

Energy for the future



This 2018 Annual Report is a summary of Santos' operations, activities and financial position as at 31 December 2018.

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

An electronic version of this report is available on Santos' website, **www.santos.com**

Santos' Corporate Governance Statement can be viewed at: **www.santos.com/who-we-are/corporate-governance**

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Cover images clockwise from left:

Varanus Island gas hub, WA
Ningaloo Vision FPSO, WA
Devil Creek gas hub, WA

Santos

An Australian energy pioneer

Santos is an Australian natural gas company. Established in 1954, the Company's purpose is to provide sustainable returns for our shareholders by supplying reliable, affordable and cleaner energy to improve the lives of people in Australia and Asia.

Five core long-life natural gas assets sit at the heart of a clear and consistent strategy to Transform, Build and Grow the business: Western Australia, the Cooper Basin, Queensland & NSW, Northern Australia and Papua New Guinea. Each core asset provides stable production, long-term revenue streams and significant upside opportunities.

With one of the largest exploration and production acreages in Australia, a significant and growing footprint in Papua New Guinea and a strategic infrastructure position, Santos is well positioned to benefit from the growing global demand for energy.

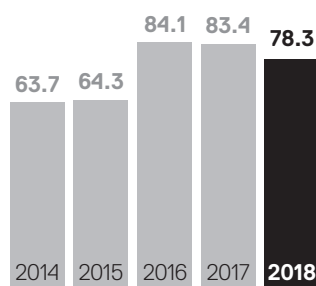
To deliver our vision to be Australia's leading natural gas company by 2025, we will aspire to:

- reduce emissions and improve air quality across Asia and Australia by displacing coal with natural gas, and support the economic development of combined gas and renewable energy solutions
- be the leading national supplier of domestic gas in Australia
- be a leading regional LNG supplier by increasing LNG sales to our Asian customers to over 4.5 million tonnes per annum
- be recognised as the safest and lowest-cost onshore gas developer in Australia
- become the market leader in running the safest and lowest-cost facilities and infrastructure operations
- contribute positively to the communities in which we operate by providing jobs, energy supply and local partnerships
- develop our people and culture to deliver our vision

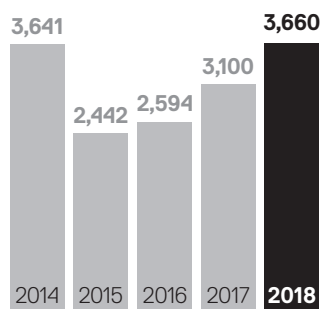
Santos today is a safe, low-cost, reliable and high performance business, proudly delivering the economic and environmental benefits of natural gas to homes and businesses throughout Australia and Asia.

Financial overview

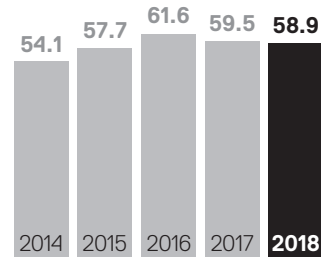
Sales volume
mmbœ



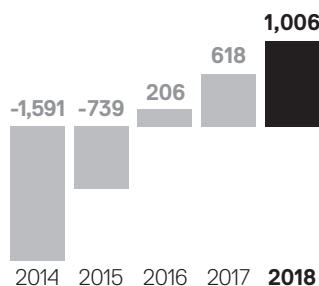
Sales revenue
US\$million



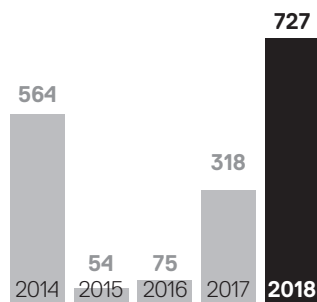
Production
mmbœ



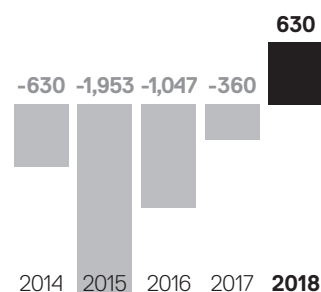
Free cash flow
US\$million



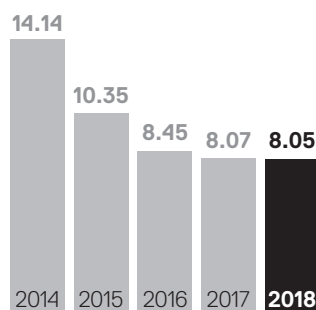
Underlying net profit after tax
US\$million



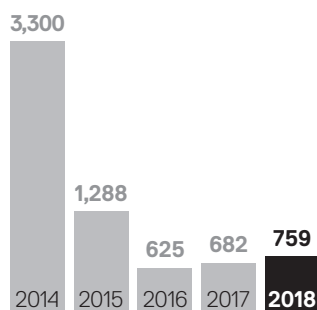
Net profit after tax
US\$million



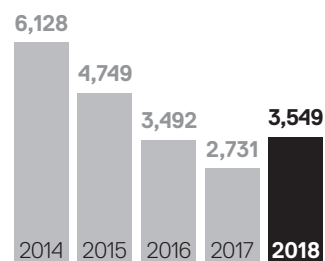
Unit production costs
US\$ per boe



Capital expenditure
US\$million

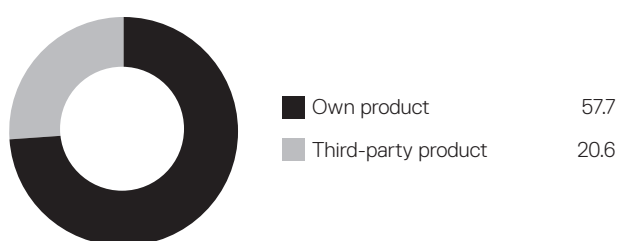


Net debt
US\$million



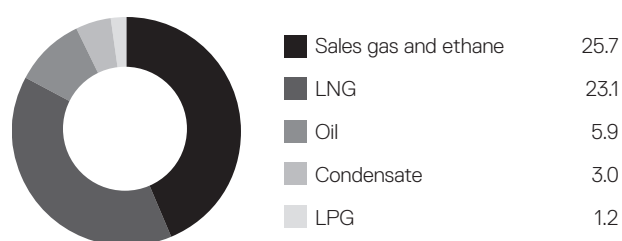
2018 Sales volumes

mmboe



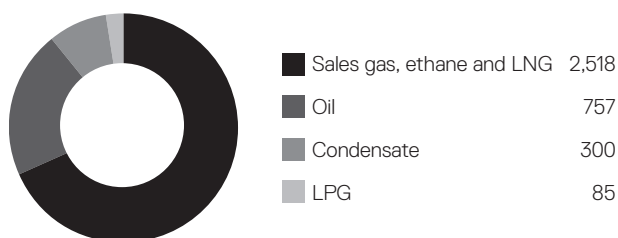
2018 Production

mmboe



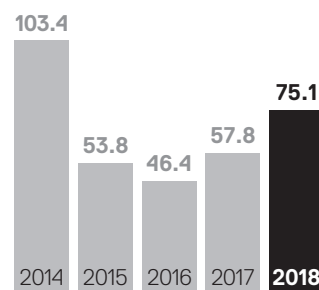
2018 Sales revenue

US\$million



Average realised oil price

US\$ per barrel



2018 Results

		2014	2015	2016	2017	2018
Sales volume	mmboe	63.7	64.3	84.1	83.4	78.3
Production	mmboe	54.1	57.7	61.6	59.5	58.9
Average realised oil price	US\$ per barrel	103.4	53.8	46.4	57.8	75.1
Net profit after tax	US\$million	-630	-1,953	-1,047	-360	630
Underlying net profit after tax	US\$million	564	54	75	318	727
Sales revenue	US\$million	3,641	2,442	2,594	3,100	3,660
Operating cash flow	US\$million	1,633	811	840	1,248	1,578
Free cash flow	US\$million	-1,591	-739	206	618	1,006
EBITDAX	US\$million	2,076	1,454	1,199	1,428	2,160
Total assets	US\$million	18,281	15,949	15,262	13,706	17,134
Earnings per share	US cents	-64.4	-169.5	-58.2	-17.3	30.2
Dividends declared		A\$0.35	A\$0.20	-	-	US\$0.097
Number of employees		3,636	2,946	2,366	2,080	2,190

Message from the Chairman and from the Managing Director and Chief Executive Officer



We are of the firm view that Santos' well-developed strategy, strong management team, highly-skilled workforce and outstanding growth opportunities will deliver superior shareholder value over time.

Dear Shareholder,

Santos today is a safe, low-cost, reliable and high performance business. The successful, ongoing implementation of our Transform, Build, Grow strategy has enabled our Company to generate strong, stable cash flows through the oil price cycle and pay a sustainable dividend. Santos is now positioned to deliver the significant growth across our five core long-life natural gas assets.

Consistent with our disciplined Operating Model, Santos' diversified portfolio of five core assets each generate free cash flow at an oil price of less than US\$40 per barrel. Our focus on low-cost, efficient operations ensures that in a lower oil price environment Santos can continue to fund the Transform, Build, Grow strategy and in a rising oil price environment, benefit from higher margins.

Santos' full-year results serve to highlight the benefits of a diversified portfolio of natural gas assets underpinned by a disciplined, cash generative Operating Model. In 2018 we delivered:

- a 129% increase in underlying net profit after tax to a record \$727 million
- a 63% increase in free cash flow to a record \$1 billion
- an 18% increase in sales revenue to a record \$3.7 billion, and
- dividends of US9.7 cents per share, fully-franked, including a final dividend of US6.2 cents per share.

A strong operating performance across our portfolio of five core assets, including one month's production and sales volumes from our Quadrant Energy acquisition in Western Australia, resulted in sales volumes of 78.3 million barrels of oil equivalent (mmboc) and production of 58.9 mmboc.

With the turnaround complete and the strategy and Operating Model embedded, 2018 marked a significant milestone for the Company whereby we achieved our first full-year net profit after tax since 2013 of \$630 million.

This successful turnaround was also recognised by others in the market when in April we received a proposal from a private equity firm to acquire the business. The Santos Board, however, rejected this offer as it did not represent appropriate value for the Company. In rejecting the bid the Board unanimously deemed the offer price to be too low, the control premium inadequate and the highly-leveraged private equity transaction structure to be complex, high-risk and uncertain.

We are of the firm view that Santos' well-developed strategy, strong management team, highly-skilled workforce and outstanding growth opportunities will deliver superior shareholder value over time.

CAPITAL MANAGEMENT

Since 2016 we have simplified the business, reduced costs, increased efficiencies and delivered on our clear and consistent strategy to Transform, Build and Grow.

During this period we prioritised debt repayment to restore balance sheet strength and position the Company for growth. It was therefore very pleasing in 2018 that we reached our net debt reduction target of \$2 billion more than a year ahead of plan. This milestone gave us the flexibility to not only acquire the low cost, high-margin conventional assets of Quadrant Energy in Western Australia but also, very importantly, announce a return to dividends.

In-line with Santos' stated purpose to provide sustainable returns to our shareholders through the oil price cycle, our new sustainable Dividend Policy targets a payout of free cash flow¹ generated per annum in the range of 10% to 30% as well as additional returns to shareholders above the ordinary dividend when business conditions permit.

PNG EARTHQUAKE

In late February we were deeply saddened by the loss of life and injuries suffered by communities in the Southern Highlands and Hela Provinces of Papua New Guinea as a result of the severe earthquake in the region and numerous aftershocks. Our PNG LNG expertise and resources were deployed to assist the humanitarian relief effort and Santos donated \$200,000 to help provide urgently needed food, water and medical supplies to more than 30,000 people isolated in remote villages.

We would like to thank and acknowledge the efforts of our joint-venture partners,

ExxonMobil and Oil Search, on a coordinated humanitarian relief and recovery program in conjunction with our community partners, aid agencies and the PNG and Australian governments.

The gas plant maintained integrity throughout the earthquake period and there were no releases of hydrocarbons and no significant injuries to personnel. Production was safely resumed within two months of the first earthquake and full rates were achieved by the end of April.

QUADRANT ENERGY ACQUISITION

On 22 August 2018, Santos announced the acquisition of Quadrant Energy in Western Australia for \$2.15 billion. Prior to the acquisition, Santos had enjoyed a long-established joint-venture partner relationship with Quadrant. The acquisition is fully aligned with Santos' Transform, Build, Grow strategy to pursue strategically aligned, value accretive acquisition opportunities – it builds on our existing core Western Australian natural gas assets and brings strong growth potential.

Acquiring Quadrant gives Santos increased ownership and operatorship of a high quality portfolio of low-production cost, long-life Western Australian natural gas and oil assets. Quadrant delivers operatorship of Santos' existing gas hubs in Western Australia, providing flexibility to



optimise operations and positions Santos to capture value from backfill and third-party gas opportunities. Santos knows Quadrant and its assets well. Quadrant has excellent offshore conventional operations experience that Santos can leverage as we grow. Specifically, it strengthens Santos' offshore operating expertise and capabilities to drive growth in our offshore Western Australia and Northern Australian assets.

Quadrant's portfolio also includes a large inventory of discovered resources to backfill existing infrastructure and a leading position in an emerging exploration play in the highly prospective Bedout Basin. This inventory includes the recent significant oil discovery at Dorado which provides near-term development opportunity and the basis for material exploration upside.

OPERATING PERFORMANCE

With a focus on operational excellence we are constantly looking at ways to eliminate waste and inefficiency and set new, higher standards and ways of working.

In Western Australia, production and sales volumes were higher in 2018 due to a strong operating performance and the commencement of two new sales contracts. The acquisition of Quadrant Energy further strengthens the Santos portfolio as the assets are backed by



medium to long-term CPI-linked offtake agreements. As Santos enters a period of major growth project delivery, these agreements provide strong and stable cash flows and provide balance and diversification to Santos' predominantly oil-linked revenues.

In the Cooper Basin our low-cost, efficient operations have not only halted long-term production decline but contributed to 8% production growth in 2018, including our highest daily oil production rates since 2009. Drilling activity increased 40% over the course of the year to 85 wells and a fourth rig was added within the disciplined framework of our Operating Model. A renewed focus on exploration and appraisal remains in place as we seek to commercialise the vast discovered resource that remains undeveloped.

In line with our plans to grow the Cooper Basin, we successfully executed the 'Moomba South' appraisal drilling campaign, the first of several large scale project appraisal programs focused on delivering resource conversion to support future production growth.

With improved capital efficiency, in 2019 we expect to drill ~100 wells, targeting higher production and reserves additions over time. Strong fundamentals in the Cooper Basin continue to support our purpose to supply reliable, affordable and cleaner

¹ Free cash flow is operating cash flow less investing cash flow (including all sustaining capital expenditure, exploration spend and interest payments). The Board will have the discretion to adjust free cash flow for individually material items, including major growth spend (for example, capital expenditure associated with the proposed Barossa development and PNG LNG expansion projects), and asset acquisitions and disposals.

Message from the Chairman and from the Managing Director and Chief Executive Officer

continued



With a focus on operational excellence we are constantly looking at ways to eliminate waste and inefficiency and set new, higher standards and ways of working.

energy to the east coast domestic market and benefit from the strong demand for LNG in Asia.

At GLNG our low-cost, efficient operations continue to support an accelerated development plan to unlock more gas over time. In 2018 we drilled a record 305 wells, 77% higher than 2017. During the year the ~480-well Roma East field development was sanctioned with 121 wells drilled by year-end and the Scotia CF1 field project delivered 85 wells one year ahead of schedule and 16% under budget. The 148-well Arcadia Phase 1 development was also sanctioned during the year with the first wells due to come on-line in the first quarter of 2019. We remain on track to meet our ~6 mtpa annualised sales run-rate, including LNG volumes redirected to the domestic market, by the end of 2019.

In New South Wales we are focused on securing approval of the Narrabri Gas Project to unlock the wealth of this resource for the people of NSW, delivering natural gas to the state's industries and providing jobs, small business opportunities and community investment for the people of the Narrabri region. The Narrabri Gas Project is currently being assessed by the NSW Department of Planning ahead of a decision of the NSW Independent Planning Commission. One hundred per cent of Narrabri gas would go into the domestic market, potentially supplying up to half of NSW natural gas demand, helping to put downward pressure on energy prices.

In Northern Australia, Darwin LNG remains an important and strategic infrastructure project for the future development of onshore and offshore resources. Plant performance in 2018 was again strong with LNG production higher than 2017 despite a one month planned maintenance shutdown. In the upstream, the 3-well Bayu Undan infill program was delivered 40% under budget and the final well was brought on-line over three months ahead schedule. The successful program resulted in higher liquids production and increased offshore well capacity. With the Bayu Undan field expected to cease production early next decade, the Barossa project is being progressed as the lead candidate to backfill Darwin LNG. In 2018 we entered Front End Engineering and Design, with detailed engineering design being advanced across a number fronts. The development of the Barossa project would more than double Santos' production in Northern Australia.

At PNG LNG, plant optimisation activities, including planned upgrades at both the Hides Gas Conditioning Plant and LNG plant, were undertaken during downtime as a result of the earthquake. These upgrades resulted in record daily production rates equivalent to 9.2 mtpa being achieved in the second half of the year.

In May 2018 we announced the sale of our Asian asset portfolio for \$221 million. The sale was consistent with Santos' strategy to realise value from its late-life non-core assets.

RELIABLE, AFFORDABLE AND CLEANER ENERGY SUPPLY

For more than 60 years, Santos has been working in partnership with local communities to safely and sustainably develop Australia's natural gas, now more than ever, the fuel for the future. Between now and 2040, the International Energy Agency expects natural gas to grow to a market share of approximately a quarter of all global energy demand. In Asia, demand continues to grow as countries switch from coal to natural gas to reduce air pollution and greenhouse gas emissions.

Leading the way is China, where air pollution in 62 cities tracked by the World Health Organisation dropped by an average of 30% between 2013 and 2016. Cleaner air (with lower particulates) is being driven by large-scale replacement of coal with gas in industry and household heating. When used for power generation, natural gas is 50% less emissions intensive than coal. China's "Blue Sky Defence" policy will continue to support coal to gas replacement and drive natural gas demand through the 2020s.

In Australia, natural gas is the perfect clean energy partner for renewables, providing reliable power 24/7. In line with our long-term aspirational target to achieve net-zero emissions from our operations by 2050, Santos is actively identifying step-change technologies and pursuing projects to reduce fuel use and emissions.

In 2018 we announced a new program to convert more than 200 oil well pumps in the Cooper Basin to run on solar power and batteries. Using solar power will deliver environmental and commercial benefits by reducing crude oil consumption, long distance fuel haulage and emissions associated with burning crude oil. Also in the Cooper Basin, we announced an appraisal program that could lead to the development of Australia's first commercial-scale use of carbon capture, utilisation and storage (CCUS) for enhanced oil recovery and contribute to a significant reduction in CO₂ emissions.

To find out more about these projects and our approach to climate change, we would encourage you to download our 2019 Climate Change Report, available on our website at www.santos.com/sustainability

Santos remains focused on the delivery of natural gas because we believe it has a critical role to play in delivering clean and reliable energy for Australian households and manufacturers alongside a thriving gas export industry. Our active participation in the domestic wholesale commercial and industrial markets adds to competition and helps to deliver more competitive natural gas prices and terms for Australian industry. In 2018 two new gas sales contracts commenced in Western Australia and three significant new direct-sales agreements were signed with companies on the east coast, further demonstrating our commitment to secure the future of Australian resource and manufacturing jobs.

LOOKING AHEAD

We are excited about the company's future prospects and remain dedicated to providing an inclusive workplace and organisational culture that embraces diversity. In 2019, we will continue to execute our clear and consistent Transform, Build, Grow strategy to deliver a safe, low-cost, reliable and high performance business.

In PNG we will seek to complete the farm-in to the P'nyang acreage, further aligning Santos with our joint-venture partners in the PNG LNG project, and evaluate potential brownfield LNG plant expansion opportunities. In Northern Australia we are working toward the Final Investment Decision in late 2019 / early 2020 on the Barossa project in the Bonaparte Basin to backfill Darwin LNG from around 2023. In onshore Australia we will continue to implement our development plans as we target ramping-up GLNG sales to ~6 mtpa by 2019 year-end. In the Cooper Basin we will leverage our strong technical expertise and subsurface focus to drill ~100 wells. In Western Australia we will continue to realise significant synergies following the acquisition of Quadrant Energy and will appraise the exciting Dorado oil discovery in the Bedout Basin.

In addition, our renewed exploration focus will see the drilling of the Roc South-1 near field exploration well adjacent the Dorado well, offshore Western Australia, the Dukas-1 wildcat well in the Amadeus Basin, central Australia, and a 2-well

program in the McArthur Basin, onshore Northern Territory, to test the deliverability of the largest and most promising shale gas opportunity in Australia, subject to regulatory approval.

Finally, we would like to thank you, our shareholders for your ongoing support. Santos is now positioned for disciplined growth across each of our five core long-life natural gas assets as we target production of more than 100 mmboe by 2025, almost double the levels in 2018.

Yours sincerely,



KEITH SPENCE
Chairman



KEVIN GALLAGHER
Managing Director and Chief Executive Officer

Board of Directors



KEITH SPENCE

Chairman

BSc (First Class Honours in Geophysics), FAIM

Mr Spence is an independent non-executive Director. He joined the Board on 1 January 2018 and became Chairman on 19 February 2018. He is Chairman of Santos Finance Limited and Chair of the Nomination Committee.

Mr Spence has over 40 years' experience in managing and governing oil and gas operations in Australia, Papua New Guinea, the Netherlands and Africa.

A geologist and geophysicist by training, Mr Spence commenced his career as an exploration geologist with Woodside Petroleum Limited in 1977. He subsequently joined Shell (Development) Australia, where he worked for 18 years. In 1994 he was seconded to Woodside to lead the North West Shelf Exploration team. In 1998, he left Shell to join Woodside. He retired from Woodside in 2008 after a 14-year tenure in top executive positions in the company. He has expertise in exploration and appraisal, development, project construction, operations and marketing.

Upon his retirement he took up several board positions, working in oil and gas, energy, mining, and engineering and construction services and renewable energy. This included Clough Limited, where he served as Chairman from 2010 to 2013, Geodynamics Limited where he served as a non-executive Director from 2008 to 2016 (including as Chairman from 2010 to 2016) and Oil Search Limited, where he served as a non-executive Director from 2012 to 2017. Mr Spence is also a past Chair of the National Offshore Petroleum Safety and Environmental Management Authority Board and led the Commonwealth Government's Carbon Storage Taskforce.

Other Current Directorships:

Chairman of Base Resources Limited (since 2015); Non-executive Director of Independence Group NL (since 2014) and Murray and Roberts Holdings Limited (since 2015).

Former Directorships in the last

3 years: Oil Search Limited (2012 to 2017)



KEVIN GALLAGHER

Managing Director and Chief Executive Officer

BEng (Mechanical) Hons, FIEAust

Mr Gallagher joined Santos as Managing Director and Chief Executive Officer on 1 February 2016, bringing more than 25 years' international experience in managing oil and gas operations. Mr Gallagher is a member of the Environment, Health, Safety and Sustainability Committee and is also a Director of Santos Finance Limited.

Mr Gallagher commenced his career as a drilling engineer with Mobil North Sea, before joining Woodside in Australia in 1998.

At Woodside, Mr Gallagher led the drilling organisation through rapid growth, delivering several Australian and international development projects and exploration campaigns, before leading the Australian oil business. Then, as CEO of the North West Shelf Venture, he was responsible for production from Australia's first ever LNG project, which underpinned a new domestic gas market, fuelling the mining sector and other industries in Western Australia.

In 2011 Mr Gallagher joined Clough Limited as CEO and Managing Director where, over four years, he transformed the business and delivered record financial results. He oversaw the development of innovative programs to improve safety and drive productivity and executed an international expansion strategy.

Since joining Santos with a strong track record in transforming underperforming operations, Mr Gallagher has restructured the company and implemented a disciplined low-cost operating model. He has significantly strengthened the balance sheet, improved production and financial performance, and positioned the company on a sustainable growth trajectory. Under Mr Gallagher's leadership, Santos is focussed on a long-life portfolio of natural gas assets with some exciting oil and liquids opportunities, and is well positioned with strong cash flows to fund debt reduction, sustaining capital, growth, exploration, and sustainable returns to shareholders throughout the oil price cycle.

Other Current Directorships: Nil

Former Directorships in the last 3 years: Nil



YASMIN ALLEN

BCom FAICD

Ms Allen is an independent non-executive Director. She joined the Board on 22 October 2014 and is the Chair of the People and Remuneration Committee and a member of the Audit and Risk Committee and Nomination Committee.

Ms Allen has extensive experience in finance and investment banking, including senior roles at Deutsche Bank AG, ANZ and HSBC Group Plc, as former Chairman of Macquarie Global Infrastructure Funds, and a former Director of EFIC (Export, Finance and Insurance Corporation). Ms Allen was appointed a member of the Australian Government Takeovers Panel in March 2017, is a member (and former Council member) of Chief Executive Women and a former non-executive Director of Insurance Australia Group (2004 to 2015).

Other Current Directorships:

Director of Cochlear Limited (since 2010), National Portrait Gallery (since 2013), The George Institute for Global Health (since 2014), ASX Limited and ASX Clearing and Settlement boards (since 2015) and Chair of Advance (since 2018).

Former Directorships in the last

3 years: National Director (2010 to 2016) and acting Chair (2015 to 2016) of the Australian Institute of Company Directors.



GUY COWAN

BSc (Hons), Engineering, FCA (UK) MAICD

Mr Cowan is an independent non-executive Director. He joined the Board on 10 May 2016 and is the Chair of the Audit and Risk Committee and a Director of Santos Finance Limited.

Mr Cowan had a 23-year career with Shell International in various senior commercial and financial roles. His last two roles were as CFO and Director of Shell Oil US and CFO of Shell Nigeria. He was CFO of Fonterra Co-operative Limited between 2005 and 2009. Mr Cowan was a Director of Ludowici Limited (2009 to 2012) where he chaired the Audit and Risk Committee and was also a Shell appointed alternative Director of Woodside between 1992 and 1995.

Other Current Directorships:

Chairman of Queensland Sugar Limited (since 2015) and Buderim Ginger Limited (since 2018) and Director of Winson Group Pty Ltd (since 2014).

Former Directorships in the

last 3 years: Director of UGL Limited (2008 to 2017) and Coffey International (2012 to 2016).



HOCK GOH

BEng (Hons) Mech Eng

Mr Goh is an independent non-executive Director. He joined the Board on 22 October 2012 and is a member of the Environment, Health, Safety and Sustainability Committee, Audit and Risk Committee and Nomination Committee.

Mr Goh has more than 35 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. He previously held managerial and staff positions in Asia, the Middle East and Europe. Mr Goh commenced his career as a field engineer on the rigs in Indonesia and subsequently in Roma and Sale in Australia. Mr Goh is a former Operating Partner of Baird Capital Partners Asia, based in China, (2007 to 2012) and non-executive Director of Xaloy Holding Inc in the US (2006 to 2008) and BPH Energy Ltd (2007 to 2015).

Other Current Directorships:

Non-executive Director of Stora Enso Oyj (Finland) (since 2012), AB SKF (Sweden) (since 2014) and Vesuvius PLC (UK) (since 2015).

Former Directorships in the last

3 years: Chairman of MEC Resources (2005 to 2018) and Director of Harbour Energy (2015 to 2018).



DR VANESSA GUTHRIE

Hon DSc, PhD, BSc (Hons)

Dr Guthrie is an independent non-executive Director. She joined the Board on 1 July 2017 and is a member of the People and Remuneration Committee and Environment, Health, Safety and Sustainability Committee.

Dr Guthrie has more than 30 years' experience in the resources sector in diverse roles such as operations, environment, community and indigenous affairs, corporate development and sustainability.

She has qualifications in geology, environment, law and business management including a PhD in Geology. She was awarded an Honorary Doctor of Science from Curtin University in 2017 for her contribution to sustainability, innovation and policy leadership in the resources industry. She is an active member of the Australian Institute of Company Directors and Chief Executive Women, and a Fellow of the Australian Academy of Technological Sciences and Engineering.

Other Current Directorships:

Director of Australian Broadcasting Corporation (since 2017) and Adelaide Brighton Limited (since 2018), Chair of Minerals Council of Australia, Deputy Chair of Western Australian Cricket Association, Council member of Curtin University.

Former Directorship in the last

3 years: Managing Director and CEO of Toro Energy Limited (2013 to 2016), Director of Vimy Resources Limited (October 2017 to November 2018).



PETER HEARL

BCom. (UNSW With Merit), FAICD

Mr Hearl is an independent non-executive Director. He joined the Board on 10 May 2016 and is Chair of the Environment, Health, Safety and Sustainability Committee, a member of the People and Remuneration Committee and the Nomination Committee; having earlier served on the Company's Audit and Risk Committee.

