) Mr PJ Cleary and Mr MEJ Eames ceased to be key management persons on 8 December 2013.

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 29(b).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Options and SARs holdings (continued)

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

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

1. *SARs granted to executives including the Managing Director on 1 March 2012 for the 2012 LTI Performance Grant and a further Strategy Grant to the Managing Director granted on 3 May 2012 in accordance with shareholder approval on that date.*
2. *Each SAR vested results in the issue of one ordinary share of the Company to the recipient. There are no amounts unpaid on the shares issued as a result of the vesting of SARs.*
3. *Other changes include:*
   (i) Options and SARs which did not vest due to non-fulfilment of vesting conditions and were forfeited during the year, but excludes 263,052 options and SARs which, subsequent to reporting date, lapsed as effected by the Board on 20 February 2013;
   (ii) Mr TJ Brown held 37,137 options and 83,275 SARs when he was appointed as a key management person on 6 August 2012; and
   (iii) Mr MS Macfarlane ceased to be a key management person on 5 August 2012.

Details regarding the service and performance conditions that must be met before the options and SARs vest with the recipient are included in note 29(b).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Share holdings

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

	Balance at beginning of the year	Received on vesting of SARs	Purchased on-market	Sold	Other changes[1]	Balance at end of the year	Balance held nominally at end of the year
2013							
Ordinary shares – fully paid							
Directors							
Borda, Kenneth Charles	74,320	–	–	–	1,651	75,971	–
Coates, Peter Roland	37,104	–	–	–	824	37,928	–
Dean, Kenneth Alfred	16,349	–	–	–	363	16,712	–
Franklin, Roy Alexander	3,547	–	–	–	78	3,625	–
Goh, Hock	–	–	3,000	–	–	3,000	–
Harding, Richard Michael	2,643	–	–	–	58	2,701	–
Hemstritch, Jane Sharman	14,000	–	–	–	–	14,000	–
Knox, David John Wissler	94,055	–	–	–	284	94,339	–
Martin, Gregory John Walton	10,750	–	–	–	–	10,750	–
Executives							
Anderson, John Hugh	57,794	5,872	–	–	–	63,666	–
Baulderstone, James Leslie	29,657	24,939	–	–	–	54,596	–
Brown, Trevor John	386,669	4,986	–	–	–	391,655	–
Cleary, Peter John	–	–	–	–	–	–	–
Eames, Martyn Edward James	66,251	6,541	–	–	(72,792)	–	–
Seaton, Andrew John	20,845	5,204	–	–	51	26,100	–
Total	813,984	47,542	3,000	–	(69,483)	795,043	–

1. Other changes include:
(i) Dividend Reinvestment Plan allocations; and
(ii) Mr PJ Cleary and Mr MEJ Eames ceased to be key management persons on 8 December 2013.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

Share holdings (continued)

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

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

31. RELATED PARTIES

Identity of related parties

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

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

- note 10 as to amounts owing from other related entities;
- notes 17 and 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.

32. REMUNERATION OF AUDITORS	**2013 $000**	2012 $000
The auditor of Santos Limited is Ernst & Young.		
(a) Audit and review services		
Amounts received or due and receivable for an audit or review of the financial report of the entity and any other entity in the Group by:		
Ernst & Young (Australia)	**1,435**	1,690
Overseas network firms of Ernst & Young (Australia)	**205**	211
	1,640	1,901
(b) Other services		
Amounts received or due and receivable for other services in relation to the entity and any other entity in the Group by:		
Ernst & Young (Australia) for other assurance, taxation and other services	**585**	582
Overseas network firms of Ernst & Young (Australia) for taxation services	**20**	57
	605	639

33. COMMITMENTS FOR EXPENDITURE

	2013 $million	2012 $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	**1,336**	2,248
Later than one year but not later than five years	**291**	822
Later than five years	**75**	82
	1,702	3,152
(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	**142**	104
Later than one year but not later than five years	**413**	166
Later than five years	**1**	–
	556	270

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.