During an 18-year career in the oil industry with Exxon in Australia and the USA, he held a variety of senior marketing, operations, logistics and strategic planning positions. Mr Hearl joined YUM Brands (formerly PepsiCo) as KFC Australia's Director of Operations in 1991 and subsequently had several senior international leadership roles as well as being President of Pizza Hut USA, before assuming the global role of YUM Brands' Chief Operations and Development Officer in 2006, based in Dallas, Texas and Louisville, Kentucky, and from where he retired in 2008.

Other Current Directorships:

Director of Telstra Limited (since 2014) and Member of Investment Committee of the Stepping Stone Foundation, a Sydney based NFP (since 2018).

Former Directorships in the last

3 years: Director of Treasury Wine Estates (2012 to 2017).



EUGENE SHI

MBA in International Business

Mr Shi is a non-executive Director. He joined the Board on 26 June 2017 as a nominee of a substantial shareholder. Mr Shi is a member of the People and Remuneration Committee and the Audit and Risk Committee.

Mr Shi has more than 20 years of professional experience, including five years in management consultancy and 15 years in senior management roles. His industry experience covers energy, health care, retail and finance in Europe and Asia-Pacific. His specialties include M&A and restructuring, strategy, value management, and cost optimisation.

Mr Shi has held the role of Vice President, ENN Ecological since February 2017. His previous roles include Department Head of Business Performance Service with KPMG China and Transformation Service with KPMG Europe.

Other Current Directorships: Nil.

Former Directorships in the last 3 years: Nil.

COMMITTEES OF THE BOARD

Audit and Risk Committee

Mr G Cowan (Chair)
Ms Y Allen
Mr H Goh
Mr E Shi

Nomination Committee

Mr K Spence (Chair)
Ms Y Allen
Mr H Goh
Mr P Hearl

People and Remuneration Committee

Ms Y Allen (Chair)
Dr V Guthrie
Mr P Hearl
Mr E Shi

Environment, Health, Safety and Sustainability Committee

Mr P Hearl (Chair)
Mr K Gallagher
Mr H Goh
Dr V Guthrie

Santos Executive Committee



KEVIN GALLAGHER

Managing Director and Chief Executive Officer

Mr Gallagher's biography can be read on page 8.



DAVID BANKS

Executive Vice President Onshore Upstream

BE (Hons), MBA, GAICD

Mr Banks joined Santos in 2018 and is responsible for Santos' onshore upstream business.

Mr Banks has over 25 years' international and domestic experience in the upstream oil and gas industry. He started his career with Schlumberger in south-east Asia before joining BHP in Australia in 1994. Whilst at BHP, Mr Banks' roles included operational, technical and functional leadership roles including General Manager Shale Oil, Vice President HSE, Vice President Shale Drilling and Completion and Bass Strait Asset Manager. Beyond business and function leadership, Mr Banks led BHP's Petroleum Transformation and was Integration Manager for US shale assets.



PHILIP BYRNE

Executive Vice President Marketing, Trading and Commercial

MA (Natural Science), MSc, DIC (Petroleum Geology)

Mr Byrne joined Santos in August 2017 and has responsibility for the marketing and trading of all of Santos gas, LNG and liquid hydrocarbon products as well as the commercial function.

Mr Byrne has over 35 years' experience in the international oil and gas industry, starting his career as a Petroleum Geologist in the North Sea with Hamilton Brothers Oil & Gas. He subsequently spent 14 years with the BG Group in senior commercial and exploration leadership roles in the UK, Europe, Tunisia and India. He spent a further seven years with BHP Petroleum including General Manager Pakistan, President Gas Marketing Asia/Australia, and Country Manager Petroleum Australia. Mr Byrne was then seconded as President of the North West Shelf Australia LNG organisation, which is the marketing arm of the North West Shelf LNG project.

Most recently, Mr Byrne was Managing Director and Chief Executive Officer of Nido Petroleum, an ASX listed company with oil production and exploration acreage in the Philippines.



BRETT DARLEY

Executive Vice President Offshore

BEng (Civil), SPE

Mr Darley joined Santos in December 2018. He has more than 28 years' experience in the upstream oil and gas industry, both in Australia and overseas, with technical, operational, commercial and management experience across varied assets, onshore and offshore.

Before moving to Santos, Mr Darley held senior leadership roles including Chief Executive Officer of Quadrant Energy, Managing Director and Region Vice President for Apache Energy Limited, Vice President of Drilling and Completions at Woodside Energy and Drilling Manager at Santos.

Mr Darley holds a Bachelor of Civil Engineering degree from the University of Queensland and is a Chartered Engineer. He is a current member of the Curtin Business School Advisory Council, an elected member of the General Council of the Chamber of Commerce and Industry of WA, and a member of the Society of Petroleum Engineers (SPE).



ANGUS JAFFRAY

Executive Vice President People and Sustainability

BA (Hons) Geography, MBA

Mr Jaffray joined Santos in 2016 and is responsible for Human Resources, Remuneration and Performance, Organisational and Learning Development, Sustainability and Organisational Integration.

He previously held the roles of Executive Vice President Organisational Integration and Executive Vice President Strategy, Business Development & Technology.

Mr Jaffray has over 20 years' of leadership and consulting experience as a Director of Azure Consulting, a Partner at The Boston Consulting Group and a Supply Chain Manager with the global packaging group Crown Cork and Seal.

At Azure Consulting Mr Jaffray supported companies in developing strategy and driving organisational change. At BCG Angus set up the Perth office, led the Australian Operations practice and was a core member of both the Mining & Metals practice and the Energy Practice. As a Supply Chain Manager Mr Jaffray was accountable for procurement, planning, logistics and product delivery.



NAOMI JAMES

Executive Vice President Midstream Infrastructure

LLB (Hons), MLM

Ms James joined Santos in 2016 and is responsible for maximising the utilisation and value of Santos' midstream infrastructure, including oil and gas processing facilities at Moomba and Port Bonython and LNG facilities in the GLNG and DLNG projects.

Previously Ms James was Executive Vice President EHS and Governance, with responsibility for Santos' risk and audit, legal, company secretary, sustainability, safety, environment and access functions.

Prior to joining Santos, Ms James held a range of functional and line leadership roles with Arrium including Chief Executive of the Group's non-integrated steel businesses, Chief Legal Officer and Chief Executive, Strategy, leading major acquisitions and divestments, business restructuring and turnaround and the legal, company secretary, government affairs and strategy functions.

Ms James has previously worked in private practice at law firms in Australia and the UK.

ANTHONY NEILSON

Chief Financial Officer

BComm, MBA, FFin, FACA

Mr Neilson joined Santos as Chief Financial Officer in 2016, and is responsible for the finance, tax, treasury, planning, business development, investor relations and IT functions. He brings over 20 years' experience in chartered accounting, banking and corporate financial roles including 15 years' experience in the upstream and downstream oil and gas industry.

Prior to joining Santos, Mr Neilson was CEO of Roc Oil Company Limited (ROC), which was acquired in 2014 by Hong Kong-listed investor Fosun International Limited. Previously, Mr Neilson was Chief Financial Officer of ROC (ASX listed) and has held commercial, finance and business services roles at Caltex Australia, Credit Suisse First Boston (London) and Arthur Andersen (Sydney).

Mr Neilson holds a Masters of Business Administration from AGSM and is a Fellow of the Financial Services Institute of Australasia and a Fellow of Chartered Accountants Australia and New Zealand.

BILL OVENDEN

Executive Vice President Exploration and New Ventures

BSc (Hons) Geology and Geophysics

Mr Ovenden joined Santos in 2002, and is accountable for developing and executing a targeted exploration and appraisal strategy across Santos' core asset hubs, while identifying new high-value exploration targets.

Mr Ovenden is a geologist with over 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 Sun Oil, Kufpec, ExxonMobil and Ampoex. He joined Santos after working for ExxonMobil in Indonesia. Mr Ovenden is a member of the APPEA Exploration Committee.

VINCE SANTOSTEFANO

Chief Operations Officer Operations Services

BEng (Civil), SPE

Mr Santostefano joined Santos in March of 2016 and is responsible for the provision of technical and operational services to increase the scale and strategic value of Santos' assets.

Mr Santostefano retired from Woodside Energy in November 2013 as Chief Operating Officer. As COO he was responsible for Woodside's producing business units; the Production Function including 6 LNG trains with associated offshore infrastructure, four FPSOs, the Marine Division and the Brownfields Projects Group. During 2014 and 2015, Mr Santostefano was engaged in Board work as a non-executive Director and various management-consulting assignments. Mr Santostefano has a deep and respected knowledge of the industry, with significant experience in onshore and offshore operations and asset management. He has a proven capability to manage a demanding workload and to drive cultural change.

BRETT WOODS

Executive Vice President Developments

BSc (Hons) Geology and Geophysics

Mr Woods joined Santos in February 2013 and is accountable for Development across Santos' onshore and offshore assets, including major capital projects, drilling and completions, and reservoir development, as well as Energy Solutions and Technology and overseeing Santos' joint venture in PNG LNG.

At Santos, Mr Woods has previously held the roles of Executive Vice President Onshore Upstream, and Vice President, Eastern Australia. Mr Woods has held other roles within Santos including responsibilities for exploration in Western Australia and the Northern Territory, leading the Western Australian offshore operations including development of Fletcher Finucane, Darwin LNG and the domestic gas business.

Mr Woods has over 24 years of oil and gas industry experience including senior management, technical and business development roles at Woodside Energy and as CEO and Managing Director of Rialto Energy. He has a track record of delivering projects and efficient E&P operations and has both domestic and international experience. Mr Woods is a graduate of the Harvard Business School Advanced Management Program, an APPEA Board Director and Chairman of the APPEA Exploration Committee.

Reserves Statement

for the year ended 31 December 2018

RESERVES AND RESOURCES

Proved plus probable (2P) reserves increased by 20% to 1,022 million barrels of oil equivalent (mmboe) at the end of 2018, the highest level in four years. The 2P reserves replacement ratio was 395%.

Net acquisitions and divestments added 192 mmboe during the year, primarily due to the acquisition of Quadrant Energy partially offset by the sale of the non-core Asian assets.

Successful appraisal and development activity added 41 mmboe to 2P reserves during the year, primarily in the Cooper Basin, Queensland and Western Australia.

2C contingent resources increased to 1.8 billion barrels of oil equivalent due to the acquisition of Quadrant Energy accompanied by exploration and appraisal success in the Cooper Basin and Papua New Guinea.

RESERVES AND 2C CONTINGENT RESOURCES (SANTOS SHARE AS AT 31 DECEMBER)

Santos share	Unit	2018	2017	% change
Proved reserves	mmboe	586	470	25
Proved plus probable reserves	mmboe	1,022	848	20
2C contingent resources	mmboe	1,800	1,589	13

RESERVES AND 2C CONTINGENT RESOURCES BY PRODUCT (SANTOS SHARE AS AT 31 DECEMBER 2018)

Santos share	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	Total mmboe
Proved reserves	3,123	23	23	562	586
Proved plus probable reserves	5,408	45	39	1,259	1,022
2C contingent resources	9,055	116	116	2,281	1,800

KEY METRICS

Annual proved reserves replacement ratio	298%
Annual proved plus probable reserves replacement ratio	395%
Two-year proved plus probable reserves replacement ratio	213%
Organic annual proved plus probable reserves replacement ratio	69%
Organic two-year proved plus probable reserves replacement ratio	66%
Developed proved plus probable reserves as a proportion of total reserves	57%
Reserves life ¹	14 years

¹ 2P reserves life as at 31 December 2018 using proforma 2018 Santos and Quadrant Energy production of 75 mmboe.

PROVED RESERVES

Santos share as at 31 December 2018

Asset	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmbbl		Total
					Developed	Undeveloped	
Cooper Basin	287	8	4	523	47	18	65
Queensland and NSW ¹	799	-	-	-	103	34	137
PNG	832	0	9	-	98	53	152
Northern Australia	28	-	1	39	6	-	6
Western Australia	1,177	15	9	-	154	72	226
Total 1P	3,123	23	23	562	408	178	586
Percentage of total proved reserves that are unconventional							24%

¹ Queensland proved sales gas reserves include 642 PJ GLNG and 157 PJ other Santos non-operated Eastern Queensland assets.

Proved reserves reconciliation

Product	Unit	2017	Production	Revisions and extensions	Net acquisitions and divestments	2018
Sales gas	PJ	2,491	(284)	201	714	3,123
Crude oil	mmbbl	18	(6)	9	1	23
Condensate	mmbbl	20	(3)	1	5	23
LPG	000 tonnes	577	(146)	131	-	562
Total 1P	mmbbl	470	(59)	46	129	586

Reserves Statement

for the year ended 31 December 2018

PROVED PLUS PROBABLE RESERVES

Santos share as at 31 December 2018

Asset	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe		Total
					Developed	Undeveloped	
Cooper Basin	601	18	9	1,186	98	41	139
Queensland and NSW ¹	1,906	-	-	-	103	225	328
PNG	1,176	0	14	-	141	75	215
Northern Australia	41	-	1	73	9	-	9
Western Australia	1,685	27	15	-	235	95	331
Total 2P	5,408	45	39	1,259	586	436	1,022

Percentage of total proved plus probable reserves that are unconventional 32%

¹ Queensland proved plus probable sales gas reserves include 1,463 PJ GLNG and 443 PJ other Santos non-operated Eastern Queensland assets.

Proved plus probable reserves reconciliation

Product	Unit	2017	Production	Revisions and extensions	Net acquisitions and divestments	2018
Sales gas	PJ	4,496	(284)	162	1,034	5,408
Crude oil	mmbbl	33	(6)	11	6	45
Condensate	mmbbl	33	(3)	1	9	39
LPG	000 tonnes	1,302	(146)	103	-	1,259
Total 2P	mmboe	848	(59)	41	192	1,022

2C CONTINGENT RESOURCES

Santos share as at 31 December 2018

Asset	Sales gas PJ	Crude oil mmbbl	Condensate mmbbl	LPG 000 tonnes	All products mmboe
Cooper Basin	1,355	29	19	2,281	299
Queensland and NSW	2,572	0	0	-	442
PNG	419	-	3	-	75
Northern Australia	2,934	-	41	-	543
Western Australia	1,775	87	53	-	442
Total 2C	9,055	116	116	2,281	1,800

2C Contingent resources reconciliation

Product	2017	Production	Revisions and extensions ¹	Discoveries	Net acquisitions and divestments	2018
Total 2C (mmboe)	1,589	-	(141)	59	294	1,800

¹ Includes 31 mmboe of 2C contingent resources commercialised to 2P reserves in 2018.

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 14 of this Reserves Statement. Details of each qualified petroleum reserves and resources evaluator's employment and professional organisation membership are set out in note 14 of this reserves statement; and
 - b. as a whole has been approved by Barbara Pribyl, who is a qualified petroleum reserves and resources evaluator and whose employment and professional organisation membership details are set out in note 14 of this reserves statement; and
 - c. is issued with the prior written consent of Barbara Pribyl as to the form and context in which the estimated petroleum reserves and contingent resources and the supporting information are presented.
2. The estimates of petroleum reserves and contingent resources contained in this reserves statement are as at 31 December 2018.
3. Santos prepares its petroleum reserves and contingent resources estimates in accordance with the 2007 Petroleum Resources Management System (PRMS) sponsored by the Society of Petroleum Engineers (SPE).
4. This reserves statement is subject to risk factors associated with the oil and gas industry. It is believed that the expectations of petroleum reserves and contingent resources reflected in this statement are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, geotechnical factors, drilling and production results, gas commercialisation, development progress, operating results, engineering estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial markets conditions in various countries, approvals and cost estimates.
5. 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 Policy which is 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 and externally audited.
6. Santos engages independent experts Gaffney, Cline & Associates (GCA), Netherland, Sewell & Associates, Inc. (NSAI) and RISC Advisory Pty Ltd (RISC) 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 2018 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 2018.
7. Unless otherwise stated, all references to petroleum reserves and contingent resources quantities in this reserves statement are Santos' net share.
8. 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.

9. 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.
10. Petroleum reserves and contingent resources are typically prepared by deterministic methods with support from probabilistic methods.
11. 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.
12. Petroleum reserves replacement ratio is the ratio of the change in petroleum reserves (excluding production) divided by production. Organic reserves replacement ratio excludes net acquisitions and divestments.
13. 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 "-".
14. Qualified petroleum reserves and resources evaluators:

Name	Employer	Professional organisation
B Pribyl	Santos Ltd	SPE
M Laurent	Santos Ltd	SPE
B Camac	Santos Ltd	SPE, PESA
E Klettke	Santos Ltd	SPE, APEGA
N Pink	Santos Ltd	SPE
S Lawton	Santos Ltd	SPE
C Harwood	Santos Ltd	PESA, AAPG
D Smith	NSAI	SPE
P Stephenson	RISC	SPE

SPE: Society of Petroleum Engineers

APEGA: The Association of Professional Engineers and Geoscientists of Alberta

PESA: Petroleum Exploration Society of Australia

AAPG: American Association of Petroleum Geologists

Abbreviations and conversion factors

Abbreviations

1P	proved reserves
2P	proved plus probable reserves
GJ	gigajoules
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mmbbl	million barrels
mmboe	million barrels of oil equivalent
NGLs	natural gas liquids
PJ	petajoules
tcf	trillion cubic feet
TJ	terajoules

Conversion factors

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

Directors' Report

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 2018, and the Auditor's Report thereon. Information in the Annual Report referred to in this report, including the Remuneration Report, or contained in a note to the financial statements referred to in this report, forms part of, and is to be read as part of, this report.

DIRECTORS, DIRECTORS' SHAREHOLDINGS AND DIRECTORS' MEETINGS

Directors and Directors' Shareholdings

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

Surname	Other Names	Shareholdings in Santos Limited
Allen	Yasmin Anita	48,883
Cowan	Guy Michael	25,000
Gallagher	Kevin Thomas	619,563
Goh	Hock	67,215
Guthrie	Vanessa Ann	5,000
Hearl	Peter Roland	48,808
Shi	Eugene	-
Spence	Keith William (Chairman)	65,000

The above-named Directors held office during the financial year. Mr Keith Spence was appointed as a Director on 1 January 2018, and as Chairman on 19 February 2018. Mr Peter Coates was a Director and Chairman until his retirement on 19 February 2018. 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 Gallagher holds 2,093,144 share acquisition rights (SARs) and 93,735 Restricted Deferred Shares. No other Director holds options or SARs.

Details of the qualifications, experience and special responsibilities of each Director are set out in the Directors' biographies on pages 8 and 9 of this Annual Report. This information includes details of other listed company directorships held during the last three years.

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 & Risk Committee	Environment Health, Safety & Sustainability Committee	People & Remuneration Committee	Nomination Committee
		Attended/Held ¹	Attended/Held ¹	Attended/Held ¹	Attended/Held ¹	Attended/Held ¹
Allen	Yasmin A.	16 of 17	3 of 4	n/a	3 of 4	3 of 3
Coates ²	Peter R.	n/a	1 of 1	n/a	n/a	n/a
Cowan	Guy M.	16 of 17	4 of 4	n/a	n/a	n/a
Gallagher	Kevin T.	17 of 17	n/a	4 of 4	n/a	n/a
Goh ³	Hock	11 of 17	3 of 4	3 of 4	n/a	2 of 3
Guthrie ⁴	Vanessa A.	17 of 17	n/a	4 of 4	3 of 3	n/a
Hearl	Peter R.	17 of 17	n/a	4 of 4	4 of 4	3 of 3
Shi ⁵	Eugene	8 of 17	3 of 4	n/a	3 of 4	n/a
Spence	Keith W.	17 of 17	n/a	n/a	n/a	3 of 3

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

2 Mr P Coates retired from the Board on 19 February 2018.

3 Mr H Goh was on a leave of absence until early March 2018 due to a conflict of interest arising from his position as a Director of Harbour Energy. Mr Goh resigned from the Board of Harbour Energy effective 2 March 2018.

4 Dr VA Guthrie was appointed as a member of the People and Remuneration Committee on 30 March 2018.

5 Mr Shi did not attend Board meetings related to the Harbour Energy proposal due to a conflict of interest arising from his role at ENN.

Directors' Report

continued

OPERATING AND FINANCIAL REVIEW

Santos' principal activities during 2018 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.

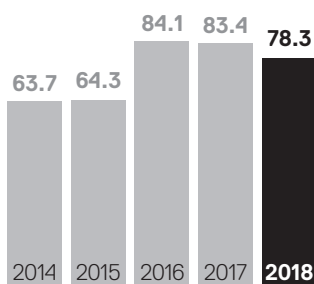
A review of the operations and of the results of those operations of the consolidated entity during the year is as follows:

Summary of results table

	2018	2017	Variance
	mmboe	mmboe	%
Production volume	58.9	59.5	(1)
Sales volume	78.3	83.4	(6)
	US\$million	US\$million	
Product sales	3,660	3,100	18
EBITDAX ¹	2,160	1,428	51
Exploration and evaluation expensed	(105)	(94)	12
Depreciation and depletion	(667)	(742)	(10)
Net impairment loss	(100)	(938)	(89)
Change in future restoration assumptions	46	31	48
EBIT ¹	1,334	(315)	523
Net finance costs	(228)	(270)	(16)
Taxation (expense)/benefit	(476)	225	312
Net profit/(loss) for the period and attributable to equity holders of Santos Limited	630	(360)	275
Underlying profit for the period ¹	727	318	129
Underlying earnings per share (cents) ¹	34.9	15.3	128

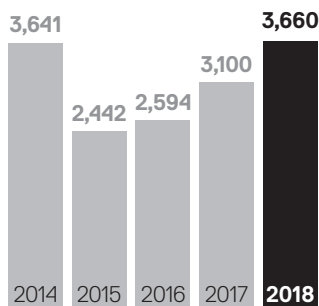
¹ EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations. Underlying 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 22 for the reconciliation from net loss to underlying profit for the period. Underlying earnings per share represents underlying profit for the period divided by the weighted average number of shares on issue during the year. The non-IFRS financial information is unaudited, however the numbers have been extracted from the audited financial statements.

Sales volume



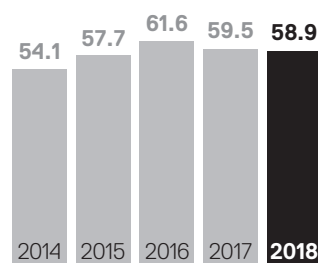
Sales volumes of 78.3 million barrels of oil equivalent (mmboe) were 6% lower than the previous year primarily due to lower third-party volumes, lower LNG volumes due to the PNG earthquake, and the sale of Santos' non-core Asian assets.

Product sales revenue



Sales revenue increased 18% compared to the previous year to \$3.7 billion, primarily due to higher oil and LNG prices partially offset by lower sales volumes. The average realised oil price increased 30% to US\$75/bbl and the average realised LNG price increased 36% to US\$10.08/mmBtu.

Production volume



Production was 1% lower than the previous year primarily due to the PNG earthquake and sale of the non-core Asian assets (which reduced production by approximately 4 mmboe in aggregate), partially offset by higher production in the Cooper Basin and Queensland, and the acquisition of Quadrant Energy.

Review of Operations

Santos' operations are focused on five core, long-life natural gas assets: Cooper Basin, Queensland & NSW, Papua New Guinea, Northern Australia and Western Australia.

Cooper Basin

The Cooper Basin produces natural gas, gas liquids and crude oil. Gas is sold primarily to domestic retailers, industry and for the production of liquefied natural gas, while gas liquids and crude oil are sold in domestic and export markets.

Santos' strategy in the Cooper Basin is to deliver future production growth by being a low-cost business, increasing reserves, investing in new technology to lower development and exploration costs, and increasing utilisation of infrastructure including the Moomba plant.

Cooper Basin	2018	2017
Production (mmboe)	15.5	14.4
Sales volume (mmboe)	21.6	21.0
Revenue (US\$m)	1,146	851
Production cost (US\$/boe)	8.17	9.31
EBITDAX (US\$m)	518	329
Capex (US\$m)	245	198

Cooper Basin EBITDAX was \$518 million, 57% higher than 2017 primarily due to higher sales revenue impacted by higher oil prices, in addition to lower production costs resulting from cost efficiencies.

Santos' share of Cooper Basin sales gas and ethane production of 60.6 petajoules (PJ) was 4% higher than the previous year (58.4 PJ) as new development activity more than offset the impact of natural field decline.

Queensland & NSW

GLNG produces liquefied natural gas (LNG) for export to global markets from the LNG plant at Gladstone. Gas is also sold into the domestic market. Santos has a 30% interest in GLNG.

The LNG plant has two LNG trains with a combined nameplate capacity of 7.8 mtpa. Production from Train 1 commenced in September 2015 and Train 2 in May 2016. Feed gas is sourced from GLNG's upstream fields, Santos portfolio gas and third-party suppliers.

The LNG plant produced 4.8 million tonnes of LNG in 2018 and shipped 80 cargoes. Annual LNG production was lower than the previous year (5.4 million tonnes) as the GLNG joint venture partners diverted gas originally slated for export to the domestic market.

Santos aims to build GLNG gas supply through upstream development, seek opportunities to extract value from existing infrastructure and drive efficiencies to operate at lowest cost.

Queensland and NSW	2018	2017
Production (mmboe)	12.2	11.7
Sales volume (mmboe)	22.0	22.6
Revenue (US\$m)	1,016	769
Production cost (US\$/boe)	5.77	5.81
EBITDAX (US\$m)	570	322
Capex (US\$m)	244	190

Queensland and NSW EBITDAX of \$570 million increased 77% compared to 2017. This was a result of higher sales revenue reflecting the ramp-up of upstream production and higher LNG prices and lower costs.

Directors' Report

continued

Papua New Guinea

Santos' business in PNG is centred on the PNG LNG project. Completed in 2014, PNG LNG produces LNG for export to global markets, as well as sales gas and gas liquids. Santos has a 13.5% interest in PNG LNG.

The LNG plant near Port Moresby has two LNG trains with the combined capacity to produce more than eight million tonnes per annum. Production from both trains commenced in 2014.

PNG LNG production and sales were significantly impacted by a severe earthquake that struck the PNG Highlands region in February 2018. PNG LNG was safely shut-in and there were no releases of hydrocarbons or significant injuries to personnel. Production recommenced in April and resumed full rates in May.

The LNG plant produced 7.4 million tonnes of LNG in 2018 and shipped 98 cargoes. Annual LNG production was lower than the previous year (8.3 million tonnes) due to the earthquake.

Santos' strategy in PNG is to work with its partners to align interests, and support and participate in backfill and expansion opportunities at PNG LNG. Santos, along with the other PNG LNG parties, are in discussions to build alignment for the proposed construction of three additional LNG trains at the PNG LNG site, one for the PNG LNG project (Santos 13.5% interest) and two for the Papua LNG project (in which Santos does not have an equity interest). Santos expects to earn an access fee from the Papua LNG project for use of existing PNG LNG infrastructure. Santos is also in discussions regarding a proposal received for Santos to farm-in to PRL 3 which contains the multi-tcf P'nyang field.

PNG	2018	2017
Production (mmbœ)	11.2	12.6
Sales volume (mmbœ)	10.8	12.0
Revenue (US\$m)	630	534
Production cost (US\$/boe)	6.23	4.37
EBITDAX (US\$m)	506	432
Capex (US\$m)	39	32

PNG EBITDAX of \$506 million increased 17% compared to 2017, mainly due to higher LNG prices.

Northern Australia

Santos' business in Northern Australia is focused on the Bayu-Undan/Darwin LNG (DLNG) project. In operation since 2006, DLNG produces LNG and gas liquids for export to global markets. Santos has an 11.5% interest in DLNG.

The LNG plant near Darwin has a single LNG train with a nameplate capacity of 3.7 mtpa. The plant produced 3.3 million tonnes of LNG in 2018 and shipped 54 cargoes. Annual LNG production was in line with the previous year.

Santos' strategy in Northern Australia is to support plans to progress Darwin LNG backfill, expand the Company's acreage footprint and appraise the onshore McArthur Basin.

In April 2018, Santos announced that agreement had been reached with its joint venture partners to enter the front-end engineering and design (FEED) phase for the development of the Barossa project to backfill Darwin LNG. A final investment decision is targeted towards the end of 2019 or early 2020. Santos has a 25% interest in Barossa and successful development would extend the operating life of Darwin LNG by more than 20 years, and more than double Santos' current production in Northern Australia.

Northern Australia	2018	2017
Production (mmbœ)	3.7	4.0
Sales volume (mmbœ)	3.6	4.0
Revenue (US\$m)	183	153
Production cost (US\$/boe)	20.17	18.75
EBITDAX (US\$m)	116	87
Capex (US\$m)	66	63

Northern Australia EBITDAX of \$116 million was 33% higher than 2017.

Western Australia

Santos is one of the largest producers of domestic natural gas in Western Australia and is also a significant producer of oil and natural gas liquids.

In August 2018, Santos announced the acquisition of Quadrant Energy for US\$2.15 billion plus potential contingent payments related to the Bedout Basin. The acquisition was completed on 27 November 2018.

Quadrant Energy held natural gas and oil production, and near- and medium-term development, appraisal and exploration assets, predominantly in the Carnarvon Basin, offshore Western Australia. Quadrant's conventional natural gas assets included significant portfolio overlap with Santos, including the Varanus Island and Devil Creek gas hubs, providing opportunity to realise significant combination synergies.

Quadrant's portfolio also included a leading position in the highly prospective Bedout Basin, including the significant oil discovery at Dorado (Santos 80%) which provides near-term development opportunity, subject to appraisal.

Western Australia	2018	2017
Production (mmboe)	12.5	10.5
Sales volume (mmboe)	13.0	10.8
Revenue (US\$m)	422	352
Production cost (US\$/boe)	8.68	10.19
EBITDAX (US\$m)	283	224
Capex (US\$m)	93	79

Quadrant Energy included from completion of the acquisition on 27 November 2018.

Western Australia EBITDAX of \$283 million was 26% higher than 2017.

Santos' share of Western Australia gas and condensate production was 63.1 PJ and 0.7 mmbbl respectively.

Asia

In May 2018, Santos announced the sale of its Asian asset portfolio to Ophir Energy plc for US\$221 million. The asset sale was completed on 6 September 2018.

Asia	2018	2017
Production (mmboe)	3.7	6.1
Sales volume (mmboe)	3.6	6.1
Revenue (US\$m)	181	256
Production cost (US\$/boe)	11.36	11.15
EBITDAX (US\$m)	179	177
Capex (US\$m)	8	34

Asia production was lower than 2017 due to the completion of the sale of the assets in September 2018.

Directors' Report

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Net profit/(loss)

The 2018 net profit attributable to equity holders of Santos Limited of \$630 million is \$990 million higher than the net loss of \$360 million in 2017. This increase is primarily due to lower impairment losses of \$94 million after tax (\$703 million in 2017) and higher sales revenue as a result of favourable product prices and volumes.

Net profit includes items before tax of \$115 million (\$97 million after tax), as referred to in the reconciliation of net profit to underlying profit below. Underlying profit was \$727 million, \$409 million higher than 2017.

Reconciliation of net profit/(loss) to underlying profit¹

	2018 US\$million			2017 US\$million		
	Gross	Tax	Net	Gross	Tax	Net
Net profit/(loss) after tax attributable to equity holders of Santos Limited			630			(360)
Add/(deduct) the following:						
Net gains on sales of non-current assets	(112)	18	(94)	(79)	20	(59)
Impairment losses	100	(6)	94	938	(235)	703
Fair value adjustments on embedded derivatives and hedges	2	-	2	(14)	4	(10)
Fair value adjustments on commodity hedges	67	(21)	46	63	(19)	44
Costs associated with acquisitions and disposals	58	(9)	49	-	-	-
	115	(18)	97	908	(230)	678
Underlying profit¹			727			318

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, and the impact of hedging. The calculation of underlying profit has changed from prior periods, to simplify the definition of underlying profit to enhance comparability to peer companies. Prior period underlying profit has been restated to a like-for-like basis. The non-IFRS financial information is unaudited, however the numbers have been extracted from the financial statements which have been subject to audit by the Company's auditor.

Financial position

Summary of financial position

	2018 US\$million	2017 US\$million	Variance US\$million
Exploration and evaluation assets	1,004	459	545
Oil and gas assets and other land, buildings, plant and equipment	11,343	9,662	1,681
Restoration provision	(2,093)	(1,528)	(565)
Other net assets/(liabilities) ¹	492	120	372
Total funds employed	10,746	8,713	2,033
Net debt ²	(3,549)	(2,731)	(818)
Net tax assets/(liabilities) ³	82	1,169	(1,087)
Net assets/equity	7,279	7,151	128

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

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

³ Net tax assets/(liabilities) comprises deferred tax assets and tax receivable, offset by deferred tax liabilities and current tax payable.

Impairment of assets

During the Company's regular review of asset carrying values, Santos undertook an impairment review as part of the preparation of its 2018 full-year accounts.

At 31 December 2018, non-cash after-tax impairment losses of \$18 million were recognised in addition to the non-cash after-tax impairment of \$76 million recognised at 30 June 2018. The total after-tax impairment losses of \$94 million for the year mainly relate to the impairment of exploration and evaluation assets.

Exploration and evaluation assets

Exploration and evaluation assets were \$1,004 million compared to \$459 million at the end of 2017, an increase of \$545 million, due to the acquisition of Quadrant Energy, 2018 capital expenditure, including drilling in Papua New Guinea, Cooper Basin and Barossa Caldita, along with evaluation studies, in addition to acquisition costs comprising interests in Tern Frigate and Muruk Farm-in; offset by impairment losses before tax of \$129 million and exploration and evaluation expenses of \$10 million.

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

Oil and gas assets and other land and buildings, plant and equipment of \$11,343 million were \$1,681 million higher than in 2017 mainly due to the acquisition of Quadrant Energy and 2018 capital expenditure, offset by depreciation and depletion charges.

Restoration provision

Restoration provision balances have increased by \$565 million to \$2,093 million mainly due to the acquisition of Quadrant Energy, offset by revised restoration cost estimates and favorable exchange differences.

Net debt

Net debt of \$3,549 million was \$818 million higher than at the end of 2017 primarily as a result of additional funding for the acquisition of Quadrant Energy, offset by free cash flow before asset acquisitions and divestments of \$1,006 million and proceeds from asset sales of \$152 million.

Net tax assets/(liabilities)

Net tax assets of \$82 million have decreased by \$1,087 million primarily as a result of the acquisition of Quadrant Energy and the utilisation of carry-forward tax losses recognised by the Group.

Net assets/equity

Total equity increased by \$128 million to \$7,279 million at year end. The increase primarily reflects the net profit after tax attributable to owners of Santos of \$630 million, partially offset by the movements in the translation reserve of \$437 million and payments of dividends to shareholders of \$73 million.

Future commitments

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

Santos leases LNG carriers and tug facilities under finance leases. The leases have terms of between 10 and 20 years with varying renewal options. At the reporting date, finance lease liabilities for a purpose-built LNG carrier and tug boats were recorded on the balance sheet. Santos also leases floating production, storage and offtake facilities, floating storage offloading facilities, LNG carriers and mobile offshore production units under operating leases. These leases typically run for a period of four to six years and may have an option to renew after that time. The group also leases building office space and a warehouse under operating leases. These leases are generally for a period of 10 years, with an option to renew the lease after that date.

Oil price hedging

The objectives of Santos' Oil Price Hedging Policy are to reduce the effect of commodity price volatility and support annual capital expenditure plans. The Company will continue to monitor commodity market conditions and will enter hedging transactions as appropriate.

As at 31 December 2018, the Company had total combined 2019 hedging of 4.9 million barrels. Of this, 3.4 million barrels of production is hedged using zero cost collars with a floor price of \$45.00/bbl and a ceiling price of \$79.27/bbl. In addition, Quadrant Energy 2019 hedging of 1.5 million barrels via swaps and participating forwards with an average floor price of \$64.59/bbl has been novated to Santos.

Directors' Report

continued

Business strategy and prospects for future financial years

Business strategy

Santos has a clear and consistent strategy to drive shareholder value which sees five core, long-life natural gas assets at the heart of the Company's operations, each with significant upside potential.

The Company's strategy has three phases:

Transform

- Diverse and balanced portfolio of five core, long-life natural gas assets;
- Robust balance sheet;
- Lowest-cost onshore operator in Australia; and
- Disciplined, low-cost operating model, portfolio free cash flow breakeven at <\$40 oil price.

Build

- Develop low-risk, brownfield growth prospects across the core portfolio;
- Pursue strategically aligned, value-accretive acquisition opportunities;
- Leverage facilities and infrastructure operations strategic capability; and
- Maximise margins through Marketing and Trading business.

Grow

- Execute and bring on-line growth opportunities across the core portfolio;
- Focused exploration strategy to identify new high-value targets and unlock future core assets; and
- Generate new revenue through low-carbon Energy Solutions projects.

Prospects for future financial years

Santos has a clear strategy and a solid platform for growth. The business focus is aligned with the strategy as the Company continues to drive efficiencies through the low-cost operating model and progress growth opportunities across the five core assets. This focus will enable Santos to remain a low-cost and high-performing business with significant upside opportunities across the portfolio.

The Company will increasingly focus on disciplined growth by:

- completing the P'nyang farm-in in PNG and entering FEED for expansion;
- completing FEED on Barossa backfill for Darwin LNG and progressing to FID;
- delivering the Dorado appraisal program and entering FEED;
- driving synergies in Western Australia resulting from the Quadrant acquisition;
- growing production in the onshore assets consistent with the disciplined operating model; and
- optimising the portfolio through strategically aligned acquisitions, farm-outs and disposals.

Santos expects 2019 sales volumes to be in the range of 88-98 mmbob and production to be in the range of 71-78 mmbob. Capital expenditure is expected to be approximately \$1.1 billion.

Santos remains confident in the long-term underlying demand for energy and particularly natural gas on the back of Asian economic growth, the rising global population and rapid urbanisation in developing economies.

Material business risks

The achievement of Santos' purpose and vision, business strategy, production growth outlook and future financial performance is subject to various risks including the material business risks summarised below. Santos undertakes steps to identify, assess and manage these risks and operates under a Board-approved enterprise-wide Risk Management Policy.

This summary refers to significant risks identified at a whole of entity level relevant to Santos. 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.

Strategic risks

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. The majority of oil and gas produced (or to be produced) in Santos' portfolio has been sold under sales contracts where the sale price is linked to the global price of oil. Lower global oil prices will therefore reduce Santos' revenues and the profitability of its operations.

Global oil prices are affected by numerous factors beyond the Company's control and historically these have fluctuated widely. Santos' three-tiered strategy, Operating Model and Hedging Policy introduced in 2016 directly address oil price risk to build resilience to oil price fluctuations. This includes a clear focus on cash flow management, operational and cost efficiencies, debt reduction and production growth opportunities.

Santos' acquisition of Quadrant in 2018 adds conventional domestic natural gas assets backed by medium to long-term CPI-linked offtake contracts to complement Santos' predominantly oil-linked revenues.

Oil and gas reserves development

Calculations 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. A failure to successfully develop existing reserves may impact Santos' ability to fully supply LNG, gas or oil under customer contracts.

Santos has adopted a reserves management process that is consistent with the Society of Petroleum Engineers' Petroleum Resource Management System. The Company's reserves and resources estimations are subject to independent audits and evaluations on a rolling basis.

Santos applies an integrated management system across all aspects of business performance, including reserves estimation and delivery. Progress against key reserves metrics is routinely reviewed by senior management and the Board and reserves estimates are published annually (pages 12–15).

Exploration and reserves replacement

Santos' 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, from either exploration or acquisition. Exploration activities are subject to geological and technological uncertainties and the failure to replace utilised reserves is a risk inherent in the industry.

Exploration risks are managed through an established exploration prospect evaluation methodology and risking process. In addition, business development processes identify, review and progress opportunities to build reserves through acquisition in support of the Company's strategy to Transform, Build and Grow the business.

Demand and market

The demand for oil, gas, LNG and other products Santos markets may be adversely affected by a range of external factors including competition from alternative suppliers or other sources of energy supply, and changes in consumer behaviour or government policy.

A robust business strategy development and review processes considers independent oil, gas and LNG market forecasts, and other relevant macro-economic factors, to assess the company's portfolio under a range of scenarios, to enable the delivery of plans in support of the Company's purpose and vision.

Project development

Investment is undertaken in a variety of oil and gas projects to extract, process and supply oil and gas to a variety of customers, including long-term high-volume contracts to supply feedstock gas to the GLNG project. Failure to deliver or protracted delays in delivering projects may occur for many reasons, including unanticipated economic, financial, operational, engineering, technical, environmental, contractual, regulatory, community or political events. Delays, changes in scope, cost increases or poor performance outcomes pose risks that may impact the Company's financial performance.

Santos has comprehensive project and risk management and reporting systems in place. Progress and performance of material projects is regularly reviewed by senior management and the Board.

Joint venture arrangements

Much of Santos' business is carried out through joint ventures. The use of joint ventures is common in the oil and gas 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 impact 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 has defined critical expectations and requirements for participation in and operation of joint ventures in order to optimise the Company's commercial and operational interests. The Company works closely with its joint venture partners to reduce the risk of misalignment in joint venture activities.

Directors' Report

continued

Operational risks

Technical and engineering

Santos is exposed to risks in relation to its ongoing oil and gas exploration and production activities, such as failure of drilling and completions equipment, pipeline and facilities integrity failures, major processing or transportation incidents, release of hydrocarbons or other substances, security incidents and other well control and process safety risks, which may have an adverse effect on Santos' profitability and results of operations.

An integrated management system is applied across all operational activities to manage and monitor operations performance and material risk controls. The management system includes all relevant technical, operational, asset reliability and integrity standards and incident management standards and competency requirements. The system is designed to ensure the Company meets regulatory and industry standards in all operations.

Access and licence to operate

Santos has interests in areas which may be subject to claims by communities and landowners who may have concerns over the social or environmental impacts of oil and gas operations or the distribution of oil and gas royalties and access to mining- and petroleum-related benefits. This has the potential to impact on land access or result in community unrest and activism and may adversely impact on the Company's reputation.

A number of Santos interests are subject to one or more claims or applications for native title determination. In Australia, compliance with the requirements of the *Native Title Act 1993* (Cth) can delay the grant of mineral and petroleum tenements and subsequent timing of exploration, development and production activities.

Santos and its operating joint venture partners work closely with relevant governments, communities, landowners and indigenous groups to ensure all concerns are fairly addressed and managed, and Santos' operations benefit from their support. In addition, Santos and its operating joint venture partners develop and employ security and risk management plans, and are committed to conducting operations in a way that protects the security of its personnel, facilities and operations.

Santos has a long history of safe and sustainable operations working with communities and landholders across the country. Land access agreements are in place and a team of experienced community and land access representatives work with Aboriginal stakeholders, landholders and communities to ensure that issues are understood and addressed appropriately.

Cyber security

Cyber security risks, including threats to information and operational systems from computer viruses, unauthorised access, cyber-attack and other similar disruptions, have evolved rapidly and can impact all sectors of the economy, including the energy sector. The increasing technological advances in operations require monitoring and protection to ensure cyber security threats are appropriately managed and prevented. Cyber security risks may lead to disruption of critical business processes, a breach of privacy and theft of commercially sensitive information. A cyber event may lead to adverse impacts on Santos' profitability and reputation.

Focused cyber security risk management is incorporated into Santos' risk management and assurance processes and practices across the Company's business and operational information management systems.

Workforce

Santos' future success is significantly influenced by the expertise and continued service of certain key executives and technical personnel. An inability to attract or retain such personnel could adversely affect business continuity and, as such, employment arrangements and succession plans are designed to secure and retain the services of key personnel. Key workforce metrics and succession plans are routinely reviewed by senior management and the Board.

Environmental, safety and sustainability risks

Health, safety and environment

The size, nature and complexity of Santos' operations pose risks in relation to the health and safety of employees and contractors, and a range of environmental risks exist when carrying out exploration and production activities. Environmental incidents, and real or perceived threats to the environment or the amenity of local communities, could result in a loss of Santos' licence to operate leading to delays, disruption or the shut-down of exploration and production activities.

Santos has a comprehensive approach to management of health, safety and environmental risks. The Company's management system integrates technical and engineering requirements with personal health and safety requirements to comprehensively manage health, safety and environmental risks within company operations.

Climate change

Santos anticipates its activities will be subject to increasing regulation and costs associated with climate change and the management of carbon emissions.

Strategic, regulatory and operational risks and opportunities associated with climate change are incorporated into policy, strategy and risk management processes and practices. The Company actively monitors current and emerging climate change risk and proactively takes steps to prevent and mitigate any impacts on its objectives and activities. Reduction of waste and emissions is an integral part of delivery of cost efficiencies and forms part of the Company's routine operations.

Financial risks

The financial risk management strategy seeks 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 in line with a Board-approved policy and framework. The framework and principles for overall financial risk management address specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

An Oil Price Hedging Policy is in place with the objective of reducing the effect of commodity price volatility and to support annual capital expenditure plans. Santos continues to monitor commodity market conditions and will enter hedging transactions as appropriate.

Foreign currency

Foreign exchange risk arises from commercial transactions and valuations of assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Exposure to foreign currency risk arises principally through the sale of products denominated in currencies other than the functional currency, borrowings denominated in currencies other than US\$ and capital and operating expenditure incurred in currencies other than US\$, principally A\$. Santos also holds investment interests in domestic and foreign operations whose net assets are exposed to foreign currency translation risk.

A foreign currency hedging policy is in place with the objective of reducing the effect of foreign currency exchange rate volatility and to support annual capital expenditure plans. Santos continues to monitor foreign currency market conditions and will enter hedging transactions as appropriate.

Credit

Credit risk represents a potential financial loss if counterparties fail to perform as contracted, and arises from investments in cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. Credit exposures exist to customers in the form of 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. These affects may be global or affecting a particular geographic region, industry or economic sector. Access to debt and equity funding may also be unduly affected by a downgrade in its credit rating.

Santos had \$3.3 billion in liquidity (cash and undrawn bilateral bank facilities) available as at 31 December 2018.

Contract and counterparty risks

As part of its ongoing commercial activities, Santos is party to a number of material contracts including finance agreements, infrastructure access agreements, agreements for the sale and purchase of hydrocarbon, transportation agreements, joint venture agreements, and engineering, procurement and construction (EPC) contracts. Santos also enters into sale and purchase contracts with third parties for the sale and purchase of natural gas, LNG and other products.

The economic effects of these contracts over their term may be impacted by fluctuations in commodity prices, price reviews, operational performance and other market conditions. Failure to perform material obligations under these contracts by Santos and/or the applicable counterparties, or to secure any extensions or amendments to these contracts, may result in a material impact on Santos' operations and financial results.

Santos tracks key contractual obligations and monitors performance across its material contracts.

Directors' Report

continued

Political and legal risks

Political, legal and regulatory

Santos' business is subject to various laws and regulations in each of the jurisdictions in which it operates that relate to the development, production, marketing, pricing, transportation and storage of its products. A change in the laws which apply to the Company's business, or the way in which it is regulated, could have a materially adverse effect on Santos' business, on the results of operations and the Company's financial performance. For example, a change in taxation laws, environmental laws or land access laws could have a material effect on the Company.

The domestic gas business and GLNG project, including its ability to purchase gas, develop future growth projects and meet supply commitments' may also be adversely impacted by any governmental intervention, including limitations on LNG export volumes and the redirection of gas from export to domestic markets. Any such intervention may also have broader implications for the future of the gas industry in Australia.

Continuous monitoring of legislative and regulatory changes and associated risks is undertaken and regular engagement with regulators and governments supports the management of risks arising from these changes.

Litigation and dispute

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

Santos has an experienced legal team that monitors and manages potential and actual claims, actions and disputes.

Material prejudice

As permitted by sections 299(3) and 299A(3) of the *Corporations Act 2001* (Cth), 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 Material Business Risks section (pages 24 to 28) refers to risks which, if materialised, may have a significant effect on the state of affairs of the Company.

Dividends

On 20 February 2019, the Directors resolved to pay a fully franked final dividend of US6.2 cents per fully paid ordinary share on 28 March 2019 to shareholders registered in the books of the Company at the close of business on 27 February 2019 ("Record Date"). This final dividend amounts to approximately US\$128 million. The Board also resolved that the Dividend Reinvestment Plan will not be in operation for the 2018 final dividend.

In addition, a fully franked interim dividend of US3.5 cents per share was paid to members on 27 September 2018. The DRP was not in operation for the interim dividend.

Environmental Regulation

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

On 4 May 2018, Santos received a penalty infringement notice and \$12,615 fine from the Queensland Department of Environment and Science for a release of effluent to the environment.

On 19 July 2018, Santos received a \$68,000 fine from the Queensland Department of Environment and Science for the unauthorised release of hydrocarbons to land.

On 12 October 2018, Santos received a penalty infringement notice and \$1,500 fine from the New South Wales Environment Protection Authority for using produced water treated at the Leewood Treatment Plant for irrigation.

The consolidated entity undertook corrective measures in respect of the infringements to prevent re-occurrences.

POST BALANCE DATE EVENTS

On 20 February 2019, the Directors of Santos Limited resolved to pay a final dividend on ordinary shares in respect of the 2018 financial year. The financial effect of these dividends has not been brought to account in the full-year financial report for the year ended 31 December 2018.

SHARES UNDER OPTION AND UNVESTED SHARE ACQUISITION RIGHTS (SARS)

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
2 March 2009	2 March 2019	\$14.81	50,549
			50,549

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 31 December 2018 are as follows:

Date SARs granted	Number of shares under unvested SARs
14 June 2016	3,862,734
31 August 2016	570,071
21 March 2017	3,522,051
19 May 2017	671,641
29 September 2017	516,328
21 March 2018	2,755,941
1 April 2018	743,078
7 May 2018	520,183
9 July 2018	427,344
5 November 2018	15,299
	13,604,670

Since 31 December 2018, no additional SARs have been granted over unissued ordinary shares of Santos Limited and 9,636 SARs pursuant to the ShareMatch plan have lapsed.

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 31 of this report and in note 7.2 to the financial report.

Directors' Report

continued

SHARES ALLOCATED ON THE EXERCISE OF OPTIONS AND ON THE VESTING OF SARs

Options

No options were exercised during the year ended 31 December 2018 or up to the date of this report.

Vested SARs

The following ordinary shares of Santos Limited were allocated during the year ended 31 December 2018 on the vesting of SARs granted under the Santos Employee Equity Incentive Plan (SEEIP) (formerly known as the Santos Employee Share Purchase Plan (SESPP)) and ShareMatch Plan (ShareMatch). No amount is payable on the vesting of SARs and accordingly no amounts are unpaid on any of the shares.

Date SARs granted	Number of shares allocated
28 July 2015	568,170
1 February 2016	166,911
11 July 2016	42,585
31 August 2016	28,083
19 April 2017	80,571
29 September 2017	14,300
9 July 2018	4,918
	<hr/>
	905,538

Since 31 December 2018, no ordinary shares of Santos Limited have been allocated on the vesting of SARs granted under the SEEIP and ShareMatch.

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 31 of this report and in notes 7.2 and 7.3 to the financial report.

Remuneration Report

The Directors of Santos present this Remuneration Report for the consolidated entity for the year ended 31 December 2018. The information provided in this Report has been audited as required by section 308(3C) of the *Corporations Act 2001* (Cth) (Corporations Act) and forms part of the Directors' Report.

The Remuneration Report outlines the Company's key remuneration activities in 2018 and remuneration information pertaining to the key management personnel (KMP) of the consolidated entity for the purposes of the Corporations Act and Accounting Standards, as set out below. These are the personnel who have authority and responsibility for planning, directing and controlling the activities of the Company's major financial, commercial and operating divisions.

KEY MANAGEMENT PERSONNEL COVERED BY THE REMUNERATION REPORT

Name	Position	Term as KMP in FY2018
Non-executive Directors		
Keith William Spence ¹	Independent non-executive Chair	Full year
Peter Roland Coates	Independent non-executive Chair	1 January 2018 to 19 February 2018
Yasmin Anita Allen	Independent non-executive Director	Full year
Guy Michael Cowan	Independent non-executive Director	Full year
Hock Goh	Independent non-executive Director	Full year
Vanessa Ann Guthrie	Independent non-executive Director	Full year
Peter Roland Hearl	Independent non-executive Director	Full year
Eugene Shi	Non-executive Director	Full year
Executive Director		
Kevin Thomas Gallagher	Managing Director and Chief Executive Officer (CEO)	Full year
Senior Executives		
David Maxwell Banks	Executive Vice President (EVP) Onshore Upstream prior to commencing in this role Mr Banks was Vice President Onshore Upstream Projects	From 1 December 2018
Philip Ambrose Byrne	EVP Marketing, Trading and Commercial	Full year
Brett Anthony Darley	EVP Offshore	From 28 November 2018
Anthony Myles Neilson	Chief Financial Officer (CFO)	Full year
Vincent Santostefano	Chief Operations Officer (COO)	Full year
Brett Kenneth Woods	EVP Developments prior to commencing in this newly created role on 1 December Mr Woods was EVP Onshore Upstream	Full year
Bruce Clement	EVP Conventional Oil and Gas prior to commencing in this role Mr Clement was Vice President Asia, NSW & WA Oil Assets	From 1 February 2018 to 27 November 2018

¹ Mr Spence was appointed to the Board on 1 January 2018 and appointed Chair on 19 February 2018.

REPORTING CURRENCY

Remuneration is disclosed in US\$ (unless otherwise indicated) with all remuneration components having been converted from A\$ to US\$ using an average rate of \$0.7475 for 2018 and \$0.7667 for 2017. This means year-on-year changes in remuneration amounts stated in US\$ may be at least partly attributable to exchange rate variations and not necessarily a change in policy intent concerning the amount to be paid in A\$.

Remuneration Report

continued

OVERVIEW OF RESULTS - DELIVERING STRONG PERFORMANCE

Since 2016 Santos has simplified the business, reduced costs, increased efficiencies and delivered on the clear and consistent Transform, Build, Grow strategy. The successful execution of Santos' strategy delivered a strong financial performance in 2018 including:

- 129% increase in underlying net profit after tax to \$727 million,
- 63% increase in free cash flow to \$1 billion,
- 18% increase in sales revenue to a record \$3.7 billion, and
- sales volumes of 78.3 million barrels of oil equivalent (mmbobe) and production of 58.9 mmbobe across the portfolio of five core long-life natural gas assets.

In 2018 the company achieved its net debt reduction target of \$2 billion more than one year ahead of plan. This milestone provided the flexibility to return to dividends and acquire the low-cost, high-margin conventional assets of Quadrant Energy in Western Australia. The value accretive acquisition of Quadrant Energy in Western Australia for US\$2.15 billion aligned not only with our production growth plan but also our strategy to build on existing infrastructure positions around our core long-life natural gas assets.

Our strong operating and financial results in 2018 reflect the benefits of a cash generative core asset portfolio and low-cost, disciplined operating model. Santos' portfolio is now positioned for disciplined growth, targeting production of more than 100 mmbobe by 2025, almost double the levels in 2018.

While our financial performance and growth outcomes have been very strong in 2018, our results in relation to personal and process safety have not met our high expectations, though there have been improvements made from the previous year's performance, particularly in personal safety. The Board and Executive team are focussed on continuing to improve this performance in 2019 and are committed to preventing harm to people and the environment.

ALIGNING REMUNERATION AND COMPANY PERFORMANCE

In 2018, we strengthened the alignment of Executive remuneration with the interests of shareholders by:

- including appropriate financial and operational performance measures in the Company Scorecard, at an overall 50% weighting of the total result, including production, unit production costs, underlying profit and Free Cash Flow Breakeven Point (FCFBP) measures;
- setting more challenging stretch performance goals and increasing Executive STI opportunities for high performance, while holding incentives for "on-target" performance at pre-existing levels;
- increasing the portion of Executive STI deferred in equity for two years from 30% to 50% of total STI, subject to positive free cash flow (FCF), and requiring that the portion deferred in equity be 100% if FCF is not positive;
- focussing the CEO and Senior Executives on ongoing shareholder returns through the equity-based LTI plan, particularly through the relative TSR and return on capital performance hurdles.

Despite strong operational performance during 2018, no Long-Term Incentive (LTI) awards vested because the Company did not achieve the required relative Total Shareholder Return (TSR) performance over the four years since the 2015 LTI was awarded. This is the eighth consecutive year that relative TSR-tested LTI awards have not vested, reflecting the clear link between long-term shareholder returns and Senior Executive remuneration.

In light of the Company's performance in 2018, the Board has approved a Company Scorecard result of 138.8% of its target performance level, which will be used to determine Short-Term Incentive (STI) awards. Further detail on the KPIs and performance assessment is available in Table 2: "2018 Company Scorecard – KPI performance" on page 41.

ACTUALLY REALISED REMUNERATION

The Actually Realised Remuneration table below shows remuneration “actually realised” by the CEO and Senior Executives in relation to 2018, namely:

- cash payments on account of Total Fixed Remuneration (TFR);
- cash STI awards earned in respect of 2018 performance;
- deferred STI awards in respect of prior performance years which vested in 2018; and
- SARs granted as part of the LTI program, only if they vest, valued on the basis of their closing price on the date of vesting.

These amounts differ from the amounts reported in Table 5 and other statutory tables which are prepared in accordance with the Corporations Act and Accounting Standards. This is because the Accounting Standards require a value to be placed on “share-based payments” at the time of grant, and for that “accounting value” to be reported as remuneration, even though the CEO and Senior Executives may ultimately not realise any actual value from the “share-based payments” e.g. because the performance conditions are not satisfied, as was the case for the 2015 four-year LTI award tested at the end of 2018.

Termination payments, leave entitlements and cashing out of leave entitlements, where allowable under legislation, are not included in the table below. The total remuneration amounts determined in accordance with the requirements of the Corporations Act and Accounting Standards are set out in Table 5 “2017 and 2018 Senior Executive remuneration details” (see page 50).