	2013 $million	2012 $million
(c) Operating lease commitments		
Non-cancellable operating lease rentals are payable as follows:		
Not later than one year	**124**	128
Later than one year but not later than five years	**318**	263
Later than five years	**150**	119
	592	510

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

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

During the year ended 31 December 2013 the Group recognised $73 million (2012: $85 million) as an expense in the income statement in respect of operating leases.

33. COMMITMENTS FOR EXPENDITURE (CONTINUED)

	2013 $million	2012 $million
(d) Finance lease commitments		
Finance lease commitments are payable as follows:		
Not later than one year	**2**	1
Later than one year but not later than five years	**32**	15
Later than five years	**198**	196
Minimum lease payments	**232**	212
Future finance charges	**(151)**	(146)
Leases not commenced at reporting date	**(75)**	(64)
Total lease liabilities	**6**	2

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 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:

	2013 $million	2012 $million
Not later than one year	**7**	6

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

(f) Commitment on removal of shareholder cap

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

- continue to make payments under its existing Social Responsibility and Community Benefits Programme specified in the deed totalling $60 million over a ten-year period from the date the legislation was enacted. As at 31 December 2013, approximately $17 million (2012: $26 million) remains to be paid over the remainder of the ten-year period through to 29 November 2017; and
- continue to maintain the South Australian Cooper Basin asset's Head Office and Operational Headquarters together with other roles in South Australia for ten years subsequent to the date the legislation was enacted. At 31 December 2013, if this condition had not been met, the Company would have been liable to pay a maximum of $50 million (2012: $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

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

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.

35. PARENT ENTITY DISCLOSURES

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

	2013 $million	2012 $million
Net profit for the period	**434**	284
Total comprehensive income	**448**	262
Current assets	**1,005**	2,490
Total assets	**15,099**	12,361
Current liabilities	**1,473**	1,582
Total liabilities	**7,345**	4,923
Issued capital	**6,749**	6,608
Retained earnings	**1,005**	830
Total equity	**7,754**	7,438

(a) Commitments of the parent entity

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

	2013 $million	2012 $million
Capital expenditure commitments	**204**	186
Minimum exploration commitments	**13**	2

(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

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

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.

36. DEED OF CROSS GUARANTEE

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

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

The subsidiaries subject to the Deed are:

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

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 2013 of the Closed Group:

	2013 $million	2012 $million
Consolidated income statement		
Product sales	**2,630**	2,288
Cost of sales	**(2,044)**	(1,694)
Gross profit	**586**	594
Other revenue	**397**	234
Other income	**44**	21
Other expenses	**(244)**	(394)
Interest income	**43**	136
Finance costs	**(86)**	(124)
Profit before tax	**740**	467
Income tax expense	**(233)**	(100)
Royalty-related taxation expense	**(39)**	(41)
Total taxation expense	**(272)**	(141)
Net profit for the period	**468**	326
Consolidated statement of comprehensive income		
Net profit for the period	**468**	326
Other comprehensive income, net of tax:		
Net exchange gain/(loss) on translation of foreign operations	**30**	(3)
Net actuarial gain on defined benefit plan	**14**	1
Total comprehensive income	**512**	324
Summary of movements in Closed Group's retained earnings		
Retained earnings at 1 January	**1,275**	1,196
Adjustment to retained earnings for companies removed/added to Deed during the year	**6**	24
Net profit for the period	**468**	326
Net actuarial gain on defined benefit plan	**14**	1
Dividends to shareholders	**(289)**	(285)
Share-based payment transactions	**16**	13
Retained earnings at 31 December	**1,490**	1,275

36. DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated statement of financial position as at 31 December 2013 of the Closed Group:

	2013 $million	2012 $million
Current assets		
Cash and cash equivalents	**423**	1,968
Trade and other receivables	**1,609**	1,013
Prepayments	**36**	24
Inventories	**344**	263
Other financial assets	**1**	3
Tax receivable	**6**	–
Total current assets	**2,419**	3,271
Non-current assets		
Receivables	**1**	16
Prepayments	**82**	14
Other financial assets	**3,787**	3,255
Exploration and evaluation assets	**901**	670
Oil and gas assets	**5,525**	5,103
Other land, buildings, plant and equipment	**189**	173
Deferred tax assets	**–**	11
Total non-current assets	**10,485**	9,242
Total assets	**12,904**	12,513
Current liabilities		
Trade and other payables	**699**	534
Deferred income	**69**	28
Tax liabilities	**–**	54
Provisions	**175**	170
Total current liabilities	**943**	786
Non-current liabilities		
Deferred income	**48**	4
Interest-bearing loans and borrowings	**2,003**	2,332
Deferred tax liabilities	**360**	241
Provisions	**1,299**	1,285
Other non-current liabilities	**5**	7
Total non-current liabilities	**3,715**	3,869
Total liabilities	**4,658**	4,655
Net assets	**8,246**	7,858
Equity		
Issued capital	**6,749**	6,608
Reserves	**7**	(25)
Retained earnings	**1,490**	1,275
Total equity	**8,246**	7,858

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 in 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.

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 (2013: US$1,639 million; 2012: US$896 million), or swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2013: US$1,410 million; 2012: 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 2013.

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 2013, the following table demonstrates the estimated sensitivity to a ±15 cent movement in the US dollar exchange rate (2012: ±13 cent) and a ±10 cent movement in the euro exchange rate (2012: ±9 cent) with all other variables held constant, on post-tax profit and equity:

	2013 $million	2012 $million
Impact on post-tax profit:		
AUD/USD +15 cents (2012: +13 cents)	**23**	22
AUD/USD –15 cents (2012: –13 cents)	**(23)**	(22)
AUD/EUR +10 cents (2012: +9 cents)	**–**	–
AUD/EUR –10 cents (2012: –9 cents)	**–**	–
Impact on equity:		
AUD/USD +15 cents (2012: +13 cents)	**23**	22
AUD/USD –15 cents (2012: –13 cents)	**(23)**	(22)
AUD/EUR +10 cents (2012: +9 cents)	**–**	–
AUD/EUR –10 cents (2012: –9 cents)	**–**	–

The above sensitivity will vary depending on the Group's financial asset and liability profile over time. The ±15 cent sensitivity in the US dollar exchange rate and ±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 the US$670 million Uncovered export credit agency supported loan through to the end of 2016. These instruments have been designated as cash flow hedges.

At 31 December 2013, the Group had interest rate swaps with a notional contract amount of $2,397 million (2012: $763 million).

The net fair value of swaps at 31 December 2013 was $144 million (2012: $182 million), comprising assets of $144 million and liabilities of nil (2012: assets of $182 million and liabilities of nil). These amounts were recognised as fair value derivatives.

Based on the net debt position as at 31 December 2013, taking into account interest rate swaps, it is estimated that if US London Interbank Offered Rate ("LIBOR") interest rates changed by ±0.50% (2012: ±0.30%), Euro Interbank Offered Rate ("EURIBOR") by ±0.50% (2012: ±1.29%) and Australian Bank Bill Swap reference rate ("BBSW") by ±0.50% (2012: ±1.47%), with all other variables held constant, the impact on post-tax profit and equity would be:

	2013 $million	2012 $million
Impact on post-tax profit as a result of changing interest rates:		
US +0.50%/EU +0.50%/AU +0.50% (2012: US +0.30%/EU +1.29%/AU +1.47%)	**7**	21
US –0.50%/EU –0.50%/AU –0.50% (2012: US –0.30%/EU –1.29%/AU –1.47%)	**(7)**	(21)
Impact on equity as a result of changing interest rates:		
US +0.50%/EU +0.50%/AU +0.50% (2012: US +0.30%/EU +1.29%/AU +1.47%)	**7**	21
US –0.50%/EU –0.50%/AU –0.50% (2012: US –0.30%/EU –1.29%/AU –1.47%)	**(7)**	(21)

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

The sensitivity analysis is based on the Group's reasonable estimate of changes in interest rates over the following financial year and reflects annual interest rate volatility. Changes in interest rates over the following year may be greater or less than the US LIBOR ±0.50%, EURIBOR ±0.50% and the Australian BBSW ±0.50% sensitivity employed in the estimates above.