The Actually Realised Remuneration shown in Table 1 will continue to be disclosed in Australian dollars to enable simpler year-on-year comparisons without the impact of currency changes.

Table 1: Actually realised remuneration (unaudited and non-IFRS)

	Year	TFR ¹ A\$	Cash STI ² A\$	2016 Deferred STI that vested in 2018 ³ A\$	LTI ⁴ A\$	Other vested grants A\$	Other ⁵ A\$	Total A\$
CURRENT								
KT Gallagher	2018	1,890,000	1,175,600	608,488	–	851,246 ⁶	6,082	4,531,416
CEO	2017	1,800,000	1,159,200	–	–	667,644	5,341	3,632,185
DM Banks	2018	58,333	22,300	–	–	–	–	80,633
EVP Onshore Upstream								
PA Byrne	2018	700,000	286,700	–	–	–	6,082	992,782
EVP Marketing, Trading and Commercial	2017	271,370	129,400	–	–	–	9,804	410,574
BA Darley	2018	77,000	31,200	–	–	–	1,094	109,294
EVP Offshore								
AM Neilson	2018	822,500	347,800	–	–	–	–	1,170,300
Chief Financial Officer	2017	800,000	423,600	–	–	122,214	2,626	1,348,440
V Santostefano	2018	859,562	361,500	207,528	–	–	6,082	1,434,672
Chief Operations Officer	2017	850,000	379,300	–	–	–	2,684	1,231,984
BK Woods	2018	742,500	327,900	172,938	–	–	6,082	1,249,420
EVP Developments	2017	695,000	355,600	297,330	–	–	6,408	1,354,338
FORMER								
B Clement	2018	577,500	446,900 ⁷	–	–	–	–	1,024,400
EVP Conventional Oil and Gas								

1 TFR comprises base salary and superannuation. The amounts shown here are actually received TFR, i.e. they are pro-rated amounts for the period that Executives were in KMP roles.

2 The “Cash STI” column reflects the 50% of the STI award for 2018 performance for continuing Executives that will be paid in cash. The remaining 50% will be awarded as equity restricted for two years.

3 The deferred restricted equity from the 2016 STI award that vested on 31 December 2018, at a closing share price of A\$5.48.

4 No LTI vested in 2018. For the value of share-based payments calculated in accordance with the Accounting Standards, see Table 5 “2017 and 2018 CEO and Senior Executive remuneration” on page 50.

5 “Other” comprises ad hoc payments treated as remuneration, such as assignment and mobilisation allowances and other non-monetary benefits.

6 This figure represents the second tranche of the CEO’s sign-on grant (166,911 SARs) that vested on 31 January 2018. The amount reflected is based on a closing share price of A\$5.10 on 31 January 2018.

7 Mr Clement’s 2018 STI will be delivered wholly in cash in accordance with his contract, as he will not be an ongoing employee.

Remuneration Report

continued

REMUNERATION GOVERNANCE

People and Remuneration Committee

The People and Remuneration Committee (Committee) oversees and formulates recommendations to the Board on the remuneration policies and practices of the Company generally (including the remuneration of non-executive Directors, the CEO and Senior Executives) and reviewing whether they are aligned to the Company's values, strategic direction and risk appetite.

The Committee operates under a Charter approved by the Board and regularly conducts a review of its performance, structure, objectives and purpose. The Committee Charter is available on the Company's website at www.santos.com.

External advisors and remuneration advice

The Board has adopted a protocol for engaging and seeking advice from remuneration consultants. In 2018 some remuneration benchmarking exercises were undertaken to provide information on market remuneration levels for KMP, however no remuneration recommendations were provided by remuneration consultants.

Clawback

The share plan rules give the Company the discretion to lapse or forfeit unvested deferred shares or SARs awarded under the STI or LTI programs, and claw back any vested shares or cash paid in certain circumstances.

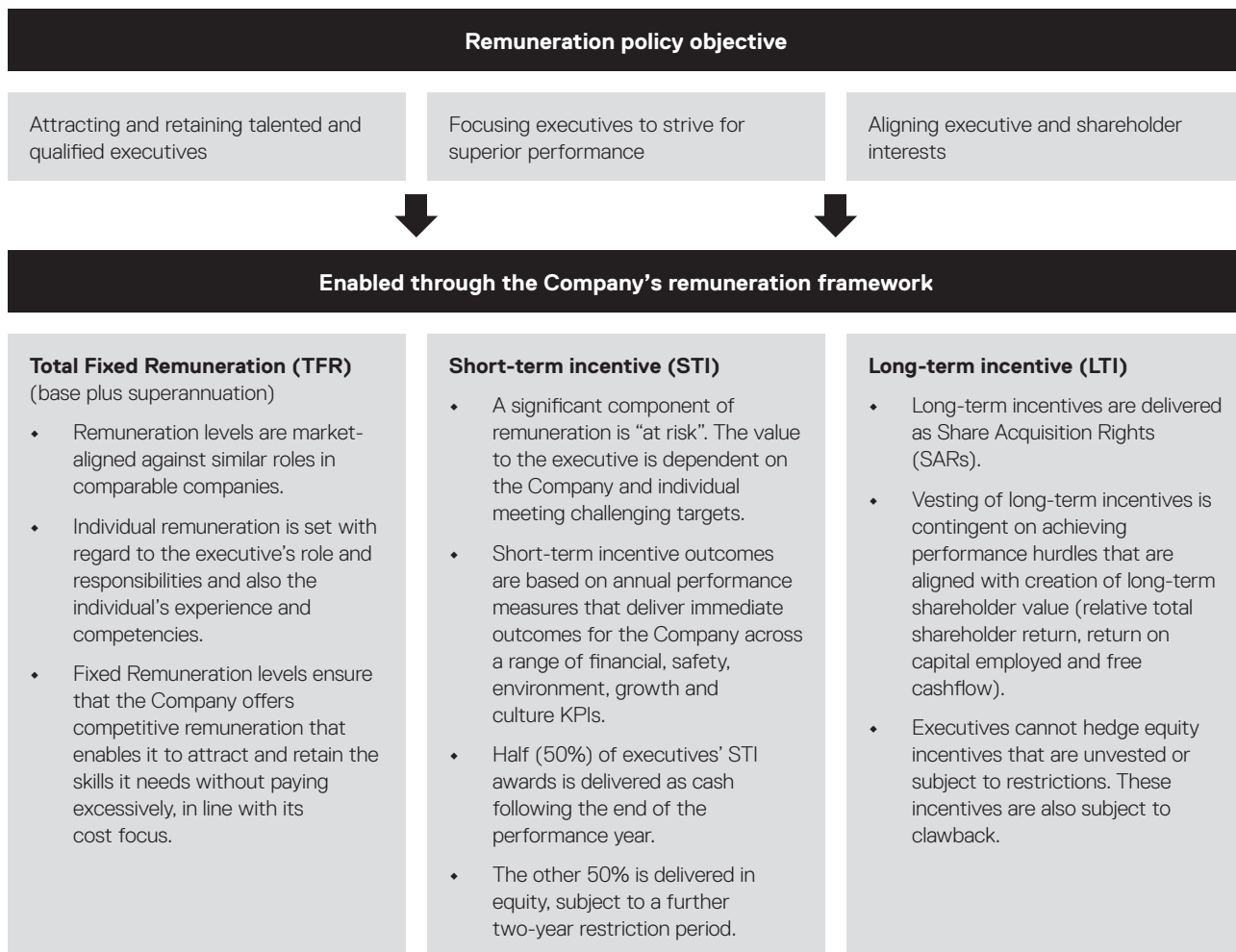
These circumstances include dishonest or fraudulent conduct, breach of material obligations, miscalculation or error, a material misstatement or omission in the accounts of a group company or events which require re-statement of the group's financial accounts in circumstances where an LTI or deferred STI award would not otherwise have been granted or would not have vested. This is in addition to any rights the Company has under the plan rules and general legal principles to seek to recover payments made in error.

Securities hedging

Under the Company's Securities Dealing Policy, Directors, executives and employees cannot enter into hedging or other financial arrangements which operate to limit the economic risk associated with holding Santos securities prior to the vesting of those securities or while they are subject to a holding lock or restriction on dealing.

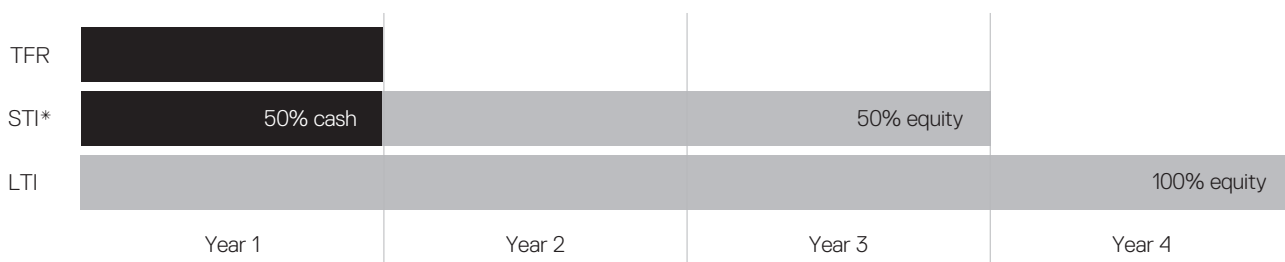
REMUNERATION APPROACH

The fundamental purpose of Santos' remuneration policy is to develop and maintain an effective remuneration framework which supports and reinforces successful execution of the Transform, Build, Grow business strategy.



Remuneration timeline

The timing of Executive remuneration payments and delivery mechanisms is summarised in the following diagram.



- Delivered as cash
- Delivered as equity

* This is an increase in the deferred equity portion for 2018, up from 30% in previous years.

Remuneration Report

continued

Key questions relating to Incentives Framework

Short-term incentive

What is the purpose of STI?	STI aligns Executive interests to the delivery of the Company's short-term operational and financial goals for the year. Goals are chosen to drive outcomes and behaviours that support the safe operation and delivery of the business and lead to long-term growth in shareholder value.
What is the relevant performance period?	STI award is based on performance for a one-year period. At least 50% of the award is provided as restricted equity held for two years. This is an increase from previous years when 30% of the award was provided as deferred equity.
In what form is the incentive made and when is the incentive realised?	<p>The STI award is subject to a free cash flow gate, such that:</p> <ul style="list-style-type: none"> • if FCF for the year was positive, 50% of STI is paid in cash in the next available payroll run. The other 50% is deferred in shares or share acquisition rights (SARs) for two years; • if FCF was negative, all of the STI is deferred in equity for two years. <p>Deferred STI is forfeited if the Executive leaves the Company during the vesting period due to resignation or summary dismissal (including for fraud or misconduct). STI awards are subject to clawback.</p>
How is the STI pool determined?	The STI pool size is capped at the sum of individuals' maximum STI levels. The actual STI pool for the year is set by reference to the Company Scorecard result (2018 results are outlined in Table 2 on page 41). The Scorecard result is generally applied as a percentage of the target pool size (subject to the application of any Board discretion).
How is individual performance considered in determining STI?	<p>For the CEO and Senior Executives, STI awards are determined with reference to the assessment of Company performance against the Company Scorecard, as well as individual performance in that year. The CEO sets individual KPIs with each Senior Executive at the start of the performance year, as relevant to their specific role and contribution to Company deliverables.</p> <p>The CEO assesses Senior Executive performance and determines STI award proposals which are then formally endorsed by the People and Remuneration Committee. The Board assesses the CEO's performance and determines his STI award.</p>

Long-term incentive

What is the purpose of LTI?	LTI aligns the interests of Executives with the creation of long-term shareholder value. The relative TSR performance criteria provide for vesting when there are strong shareholder returns against the relevant markets. The FCFBP and ROACE measures vest when the Company demonstrates underlying operational efficiency to generate free cash flow throughout the oil price cycle, and disciplined use of capital to generate shareholder returns over a four-year period.		
What is the relevant performance period?	SARs issued under the annual LTI program have a four-year performance period. This period represents an appropriate balance between providing a genuine and foreseeable incentive to executives and fostering a long-term view of shareholder interests.		
In what form is the incentive made and when is the incentive realised?	LTI amounts are based on a set percentage of the executive's TFR allocated on a face value basis, and delivered in SARs. SARs are 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. Following vesting of SARs, shares are automatically allocated to the executive. Trading in these shares is subject to compliance with the Company's Securities Dealing Policy. The Board has discretion to settle the SARs in cash if they vest.		
What performance measures have been chosen and why?	Vesting of the LTI is assessed against four equally weighted performance measures:		
	Weighting	Performance measures	Description and rationale
	25%	Relative TSR measured against companies of the ASX100	The calculation of TSR takes into account share price and dividend yield and is therefore a robust and objective measure of shareholder returns.
	25%	Relative TSR measured against companies of the S&P Global Energy Index (GEI)	TSR continues to effectively align the interests of individual Senior Executives with that of the Company's shareholders by motivating Senior Executives to achieve superior shareholder outcomes relative to Santos' competitors for investor capital and its energy sector peers.
	25%	Free Cash Flow Breakeven Point (FCFBP)	FCFBP is the US\$ oil price at which cash flows from operating activities equal cash flows from investing activities, as published in the Company's financial statements. As the aim of the performance hurdle is to measure the performance of the underlying business, the Board has discretion to adjust the FCFBP for individual material items including asset acquisitions and disposals that may otherwise distort the measurement.
	25%	Return on Average Capital Employed (ROACE) compared with Weighted Cost of Capital (WACC)	ROACE is measured as the underlying earnings before interest and tax (EBIT) divided by the average capital employed, being shareholders' equity plus net debt, as published in the Company's financial statements. The use of ROACE as a performance measure aligns Senior Executives with shareholder interests by focusing on the efficient and disciplined use of capital to generate shareholder returns.

Remuneration Report

continued

What is the vesting scale for LTI?

Each performance measure has a vesting scale which provides for:

- 0% vesting below a lower performance hurdle
- 100% vesting at or above an upper performance hurdle
- Pro rata vesting from 50% to 100% between the lower and upper hurdles.

The vesting scales below apply to both the CEO's and Senior Executives' 2018 LTI performance grants. There is no re-testing of the performance condition. SARs that do not vest upon testing of the performance condition will lapse.

Relative TSR against the ASX100 and S&P GEI

TSR percentile ranking	% of grant vesting
Below 51st percentile	0%
51st percentile	50%
straight line pro-rata vesting in between	
76th percentile and above	100%

Free Cash Flow Breakeven Point (FCFBP)

	% of grant vesting
Above \$US40/bbl	0%
Equal to US\$40/bbl	50%
straight line pro-rata vesting in between	
Equal to or below US\$35/bbl	100%

Return On Average Capital Employed (ROACE)

	% of grant vesting
Below 100% of WACC	0%
Equal to 100% of WACC	50%
straight line pro-rata vesting in between	
Equal to or above 120% of WACC	100%

How is performance on these measures assessed?

Relative TSR performance, being a market-based measure, is tested by an independent third party and reviewed by the Board prior to vesting. The Board has discretion to adjust the TSR comparator groups, for example to take account of takeovers, mergers and demergers that occur during the performance period.

FCFBP and ROACE, being non-market measures, are tested and audited internally, and all results externally audited as part of the Annual Report release. The Board has discretion to make adjustments to the results on these measures, based on the agreed methodology.

What happens to on-foot equity on cessation of employment?

Generally, if an executive resigns or is summarily dismissed their unvested SARs will lapse. In all other circumstances (including death, total and permanent disability, redundancy and termination by mutual agreement), unvested SARs remain on foot and will vest or lapse in accordance with their original terms, unless the Board determines otherwise.

What happens to on-foot equity on change of control?

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

LINK BETWEEN PERFORMANCE AND REMUNERATION

The remuneration mix indicates the extent to which Executive remuneration is variable and “at risk” and, within this, the balance between short-term and long-term incentives.

The charts below show the year-on-year comparison of remuneration outcomes for the CEO and Senior Executives at different performance levels:

- target – reflecting incentive payments for achieving expected (“on-target”) annual and long-term performance¹;
- stretch – reflecting incentive payments for achieving stretch performance against both short-term and long-term goals; i.e. the maximum earning opportunity.

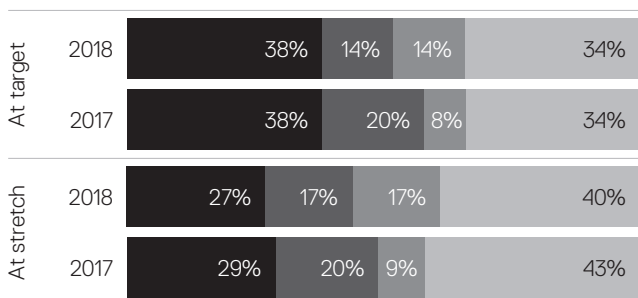
These charts set out the opportunity levels available within the remuneration framework. The *actual* remuneration mix in any year varies with actual performance and incentive outcomes.

In summary, the charts illustrate that:

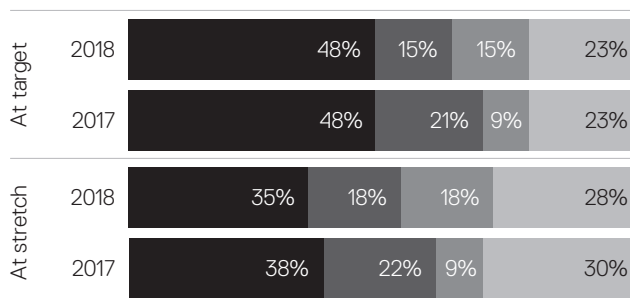
- at stretch performance the maximum STI component increased relative to TFR and LTI between 2017 and 2018, to be more in line with market peers;
- at all levels of performance the proportion of remuneration that is deferred and delivered in equity increased between years, owing to STI deferral increasing from 30% to 50% of STI;
- compared with the other Executives, the CEO has a higher proportion of remuneration at risk and more of the at-risk remuneration focussed on the long term.

The charts below depict remuneration mix at target and stretch performance levels, expressed as a percentage of total remuneration.

CEO remuneration



Senior Executive remuneration



■ TFR ■ STI cash ■ STI equity ■ LTI

Note: The whole numbers shown in these charts may not total 100% exactly, due to rounding.

¹ For this purpose “target” LTI is a notional figure of 60% of face value LTI. This approximates the average long-run vested value of allocated LTI, when the expected impact of performance vesting conditions is taken into account.

Remuneration Report

continued

COMPANY PERFORMANCE OUTCOMES

Performance against 2018 Company Scorecard

How does the Company measure its annual performance?	<p>The Company's annual performance is monitored and assessed using the Company Scorecard. The Scorecard contains a balanced blend of financial and operational KPIs which support execution of the business strategy and drive business performance. In 2018 Scorecard KPIs covered a range of areas including production, operating efficiency, safety, growth and culture.</p> <p>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. The Board believes that this Scorecard is balanced and focuses CEO and Senior Executives on achieving the key outcomes necessary to deliver stronger returns to shareholders.</p>
Who assesses Company performance?	<p>The People and Remuneration Committee formally assesses the Company's performance against the overall Scorecard at the end of each financial year, and this forms the basis of a recommendation to the Board.</p>
What has changed in 2018 compared with 2017?	<p>In the Company's 2017 Remuneration Report it was announced that the Board had approved, effective from 2018, an increase in Executives' maximum STI opportunities to enable greater upside opportunity for exceptional performance and ensure competitiveness with the market. This was matched with more challenging stretch performance goals associated with STI payouts at these higher opportunity levels. Threshold and target performance goals and associated STI payouts remain comparable with previous years.</p> <p>As a result of the increased degree of difficulty built into the 2018 Scorecard, performance levels between target and stretch are no longer directly comparable with previous years' performance¹, however target performance level is still comparable over time.</p> <p>To simplify year-on-year comparisons and more clearly outline the change in performance levels over time, the Board has determined that from 2018 onwards, Company performance will be expressed relative to the Company's target performance level of 100%, such that:</p> <ul style="list-style-type: none"> • Scorecard results above 100% reflect performance above target, and • Scorecard results below 100% reflect performance below target.
How is the Scorecard result calculated?	<p>The Company Scorecard is comprised of a range of KPIs with set threshold, target and stretch goals agreed with the Board at the start of the performance year. The relative importance of each KPI is determined and assigned a proportionate weighting of the total Scorecard result.</p> <p>Each KPI receives a percentage score relative to target performance, as follows:</p> <ul style="list-style-type: none"> • 0% for performance below threshold, • 67–100% for performance between threshold and target, • 100–167% for performance between target and stretch, and • 167% for performance at or above stretch. <p>The KPI weightings are then applied to these scores to derive a rating for each KPI. The overall Scorecard result is a weighted average of KPI scores. The 2018 Scorecard has a maximum result of 167% of target. This increased maximum result can only be achieved for exceptional Company performance.</p> <p>The Board believes the above method of assessment is rigorous and provides a balanced assessment of the Company's performance.</p>
What is the overall Scorecard result for 2018?	<p>The Company's performance against the 2018 Company Scorecard, as assessed by the Board on the new scoring basis, resulted in an outcome of 138.8% relative to target. This outcome is used to set the available STI pool. Individual STI outcomes will depend on executives' contractual entitlements and individual performance during the year, as detailed on page 46.</p> <p>Table 2 provides further details of Scorecard KPIs and the Company's performance against them.</p>

¹ In previous years, performance was expressed as a score out of 100%, whereby 100% represented stretch performance, and the target performance level was set at 75% of that 100% maximum.

Table 2: 2018 Company Scorecard – KPI performance

	KPI	Rationale	Performance	Result (relative to target of 100%)
Safety, Environment and Culture (20%)	<p>Personal safety</p> <p>Measured by the number of lost time injuries per million hours worked over the 12-month period</p>	<p>The Company is committed to providing a workplace without injury or illness.</p>	<p>Lost time injury frequency rate (LTIFR) of 0.65. Although there have been improvements made from the previous year, particularly in personal safety, threshold performance level was not achieved.</p>	50%
	<p>Environment and Process safety</p> <p>Measured by the number of Tier 1 loss of containment of hydrocarbon incidents.</p> <p>Measured by the number of environmental incidents of moderate or greater consequence.</p>	<p>The integrated target for Environment and Process Safety represents the Company's commitment to reducing the number of process safety related incidents with potential for high-impact consequences, and the occurrence of significant environmental incidents.</p>	<p>There were four Tier 1 and twelve Tier 2 loss of containment incidents (LOCI) a result that was equivalent to 2017 and below the 2018 target. There were no environmental incidents of moderate or greater consequence, resulting in threshold performance.</p>	
	<p>Implementation of Culture Plan, including Santos Values</p>	<p>Included to reinforce the importance of cultural improvement and the roll-out of the Santos Values as a foundation for the organisation.</p>	<p>Santos Pulse survey launched successfully to the entire business and leader training implemented to facilitate discussion of local improvement opportunities. Values are embedded in all learning programs, employee communications and individual performance and development review frameworks. Target performance level achieved.</p>	
Financial and Operating Efficiency (50%)	<p>Production (adjusted for disposals) mmboe</p>	<p>Production is critical to the Company's profitability, and is a key measure of the Company's overall performance, underpinning annual earnings and cash flow.</p>	<p>Production of 58.9 mmboe exceeded stretch performance.</p>	166%
	<p>Free Cash Flow Breakeven Point (FCFBP) (US\$/bbl)</p>	<p>Included to ensure continual reduction in the Company's cost base and to reinforce Santos' disciplined operating model.</p>	<p>Free cash flow breakeven point was US\$31.30/bbl per barrel. Above target (near stretch) performance was achieved.</p>	
	<p>Underlying net profit after tax (NPAT) (not adjusted for oil price US\$)</p>	<p>Included to deliver earning improvement for the business.</p>	<p>Stretch performance achieved due to higher revenue from favourable oil price, partly offset by higher third-party purchase costs and lower production. Final underlying NPAT result of US\$727m exceeded stretch performance.</p>	
	<p>Unit production cost (US\$/boe)</p>	<p>Included to ensure that the Company maintains its cost and efficiency focus for every unit of production</p>	<p>Unit production costs of US\$8.05/boe exceeded stretch performance.</p>	

Remuneration Report

continued

	KPI	Rationale	Performance	Result (relative to target of 100%)
Growth (30%)	2P organic reserves replacement ratio (RRR) two-year rolling average	The 2P organic RRR measures the amount of 2P added to Santos' reserves during the year through exploration and development (rather than by acquisition) relative to the amount of gas and oil produced. The RRR should be at least 100% for the long-term sustainability of the Company.	Year-end position of 66% 2P RRR (organic two-year average) is above threshold but did not achieve target of 100%.	152%
	2C resource add two-year rolling average (% of cumulative two-year production)	The 2C resource replacement measures the amount of 2C added during the year through exploration, appraisal, development and acquisition, relative to the amount of gas and oil produced. The 2C resources are potential future development opportunities.	Year-end position of 515% exceeded stretch performance 150%.	
	Build & Grow Initiatives	This metric is focussed on increasing the value of the Company's core asset portfolio through the delivery of commercial, operational and efficiency improvements.	Achievement of stretch performance level for the Build & Grow Initiatives driven by strong performance on WA Sales Growth, Cooper Production Growth and WA Reserve and Resource Growth.	

PERFORMANCE RESULTS FOR 2015 LTI

The performance outcomes for both the ASX100 and S&P Global Energy Index tranches of the 2015 LTI grant (75% and 25% weighting respectively) reflect performance below the 51st percentile. As a result, none of the SARs granted to the recipients in 2015 vested as part of the four-year grant. This reflects the alignment of the Company's LTI program with the interests and long-term returns of shareholders.

Details about how performance targets are set and tested for the purpose of LTI awards are set out on page 38.

SUMMARY OF 5-YEAR COMPANY PERFORMANCE

Table 3 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. As discussed previously, owing to the change in increased degree of difficulty applied to the stretch performance level of the 2018 Company Scorecard. Scorecard results for 2018 are not directly comparable to previous years when expressed relative to maximum. As such, the 2018 result is shown relative to target, and indicative results on this basis are shown for previous years to enable some degree of year-on-year comparisons.

Table 3: Key metrics of Company performance 2014 – 2018

	2014	2015	2016	2017	2018
Injury frequency					
total recordable case frequency rate	3.5	2.8	2.2	3.5	4.5
lost time injury frequency rate (three-year ¹ rolling average)	0.7	0.5	0.4	0.4	0.6
Production (mmboe)	54.1	57.7	61.6	59.5	58.9
Reserve replacement rate – 2P organic (one-year average %)	0	0	19	62	69
Net profit/(loss) after tax ² (\$m)	US\$(630)	US\$(1,953)	US\$(1,047)	US\$(360)	US\$630
Dividends per ordinary share (cents) A\$	35	20	0	0	5
Share price – closing price on first trading day of year	A\$14.63	A\$8.25	A\$3.68	A\$4.02	A\$5.45 ³
LTI performance (% vesting) – shown against final year of performance period	0%	0%	0%	0%	0%
Company Scorecard result expressed as % of target of 100% ^{4,5}	77.3%	89.3%	115.3%	118.0%	138.8%

¹ From the 2015 performance year onwards the figures reflect a rolling three-year average.

² 2014 – 2015 NPAT figures have been translated from A\$ to US\$ at an applicable exchange rate for the year for comparison purposes following the change in the Company's presentation currency in 2016.

³ Closing share price at 31 December 2018 was A\$5.48.

⁴ From 2018, the Company will report its performance relative to a target of 100% (with a maximum score of 167% of target). For comparative purposes in this transitional year, Table 3 presents prior year results for 2014 to 2017 restated relative to target (noting that prior years the maximum score was 133% of target). The previously reported scores were 2014: 58%; 2015: 67%; 2016: 86.5% and 2017: 88.5%. For 2018, the equivalent outcome would be 89.5%.

Remuneration Report

continued

CEO REMUNERATION

TFR

What TFR increases were received in 2018? Following an independent external remuneration benchmarking review, and in consideration of the significant transformation of the Company over his then two-year tenure, the Board decided to increase the CEO's TFR by 5% to A\$1,890,000 (US\$1,412,775) per annum, effective 1 January 2018. This was the first time the CEO received a TFR increase since his commencement in February 2016.

STI

What is the target and maximum STI payment the CEO may receive? As foreshadowed in the 2017 Remuneration Report, the CEO's maximum STI level was increased in 2018 to address the market competitiveness of maximum STI relative to target STI. Maximum STI opportunity is now 167% of target STI opportunity, compared with 133% in previous years. The increased maximum STI level enables greater upside incentive opportunity for exceptional performance, while the target STI level remains unchanged, as shown in the table below.

	2018	2017
Target STI	75% of TFR	75% of TFR
Maximum STI	125% of TFR	100% of TFR

As part of this change for the 2018 performance year, the cash component of any STI award for the CEO was reduced from 70% to 50%, and the deferred equity component was increased from 30% to 50%, restricted for two years.

How is the CEO's STI payment calculated? The CEO's performance is primarily assessed using the Company Scorecard. In determining the CEO's final STI payment for 2018, the Board considered the Company's overall performance, including outcomes outside of the Scorecard. In consideration of these broader outcomes and the leadership shown by the CEO through 2018, as detailed below, the Board assessed Mr Gallagher's performance as outstanding and awarded his 2018 STI at 99.5% of his maximum opportunity.

What individual performance outcomes were considered in determining the CEO's STI for 2018? The Board considered the CEO's performance against a number of categories that were additional contributions beyond the Company Scorecard:

Leadership: The Board considers Mr Gallagher's leadership as a critical factor in the Company's success. The organisational culture has improved during the last two years and Mr Gallagher continues to create a compelling vision for the Company internally and externally. The organisation has laid a foundation for talent and succession development and increasing diversity in the Company.

The CEO plays a key role in safety leadership, setting the tone for the organisation. There has been improvement in personal safety and environmental performance compared with 2017, and continued focus on 'lifting the bar' as reflected through the more challenging KPIs that were set. Mr Gallagher has demonstrated a resolute commitment driving improvements, implementing company-wide safety and integrity standards and processes and addressing unresolved legacy issues, which is setting a solid foundation for future safety performance.

Corporate activity: Mr Gallagher led the business successfully through some significant corporate events in 2018, while continuing the Company's fundamental transformation and exceptional financial performance. Both the Harbour Energy and Quadrant Energy corporate actions were highly significant for Santos and commanded a significant amount of CEO leadership and attention in 2018.

Growing shareholder value: Mr Gallagher continues to lead the creation of shareholder value through improved financial results, increased reserves, and lowering operating costs through improved efficiency, many of which are captured in the Scorecard result. Additionally the CEO has delivered substantial value through strategic and commercial outcomes he has driven, including asset disposals and acquisitions.

Stakeholder engagement: Mr Gallagher was very active in his stakeholder interactions in 2018, ensuring the company has a social licence to operate and advocating for the Company and industry to improve understanding with the community and government. In 2018, circumstances required the CEO to address some specific stakeholder challenges to successfully manage the Harbour defence and Quadrant Energy acquisition.

Future-proofing the business: In responding to increased community concerns about climate change, Mr Gallagher has led the business to improve emissions standards, monitoring and reporting, including improved transparency in the Company's climate change reporting. He has set the Company on a path to deliver innovative projects that will lead to economic and sustainable emission reductions for the Company. These include pilots using solar and battery energy to power wells; and investing in the appraisal of enhanced recovery and carbon capture, utilisation and storage.

A number of these areas relating to sustainability have been incorporated in the Company Scorecard for 2019.

STI (Continued)

How much STI will the CEO receive in respect of 2018 performance?	The STI amount for 2018 awarded to the CEO is US\$1,757,522, which represents 99.5% of maximum STI opportunity. Half (50%) of this STI will be delivered as cash, and the other 50% will be awarded as Deferred Shares, restricted for two years.
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LTI

How much LTI was granted to the CEO in 2018?	The CEO has a maximum LTI opportunity of 150% of TFR allocated on a face value basis. In accordance with the approval of shareholders at the May 2018 Annual General Meeting (AGM), the CEO was granted 520,183 SARs in respect of his 2018 LTI. The performance conditions of the CEO's grant are outlined on pages 37–38 and are the same as the Senior Executives' grant. Note, the CEO had no LTI scheduled to vest in 2018.
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Other remuneration matters

What sign-on grants of equity were provided to the CEO at the time of appointment to Santos?	Mr Gallagher received a sign-on grant of SARs when he commenced employment with Santos in 2016 in recognition of previous incentives foregone from his former employer. The second and final tranche of these sign-on SARs vested in 2018 and have been exercised into shares. Mr Gallagher was not required to pay any amount on conversion of the SARs. This completes the vesting of Mr Gallagher's sign-on grant.
Has the Board made any changes to the CEO's remuneration for 2019?	In light of recent market benchmarking and sustained high performance by the CEO, the Board has approved an increase of 3.5% for the CEO's TFR for the 2019 salary review. The review also indicated that an increase to the CEO's target STI level was required to address market competitiveness. As such, the Board agreed to increase the CEO's STI target for the 2019 performance year to 90% of TFR, with corresponding increase to maximum STI opportunity to 150% of TFR (maintaining the maximum STI level at 167% of target STI).

Termination provisions

What is the CEO's notice period for termination of employment?	The CEO's contract has no fixed term and may be terminated with 12 months' notice by either party. Employment may be ended immediately in certain circumstances including misconduct, incapacity, and mutual agreement or in the event of a fundamental change in the CEO's role or responsibility.
What entitlements are associated with termination of the CEO's employment?	The Company may elect to pay the CEO in lieu of any unserved notice period. If termination is by mutual agreement, the CEO will receive a payment of A\$1,500,000 (US\$1,121,250). In the case of death, incapacity or fundamental change, the CEO is entitled to a payment equivalent to 12 months' base salary.

Remuneration Report

continued

SENIOR EXECUTIVE REMUNERATION

Fixed remuneration

What TFR increases were received in 2018? Mr Neilson, Mr Santostefano and Mr Woods received TFR increases of between 1.5% and 4.2% as a result of market benchmarking of their roles, and changes to their roles and responsibilities. All other Senior Executive TFR levels remained the same.

STI

What are the target and maximum STI payments Executives may receive? In 2018, the maximum STI levels for Senior Executives was increased in response to market benchmarking which indicated maximum levels were low relative to target STI. Maximum STI opportunity is now 167% of target STI opportunity, compared with 133% in previous years. The increase to maximum STI provides greater upside opportunity for exceptional performance, but the target STI opportunity remains substantially unchanged from 2017, as shown in the table below.

	2018	2017
Target STI	54% to 63% of TFR*	53% to 64% of TFR
Maximum STI	90% to 105% of TFR	70% to 85% of TFR

* There is a slight change in target STI for Senior Executives (<1%) due to rounding applied to the increased maximum STI value

As part of this STI change for the 2018 performance year, the cash component of any STI award for Senior Executives was reduced from 70% to 50%, and the deferred equity component was increased from 30% to 50%, restricted for two years.

How are STI payments calculated? All Senior Executives (except Mr Neilson) have STI based on 60% Company and 40% individual performance. As CFO, Mr Neilson has STI based on 80% Company and 20% individual performance.

The Company performance result is based on the Company Scorecard outcomes outlined above. The individual performance assessment is based on performance against a number of financial, operational and qualitative objectives.

All Senior Executives had KPIs relating to environment, health, safety, culture and leadership. Role-specific KPIs by Senior Executive are set out in Table 3 below.

How much STI will be received in respect of 2018 performance? The Company's performance against the 2018 STI Scorecard, as assessed by the Board, resulted in a score of 138.8% of target.

STI outcomes for the Senior Executives ranged from 74% to 83% of their maximum opportunity, depending on their individual performance contribution. Further details of each individual Senior Executive's remuneration is provided in Table 5 "2017 and 2018 CEO and Senior Executive remuneration details" on page 50 and at Table 6 "Senior Executive 2018 STI outcomes" on page 51.

LTI

How much LTI was granted to Executives in 2018? SARs to the face value of 80% of TFR.

What proportion of prior year LTI grants vested in 2018? Nil.

Contractual details

What notice periods are applicable for termination of employment? Senior Executives' service agreements are ongoing until termination by the Company or by the Senior Executive with the provision of six months' notice (with the exception of Mr Clement, who is employed on a two-year fixed-term contract terminable on three months' notice).

What termination benefits apply to all Senior Executives? In a Company-initiated termination, the Company may make a payment in lieu of notice equivalent to the TFR that the Senior Executive would have received over the notice period.

All Senior Executives' service agreements may be terminated immediately for cause, whereupon no payments in lieu of notice or other termination payments are payable under the agreement.

Table 3: Senior Executive role-specific KPIs

Note, some KPIs contain commercially sensitive information that cannot be detailed here.

Senior Executive	KMP role	Role-specific KPIs
BK Woods	EVP Onshore Upstream	<p><i>From 1 Jan to 30 November</i></p> <ul style="list-style-type: none"> ♦ Production volume ♦ Production cost ♦ Development cost ♦ 2C to 2P conversion rate ♦ Wells drilled and connected ♦ Growth strategy implementation <p><i>From 1 December, Mr Woods transitioned into new role of EVP Developments</i></p>
DM Banks	EVP Onshore Upstream <i>from 1 December</i>	<ul style="list-style-type: none"> ♦ KPIs as shown above for Brett Woods in same role
BA Darley	EVP Offshore <i>from 28 November</i>	<ul style="list-style-type: none"> ♦ Production volume ♦ Production cost ♦ Capex ♦ Transition of Quadrant to Santos
B Clement	EVP Conventional Oil and Gas <i>from 1 February to 27 November</i>	<ul style="list-style-type: none"> ♦ Production volume ♦ Production cost ♦ Capex ♦ Capital project milestone delivery ♦ Growth strategy implementation
PA Byrne	EVP Marketing, Trading and Commercial	<ul style="list-style-type: none"> ♦ Sales (LNG, Domestic Gas and Liquids) ♦ LNG trading ♦ Improvements in commercial arrangements
AM Neilson	Chief Financial Officer	<ul style="list-style-type: none"> ♦ Corporate cost reduction ♦ Balance sheet improvement ♦ Capital management ♦ Finance and supply chain systems and structure ♦ Investor relations outcomes
V Santostefano	Chief Operations Officer	<ul style="list-style-type: none"> ♦ Operated processing costs ♦ Low-cost operations and maintenance service delivery ♦ Emissions and wastage reduction programs ♦ Implement operations services functional model

Remuneration Report

continued

TRANSITION OF QUADRANT EMPLOYEES

With the completion of the successful acquisition of Quadrant on 27 November 2018, Santos has commenced the integration of Quadrant's business and staff, including the former Quadrant CEO, Brett Darley.

Santos will honour Quadrant's obligations under Quadrant's legacy short-term and long-term incentive plans and will make payments under those plans in accordance with their terms, including to Mr Darley.

Following completion, Mr Darley was appointed as EVP Offshore and became a Santos Limited employee and KMP from 28 November 2018. Mr Darley has been transitioned to Santos' remuneration arrangements. Accordingly, he will receive a pro-rated Santos STI award and Santos intends to award him a pro-rated Santos LTI award for the period from completion to 31 December 2018¹.

Mr Darley and a number of other Quadrant employees were the beneficial owners of a portion of the Quadrant shares that Santos acquired. The sale proceeds received by Mr Darley do not form part of his remuneration with Santos Limited.

In addition to upfront sale proceeds, Mr Darley's capital ownership in Quadrant entitled him to participate in potential future contingent and royalty payments relating to the Bedout Basin. To ensure his interests are fully aligned with those of Santos' shareholders, Mr Darley (and other relevant employees who transitioned to employment with Santos Limited) have been asked to extinguish their rights to contingent consideration payments (excluding royalty payments) in exchange for grants of SARs. SARs under these grants were not allotted in the 2018 year and hence do not appear in the audited tables in this Report. They will be shown in the 2019 Report.

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. In 2018, the Board reviewed its minimum shareholding requirement and, in order to better align the interests of its non-executive directors and shareholders, updated the requirement such that non-executive directors must acquire (over a four year period) and maintain a shareholding in the Company equal in value to at least one year's remuneration (base fee and committee fees).

Securing and retaining talented, qualified Directors	Promoting independence and impartiality	Aligning Director and shareholder interests
<p>Fee levels are set with regard to:</p> <ul style="list-style-type: none"> time commitment and workload; the risk and responsibility attached to the role; experience and expertise; and market benchmarking. 	<ul style="list-style-type: none"> Fee levels do not vary according to the performance of the Company or individual Director performance from year to year. Non-executive Directors' performance is assessed at the time of re-election. 	<ul style="list-style-type: none"> Santos encourages its non-executive Directors to build a long-term stake in the Company Non-executive Directors are required to acquire and maintain a shareholding in the Company equivalent in value to one year's remuneration.

¹ As part of Mr Darley's transition to Santos' remuneration arrangements, it has been agreed that Mr Darley's unvested Santos SARs will remain on foot if he resigns in the first three years of his employment with Santos.

Maximum aggregate amount

Total fees paid to all non-executive Directors in a year, including Board Committee fees, must not exceed A\$2,600,000 (US\$1,943,500), being the amount approved by shareholders at the 2013 AGM.

Remuneration

In 2018 a benchmarking review of non-executive Director fees was undertaken by an external remuneration provider to ensure market competitiveness, given fees had been unchanged since October 2013. As a result of the benchmarking review, the Directors resolved to increase the fees for Environment, Health, Safety and Sustainability (EHSS) Committee and People and Remuneration Committee (PRC) Chair and members with effect from 1 April 2018, as shown in Table 4 below.

Table 4: Non-executive Directors' annual fee structure¹

	Chair ²	Member
	US\$	US\$
Board	\$374,343	\$123,183
Audit and Risk Committee	\$31,395	\$15,698
Environment, Health, Safety and Sustainability Committee ³	\$21,678	\$14,203
Nomination Committee ⁴	N/A	\$7,475
People and Remuneration Committee ⁵	\$29,153	\$15,698

1 Fees are shown exclusive of superannuation.

2 The Chair of the Board does not receive any additional fees for serving on or chairing any Board committee.

3 EHSS Committee fees for 1 January – 31 March 2018 (prior to benchmarking adjustment) were Chair US\$16,445; Member US\$11,213.

4 The Chair of the Board is the Chair of the Nomination Committee, in accordance with its Charter.

5 PRC fees for 1 January – 31 March 2018 (prior to benchmarking adjustment) were: Chair US\$22,425; Member US\$11,960.

Directors may also be paid additional fees for special duties or exertions, and are entitled to be reimbursed for all business-related expenses. The total remuneration provided to each non-executive Director is shown in Table 12 "2018 and 2017 non-executive Director Remuneration details" on page 54.

Superannuation and retirement benefits

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

Remuneration Report

continued

DETAILED REMUNERATION INFORMATION

Table 5 presents summarised details of the remuneration for the KMPs in 2017 and 2018 as required under the Corporations Act. The current KMPs are the Executives that Santos considers to have the requisite authority and responsibility to meet the definition of key management personnel as required under the Corporations Act.

All remuneration components have been converted from A\$ to US\$ using an average rate of \$0.7475 for 2018 and \$0.7667 for 2017.

Table 5: 2017 and 2018 CEO and Senior Executive remuneration details

	Short-term employee benefits				Post-employment		Share-based payments ¹				Other long-term benefits (long service) ⁵		Total "at risk"	
	Base salary		STI ²	Other ³	Superannuation contributions		LTI	Deferred STI ⁴	Options	Total share-based payments	Termination	Total	Total	%
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	%
KT Gallagher	2018	1,394,088	878,761	4,546	18,688	1,043,352	501,708	-	1,545,060	-	19,011	3,860,154	63%	
	2017	1,357,059	888,759	4,095	23,001	910,807	222,472	-	1,133,234	-	15,559	3,421,707	59%	
DM Banks	2018	39,461	16,669	-	4,143	4,360	4,960	-	9,320	-	-	69,593	37%	
PA Byrne ⁶	2018	504,563	214,308	4,546	18,688	52,900	83,609	-	136,509	-	5,907	884,521	40%	
	2017	198,899	99,211	7,517	9,161	-	13,530	-	13,530	-	-	328,318	34%	
BA Darley	2018	55,844	23,322	818	1,713	-	702	-	702	-	8,390	90,789	26%	
AM Neilson	2018	596,131	259,981	-	18,688	138,018	126,918	-	264,936	-	8,528	1,148,264	46%	
	2017	592,276	324,774	2,013	21,084	155,046	44,274	-	199,320	-	6,649	1,146,116	46%	
V Santostefano	2018	623,836	270,221	4,546	18,688	216,353	159,771	-	376,124	-	8,439	1,301,854	50%	
	2017	630,611	290,809	2,058	21,084	154,858	74,193	-	229,051	-	7,347	1,180,960	44%	
BK Woods	2018	536,331	245,105	4,546	18,688	215,798	143,543	-	359,341	-	17,382	1,181,393	51%	
	2017	511,772	272,639	4,095	21,084	192,764	119,951	-	312,715	-	14,300	1,136,605	52%	
B Clement	2018	419,170	334,058	-	12,511	43,453	20,573	-	64,026	31,145	5,238	866,148	46%	

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 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 72 to the financial statements.

² This amount represents the cash portion of the STI performance award for 2018, which will be paid during March 2019.

³ "Other" comprises ad hoc payments treated as remuneration, such as assignment and mobilisation allowance and other non-monetary benefits.

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

⁵ "Other long-term benefits" represents the movement in the 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.

⁶ Figures shown for Mr Byrne in 2017 are for the period 14 August 2017 to 31 December 2017.

Table 6 presents the individual STI outcomes for Senior Executives in 2018, as a percentage of their maximum STI opportunity.

Table 6: Senior Executive 2018 STI outcomes

Senior Executive	Company : Individual weighting of total performance outcome		STI outcome as a % of maximum STI
	Company Component	Individual Component	
DM Banks	60%	40%	83%
PA Byrne	60%	40%	78%
BA Darley	60%	40%	76%
AM Neilson	80%	20%	80%
V Santostefano	60%	40%	80%
BK Woods	60%	40%	83%
B Clement	60%	40%	74%

Tables 7 and 8 contain details of the number and value of SARs and shares granted, vested and lapsed for the CEO in 2018.

Table 7: 2018 SARs outcomes for CEO

	Granted		Vested ³		Lapsed
	Number ¹	Maximum value ² US\$	Number	Value US\$	Number
SARs	520,183	1,967,514	166,911	636,306	-

1 The number of SARs granted to the CEO relate to his 2018 LTI performance grant as approved at the 2018 Annual General Meeting (AGM). This grant relates to the LTI award for the four-year performance period ending on 31 December 2021.

2 Maximum value represents the fair value of LTI grants received in 2018 determined in accordance with AASB 2 *Share-based Payment*. The fair values of the grant as at the grant date of 7 May 2018 is weighted at a fair value of A\$5.06. Details of the assumptions underlying the valuations are set out in note 7.2 to the financial statements. The minimum total value of the grant to the CEO, if the applicable vesting conditions are not met, is nil in all cases. All values have been converted to US\$.

3 The SARs vested for the CEO relate to the second tranche of his 2016 sign-on grant (vested on 1 February 2018) of which 100% vested. The value of SARs uses the share price of A\$5.10 on the vesting date. All values have been converted to US\$.

Table 8: 2018 Share outcomes for CEO

	Granted		Vested		Lapsed
	Number ¹	Maximum value US\$	Number ²	Value US\$	Number
Shares	93,735	332,117	111,038	454,845	-

1 The restricted shares granted to the CEO relate to his 2017 STI award. The maximum value is the fair value of the 2017 STI grant of deferred shares received in 2018 determined with AASB 2 *Share-based Payment*. The fair value of the deferred 2017 STI grant as at the grant date of 14 March 2018 was A\$4.74. The minimum total value of the restricted shares granted to the CEO is nil. All values have been converted to US\$.

2 This relates to the 2016 STI grant that was deferred for two years from 1 January 2017 to 31 December 2018 and vested in full on 31 December 2018.

Remuneration Report

continued

Tables 9 and 10 contain details of the number and value of SARs and shares granted, vested and lapsed for Senior Executives in 2018. No Senior Executive had any options granted, vesting or lapsing in 2018. No options were exercised in 2018.

Table 9: 2018 SARs outcomes for Senior Executives

	Granted ¹		Vested ³		Lapsed
	Number	Maximum value ²	Number	Value	Number ⁴
		US\$		US\$	
DM Banks	102,752	304,924	-	-	-
PA Byrne	102,752	304,924	-	-	-
BA Darley	-	-	-	-	-
AM Neilson	121,834	361,552	-	-	-
V Santostefano	126,642	375,820	37,870	155,127	-
BK Woods	110,091	326,703	-	-	(53,444)
B Clement	102,752	304,924	-	-	-
Total	666,823	1,978,847	37,870	155,127	(53,444)

1 This relates to the 2018 LTI award.

2 Maximum value represents the fair value of LTI grants received in 2018 determined in accordance with AASB 2 *Share-based Payment*. The fair values of the grant as at the grant date of 21 March 2018 is weighted at a fair value of A\$3.97. Details of the assumptions underlying the valuations are set out in note 7.2 to the financial statements. The minimum total value of the grant to the Senior Executives, if the applicable vesting conditions are not met, is nil in all cases. All values have been converted to US\$.

3 The number vested is the 2016 STI deferred equity component delivered to Mr Santostefano as SARs, which vested on 31 December 2018. The value of Mr Santostefano's 2016 deferred STI is based on the share price of A\$5.48 at the vesting date of 31 December 2018, converted to US\$.

4 Lapsed SARs relate to the 2015 four-year LTI grant.

Table 10: 2018 share outcomes for Senior Executives

	Granted ¹		Vested ³		Lapsed
	Number	Maximum value ²	Number	Value	Number
		US\$		US\$	
DM Banks	-	-	-	-	-
PA Byrne	10,471	37,100	-	-	-
BA Darley	-	-	-	-	-
AM Neilson	34,264	121,402	-	-	-
V Santostefano	30,679	108,700	-	-	-
BK Woods	28,754	101,880	31,558	129,271	-
B Clement	21,245	75,274	-	-	-
Total	125,413	444,356	31,558	129,271	-

1 This relates to the 2017 STI award delivered as restricted shares.

2 For the restricted shares, maximum value represents the fair value of 2017 STI shares determined in accordance with AASB 2 *Share-based Payment*. The fair value of the deferred STI grant as at the grant date of 14 March 2018 was A\$4.74. The minimum total value of the grant, if the applicable vesting conditions are not met, is nil. All values have been converted to US\$.

3 This relates to the 2016 STI grant that was deferred for two years from 1 January 2017 to 31 December 2018 and vested in full on 31 December 2018. The value of the 2016 deferred STI grant is shown using a share price of A\$5.48 on 31 December 2018 converted to US\$.

Table 11 outlines the LTI grants that were tested or still in progress in 2018.

Table 11: LTI grants

Grant year	Grant type	Vesting condition(s)	Performance/ vesting period	Status
2015	Four-year Performance Award	Relative TSR performance against ASX 100 companies (75%) Relative TSR performance against S&P Global Energy Index (GEI) companies (25%)	1 January 2015 to 31 December 2018	Testing complete. Resulted in 0% of the grant vesting.
2016	Four-year Performance Award	Relative TSR performance against ASX 100 companies (25%) Relative TSR performance against S&P GEI companies (25%) FCFBP (25%) ROACE (25%)	1 January 2016 to 31 December 2019	In progress.
2016	CEO sign-on grant	Service based	Second Tranche (24 months) – 1 February 2016 to 31 January 2018	Vested.
2017	Four-year Performance Award	Relative TSR performance against ASX 100 companies (25%) Relative TSR performance against S&P GEI companies (25%) FCFBP (25%) ROACE (25%)	1 January 2017 to 31 December 2020	In progress.
2018	Four-year Performance Award	Relative TSR performance against ASX 100 companies (25%) Relative TSR performance against S&P GEI companies (25%) FCFBP (25%) ROACE (25%)	1 January 2018 to 31 December 2021	In progress.

Full details of all grants made prior to 2018 can be found in note 7.2 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 2018 are set out in Table 12. Other than the committee fee increases noted on page 49, differences in fees received between 2017 and 2018 reflect changes in roles and responsibilities (i.e. Chair or Committee appointments), superannuation payments and currency fluctuations. No share-based payments were made to any non-executive Directors.

Table 12: 2018 and 2017 non-executive Director remuneration details

Director	Year	Short-term benefits			Retirement benefits		Total
		Directors' fees (incl. committee fees)	Fees for special duties or exertions	Other	Superannuation ¹	Share-based payments	
		US\$	US\$	US\$	US\$	US\$	US\$
YA Allen	2018	174,007	-	-	15,167	-	189,174
	2017	156,693	-	-	14,631	-	171,324
PR Coates ²	2018	51,329	-	-	3,746	-	55,075
	2017	384,495	-	-	15,205	-	399,700
GM Cowan	2018	154,759	-	-	14,702	-	169,461
	2017	159,085	-	-	15,068	-	174,153
H Goh	2018	174,748	-	-	410	-	175,158
	2017	170,629	-	-	489	-	171,118
V Guthrie ³	2018	148,667	-	-	14,123	-	162,790
	2017	65,501	-	-	6,223	-	71,724
PR Hearl	2018	165,971	-	-	15,167	-	181,138
	2017	148,734	-	-	14,087	-	162,821
E Shi ⁴	2018	153,824	-	-	15,167	-	168,991
	2017	71,757	-	-	7,074	-	78,831
K Spence ⁵	2018	339,523	-	-	15,167	-	354,690
	2017	-	-	-	-	-	-

¹ Includes superannuation guarantee payments. Superannuation guarantee payments are made to Mr Goh only in relation to days worked in Australia.

² Mr Coates retired from the Board on 19 February 2018.

³ Dr Guthrie joined the Board on 1 July 2017 and was appointed as a member of the People and Remuneration Committee on 30 March 2018.

⁴ Mr Shi joined the Board on 26 June 2017 and was appointed as a member of the PRC on 21 September 2017 and the Audit and Risk Committee on 25 October 2017.

⁵ Mr Spence joined the Board on 1 January 2018 and appointed Chair on 19 February 2018.

KEY MANAGEMENT PERSONNEL EQUITY

(a) Options, SARs and deferred shareholdings

There are no options held by KMPs. Table 13 sets out the movement during the reporting period in the number of SARs and deferred shares of the Company held directly, indirectly or beneficially, by each KMP, including their related parties:

Table 13: 2018 movements in SARs and deferred shareholdings for KMPs

	Opening balance	Granted ¹	Equity ² vested	Other changes ³	Sold/ transferred	Closing balance
SARs						
Executive Director						
KT Gallagher	1,739,872	520,183	(166,911)	-	-	2,093,144
Senior Executives						
DM Banks ⁴	-	103,552	-	-	-	103,552
PA Byrne	-	102,752	-	-	-	102,752
BA Darley	-	-	-	-	-	-
AM Neilson	199,004	121,834	-	-	-	320,838
V Santostefano	383,644	126,642	(37,870)	-	-	472,416
BK Woods	326,697	110,091	(700) ⁵	(53,444)	-	382,644
B Clement	-	102,752	-	(102,752)	-	-
Total	2,649,217	1,187,806	(205,481)	(156,196)	-	3,475,346
Deferred shares						
Executive Director						
KT Gallagher	111,038	93,735	(111,038)	-	-	93,735
Senior Executives						
DM Banks	-	-	-	-	-	-
PA Byrne	-	10,471	-	-	-	10,471
BA Darley	-	-	-	-	-	-
AM Neilson	-	34,264	-	-	-	34,264
V Santostefano	-	30,679	-	-	-	30,679
BK Woods	31,558	28,754	(31,558)	-	-	28,754
B Clement	-	21,245	-	(21,245)	-	-
Total	142,596	219,148	(142,596)	(21,245)	-	197,903

1 SARs and deferred shares granted to the CEO and Senior Executives are disclosed in Tables 6 and 7.

2 All SARs that vested during the year were automatically vested into ordinary shares, with the exception of 116,911 SARs that vested for the CEO. These SARs vested on 1 February 2018 and were subsequently exercised by the CEO.

3 Other changes include SARs that did not vest due to the non-fulfilment of vesting conditions and were forfeited during the year, deferred shares that were forfeited, and changes resulting from individuals ceasing to be and becoming KMPs during the period.

4 Mr Banks previously participated in the Company's general employee share plan prior to becoming a KMP on 1 December 2018, receiving 800 SARs.

5 Mr Woods previously participated in the Company's general employee share plan prior to becoming a KMP in August 2015. In 2018 a total of 700 SARs vested.

Remuneration Report

continued

(b) Share holdings

Table 14 sets out the movements during the reporting period in the number of fully paid ordinary shares of the Company held directly, indirectly or beneficially, by each KMP, including their related parties, is as follows

Table 14: 2018 movements in ordinary shareholdings for KMPs

	Opening balance	Received vesting of SARs	Purchased ¹	Sold	Deferred 2016 STI that vested on 31 December 2018	Other changes	Closing balance	Balance held nominally at end of the year
Ordinary shares – fully paid								
Non-executive Directors								
YA Allen	15,883	-	33,000	-	-	-	48,883	-
PR Coates ²	131,870	-	-	-	-	(131,870)	-	-
GM Cowan	15,000	-	10,000	-	-	-	25,000	-
H Goh	37,215	-	30,000	-	-	-	67,215	-
V Guthrie	-	-	5,000	-	-	-	5,000	-
PR Hearl	48,808	-	-	-	-	-	48,808	-
E Shi	-	-	-	-	-	-	-	-
K Spence	65,000	-	-	-	-	-	65,000	-
Executive Director								
KT Gallagher	341,614	166,911	-	-	111,038	-	619,563	-
Senior Executives								
DM Banks ³	-	-	-	-	-	800	800	-
PA Byrne	5,804	-	-	-	-	-	5,804	-
BA Darley	-	-	-	-	-	-	-	-
AM Neilson	23,777	-	-	-	-	-	23,777	-
V Santostefano	24,179	37,870	-	-	-	-	62,049	-
BK Woods	76,919	700	-	-	31,558	-	109,177	-
B Clement	-	-	-	-	-	-	-	-
Total	786,069	205,481	78,000	-	142,596	(131,070)	1,081,076	-

¹ Includes purchases on market during trading windows.