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.

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

At December 2013, the Group has fully drawn the US$670 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 the US$670 million Uncovered export credit agency supported loan through to the end of 2016.

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

The movement in hedge reserve is as follows:

	2013 $million	2012 $million
Opening balance	**(6)**	(14)
Charged to comprehensive income	**(4)**	8
Closing balance	**(10)**	(6)

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 2013 the Group has no open oil price swap contracts (2012: 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 less than 20% of contracted gas.

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

Rating	**Approved counterparties**	**Total credit limit $million**	**Total exposure $million**	**Exposure range $million**
AAA, AA, AA–	6	11,950	1,993	0 – 946
A+, A, A–	13	6,950	1,367	0 – 337

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 2013.

	Less than 1 year $million	1 to 2 years $million	2 to 5 years $million	More than 5 years $million
2013				
Financial assets held to manage liquidity risk				
Cash and cash equivalents	**645**	**–**	**–**	**–**
Derivative financial assets				
Interest rate swap contracts	**40**	**38**	**70**	**21**
Cross-currency swap contracts	**35**	**33**	**(10)**	**–**
Non-derivative financial liabilities				
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)**

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
2012				
Financial assets held to manage liquidity risk				
Cash and cash equivalents	2,163	–	–	–
Derivative financial assets				
Interest rate swap contracts	38	38	83	46
Cross-currency swap contracts	24	25	(34)	–
Non-derivative financial liabilities				
Trade and other payables	(951)	–	–	–
Obligations under finance leases	(1)	(1)	–	–
Bank loans	(62)	(61)	(545)	(1,201)
Medium-term notes	(6)	(6)	(106)	–
Long-term notes	(43)	(102)	(351)	(458)
Subordinated debt	(105)	(105)	(1,590)	–
	1,057	(212)	(2,543)	(1,613)

(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.

Derivatives

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

Financial liabilities

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

Interest rates used for determining fair value

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

	2013 %	2012 %
Derivatives	**0.3 – 5.0**	0.2 – 5.0
Loans and borrowings	**0.3 – 5.0**	0.2 – 5.0

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair values (continued)

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
2013				
Assets measured at fair value				
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**	**–**
Available-for-sale financial assets:				
Equity shares	**10**	**10**	**–**	**–**
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	**(909)**	**–**	**(909)**	**–**
Medium-term notes	**(105)**	**–**	**(105)**	**–**
2012				
Assets measured at fair value				
Financial assets at fair value through profit and loss:				
Interest rate swap contracts	182	–	182	–
Cross-currency swap contracts	41	–	41	–
Embedded derivatives	7	–	7	–
Available-for-sale financial assets:				
Equity shares	10	10	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss:				
Long-term notes	(846)	–	(846)	–
Medium-term notes	(107)	–	(107)	–

During the reporting periods ended 31 December 2013 and 31 December 2012, 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 21 February 2014, the Directors of Santos Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. Consequently, the dividend has not been provided for in the 31 December 2013 financial statements. Refer to note 22 for dividends declared after 31 December 2013.

Directors' Declaration
for the year ended 31 December 2013

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 2013 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 2013.
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 21st day of February 2014

On behalf of the Board:

Director
Adelaide

Director

Independent Audit Report
to the members of Santos Limited

Report on the Financial Report

We have audited the accompanying financial report of Santos Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

1. the financial report of Santos Limited is in accordance with the *Corporations Act 2001*, including:
   (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
   (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
2. the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 65 of the Directors' Report for the year ended 31 December 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

T S Hammond
Partner
Adelaide
21 February 2014

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Auditor's Independence Declaration
to the Directors of Santos Limited

In relation to our audit of the financial report of Santos Limited for the year ended 31 December 2013, 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
21 February 2014

Information for shareholders

NOTICE OF MEETING

The Annual General Meeting of Santos Limited will be held in Hall F at Adelaide Convention Centre, North Terrace, Adelaide, South Australia, on Friday 16 May 2014 at 10:00 am.