² Mr Coates' changes result from ceasing to be KMP during the period.

³ Mr Banks received 800 shares through participation in the Company's general share plan prior to becoming a KMP.

(c) Loans to key management personnel

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

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 permit the Company to indemnify an officer for any liability involving a lack of good faith.

Rule 61 also permits the Company to purchase and maintain a Directors' and Officers' insurance policy.

In conformity with Rule 61, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report who held office during the year and certain Senior Executives of the consolidated entity. The indemnities operate to the full extent permitted by law and are not subject to a monetary limit. Santos is not aware of any liability having arisen, and no claims have been made during or since the financial year ending 31 December 2018 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 2018, 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 2019. 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

Amounts paid or payable to the Company's auditor, Ernst & Young, for non-audit services provided during the year were:

Taxation and other services	\$1,708,000
Assurance services	\$212,000

The Directors are satisfied, based on the advice of the Audit and Risk Committee, that the provision of the non-audit services detailed above by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

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

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out on page 135.

ROUNDING

Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies to the Company. Accordingly, amounts have been rounded off in accordance with that Instrument, unless otherwise indicated.

This report is made out on 20 February 2019 in accordance with a resolution of the Directors.



Director

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Consolidated Income Statement

for the year ended 31 December 2018

	Note	2018 US\$million	(Restated) 2017 US\$million
Revenue from contracts with customers – Product sales	2.2	3,660	3,100
Cost of sales	2.3	(2,329)	(2,303)
Gross profit		1,331	797
Revenue from contracts with customers – Other	2.2	113	98
Other income	2.7	180	125
Impairment of non-current assets	3.3	(100)	(938)
Other expenses	2.3	(194)	(408)
Finance income	5.2	30	24
Finance costs	5.2	(258)	(294)
Share of net profit of joint ventures	6.3(c)	4	11
Profit/(loss) before tax		1,106	(585)
Income tax (expense)/benefit	2.4(a)	(439)	211
Royalty-related tax (expense)/benefit	2.4(b)	(37)	14
Total tax (expense)/benefit		(476)	225
Net profit/(loss) for the period attributable to owners of Santos Limited		630	(360)
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic profit/(loss) per share	2.5	30.2	(17.3)
Diluted profit/(loss) per share	2.5	30.0	(17.3)
Dividends per share (¢)			
Paid during the period	2.6	3.5	–
Declared in respect of the period	2.6	9.7	–

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 2018

	2018 US\$million	2017 US\$million
Net profit/(loss) for the period	630	(360)
Other comprehensive income, net of tax		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Exchange (loss)/gain on translation of foreign operations	(245)	168
Foreign currency translation reserve recycled to the income statement	(72)	–
Tax effect	–	–
	(317)	168
(Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations	(171)	191
Tax effect	51	(57)
	(120)	134
Gain/(loss) on derivatives designated as cash flow hedges	4	(3)
Tax effect	(1)	1
	3	(2)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(434)	300
<i>Items not to be reclassified to profit or loss in subsequent periods</i>		
Remeasurement of defined benefit obligation	3	–
Tax effect	(1)	–
	2	–
Loss on financial liabilities at fair value through other comprehensive income (FVOCI)	–	(32)
Tax effect	–	11
	–	(21)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	2	(21)
Other comprehensive (loss)/income, net of tax	(432)	279
Total comprehensive income/(loss) attributable to owners of Santos Limited	198	(81)

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 2018

	Note	2018 US\$million	2017 US\$million
Current assets			
Cash and cash equivalents	4.1	1,316	1,231
Trade and other receivables	4.2	521	440
Prepayments		32	28
Inventories	4.3	288	266
Other financial assets	5.5(g)	28	–
Tax receivable		13	7
Total current assets		2,198	1,972
Non-current assets			
Prepayments		16	17
Contract assets	2.2(b)	137	–
Investments in joint ventures	6.3(b)	31	43
Other financial assets	5.5(g)	31	134
Exploration and evaluation assets	3.1	1,004	459
Oil and gas assets	3.2	11,224	9,536
Other land, buildings, plant and equipment		119	126
Deferred tax assets	2.4(d)	1,746	1,419
Goodwill	6.2(a)	628	–
Total non-current assets		14,936	11,734
Total assets		17,134	13,706
Current liabilities			
Trade and other payables	4.4	661	495
Other liabilities		3	–
Contract liabilities	2.2(b)	32	8
Interest-bearing loans and borrowings	5.1	967	207
Current tax liabilities		63	17
Provisions	3.4	116	142
Other financial liabilities	5.5(g)	6	82
Total current liabilities		1,848	951
Non-current liabilities			
Other liabilities		2	1
Contract liabilities	2.2(b)	268	113
Interest-bearing loans and borrowings	5.1	3,952	3,736
Deferred tax liabilities	2.4(d)	1,614	240
Provisions	3.4	2,147	1,494
Other financial liabilities	5.5(g)	24	20
Total non-current liabilities		8,007	5,604
Total liabilities		9,855	6,555
Net assets		7,279	7,151
Equity			
Issued capital	5.3	9,031	9,034
Reserves	5.4	607	51
Accumulated losses	5.4	(2,359)	(1,934)
Equity attributable to owners of Santos Limited		7,279	7,151
Total equity		7,279	7,151

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 2018

	Note	2018 US\$million	2017 US\$million
Cash flows from operating activities			
Receipts from customers		3,740	3,217
Dividends received		6	12
Pipeline tariffs and other receipts		106	66
Payments to suppliers and employees		(1,816)	(1,611)
Restoration expenditure		(36)	(37)
Exploration and evaluation seismic and studies		(98)	(71)
Royalty and excise paid		(85)	(57)
Borrowing costs paid		(194)	(254)
Income taxes paid		(69)	(28)
Royalty-related taxes paid		(13)	(15)
Other operating activities		37	26
Net cash provided by operating activities	4.1(b)	1,578	1,248
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		(66)	(146)
Oil and gas assets		(490)	(483)
Other land, buildings, plant and equipment		(10)	(5)
Acquisitions of oil and gas assets		(10)	(49)
Acquisition of subsidiary, net of cash acquired	6.2(a)	(1,933)	–
Costs associated with acquisition of subsidiaries		(10)	–
Proceeds from disposal of non-current assets	2.7	26	145
Proceeds from disposal of subsidiaries	6.2(b)	126	–
Borrowing costs paid		(6)	(6)
Other investing activities		–	10
Net cash used in investing activities		(2,373)	(534)
Cash flows from financing activities			
Dividends paid		(73)	–
Drawdown of borrowings		1,193	783
Repayment of borrowings		(220)	(2,442)
Net proceeds from issues of ordinary shares		–	149
Purchase of shares on-market (Treasury shares)		(10)	(8)
Net cash provided by/(used in) financing activities		890	(1,518)
Net increase/(decrease) in cash and cash equivalents		95	(804)
Cash and cash equivalents at the beginning of the period		1,231	2,026
Effects of exchange rate changes on the balances of cash held in foreign currencies		(10)	9
Cash and cash equivalents at the end of the period	4.1	1,316	1,231

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 2018

Equity attributable to owners of Santos Limited								
	Note	Issued capital US\$million	Translation reserve US\$million	Hedging reserve US\$million	Financial liabilities at FVOCI US\$million	Accumulated profits reserve US\$million	Accumulated losses US\$million	Total equity US\$million
Balance at 1 January 2017		8,883	(830)	7	–	313	(1,298)	7,075
Transfer retained profits to accumulated profits reserve	5.4	–	–	–	–	282	(282)	–
<i>Items of comprehensive income</i>								
Loss for the period		–	–	–	–	–	(360)	(360)
Other comprehensive income/(loss) for the period		–	302	(2)	(21)	–	–	279
Total comprehensive income/(loss) for the period		–	302	(2)	(21)	–	(360)	(81)
<i>Transactions with owners in their capacity as owners</i>								
Shares issued	5.3	151	–	–	–	–	–	151
On-market share purchase (Treasury shares)	5.3	(8)	–	–	–	–	–	(8)
Share-based payment transactions	7.2	8	–	–	–	–	6	14
Balance at 31 December 2017		9,034	(528)	5	(21)	595	(1,934)	7,151
Balance at 1 January 2018		9,034	(528)	5	(21)	595	(1,934)	7,151
Transfer retained profits to accumulated profits reserve	5.4	–	–	–	–	1,063	(1,063)	–
<i>Items of comprehensive income</i>								
Profit for the period		–	–	–	–	–	630	630
Other comprehensive (loss)/income for the period		–	(437)	3	–	–	2	(432)
Total comprehensive (loss)/income for the period		–	(437)	3	–	–	632	198
<i>Transactions with owners in their capacity as owners</i>								
Dividends paid	2.6	–	–	–	–	(73)	–	(73)
On-market share purchase (Treasury shares)	5.3	(10)	–	–	–	–	–	(10)
Share-based payment transactions	7.2	7	–	–	–	–	6	13
Balance at 31 December 2018		9,031	(965)	8	(21)	1,585	(2,359)	7,279

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 2018

Section 1: Basis of Preparation

This section provides information about the basis of preparation of the financial report, and certain accounting policies that are not disclosed elsewhere in the financial report. Accounting policies specific to individual elements of the financial statements are located within the relevant section of the report.

1.1 STATEMENT OF COMPLIANCE

The consolidated financial report of Santos Limited ("the Company") for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on 20 February 2019.

The consolidated financial report of the Company for the year ended 31 December 2018 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.

This consolidated financial report is:

- a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB");
 - compliant with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including new and amended accounting standards issued and effective for reporting periods beginning on or after 1 January 2018;
 - presented in United States dollars ("US\$");
 - prepared on the historical cost basis except for derivative financial instruments, fixed-rate notes that are hedged by an interest rate swap or a cross-currency swap, and financial assets not recorded at amortised cost, which are measured at fair value; and
 - rounded to the nearest million dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.
-

1.2 KEY EVENTS IN THE CURRENT PERIOD

The financial position and performance of the Group was particularly impacted by the following events and transactions during the year:

- production of 58.9 mmboe (2017: 59.5 mmboe), and sales of 78.3 mmboe (2017: 83.4 mmboe);
 - sale of non-core assets resulting in \$152 million in proceeds with a gain on disposal of \$112 million;
 - average realised oil price of \$75.05 per barrel compared to \$57.85 per barrel in 2017;
 - net debt increased to \$3,549 million at 31 December 2018, from \$2,731 million at 31 December 2017; and
 - acquisition of 100% of the shares in Quadrant Energy Holdings Pty Ltd ("Quadrant Energy"), which completed on 27 November 2018 for purchase consideration of \$2.15 billion.
-

1.3 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 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 disclosed in the following notes:

- Note 2.2 Revenue from contracts with customers
- Note 2.4 Taxation
- Note 3.1 Exploration and evaluation assets
- Note 3.2 Oil and gas assets
- Note 3.3 Impairment of non-current assets
- Note 3.4 Restoration obligations and other provisions
- Note 6.2 Acquisitions and disposals of subsidiaries

In addition to the significant judgements referenced above, other areas of estimation and judgement are highlighted throughout the financial report.

Notes to the Consolidated Financial Statements

Section 1: Basis of Preparation

1.4 FOREIGN CURRENCY

Functional and presentation currency

The Group's financial statements are presented in United States dollars ("US\$"), as that presentation currency most reliably reflects the global business performance of the Group as a whole and is more comparable with our peers.

The functional currency of the Parent is Australian dollars ("A\$").

The assets, liabilities, income and expenses of non-US dollar denominated functional operations are translated into US dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average rate prevailing for the relevant period
Assets and liabilities	Period-end rate
Equity	Historical rate
Reserves	Historical and period-end rate
Statement of cash flows	Average rate prevailing for the relevant period

Foreign exchange differences resulting from translation to presentation currency are initially recognised in the foreign currency translation reserve and subsequently transferred to the income statement on disposal of the operation.

The period-end exchange rate used was A\$/US\$ 1:0.7044 (2017: 1:0.7809).

Transactions and balances

Transactions in currencies other than an entity's functional currency 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 currencies other than an entity's functional currency 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 currencies other than an entity's functional currency are translated using the exchange rate at the date of the initial transaction. Non-monetary assets and liabilities denominated in currencies other than an entity's functional currency 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 (the functional currency of the Parent) 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.

Also refer to note 5.5(c) Foreign currency risk for further details on the net investment hedge in place.

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

This section focuses on the operating results and financial performance of the Group. It includes disclosures of segmental financial information, taxes, dividends and earnings per share, including the relevant accounting policies adopted in each area.

2.1 SEGMENT INFORMATION

The Group has identified its operating segments to be the five key assets/operating areas of the Cooper Basin, Queensland & NSW, Papua New Guinea ("PNG"), Northern Australia, and Western Australia, based on the nature and geographical location of the assets, plus Asia and "Other" non-core assets. 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 assets acquired as part of the Quadrant acquisition have been incorporated into the Western Australia segment, since acquisition date of 27 November 2018.

Segment performance is measured based on earnings before interest, tax, impairment, exploration and evaluation, depletion, depreciation and amortisation ("EBITDAX"). Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

Changes to segment information

As at 1 January 2018, the "Other" reporting segment was restructured to comprise Santos' Asian assets only. New South Wales entered the core portfolio and is now reported under the segment "Queensland & NSW" and WA Oil is now reported under the segment "Western Australia". Comparative disclosures have been restated to a consistent basis.

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

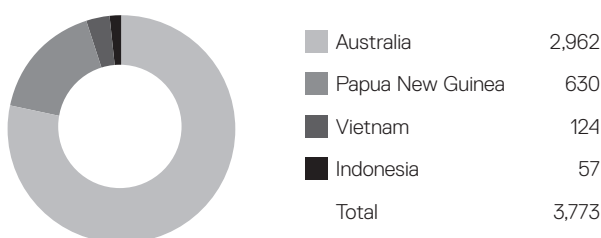
2.1 SEGMENT INFORMATION (CONTINUED)

US\$million	Cooper	Queensland	PNG	Northern	Western	Corporate, exploration, eliminations		Total 2018
	Basin 2018	& NSW 2018		Australia 2018	Australia 2018	Asia 2018	& other 2018	
Revenue								
Sales to external customers	975	957	621	183	408	181	335	3,660
Inter-segment sales ¹	105	47	–	–	–	–	(152)	–
Revenue – other from external customers	66	12	9	–	14	–	12	113
Total segment revenue	1,146	1,016	630	183	422	181	195	3,773
Costs								
Production costs	(127)	(71)	(70)	(74)	(108)	(42)	18	(474)
Other operating costs	(68)	(80)	(52)	–	(17)	(11)	(87)	(315)
Third-party product purchases	(421)	(293)	–	–	–	–	(133)	(847)
Inter-segment purchases ¹	(3)	(33)	–	–	–	–	36	–
Other	(9)	31	(2)	7	(14)	51	(41)	23
EBITDAX	518	570	506	116	283	179	(12)	2,160
Depreciation and depletion	(196)	(167)	(123)	(51)	(99)	(13)	(18)	(667)
Exploration and evaluation expensed	–	–	–	–	–	–	(105)	(105)
Net impairment loss	–	(12)	(33)	–	(8)	(47)	–	(100)
Change in future restoration assumptions	–	22	–	–	24	–	–	46
EBIT	322	413	350	65	200	119	(135)	1,334
Net finance costs	–	–	–	–	–	–	(228)	(228)
Profit before tax	–	–	–	–	–	–	–	1,106
Income tax expense	–	–	–	–	–	–	(439)	(439)
Royalty-related tax benefit/(expense)	5	6	–	1	(56)	–	7	(37)
Net profit								630
Asset additions and acquisitions:								
Exploration and evaluation assets	18	14	30	35	613	–	5	715
Oil and gas assets ²	215	195	47	30	2,230	–	2	2,719
	233	209	77	65	2,843	–	7	3,434

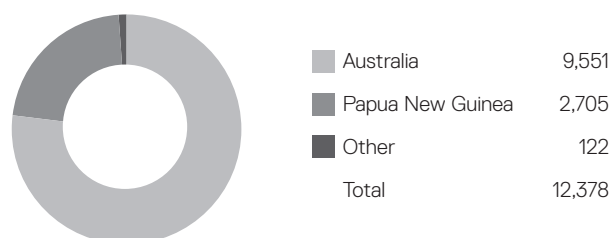
¹ Inter-segment pricing is determined on an arm's length basis. Inter-segment sales and purchases are eliminated on consolidation.

² Includes impact on restoration assets following changes in future restoration provision assumptions (refer note 3.4).

2018 Revenue from external customers by geographical location
US\$million



2018 Non-current assets by geographical location (excluding financial and deferred tax assets)
US\$million



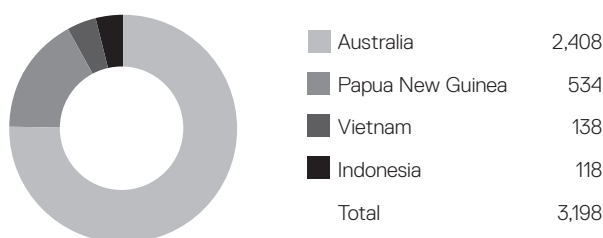
2.1 SEGMENT INFORMATION (CONTINUED)

US\$million	Cooper	Queensland	PNG	Northern	Western	Corporate, exploration, eliminations	Total	
	Basin	& NSW		Australia	Australia			
	2017	2017	2017	2017	2017	Asia	& other	
	2017	2017	2017	2017	2017	2017	2017	
Revenue								
Sales to external customers	746	729	526	153	324	256	366	3,100
Inter-segment sales ¹	50	29	–	–	–	–	(79)	–
Revenue – other from external customers	55	11	8	–	28	–	(4)	98
Total segment revenue	851	769	534	153	352	256	283	3,198
Costs								
Production costs	(134)	(68)	(55)	(75)	(107)	(68)	26	(481)
Other operating costs	(88)	(73)	(46)	–	(20)	(12)	(71)	(310)
Third-party product purchases	(230)	(275)	(1)	–	–	–	(221)	(727)
Inter-segment purchases ¹	(1)	(34)	–	–	–	–	35	–
Other	(69)	3	–	9	(1)	1	(195)	(252)
EBITDAX	329	322	432	87	224	177	(143)	1,428
Depreciation and depletion	(195)	(196)	(113)	(54)	(91)	(69)	(24)	(742)
Exploration and evaluation expensed	–	–	–	–	–	–	(94)	(94)
Net impairment reversal/(loss)	479	(1,248)	(4)	–	(6)	(154)	(5)	(938)
Change in future restoration assumptions	–	5	1	–	25	–	–	31
EBIT	613	(1,117)	316	33	152	(46)	(266)	(315)
Net finance costs							(270)	(270)
Loss before tax								(585)
Income tax benefit							211	211
Royalty-related tax benefit/(expense)	5	4	–	20	(32)	–	17	14
Net loss								(360)
Asset additions and acquisitions:								
Exploration and evaluation assets	11	15	58	44	(1)	10	5	142
Oil and gas assets ²	146	198	9	(5)	90	9	(1)	446
	157	213	67	39	89	19	4	588

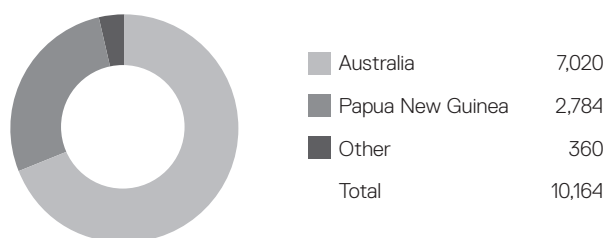
1 Inter-segment pricing is determined on an arm's length basis. Inter-segment sales and purchases are eliminated on consolidation.

2 Includes impact on restoration assets following changes in future restoration provision assumptions (refer note 3.4).

**2017 Revenue from external customers
by geographical location**
US\$million



**2017 Non-current assets by geographical location
(excluding financial and deferred tax assets)**
US\$million



Notes to the Consolidated Financial Statements

Section 2: Financial Performance

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised in the income statement when the performance obligations are considered met, which is when control of the hydrocarbon products or services provided are transferred to the customer. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar taxes.

Product sales

Sales revenue is recognised using the "sales method" of accounting. The sales method results in revenue being recognised based on volumes sold under contracts with customers, at the point in time where performance obligations are considered met. Generally, regarding the sale of hydrocarbon products, the performance obligation will be met when the product is delivered to the specified measurement point (gas) or point of loading/unloading (liquids). No adjustments are made to revenue for any differences between volumes sold to customers and unsold volumes which the Group is entitled to sell based on its working interest.

The Group's sales of crude oil, liquefied natural gas, ethane, condensate, LPG, and in some contractual arrangements, natural gas, are based on market prices. In contractual arrangements with market based pricing, at the time of the delivery, there is only a minimal risk of a change in transaction price to be allocated to the product sold. Accordingly, at the point of sale where there is not a significant risk of revenue reversal relative to the cumulative revenue recognised, there is no constraining of variable consideration.

The Group applies the allocation exception that allows an entity to allocate the market price to product sales as delivered, rather than recognising an average price over the term of the contract. For those contractual arrangements based on market pricing, the aggregate transaction price allocation to unsatisfied performance obligations is fully constrained at the end of the reporting period. Revenue for existing contracts will be recognised over varying contract tenures.

During the year, revenue from one customer amounted to \$489 million (2017: \$358 million), arising from sales from one segment of the Group.

Contract liabilities

A contract liability for deferred revenue is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received. Where the period between when payment is received and performance obligations are considered met, is more than 12 months, an assessment will be made for whether a significant financing component is required to be accounted for. Deferred revenue liabilities unwind as "revenue from contracts with customers", upon settlement of the obligation, and if a significant financing component associated with deferred revenue exists, this will be recognised as interest expense over the life of the contract.

On acquisition of Quadrant Energy (refer note 6.2), pre-existing revenue contracts were fair valued, resulting in contract liabilities being recognised. The contract liabilities represent the differential in contract pricing and market price, and will be realised as performance obligations are considered met in the underlying revenue contract. To the extent the contract liability represents the fair value differential between contract price and market price, it will be unwound through "other revenue".

Contract assets

On acquisition of Quadrant Energy (refer note 6.2), pre-existing revenue contracts were fair valued, resulting in contract assets being recognised. The contract assets represent the differential in contract pricing and market price, and will be realised as performance obligations are considered met in the underlying revenue contract. The contract asset will be unwound through "other expenses". Where different tranches exist within a contractual arrangement, individual contracts acquired may contain both a contract liability in respect of deferred revenue and a contract asset arising from revenue contracts being fair valued on acquisition. These amounts have been shown separately in the table below.

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(a) Revenue from contracts with customers	2018	(Restated) 2017
	US\$million	US\$million
Product sales		
Gas, ethane and liquefied natural gas	2,518	2,198
Crude oil	757	579
Condensate and naphtha	300	235
Liquefied petroleum gas	85	88
Total product sales¹	3,660	3,100
Revenue – other		
Liquidated damages	11	28
Pipeline tolls and tariffs	84	54
Other	18	16
Total revenue – other	113	98
Total revenue from contracts with customers	3,773	3,198

¹ Total product sales include third-party product sales of \$997 million (2017: \$926 million).

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	2018	2017
	US\$million	US\$million
Contract assets		
Non-current		
Acquired contract assets	137	–
Total contract assets	137	–
Contract liabilities		
Current		
Deferred revenue	7	8
Acquired deferred revenue	25	–
	32	8
Non-current		
Deferred revenue	124	113
Acquired deferred revenue	111	–
Acquired contract liabilities	33	–
	268	113
Total contract liabilities	300	121

The following table illustrates the revenue recognised in the current reporting period relating to carried-forward deferred revenue balances:

Deferred revenue	2018	2017
	US\$million	US\$million
Revenue recognised that was included in the deferred revenue balances at the beginning of the period:		
Gas, ethane and liquefied natural gas	4	–
Total	4	–

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

2.3 EXPENSES

	2018 US\$million	(Restated) 2017 US\$million
Cost of sales		
Production costs		
Production expenses	436	412
Production facilities – operating leases	38	69
Total production costs	474	481
Other operating costs		
LNG plant costs	64	63
Pipeline tariffs, processing tolls and other	133	181
Movements in onerous contracts	18	(16)
Royalty and excise	82	64
Shipping costs	18	18
Total other operating costs	315	310
Total cash cost of production	789	791
Depreciation and depletion		
Depreciation of plant, equipment and buildings	417	472
Depletion of subsurface assets	248	268
Total depreciation and depletion	665	740
Third-party product purchases	847	727
Decrease in product stock	28	45
Total cost of sales	2,329	2,303
Other expenses		
Selling	14	15
Corporate	75	84
Costs associated with acquisitions and disposals	58	–
Depreciation	2	2
Foreign exchange (gains)/losses	(146)	153
Fair value hedges losses/(gains)		
On the hedging instrument	17	43
On the hedged item attributable to the hedged risk	(15)	(57)
Fair value losses on commodity derivatives (oil hedges)	67	63
Exploration and evaluation expensed	105	94
Other	17	11
Total other expenses	194	408

2.4 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 in relation to items recognised directly 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.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Where applicable, provisions include an estimate of any amounts expected to be paid to settle uncertain tax positions if it is probable that an amount will settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of an amount of tax payable to be reimbursed, the expense relating to the income tax payable is presented in the statement of profit or loss net of any reimbursement that is virtually certain. If the effect of the time value of money is material, current tax payable is discounted.

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. The head entity and the controlled entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. 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 and a tax sharing agreement.

Royalty-related tax

Petroleum Resource Rent Tax ("PRRT"), Resource Rent Royalty and Timor Leste's and PNG's Additional Profits Tax are accounted for as income tax.

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

2.4 TAXATION (CONTINUED)

Current income tax and royalty-related tax recognised in the income statement for the Group are as follows:

	2018 US\$million	2017 US\$million
(a) Income tax expense/(benefit)		
<i>Current tax expense/(benefit)</i>		
Current year	70	144
Adjustments for prior years	(4)	(5)
	66	139
<i>Deferred tax expense/(benefit)</i>		
Origination and reversal of temporary differences	365	(336)
Adjustments for prior years	8	(14)
	373	(350)
Total income tax expense/(benefit)	439	(211)
(b) Royalty-related tax expense/(benefit)		
<i>Current tax expense</i>		
Current year	36	9
	36	9
<i>Deferred tax expense/(benefit)</i>		
Origination and reversal of temporary differences	1	(23)
	1	(23)
Total royalty-related tax expense/(benefit)	37	(14)
(c) Numerical reconciliation between pre-tax net profit/(loss) and tax expense/(benefit)		
Profit/(loss) before tax	1,106	(585)
Prima facie income tax expense/(benefit) at 30% (2017: 30%)	332	(176)
Increase/(decrease) in income tax expense/(benefit) due to:		
Foreign losses not recognised	4	51
Non-deductible expenses	3	5
Exchange and other translation variations	99	(71)
Tax adjustments relating to prior years	4	(19)
Other	(3)	(1)
Income tax expense/(benefit)	439	(211)
Royalty-related tax expense/(benefit)	37	(14)
Total tax expense/(benefit)	476	(225)

2.4 TAXATION (CONTINUED)

(d) Deferred tax assets and liabilities

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 or taxable profit; nor
- 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.

Significant judgement – Deferred taxes recognised

The calculation of the Group's tax charge involves a degree of estimation and judgement in respect of certain items for which the ultimate tax determination is uncertain.

The Group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Future taxable profits are estimated by internal budgets and forecasts. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	Assets		Liabilities		Net	
	2018 US\$million	2017 US\$million	2018 US\$million	2017 US\$million	2018 US\$million	2017 US\$million
Exploration and evaluation assets	57	49	(47)	(46)	10	3
Oil and gas assets	1	116	(179)	–	(178)	116
Other assets	26	75	(52)	(115)	(26)	(40)
Derivative financial instruments	–	6	(16)	–	(16)	6
Interest-bearing loans and borrowings	126	66	–	–	126	66
Provisions	56	51	–	–	56	51
Royalty-related tax	–	–	(25)	(15)	(25)	(15)
Other items	–	–	(69)	(54)	(69)	(54)
Provisional deferred tax arising on acquisition	699	–	(1,327)	–	(628)	–
Tax value of carry-forward losses recognised	882	1,046	–	–	882	1,046
Tax assets/(liabilities)	1,847	1,409	(1,715)	(230)	132	1,179
Set-off of tax	(101)	10	101	(10)	–	–
Net tax assets	1,746	1,419	(1,614)	(240)	132	1,179

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

2.4 TAXATION (CONTINUED)

(d) Deferred tax assets and liabilities (continued)

Accounting judgement and estimate – Deferred taxes unrecognised

Deferred tax assets have not been recognised in respect of the following items set out below, 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. There are no tax losses (2017: \$65 million) which will expire between 2021 and 2028. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

Unrecognised deferred tax assets	2018 US\$million	2017 US\$million
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences in relation to investments in subsidiaries	4,500	4,705
Deductible temporary differences relating to royalty-related tax (net of income tax)	5,858	5,751
Other deductible temporary differences	–	162
Tax losses	228	327
	10,586	10,945

2.5 EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by adjusting basic earnings per share by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2018 US\$million	2017 US\$million
Earnings used in the calculation of basic and diluted earnings per share	630	(360)

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

	2018 Number of shares	2017 Number of shares
Basic earnings per share	2,083,028,582	2,078,858,067
Dilutive potential ordinary shares ¹	15,065,580	–
Diluted earnings per share	2,098,094,162	2,078,858,067

Earnings per share attributable to the equity holders of Santos Limited

	2018 ¢	2017 ¢
Basic earnings per share	30.2	(17.3)
Diluted earnings per share	30.0	(17.3)

¹ Due to a net loss after tax in 2017, potential ordinary shares are anti-dilutive and therefore excluded from the calculation of diluted earnings per share.

2.6 DIVIDENDS

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

Dividends recognised during the year	Franked/ unfranked	Dividend per share US¢	Total US\$million
2018			
Interim 2018 ordinary – paid on 27 September 2018	Franked	3.5	73
		3.5	73

2017

No dividends were recognised during 2017.

Dividends declared in respect of the year	Franked/ unfranked	Dividend per share US¢	Total US\$million
2018			
Final dividend per ordinary share	Franked	6.2	129
Interim dividend per ordinary share	Franked	3.5	73
		9.7	202

2017

No dividends were declared in respect of 2017.

Dividend franking account	2018 US\$million	2017 US\$million
30% franking credits available to the shareholders of Santos Limited for future distribution, after adjusting for franking credits which will arise from the refund of the current tax receivable at 31 December	331	399

Notes to the Consolidated Financial Statements

Section 2: Financial Performance

2.7 OTHER INCOME

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

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.

	Note	2018 US\$million	(Restated) 2017 US\$million
Other income			
Change in future restoration assumptions	3.4	46	31
Gain on sale of non-current assets		56	79
Gain on disposal of subsidiaries	6.2(b)	56	–
Other		22	15
Total other income		180	125
Net gain on sale of non-current assets:			
Proceeds on disposals		26	145
<i>Adjusted for:</i>			
Book value of exploration and evaluation liabilities disposed		–	2
Book value of oil and gas liabilities/(assets) disposed		34	(62)
Book value of other land, buildings, plant and equipment disposed		(4)	(4)
Book value of working capital disposed		–	(2)
Total net gain on sale of non-current assets		56	79
Comprising:			
Net gain on sale of exploration and evaluation assets		–	10
Net gain on sale of oil and gas assets		52	60
Net gain/(loss) on sale of other land, buildings, plant and equipment		4	(1)
Net gain on liquidation of controlled entities		–	10
		56	79
Reconciliation to cash inflows from proceeds on disposal of non-current assets:			
Proceeds after recoupment of current year exploration and evaluation expenditure		26	145
Amounts receivable		–	–
		26	145
Amounts received from disposals		26	145
Total proceeds on disposal of non-current assets		26	145
Comprising:			
Proceeds from disposal of exploration and evaluation assets		–	3
Proceeds from disposal of oil and gas assets		18	134
Proceeds from disposal of other land, buildings, plant and equipment		8	8
		26	145

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

This section includes information about the assets used by the Group to generate profits and revenue, specifically information relating to exploration and evaluation assets, oil and gas assets, associated restoration obligations and commitments for capital expenditure not yet recognised as a liability.

The life cycle of the Group's assets is summarised as follows:



3.1 EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. 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 cost of successful wells and appraisal costs relating to determining development feasibility, which are capitalised as intangible exploration and evaluation assets.

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

- such expenditure is expected to be recovered through successful development and commercial exploitation of the area of interest or, alternatively, by its sale; or
- the exploration activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

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

No amortisation is charged during the exploration and evaluation phase.

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.

Exploration licence and leasehold property acquisition costs are capitalised as intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

3.1 EXPLORATION AND EVALUATION ASSETS (CONTINUED)

Significant judgement – Exploration and evaluation

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 resources 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 impaired through the income statement.

	2018 US\$million	2017 US\$million
Cost	1,546	2,012
Less: Impairment	(542)	(1,553)
Balance at 31 December	1,004	459
Reconciliation of movements		
Balance at 1 January	459	495
Acquisitions	628	48
Additions	87	94
Disposals	(2)	–
Expensed	(10)	(17)
Impairment losses	(129)	(163)
Transfer to oil and gas assets in production	–	(13)
Exchange differences	(29)	15
Balance at 31 December	1,004	459
Comprising:		
Acquisition costs	687	95
Successful exploration wells	221	253
Pending determination of success	96	111
	1,004	459

3.2 OIL AND GAS ASSETS

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

Assets in development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated and approval of commercial development occurs, the field enters its development phase from the exploration and evaluation phase. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, as well as exploration and evaluation costs, are capitalised as tangible assets within oil and gas assets. Other subsurface expenditures include the costs of de-watering coal seam gas fields to provide access to coal seams to enable production from coal seam gas reserves. De-watering costs include the costs of extracting, transporting, treating and disposing of water during the development phase of the coal seam gas fields.

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

3.2 OIL AND GAS ASSETS (CONTINUED)

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.

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 note in 3.1. Exploration and evaluation amounts capitalised in respect of oil and gas assets are separately disclosed in the table below.

Depreciation and depletion

Depreciation charges are calculated to write-off the 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.

Depreciation of onshore buildings, plant and equipment and corporate assets is calculated using the straight-line method of depreciation from the date the asset is available for use, unless a units of production method represents a more reasonable allocation of the asset's depreciable value 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
- ♦ Pipelines 10 – 30 years
- ♦ Plant and facilities 10 – 50 years

Depreciation of offshore plant and equipment is calculated using the units of production method from the date of commencement of production.

Depletion charges are calculated to amortise the depreciable value of carried forward exploration, evaluation and subsurface development expenditure over the life of the estimated Proved plus Probable ("2P") reserves for a hydrocarbon reserve, together with future subsurface costs necessary to develop the respective hydrocarbon reserve.

Significant judgement – Estimates of reserve quantities

The estimated quantities of Proved plus Probable ("2P") hydrocarbon reserves reported by the Group are integral to the calculation of depletion and depreciation expense and incorporated into the assessment of 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.

Accounting judgement and estimate – Depletion charges

Depletion and certain depreciation charges are calculated using the units of production method. This is based on barrels of oil equivalent which will amortise the cost of carried-forward exploration, evaluation and subsurface development expenditure ("subsurface assets") over the life of the estimated 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.

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

3.2 OIL AND GAS ASSETS (CONTINUED)

	2018			2017		
	Subsurface assets US\$million	Plant and equipment US\$million	Total US\$million	Subsurface assets US\$million	Plant and equipment US\$million	Total US\$million
Cost	9,457	16,112	25,569	8,985	15,442	24,427
Less: Accumulated depreciation, depletion and impairment	(6,365)	(7,980)	(14,345)	(6,847)	(8,044)	(14,891)
Balance at 31 December	3,092	8,132	11,224	2,138	7,398	9,536
Reconciliation of movements						
Assets in development						
Balance at 1 January	73	46	119	71	19	90
Additions ¹	16	73	89	1	28	29
Transfer to oil and gas assets in production	-	-	-	(1)	(1)	(2)
Exchange differences	(1)	-	(1)	2	-	2
Balance at 31 December	88	119	207	73	46	119
Producing assets						
Balance at 1 January	2,065	7,352	9,417	1,706	8,602	10,308
Additions ¹	212	177	389	297	120	417
Acquisition	1,192	1,049	2,241	-	-	-
Transfer from exploration and evaluation assets	-	-	-	13	-	13
Transfer from oil and gas assets in development	-	-	-	1	1	2
Disposals	(148)	(8)	(156)	-	(4)	(4)
Depreciation and depletion	(239)	(405)	(644)	(268)	(450)	(718)
Net impairment reversals/(losses)	29	-	29	255	(1,020)	(765)
Exchange differences	(107)	(152)	(259)	61	103	164
Balance at 31 December	3,004	8,013	11,017	2,065	7,352	9,417
Total oil and gas assets	3,092	8,132	11,224	2,138	7,398	9,536
Comprising:						
Exploration and evaluation expenditure pending commercialisation	86	5	91	90	5	95
Other capitalised expenditure	3,006	8,127	11,133	2,048	7,393	9,441
	3,092	8,132	11,224	2,138	7,398	9,536

¹ Includes impact on restoration assets following changes in future restoration provision assumptions (refer note 3.4).

3.3 IMPAIRMENT OF NON-CURRENT ASSETS

Impairment of oil and gas assets

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

a) Indicators of impairment – Exploration and evaluation assets

The carrying amounts of the Group's exploration and evaluation assets are reviewed at each reporting date, to determine whether any of the following indicators of impairment exists:

- tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or
- substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is not budgeted or planned; or
- 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
- sufficient data exists 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.

b) Cash-generating units – Oil and gas assets

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

Individual assets within a CGU may become impaired if their ongoing use changes or if the benefits to be obtained from ongoing use are likely to be less than the carrying value of the individual asset. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its CGU exceeds its recoverable amount.

Impairment of goodwill

Goodwill arises as a result of a business combination, and has an indefinite useful life which is not subject to amortisation. It is tested at least annually for impairment and more frequently if events or changes in circumstances indicate that it might be impaired.

Recoverable amount

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal ("FVLCD") (based on level 3 fair value hierarchy) and its value-in-use ("VIU"), using an asset's estimated future cash flows (as described below) 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.

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

3.3 IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

Significant judgement – Impairment of oil and gas assets

For oil and gas assets, the expected future cash flow estimation is 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.

The estimated future cash flows for the VIU calculation are based on estimates, the most significant of which are hydrocarbon reserves, future production profiles, commodity prices, operating costs including third-party gas purchases and any future development costs necessary to produce the reserves. Under a FVLCD calculation, future cash flows are based on estimates of hydrocarbon reserves in addition to other relevant factors such as value attributable to additional resource and exploration opportunities beyond reserves based on production plans.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually. Where volumes are contracted, future prices are based on the contracted price.

Future Brent prices (US\$/bbl) used were:

2019	2020	2021	2022 ¹	2023 ¹	2024 ¹
65.00	66.30	67.63	74.28	75.77	77.29

¹ Based on US\$70/bbl (2019 real) from 2022 escalated at 2.0% p.a.

Forecasts of the exchange rate for foreign currencies, where relevant, are estimated with reference to observable external market data and forward values, including analysis of broker and consensus estimates. The future estimated rate applied is A\$1/US\$0.75.

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the countries in which the asset operates. The range of pre-tax discount rates that have been applied to non-current assets is between 11% and 17%.

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.

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.

3.3 IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

Impairment expense		2018 US\$million	2017 US\$million
Current assets			
Assets held for sale, subsequently disposed of	6.2(b)	47	–
Other receivables		–	5
Total impairment of current assets		47	5
Non-current assets			
Exploration and evaluation assets		53	163
Oil and gas assets		–	765
Land and buildings		–	5
Total impairment of non-current assets		53	933
Total impairment		100	938

Recoverable amounts and resulting impairment losses recognised in the year ended 31 December 2018:

2018	Segment	Subsurface assets US\$million	Plant and equipment US\$million	Total US\$million	Recoverable amount ¹ US\$million
Exploration and evaluation assets:					
Gunnedah Basin	Queensland & NSW	12	–	12	nil ²
PNG – PPL 426	PNG	29	–	29	nil ²
PNG – PPL 261	PNG	4	–	4	nil ²
WA-214 (Davis 1)	Western Australia	8	–	8	nil ²
Total impairment of exploration and evaluation assets		53	–	53	

¹ Recoverable amounts represent the carrying values of assets before deducting the carrying value of restoration liabilities. All producing oil and gas asset amounts are calculated using the VIU method, whilst all exploration and evaluation asset amounts use the FVLCD method.

² Impairment of exploration and evaluation assets relates to certain individual licences/areas of interest that have been impaired to nil.

Exploration and evaluation assets

The impairment of PNG – PPL 426 and PNG – PPL 261 has arisen mainly from the impact of uncertainty around access to necessary infrastructure and viability and timing of future third-party export routes.

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

3.3 IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED)

Recoverable amounts and resulting impairment write-downs/(reversals) recognised in the year ended 31 December 2017 were:

2017	Segment	Subsurface assets US\$million	Plant and equipment US\$million	Total US\$million	Recoverable amount ¹ US\$million
Exploration and evaluation assets:					
Ande Ande Lumut – Indonesia	Asia	149	–	149	nil ²
Gunnedah Basin	Queensland & NSW	10	–	10	nil ²
PNG – PPL 287	PNG	4	–	4	nil ²
Total impairment of exploration and evaluation assets		163	–	163	
Oil and gas assets – producing:					
GLNG	Queensland & NSW	–	1,238	1,238	4,099
Barrow	Western Australia	–	6	6	nil
Cooper – unconventional resources ³	Cooper Basin	1	–	1	nil
Cooper Basin	Cooper Basin	(256)	(224)	(480)	1,388
Total impairment of oil and gas assets		(255)	1,020	765	
Total impairment of exploration and evaluation and oil and gas assets		(92)	1,020	928	

¹ Recoverable amounts represent the carrying values of assets before deducting the carrying value of restoration liabilities. All producing oil and gas asset amounts are calculated using the VIU method, whilst all exploration and evaluation asset amounts use the FVLCD method.

² Impairment of exploration and evaluation assets relates to certain individual licences/areas of interest that have been impaired to nil.

³ Cooper – unconventional resources comprises exploration and evaluation expenditure pending commercialisation within oil and gas assets – producing assets. The impairment relates to the Basin Centered Gas exploration.

3.4 RESTORATION OBLIGATIONS AND OTHER PROVISIONS

Provisions for future removal and environmental restoration costs 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 future 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 and 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 or observed industry analogs. 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. In the event the restoration provision is reduced, the cost of the related oil and gas asset is reduced by an amount not exceeding its carrying value. If the decrease in restoration provision exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement as other income.

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.

Significant judgement – 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, and the extent of restoration activities required.

The Group has recorded provisions for restoration obligations as follows:

	2018 US\$million	2017 US\$million
Current provision	59	85
Non-current provision	2,034	1,443
	2,093	1,528

Movements in the provision during the financial year are set out below:

	Total restoration US\$million
Balance at 1 January 2018	1,528
Provisions made and changes to assumptions during the year	(140)
Provisions used during the year	(37)
Provisions disposed of	(125)
Provisions acquired	903
Unwind of discount	46
Change in discount rate	43
Exchange differences	(125)
Balance at 31 December 2018	2,093

Payments made into escrow accounts relating to future restoration obligations of \$nil (2017: \$68 million) are included within other non-current financial assets (note 5.5(g)).

Notes to the Consolidated Financial Statements

Section 3: Capital Expenditure, Operating Assets and Restoration Obligations

3.4 RESTORATION OBLIGATIONS AND OTHER PROVISIONS (CONTINUED)

Other provisions

In addition to the provision for restoration shown above, other items for which a provision has been recorded are:

	Note	2018 US\$million	2017 US\$million
Current			
Employee benefits	7.1	55	49
Onerous contracts		2	8
		57	57
Non-current			
Employee benefits	7.1	9	8
Defined benefit obligations	7.1	1	1
Onerous contracts		29	42
Other provisions		74	–
		113	51

3.5 COMMITMENTS FOR EXPENDITURE

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.

The Group leases LNG carriers, storage and offtake facilities, marine vessels 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 warehouses under operating leases. The leases are generally for a period of 10 years, with an option to renew the lease after that date. The lease payments typically increase annually by the Consumer Price Index.

During the year ended 31 December 2018, the Group recognised \$38 million (2017: \$69 million) as an expense in the income statement in respect of operating leases.

The Group has the following commitments for expenditure for which no liabilities have been recorded in the financial statements as the goods or services have not been received, including non-cancellable operating lease rentals:

Commitments	Capital		Minimum exploration		Operating lease	
	2018 US\$million	2017 US\$million	2018 US\$million	2017 US\$million	2018 US\$million	2017 US\$million
Not later than one year	112	124	180	46	34	65
Later than one year but not later than five years	12	18	417	334	106	128
Later than five years	–	–	3	13	102	78
	124	142	600	393	242	271

Notes to the Consolidated Financial Statements

Section 4: Working Capital Management

This section provides information about the Group's working capital balances and management, including cash flow information. Cash flow management is a significant consideration in running our business in an efficient and resourceful manner. We also consider inventories which contribute to the business platform for generating profits and revenues.

4.1 CASH AND CASH EQUIVALENTS

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

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.

	2018 US\$million	2017 US\$million
Cash at bank and in hand	467	384
Short-term deposits	849	847
	1,316	1,231

(a) Restricted cash balances

In accordance with the terms of the PNG LNG project financing, cash relating to the Group's interest in undistributed cash flows from the PNG LNG project is required to be held in restricted bank accounts. As at 31 December 2018 \$147 million (2017: \$135 million) was held in these accounts.

(b) Reconciliation of cash flows from operating activities

	2018 US\$million	2017 US\$million
Profit/(loss) after income tax	630	(360)
Add/(deduct) non-cash items:		
Depreciation and depletion	667	742
Exploration and evaluation expensed	10	17
Net impairment loss	100	938
Net loss on fair value derivatives	69	49
Share-based payment expense	11	10
Unwind of the effect of discounting on provisions	46	45
Foreign exchange (gain)/losses	(146)	153
Gain on sale of non-current assets and subsidiaries	(112)	(79)
Other	(2)	(28)
Net cash provided by operating activities before changes in assets or liabilities	1,273	1,487
Add/(deduct) change in operating assets or liabilities, net of acquisitions or disposals of businesses:		
Increase in trade and other receivables	-	(62)
Decrease in inventories	13	55
Decrease in other assets	4	14
Increase/(decrease) in net deferred tax assets	336	(292)
Increase in current tax liabilities	25	21
(Decrease)/increase in trade and other payables	(60)	46
Decrease in provisions	(13)	(21)
Net cash provided by operating activities	1,578	1,248

Notes to the Consolidated Financial Statements

Section 4: Working Capital Management

4.1 CASH AND CASH EQUIVALENTS (CONTINUED)

(d) Reconciliation of liabilities arising from financing activities to financing cash flows

	Short-term borrowings US\$million	Long-term borrowings US\$million	Finance lease liabilities US\$million	Liabilities held to hedge borrowings US\$million	Assets held to hedge borrowings US\$million	Total US\$million
Balance at 1 January 2017	419	4,755	65	349	(84)	5,504
Financing cash flows ¹	(432)	(1,010)	–	(217)	–	(1,659)
Non-cash changes:						
Effect of changes in exchange rates	–	144	–	(144)	–	–
Changes in fair values	(6)	(14)	(2)	12	23	13
Reclassification to current liability	222	(222)	–	–	–	–
Other	3	21	–	–	–	24
Balance at 31 December 2017	206	3,674	63	–	(61)	3,882
Balance at 1 January 2018	206	3,674	63	–	(61)	3,882
Financing cash flows ¹	(220)	1,193	–	–	–	973
Non-cash changes:						
Changes in fair values	–	(19)	(1)	–	27	7
Reclassification to current liability	977	(977)	–	–	–	–
Other	3	20	–	–	–	23
Balance at 31 December 2018	966	3,891	62	–	(34)	4,885

¹ Financing cash flows consist of the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

4.2 TRADE AND OTHER RECEIVABLES

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

Long-term receivables are initially recognised at fair value and are subsequently stated at amortised cost, less any impairment losses.

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.

	2018 US\$million	2017 US\$million
Trade receivables	368	334
Other receivables	153	106
	521	440

Due to the nature of the Group's receivables, their carrying amount is considered to approximate their fair value.

The Group applies the simplified approach to providing for expected credit losses for all trade receivables as set out in note 5.5(e).

4.3 INVENTORIES

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

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

	2018 US\$million	2017 US\$million
Petroleum products	173	167
Drilling and maintenance stocks	115	99
Total inventories at lower of cost and net realisable value	288	266
Inventories included above that are stated at net realisable value	37	29

4.4 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 equivalents 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.

	2018 US\$million	2017 US\$million
Trade payables	503	416
Non-trade payables	158	79
	661	495

The carrying amounts of trade and other payables are considered to approximate their fair values, due to their short-term nature.

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

Our business has exposure to capital, credit, liquidity and market risks. This section provides information relating to our management of, as well as our policies for measuring and managing, these risks.

Capital risk management objectives

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 to earnings before interest, tax, depreciation and amortisation ("Debt-to-EBITDA"). The Group monitors these capital structure metrics on both an actual and forecast basis.

At 31 December 2018 Santos Limited's corporate credit rating was BBB- (stable outlook) from Standard & Poor's.

5.1 INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing loans and 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. The carrying values of the Group's interest-bearing loans and borrowings are shown below.

Fixed-rate notes that are hedged by interest rate swaps are recognised at fair value.

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 Limited, which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings by Santos Finance Limited are guaranteed by Santos Limited.

	Ref	2018 US\$million	2017 US\$million
Current			
Bank loans – secured	(a)	156	141
Bank loans – unsecured	(b)	657	65
Long-term notes	(c)	153	–
Finance leases	(d)	1	1
		967	207
Non-current			
Bank loans – secured	(a)	1,318	1,475
Bank loans – unsecured	(b)	1,535	992
Long-term notes	(c)	1,038	1,207
Finance leases	(d)	61	62
		3,952	3,736

5.1 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The Group's weighted average interest rate on interest-bearing liabilities was 5.28% for the year ended 31 December 2018 (2017: 5.15%).

(a) Bank loans – secured

<i>Facility</i>	PNG LNG
<i>Currency</i>	US dollars
<i>Limit</i>	\$1,537 million (2017: \$1,692 million)
<i>Drawn principal</i>	\$1,537 million (2017: \$1,692 million)
<i>Accounting balance</i>	\$1,474 million (2017: \$1,616 million) including prepaid amounts
<i>Effective interest rate</i>	6.10% (2017: 5.37%)
<i>Maturity</i>	2024–2026
<i>Other</i>	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 commercial banks and export credit agencies, bear fixed and floating rates of interest and have final maturity dates of June 2024 and June 2026 respectively.
	<i>Assets pledged as security and restricted cash</i>
	The PNG LNG facilities include security over assets and entitlements of the participants in respect of the project. The total carrying value of the Group's assets pledged as security is \$2,762 million at 31 December 2018 (2017: \$2,852 million).
	As referred to in note 4.1, under the terms of the project financing, cash relating to the Group's interest in undistributed project cash flows is required to be held in secured bank accounts.

(b) Bank loans – unsecured

<i>Facility</i>	Term bank loans
<i>Currency</i>	US dollars
<i>Limit</i>	\$1,200 million (2017: nil)
<i>Drawn principal</i>	\$1,200 million (2017: nil)
<i>Accounting balance</i>	\$1,194 million (2017: nil) including prepaid amounts
<i>Effective interest rate</i>	4.18% (2017: N/A)
<i>Maturity</i>	2020 and 2024
<i>Other</i>	During 2018 Santos completed a \$700 million 5.5-year syndicated term loan facility and a \$500 million 2-year bridge facility. Both facilities bear floating interest rates.

<i>Facility</i>	Export credit agency supported loan facilities
<i>Currency</i>	US dollars
<i>Limit</i>	\$1,001 million (2017: \$1,065 million)
<i>Drawn principal</i>	\$1,001 million (2017: \$1,065 million)
<i>Accounting balance</i>	\$998 million (2017: \$1,057 million) including prepaid amounts
<i>Effective interest rate</i>	3.02% (2017: 2.83%)
<i>Maturity</i>	2019–2024
<i>Other</i>	Loan facilities are supported by various export credit agencies.

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.1 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(c) Long-term notes

Facility	US private placement notes
Currency	US dollars
Limit	\$377 million (2017: \$377 million)
Drawn principal	\$377 million (2017: \$377 million)
Accounting balance	\$405 million (2017: \$424 million) including fair value accounting measurement and prepaid amounts
Effective interest rate	1.58% (2017: 1.84%)
Maturity	2019–2027
Other	Long-term notes bear a fixed interest rate of 6.30% to 6.81% (2017: 6.05% to 6.81%), which have been swapped to floating rate commitments.

Facility	Regulation-S bond
Currency	US dollars
Limit	\$800 million (2017: \$800 million)
Drawn principal	\$800 million (2017: \$800 million)
Accounting balance	\$786 million (2017: \$783 million) including prepaid amounts
Effective interest rate	4.40% (2017: 4.39%)
Maturity	2027
Other	The bond bears a fixed interest rate of 4.125%.

(d) Finance leases

Finance lease commitments are payable as follows:

	2018	2017
	US\$million	US\$million
Not later than one year	9	10
Later than one year but not later than five years	37	37
Later than five years	106	115
Minimum lease payments	152	162
Future finance charges	(90)	(99)
Leases not commenced at reporting date	–	–
Total lease liabilities	62	63

The Group participates in finance leases of LNG carriers and tug facilities. The leases have terms of between 10 and 20 years with varying renewal options. Title does not pass to the Group on expiration of the relevant lease period.

5.2 NET FINANCE COSTS

Borrowing costs

Borrowing costs relating to major oil and gas assets under development 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 cost of borrowing. Borrowing costs incurred after commencement of commercial operations are expensed to the income statement.

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

Interest income

Interest income is recognised in the income statement as it accrues using the effective interest method.

	2018 US\$million	2017 US\$million
Finance income		
Interest income	30	24
Total finance income	30	24
Finance costs		
Interest paid to third parties	218	255
Deduct borrowing costs capitalised	(6)	(6)
	212	249
Unwind of the effect of discounting on provisions	46	45
Total finance costs	258	294
Net finance costs	228	270

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.3 ISSUED CAPITAL

Ordinary share capital

Ordinary share capital is classified as equity. The issued shares do not have a par value and there is no limit on the authorised share capital of the Company.

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 2018 was A\$5.48 (2017: A\$5.45).

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. During 2018 no transaction costs in respect of capital raisings completed have been deducted from equity (2017: \$2 million).

Movement in ordinary shares	Note	2018	2017	2018	2017
		Number of shares	Number of shares	US\$million	US\$million
Balance at 1 January		2,083,070,879	2,032,389,675	9,034	8,883
Share purchase plan, net of costs		–	50,847,537	–	151
Shares purchased on-market (Treasury shares)		–	–	(10)	(8)
Utilisation of Treasury shares on vesting of employee share schemes		–	–	7	8
Shares issued on vesting of Share Acquisition Rights ("SARs")	7.2	–	5,365	–	–
Replacement of ordinary shares with shares purchased on-market		(91,534)	(171,698)	–	–
Balance at 31 December		2,082,979,345	2,083,070,879	9,031	9,034

Included within the Group's ordinary shares at 31 December 2018 are 10,000 (2017: 25,000) ordinary shares paid to one cent with a value of nil (2017: nil).

Treasury shares

Treasury shares are purchased primarily for use on vesting of employee share schemes. Shares are accounted for at weighted average cost. During the period, \$10 million (2017: \$8 million) of Treasury shares were purchased on-market.

Movement in Treasury shares	Note	2018	2017
		Number of shares	Number of shares
Balance at 1 January		587,993	–
Shares purchased on-market		2,500,000	2,600,000
Treasury shares utilised:			
Santos Employee Share1000 Plan	7.2	(176,480)	(301,584)
Santos Employee ShareMatch Plan	7.2	(439,664)	(553,416)
Utilised on vesting of SARs	7.2	(615,471)	(378,945)
Executive STI (deferred shares)	7.2	(312,731)	(261,011)
Executive STI (ordinary shares)		–	(193,977)
2016 Executive sign-on grants		(209,496)	(190,688)
Santos Employee Share1000 Plan (relinquished shares)		4,093	39,312
Replacement of partially paid shares with shares purchased on-market		(15,000)	–
Replacement of ordinary shares with shares purchased on-market		(91,534)	(171,698)
Balance at 31 December		1,231,710	587,993

5.4 RESERVES AND RETAINED EARNINGS

The Group's reserves and retained earnings balances, and movements during the period, are disclosed in the statement of changes in equity.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the following:

- the translation of the financial statements of foreign operations where their functional currency is different from the functional currency of the Parent entity;
- the translation of liabilities that hedge the Company's net investment in a foreign subsidiary;
- exchange differences that arise on the translation of the monetary items that form part of the net investment in a foreign operation; and
- the impact of translation of the Group from Australian dollar to US dollar presentation currency.

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.

Financial liabilities at fair value through other comprehensive income ("FVOCI") reserve

The financial liabilities at FVOCI reserve includes the component of fair value movements in the Group's financial liabilities measured at fair value that result from changes in the Group's own credit risk.