FINAL DIVIDEND

The 2013 final ordinary dividend will be paid on 26 March 2014 to shareholders registered in the books of the Company at the close of business on 5 March 2014 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), PR Coates, KA Dean, RA Franklin, H Goh, RM Harding, 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 Santos Limited website, **www.santos.com**. The website requires you to quote your Shareholder Reference Number ("SRN") or Holder Identification Number ("HIN") in order to access this information. Forms are also available to advise the Company of changes relating to change of address, direct crediting of dividends, Tax File Number and Australian Business Number, Annual Report and Sustainability Report mailing preferences and Dividend Reinvestment Plan participation by contacting Computershare Investor Services Pty Limited.

INVESTOR INFORMATION AND SERVICES

Santos website

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

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

Other investor information available on the Santos website includes:

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

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

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

Publications

The Annual Report, Interim Report, 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
Website: www.investorcentre.com

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

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

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

SHAREHOLDERS' CALENDAR

2013 full-year Results announcement
21 February 2014

Ex-dividend date for 2013 full-year dividend
27 February 2014

Record date for 2013 full-year dividend
5 March 2014

Payment date for 2013 full-year dividend
26 March 2014

Annual General Meeting
16 May 2014

2014 interim results announcement
22 August 2014

Ex-dividend date for 2014 interim dividend
27 August 2014

Record date for 2014 interim dividend
29 August 2014

Payment date for 2014 interim dividend
30 September 2014

Dates may be subject to change.

QUARTERLY REPORTING CALENDAR

2014 First Quarter Activities Report
17 April 2014

2014 Second Quarter Activities Report
18 July 2014

2014 Third Quarter Activities Report
17 October 2014

2014 Fourth Quarter Activities Report
23 January 2015

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

Securities Exchange and Shareholder Information

Listed on the Australian Securities Exchange at 28 February 2014 were 970,270,108 fully paid ordinary shares. Unlisted were 27,250 partly paid Plan 0 shares, 27,250 partly paid Plan 2 shares, 781,192 fully paid restricted ordinary shares issued pursuant to the ShareMatch Plan, 3,890 fully paid ordinary shares held on trust and issued pursuant to the Santos Executive Share Purchase Plan ("SESEP"), 893,396 restricted fully paid ordinary shares issued to eligible Senior Executives pursuant to the Santos Employee Share Purchase Plan ("SESPP"), 46,279 fully paid ordinary shares issued pursuant to the Non-executive Director Share Plan ("NED Share Plan"), 84,290 restricted fully paid ordinary shares pursuant to the Eastern Star Gas Limited Employee Incentive Plan ("ESG Plan") and 52,736 fully paid ordinary shares issued with further restrictions pursuant to the ShareMatch Plan.

There were 113,714 holders of all classes of issued ordinary shares, including: 4 holders of Plan 0 shares; 4 holders of Plan 2 shares; 1,313 holders of ShareMatch shares; 2 beneficial holders of SESEP shares; 59 holders of restricted shares pursuant to the SESPP; 4 holders of NED Share Plan shares; 6 holders of ESG Plan shares; and 77 holders of ShareMatch shares with further restrictions. This compared with 110,961 holders of all classes of issued ordinary shares a year earlier.

On 28 February 2014 there were also: 40 holders of 4,142,738 Options granted pursuant to the Santos Executive Share Option Plan; 102 holders of 3,413,756 Share Acquisition Rights pursuant to the SESPP; AUD 1,667 holders of 1,252,688 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 64.15% of the total voting power in Santos (65.09% on 28 February 2013). The largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 28 February 2014 were:

Name	No. of Shares	%
HSBC Custody Nominees (Australia) Limited	186,681,647	19.24
JP Morgan Nominees Australia Limited	136,867,556	14.11
National Nominees Limited	102,392,341	10.55
Citicorp Nominees Pty Limited	61,526,314	6.34
JP Morgan Nominees Australia Limited <Cash Income A/c>	34,563,988	3.56
BNP Paribas Noms Pty Ltd <DRP>	21,736,715	2.24
Citicorp Nominees Pty Limited <Colonial First State Inv A/c>	14,246,561	1.47
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/c>	8,046,818	0.83
Australian Foundation Investment Company Limited	7,881,758	0.81
AMP Life Limited	7,671,034	0.79
Warbont Nominees Pty Ltd <Settlement Entrepot A/c>	5,640,860	0.58
Ecapital Nominees Pty Limited <Settlement A/c>	5,463,597	0.56
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/c>	5,017,884	0.52
Argo Investments Limited	4,749,875	0.49
CS Fourth Nominees Pty Ltd	4,434,536	0.46
UBS Nominees Pty Ltd	3,553,798	0.37
QIC Limited	3,204,589	0.33
RTS Nominees Pty Limited	3,118,324	0.32
Mr John Charles Ellice-Flint	2,994,888	0.31
RBC Investor Services Australia Nominees Pty Limited <PI Pooled A/c>	2,612,851	0.27
Total:	**622,405,934**	**64.15**

Analysis of Shares – Range of Shares Held

	Fully paid ordinary shares (holders)	% of holders	% of shares held
1–1,000	50,433	44.35	2.53
1,001–5,000	50,319	44.25	12.16
5,001–10,000	8,430	7.41	6.16
10,001–100,000	4,385	3.86	9.32
100,001 and over	147	0.13	69.83
Total	**113,714**	**100.00**	**100.00**
Less than a marketable parcel of $500	2,718		

Substantial Shareholders as disclosed by notices received by the Company as at 28 February 2014: Nil.

For Directors' Shareholdings see the Directors' Report as set out on page 34 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.

Index

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_2e)
A measure of greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide) with the equivalent global warming potential as carbon dioxide when measured over a specific time.

the company
Santos Ltd and its subsidiaries.

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

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

crude oil
A general term for unrefined liquid petroleum or hydrocarbons.

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

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 × 10^9
- A terajoule (TJ) is equal to 1 joule × 10^{12}
- A petajoule (PJ) is equal to 1 joule × 10^{15}

liquid hydrocarbons (liquids)
A sales product in liquid form; for example, condensate and LPG.

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

lost-time injury
A lost-time injury is a work-related injury or illness that results in a permanent disability, or time lost 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.

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**

Designed and produced by Twelve Creative

Santos Limited
ABN 80 007 550 923

Registered and head office

Ground Floor Santos Centre
60 Flinders St
Adelaide SA 5000
GPO Box 2455
Adelaide SA 5001

Telephone: +61 8 8116 5000
Facsimile: +61 8 8116 5050
Website: www.santos.com

Share register

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnson Street
Abbotsford VIC 3067
GPO Box 2975
Melbourne VIC 3001

Online enquiries: www.investorcentre.com/contact
Website: www.investorcentre.com

Telephone: 1300 017 716 (within Australia)
+61 3 9938 4343 (international)

PAPER AND PRINTING OF THE ANNUAL REPORT

Both the printer and the paper used to produce this document have Forest Stewardship Council® (FSC®) and ISO 14001 environmental certification. FSC® is a Chain of Custody (COC) process.

IS0 14001 is the international standard of Environmental Management Systems (EMS) designed to ensure the continuous measurement and reduction of environmental impacts.

This publication is printed using vegetable based soy inks.

HELP SAVE PAPER BY READING THIS REPORT ONLINE

An electronic version of this report is available on our website at www.santos.com

MIX
Paper from responsible sources
FSC® C010983
FSC www.fsc.org

Please help Santos cut its paper use

Many Santos shareholders have elected to receive electronic communications.

Please join them and help us cut paper use by following the prompts at:

www.computershare.com.au/easyupdate/sto

Santos
We have the energy.