Accumulated profits reserve

The accumulated profits reserve acts to quarantine profits generated in current and prior periods. The reserve was established during 2015.

5.5 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 and sensitivity analysis in the case of foreign exchange, interest rate and commodity price risk, and ageing and credit rating concentration 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 cover specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(a) Financial instruments

The Group classifies its financial instruments in the following categories: financial assets at amortised cost, financial assets at fair value through profit or loss ("FVTPL"), financial assets at fair value through other comprehensive income ("FVOCI"), financial liabilities at amortised cost, financial liabilities at FVTPL and derivative instruments. The classification depends on the purpose for which the financial instruments were acquired, which is determined at initial recognition based upon the business model of the Group.

Financial assets at amortised cost

The Group classifies its financial assets at amortised cost if the asset is held with the objective of collecting contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. These include trade receivables and bank term deposits. Bank term deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are financial assets at amortised cost and are included in current assets, except for those with maturities greater than 12 months after the reporting date.

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial instruments (continued)

Financial assets at fair value through profit or loss

The Group classifies its financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. The Group has not elected to designate any financial assets at fair value through profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets. Upon disposal, any balance within the OCI reserve for these debt investments is reclassified to retained earnings.

Financial liabilities

On initial recognition, the Group measures a financial liability at its fair value minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, trade payables and interest-bearing loans and borrowings are stated at amortised cost. Fixed-rate notes that are hedged by an interest rate swap are recognised at fair value. For liabilities classified at fair value through profit or loss, the element of gains or losses attributable to changes in the Group's own credit risk are recognised in other comprehensive income.

Policies for the recognition and subsequent measure of derivative liabilities are as outlined below.

Derivative instruments

Derivative financial instruments entered into by the Group for the purpose of managing its exposures to changes in foreign exchange rates and interest rates arising in the normal course of business qualify for hedge accounting. The principal derivatives that may be used are forward foreign exchange contracts, cross-currency swaps and interest rate swaps. Commodity derivatives are also used to manage the Group's exposure to changes in oil prices. The use of derivative financial instruments is subject to a set of policies, procedures and limits approved by the Board of Directors. The Group does not trade in derivative financial instruments for speculative purposes.

The Group holds the following financial instruments:

Financial assets	2018	2017
	US\$million	US\$million
Financial assets at amortised cost		
Cash and cash equivalents	1,316	1,231
Trade receivables	521	440
Amounts held in escrow ¹	–	68
Financial assets at FVTPL		
Equity investments	2	2
Derivative financial instruments	53	61
	1,892	1,802

¹ Amounts represent cash held in escrow for future restoration obligations relating to certain assets and these assets were disposed of during 2018.

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial instruments (continued)

Financial liabilities	2018 US\$million	2017 US\$million
Financial liabilities at amortised cost		
Trade and other payables	675	495
Borrowings at amortised cost	4,514	3,519
Financial liabilities at FVTPL		
Borrowings at FVTPL	405	424
Derivative financial instruments	–	79
Other	30	23
	5,624	4,540

The Group's financial instruments resulted in the following income, expenses, gains and losses recognised in the income statement:

	2018 US\$million	2017 US\$million
Interest on cash investments	30	24
Interest on debt held at FVTPL	(24)	(29)
Interest on debt held at amortised cost	(218)	(277)
Interest on derivative financial instruments	30	57
Amounts reclassified from other comprehensive income to profit or loss	–	(7)
Fair value gains on debt held at FVTPL	15	31
Fair value gains on debt held at amortised cost	–	26
Fair value losses on derivative financial instruments	(81)	(106)
Net impairment expense recognised on trade receivables	–	(5)
Net foreign exchange gains/(losses)	146	(153)
	(102)	(439)

(b) Liquidity

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 tables analyse the contractual maturities of the Group's financial assets and liabilities held to manage liquidity risk. The relevant maturity groupings are based on the remaining period to the contractual maturity date, as at 31 December. 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.

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity (continued)

Financial assets and liabilities held to manage liquidity risk 2018	Less than 1 year US\$million	1 to 2 years US\$million	2 to 5 years US\$million	More than 5 years US\$million
Cash and cash equivalents	1,316	–	–	–
Derivative financial assets				
Interest rate swap contracts	24	15	31	4
Non-derivative financial liabilities				
Trade and other payables	(675)	–	–	–
Obligations under finance leases	(9)	(9)	(28)	(106)
Bank loans	(933)	(797)	(1,024)	(1,414)
Long-term notes	(207)	(48)	(342)	(951)
	(484)	(839)	(1,363)	(2,467)

Financial assets and liabilities held to manage liquidity risk 2017	Less than 1 year US\$million	1 to 2 years US\$million	2 to 5 years US\$million	More than 5 years US\$million
Cash and cash equivalents	1,231	–	–	–
Derivative financial assets				
Interest rate swap contracts	16	20	45	5
Non-derivative financial liabilities				
Trade and other payables	(495)	–	–	–
Obligations under finance leases	(10)	(10)	(27)	(115)
Bank loans	(305)	(898)	(920)	(1,070)
Long-term notes	(57)	(207)	(356)	(985)
	380	(1,095)	(1,258)	(2,165)

(c) Foreign currency risk

Foreign exchange risk arises from commercial transactions and valuations of assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group is exposed to foreign currency risk principally through the sale of products, borrowings and capital and operating expenditure incurred in currencies other than the entity's functional currency. In order to economically hedge foreign currency risk, the Group may enter into forward foreign exchange, foreign currency swap and foreign currency option contracts.

The Group also has certain investments in domestic and foreign operations whose net assets are exposed to foreign currency translation risk.

All foreign currency denominated borrowings of Australian dollar functional currency companies are either designated as a hedge of US dollar-denominated investments in foreign operations (2018: \$2,607 million; 2017: \$1,407 million), or offset by US dollar-denominated cash balances (2018: \$771 million; 2017: \$835 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 2018.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation, are periodically restated to US 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.

Sensitivity to foreign currency movement

Based on the Group's net financial assets and liabilities at 31 December 2018, the estimated impact of a ± 15 cent movement in the Australian dollar exchange rate (2017: ± 15 cent) against the US dollar, with all other variables held constant, is \$21 million (2017: \$22 million) on post-tax profit and \$1,550 million (2017: \$1,374 million) on equity.

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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 have been entered into as fair value hedges of long-term notes. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes.

The Group's interest rate swaps have a notional contract amount of \$1,577 million (2017: \$1,577 million) and a net fair value of \$34 million (2017: \$61 million). The net fair value amounts were recognised as fair value derivatives.

Sensitivity to interest rate movement

Based on the net debt position as at 31 December 2018, taking into account interest rate swaps, it is estimated that if the US dollar London Interbank Offered Rate ("LIBOR") interest rates changed by $\pm 0.50\%$ (2017: $\pm 0.50\%$), and the Australian Bank Bill Swap reference rate ("BBSW") changed by $\pm 0.50\%$ (2017: $\pm 0.50\%$), with all other variables held constant, the impact on post-tax profit is \$4 million (2017: nil).

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.

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 crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2018, the Group has 4.9 million barrels of open oil price swap and option contracts (2017: 12.5 million), covering 2019 exposures, which are designated in cash flow hedge relationship. The 3-way collar option structure utilised to hedge 2018 oil exposures did not qualify for hedge accounting, resulting in movement in fair value being recorded in the income statement.

(e) Credit risk

Credit risk represents the potential financial loss if counterparties fail to complete their obligations under financial instrument or customer contracts. Santos employs credit policies which include monitoring exposure to credit risk on an ongoing basis through management of concentration risk and ageing analysis.

The majority of Santos' gas contracts are spread across major energy retailers and industrial users. Contracts exist in every mainland state, whilst the largest customer accounts for less than 13% of sales revenue.

The Group considers the probability of default upon initial recognition of the asset and whether there has been a significant depreciation in credit quality on an ongoing basis throughout each reporting period. A significant decrease in credit quality is defined as a debtor being greater than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written-off when there is no reasonable expectation of recovery. The Group categorises a loan or receivable for write-off when a debtor fails to make contractual repayments greater than 120 days past due. Where loans or receivables have been written-off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

At 31 December 2018 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 and fair value of derivative assets.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. Under this method, determination of the loss allowance provision and expected loss rate incorporates past experience and forward-looking information, including the outlook for market demand and forward-looking interest rates. As the expected loss rate at 31 December 2018 is nil (2017: nil), no loss allowance provision has been recorded at 31 December 2018 (2017: nil).

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values

The financial assets and liabilities of the Group are all initially recognised in the statement of financial position at their fair values. Receivables, payables, interest-bearing liabilities and other financial assets and liabilities, which are not subsequently measured at fair value, are carried at amortised cost. The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

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, 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 US dollars at the foreign exchange spot rate prevailing at the 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 US dollars at the foreign exchange spot rate prevailing at the 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 and credit spreads at the reporting date.

The interest rates including credit spreads used to determine fair value were as follows:

	2018 %	2017 %
Derivatives	1.5 – 2.8	1.4 – 2.5
Loans and borrowings	1.5 – 2.8	1.4 – 2.5

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 a 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.

All of the Group's financial instruments were valued using the Level 2 valuation technique.

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Derivatives and hedging activity

The Group's Accounting Policy for fair value and cash flow hedges are as follows:

Types of hedges	Fair value hedges	Cash flow hedges
What is it?	A derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability.	A derivative or financial instrument designated to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction.
Recognition date	At the date the instrument is entered into.	At the date the instrument is entered into.
Measurement	Measured at fair value, being the estimated amount that the Group would receive or pay to terminate the contracts at the reporting date.	Measured at fair value, being the estimated amount that the Group would receive or pay to terminate the contracts at the reporting date.
Changes in fair value	<p>The gains or losses on both the derivative or financial instrument and hedged asset or liability attributable to the hedged risk are recognised in the income statement immediately.</p> <p>The gain or loss relating to the effective portion of interest rate swaps hedging fixed-rate borrowings is recognised in the income statement within finance costs, together with the loss or gain in the fair value of the hedged fixed-rate borrowings attributable to interest rate risk.</p> <p>The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.</p> <p>If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity using a recalculated effective interest rate.</p>	<p>Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in other comprehensive income and accumulated in equity in the hedging reserve to the extent that the hedge is effective.</p> <p>Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. In hedges of foreign currency purchases this may arise if the timing of the transaction changes from what was originally estimated.</p> <p>To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement within other income or other expenses.</p> <p>Amounts accumulated in equity are transferred to the income statement or the statement of financial position, for a non-financial asset, at the same time as the hedged item is recognised.</p> <p>When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the underlying forecast transaction occurs.</p> <p>When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.</p>

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Notes to the Consolidated Financial Statements

Section 5: Funding and Risk Management

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Derivatives and hedging activity (continued)

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.

The table below contains all "other financial assets and liabilities" as shown in the statement of financial position, including derivative financial instruments used for hedging:

	2018 US\$million	2017 US\$million
Current assets		
Commodity derivatives (oil hedges)	19	–
Interest rate swap contracts	8	–
Other	1	–
	28	–
Non-current assets		
Interest rate swap contracts	26	61
Equity investments	2	2
Amounts held in escrow	–	68
Defined benefit surplus	3	3
	31	134
Current liabilities		
Commodity derivatives (oil hedges)	–	79
Other	6	3
	6	82
Non-current liabilities		
Other	24	20
	24	20

5.5 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Derivatives and hedging activity (continued)

The effects of applying hedge accounting on the Group's financial position and performance are as follows:

Derivative financial instruments – Interest rate swap contracts	2018	2017
	US\$million	US\$million
Carrying amount	34	61
Notional amount	1,577	1,577
Maturity date	2019–2027	2019–2027
Hedge ratio ¹	1:1	1:1
Change in value of outstanding hedging instruments since 1 January	(27)	(23)
Change in value of hedged item used to determine hedge effectiveness	27	23
Weighted average hedged rate	1.10%	1.10%
Derivative financial instruments – Oil derivative contracts	2018	2017
	US\$million	US\$million
Carrying amount	19	–
Notional amount (mmbbl)	4.9	–
Maturity date	2019	–
Hedge ratio ¹	1:1	–
Change in value of outstanding hedging instruments since 1 January	19	–
Change in value of hedged item used to determine hedge effectiveness	(19)	–
Weighted average hedged rate	\$50.88	–
Reserves – Cash flow hedge reserve	2018	2017
	US\$million	US\$million
Balance at 1 January	(5)	(7)
Add: Change in fair value of hedging instrument recognised in OCI for the year (effective portion)	(4)	3
Less: Deferred tax	1	(1)
Balance at 31 December	(8)	(5)
Reserves – FVOCI reserve	2018	2017
	US\$million	US\$million
Balance at 1 January	21	–
Add: Change in fair value of hedging instrument recognised in OCI for the year (effective portion)	–	32
Less: Deferred tax	–	(11)
Balance at 31 December	21	21
Reserves – Foreign currency hedge reserve	2018	2017
	US\$million	US\$million
Balance at 1 January	573	707
Add: Change in fair value of hedging instrument recognised in OCI for the year (effective portion)	171	(191)
Less: Deferred tax	(51)	57
Balance at 31 December	693	573

¹ The value of the derivative contract is the same as the value of the underlying instrument that is being hedged. Therefore, the hedge ratio is 1:1.

Notes to the Consolidated Financial Statements

Section 6: Group Structure

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. Specifically, it contains information about consolidated entities, acquisitions and disposals of subsidiaries, joint arrangements as well as parties to the Deed of Cross Guarantee under which each company guarantees the debts of others.

6.1 CONSOLIDATED ENTITIES

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the lower of either fair value or the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 9 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of AASB 9, it is measured in accordance with the appropriate AASB standard.

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

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.

6.1 CONSOLIDATED ENTITIES (CONTINUED)

Name	Country of incorporation	Name	Country of incorporation
Santos Limited¹ (Parent Company)	AUS	<i>Controlled entities of Santos International Holdings Pty Ltd (cont)</i>	
Controlled entities:			
Alliance Petroleum Australia Pty Ltd ¹	AUS	Santos (BBF) Pty Ltd	AUS
Basin Oil Pty Ltd ¹	AUS	<i>Controlled entities of Santos (BBF) Pty Ltd</i>	
Bridgefield Pty Ltd	AUS	Santos (SPV) Pty Ltd ⁴	AUS
Bridge Oil Developments Pty Ltd ¹	AUS	<i>Controlled entity of Santos (SPV) Pty Ltd</i>	
Bronco Energy Pty Ltd	AUS	Santos (Madura Offshore) Pty Ltd ⁴	AUS
Doce Pty Ltd	AUS	Santos Belida Pty Ltd ⁶	AUS
Fairview Pipeline Pty Ltd ¹	AUS	Santos EOM Pty Ltd ⁶	AUS
Gidgealpa Oil Pty Ltd	AUS	Santos Hides Ltd	PNG
Moonie Pipeline Company Pty Ltd	AUS	Santos International Pte Ltd ³	SGP
Reef Oil Pty Ltd ¹	AUS	Santos International Operations Pty Ltd ⁶	AUS
Santos Asia Pacific Pty Ltd ⁴	AUS	Santos OIG Pty Ltd ⁶	AUS
<i>Controlled entities of Santos Asia Pacific Pty Ltd</i>		Santos P'nyang Ltd	PNG
Santos (Sampang) Pty Ltd ⁴	AUS	Santos Sabah Block R Limited ⁴	GBR
Santos (Warim) Pty Ltd ⁶	AUS	Santos Sangu Field Ltd	GBR
Santos Australian Hydrocarbons Pty Ltd	AUS	Santos (UK) Limited	GBR
Santos (BOL) Pty Ltd ¹	AUS	<i>Controlled entities of Santos (UK) Limited</i>	
<i>Controlled entity of Santos (BOL) Pty Ltd</i>		Santos Northwest Natuna B.V.	NLD
Bridge Oil Exploration Pty Ltd	AUS	Santos Petroleum Ventures B.V. ⁴	NLD
Santos Browse Pty Ltd	AUS	Santos Vietnam Pty Ltd	AUS
Santos CSG Pty Ltd	AUS	Santos (JPDA 91-12) Pty Ltd	AUS
Santos Darwin LNG Pty Ltd	AUS	Santos (NARNL Cooper) Pty Ltd ¹	AUS
Santos Direct Pty Ltd	AUS	Santos NSW Pty Ltd	AUS
Santos Finance Ltd	AUS	<i>Controlled entities of Santos NSW Pty Ltd</i>	
Santos GLNG Pty Ltd	AUS	Santos NSW (Betel) Pty Ltd	AUS
<i>Controlled entity of Santos GLNG Pty Ltd</i>		Santos NSW (Hillgrove) Pty Ltd	AUS
Santos GLNG Corp	USA	Santos NSW (Holdings) Pty Ltd	AUS
Santos (Globe) Pty Ltd ⁶	AUS	<i>Controlled entities of Santos NSW (Holdings) Pty Ltd</i>	
Santos International Holdings Pty Ltd	AUS	Santos NSW (LNGN) Pty Ltd	AUS
<i>Controlled entities of Santos International Holdings Pty Ltd</i>		Santos NSW (Pipeline) Pty Ltd	AUS
Barracuda Ltd	PNG	Santos NSW (Narrabri Energy) Pty Ltd	AUS
Lavana Ltd	PNG	<i>Controlled entity of Santos NSW (Narrabri Energy) Pty Ltd</i>	
Sanro Insurance Pte Ltd	SGP	Santos NSW (Eastern) Pty Ltd	AUS
Santos Americas and Europe Corporation	USA	Santos NSW (Narrabri Power) Pty Ltd	AUS
<i>Controlled entities of Santos Americas and Europe Corporation</i>		Santos NSW (Operations) Pty Ltd	AUS
Santos TPY Corp	USA	Santos (N.T.) Pty Ltd	AUS
<i>Controlled entities of Santos TPY Corp</i>		<i>Controlled entity of Santos (N.T.) Pty Ltd</i>	
Santos Queensland Corp	USA	Bonaparte Gas & Oil Pty Ltd	AUS
Santos TOG Corp	USA	Santos Offshore Pty Ltd ¹	AUS
<i>Controlled entities of Santos TOG Corp</i>		Santos Petroleum Pty Ltd ¹	AUS
Santos TPG CSG Corp	USA	Santos QLD Upstream Developments Pty Ltd	
Santos TOGA Pty Ltd	AUD	Santos QNT Pty Ltd ¹	AUS
Santos Bangladesh Ltd	GBR	<i>Controlled entities of Santos QNT Pty Ltd</i>	
Santos Baturaja Pty Ltd ⁶	AUS	Outback Energy Hunter Pty Ltd	

Notes to the Consolidated Financial Statements

Section 6: Group Structure

6.1 CONSOLIDATED ENTITIES (CONTINUED)

Name	Country of incorporation	Name	Country of incorporation
<i>Controlled entities of Santos QNT Pty Ltd (cont)</i>		<i>Controlled entities of Santos WA Holdings Pty Ltd (cont)</i>	
Santos QNT (No. 1) Pty Ltd ¹	AUS	Santos WA Kersail Pty Ltd ^{5,8}	AUS
<i>Controlled entities of Santos QNT (No. 1) Pty Ltd</i>		Santos WA LNG Pty Ltd ^{5,8}	AUS
Santos Petroleum Management Pty Ltd ⁶	AUS	Santos WA Northwest Pty Ltd ^{5,8}	AUS
TMOC Exploration Proprietary Limited	AUS	Santos WA Onshore Holdings Pty Ltd ^{5,8}	AUS
Santos QNT (No. 2) Pty Ltd	AUS	Santos WA Southwest Pty Limited ^{5,8}	AUS
<i>Controlled entities of Santos QNT (No. 2) Pty Ltd</i>		Santos WA Varanus Island Pty Ltd ^{5,8}	AUS
Moonie Oil Pty Ltd ⁶	AUS	Santos WA Management Pty Ltd ^{5,8}	AUS
Petromin Pty Ltd	AUS	<i>Controlled entities of Santos Management Pty Ltd</i>	
Santos (299) Pty Ltd ²	AUS	Santos WA Finance Holdings Pty Limited ^{5,8}	AUS
Santos TPC Pty Ltd	AUS	<i>Controlled entities of Santos WA Finance Holdings Pty Limited</i>	
Santos Wilga Park Pty Ltd	AUS	Santos WA Finance General Partnership ⁵	AUS
Santos Resources Pty Ltd	AUS	Santos WA PVG Holdings Pty Ltd ^{5,8}	AUS
Santos (TGR) Pty Ltd	AUS	<i>Controlled entities of Santos WA PVG Holdings Pty Ltd</i>	
Santos Timor Sea Pipeline Pty Ltd	AUS	Santos WA PVG Pty Ltd ^{5,8}	AUS
Santos Ventures Pty Ltd	AUS	SESAP Pty Ltd	AUS
Santos WA Holdings Pty Ltd ⁷	AUS	Shaw River Power Station Pty Ltd ⁶	AUS
<i>Controlled entities of Santos WA Holdings Pty Ltd</i>		Vamgas Pty Ltd ¹	AUS
Santos WA AEC Pty Ltd ⁵	AUS	Notes	
Santos WA Energy Holdings Pty Ltd ⁵	AUS	1	Company is party to a Deed of Cross Guarantee (refer note 6.5)
<i>Controlled entities of Santos WA Energy Holdings Pty Ltd</i>		2	Liquidated 6 November 2018
Santos WA Asset Holdings Pty Ltd ^{5,8}	AUS	3	Company struck off 4 December 2018
<i>Controlled entities of Santos WA Asset Holdings Pty Ltd</i>		4	Companies sold
Santos WA Lowendal Pty Limited ^{5,8}	AUS	5	Companies acquired through the acquisition of Quadrant Energy (refer note 6.2)
Santos WA International Pty Ltd ^{5,8}	AUS	6	Companies deregistered
Harriet (Onyx) Pty Ltd ^{5,8}	AUS	7	Companies incorporated
Santos WA Energy Limited ^{5,8}	AUS	8	Company is party to a Deed of Cross Guarantee held by Santos WA Energy Holdings Pty Ltd
<i>Controlled entities of Santos WA Energy Limited</i>		<i>Country of incorporation</i>	
Ningaloo Vision Holdings Pte. Ltd ⁵	SGP	AUS	- Australia
Northwest Jetty Services Pty Ltd ^{5,8}	AUS	GBR	- United Kingdom
Santos WA (Exmouth) Pty Ltd ^{5,8}	AUS	NLD	- Netherlands
Santos WA East Spar Pty Limited ^{5,8}	AUS	PNG	- Papua New Guinea
Santos WA Julimar Holdings Pty Ltd ^{5,8}	AUS	SGP	- Singapore
		USA	- United States of America

6.2 ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

(a) Acquisitions

On 27 November 2018 the Group acquired 100% of the shares in Quadrant Energy, an Australian oil and gas producer. This acquisition delivers increased ownership and operatorship of a high quality portfolio of low-cost, long-life conventional Western Australian natural oil and gas assets, and importantly significantly strengthens the Group's offshore operating capability and access to exploration opportunities.

Details of the purchase consideration, the net identifiable assets acquired and goodwill are as follows:

Fair value of net identifiable assets and goodwill acquired, on acquisition date		US\$million
Cash		174
Trade and other receivables		148
Contract assets		104
Inventories		52
Exploration and evaluation assets		610
Oil and gas assets		2,241
Other land, buildings and equipment		23
Trade and other payables		(76)
Deferred revenue		(136)
Restoration provision		(903)
Employee provisions		(32)
Other provisions		(74)
Current tax liability		(24)
Interest-bearing liabilities		(533)
<i>Deferred tax assets</i>	699	
<i>Deferred tax liabilities</i>	(1,327)	
Deferred tax		(628)
Net identifiable assets acquired		946
Goodwill arising on acquisition (provisional)		628
Purchase consideration transferred		1,574
Purchase consideration		US\$million
Purchase consideration transferred		1,574
Less: Cash acquired on acquisition		(174)
Add: Debt repaid on acquisition		533
Net cash flow on acquisition		1,933

Revenue and contribution to the Group

The acquired business contributed revenues of \$80 million and EBITDAX of \$60 million to the Group for the period from 27 November 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the acquired business' contribution to the consolidated pro-forma revenue and EBITDAX for the year ended 31 December 2018 would have been \$714 million and \$590 million respectively. It is impractical to estimate the impact the acquisition would have had if applied from 1 January 2018, at a net profit after tax level, due to the impact of deferred taxes and depreciation.

Notes to the Consolidated Financial Statements

Section 6: Group Structure

6.2 ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(a) Acquisitions (continued)

Goodwill

Goodwill arising from the acquisition has been recognised as the excess of consideration paid above the fair value of the assets acquired and liabilities assumed as part of the business combination. The goodwill is attributable solely to the net deferred tax liability recognised on acquisition, in accordance with accounting standards. The deferred tax liability that leads to the goodwill being created primarily arises as a consequence of PRRT being treated as an income tax in accordance with Australian Accounting Standards. The deferred income tax liability arises because there is minimal tax base acquired on acquisition, as the assets acquired are subject to the PRRT regime, and the historical expenditure incurred has already been deducted for PRRT purposes. The PRRT deferred tax liability is deductible for income tax purposes and a corresponding income tax deferred tax asset arises on acquisition.

Goodwill is initially measured at cost and is subsequently measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill that is created on acquisition as a consequence of deferred tax balances is tested for impairment net of those associated deferred tax balances.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Furthermore goodwill is not amortised for accounting but will be annually assessed for impairment in accordance with the accounting policy set out in Note 3.3.

Business combination accounting

The Company typically uses a discounted cash flow model to estimate the expected future cash flows of the oil and gas assets acquired, based on 2P reserves at acquisition date. The expected future cash flows are based on estimates of future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-field models as at the acquisition date.

Contingent and prospective resources are separately valued using methods including expected future cash flow models and resource multiples established by evaluating recent comparable transactions. These amounts are included in 'Exploration and evaluation assets'.

Contractual assets and liabilities are recognised in respect of gas sales agreements (GSAs) and other contractual arrangements, which are required to be recognised at fair value under the accounting standards. Valuations of contracts are calculated taking into account the difference between the market prices and contract prices, adjusted for the time value of money.

Restoration provisions are recognised on acquisition fair value, taking into account the risks associated with the specific restoration obligations. Other provisions are measured by estimating amounts expected to be paid to settle the obligations if 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.

Contingent assets and liabilities arising in a business combination are accounted for in accordance with AASB 3 *Business Combinations*. For contingent liabilities an amount is recognised at fair value at acquisition date if there is a present obligation, arising from a past event that can be reliably measured, even if it is not probable that an outflow of resources will be required to settle the obligation. Under AASB 3 an indemnification asset in a business combination is measured on the same basis as the indemnified item, subject to any valuation allowance recorded.

A number of performance guarantees were in place, over subsidiaries acquired, for fulfilment of obligations on contracts. In addition, under one of the customer contracts, security is in place by way of a subordinated floating charge over certain assets of Quadrant Energy subsidiaries. As at the date of this report the Group expects to meet all current obligations under the contracts and as a result, no provision has been recognised in the financial statements for these guarantees.

Due to the size, complexity and timing of the acquisition, the acquisition accounting is not yet finalised and accordingly the assets acquired and liabilities assumed are measured on a provisional basis. If new information obtained within the twelve months from acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to fair values; or any additional provisions that existed at the acquisition date; then the accounting for the acquisition will be revised.

There were no acquisitions of subsidiaries during 2017.

6.2 ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(b) Disposals

Following the Group's announcement on 3 May 2018 to divest its interest in its Asian assets, the associated assets and liabilities attributed to the Asia segment were presented as held for sale in the 2018 half-year financial statements. A net impairment loss of \$47 million attributed to the write-down/(reversal) of the Asian assets held for sale to their fair value less costs of disposal was recognised at 30 June 2018.

On 6 September 2018 the sale of the producing assets was completed and resulted in the disposal of the following wholly-owned subsidiaries:

- Santos Petroleum Ventures B.V.
- Santos (SPV) Pty Ltd
- Santos Madura Offshore Pty Ltd
- Santos Asia Pacific Pty Ltd
- Santos Sampang Pty Ltd

On 4 December 2018 the sale of the wholly-owned subsidiary Santos Sabah Block R Limited was also completed.

Disposals of subsidiaries	Note	2018 US\$million	2017 US\$million
Consideration received or receivable:			
Cash		146	–
Disposal costs		(20)	–
Total net proceeds on disposal of subsidiaries		126	–
Carrying amount of net assets sold		142	–
Loss on sale before income tax and reclassification of foreign currency translation reserve		(16)	–
Foreign currency translation reserve ¹		72	–
Net gain on disposal before tax	2.7	56	–
Income tax expense on gain		–	–
Gain on sale after income tax		56	–

¹ Represents the amount recycled into the income statement on reversal of associated amounts previously deferred in the foreign currency translation reserve.

There were no disposals of subsidiaries during 2017.

Notes to the Consolidated Financial Statements

Section 6: Group Structure

6.3 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. Santos' exploration and production activities are often conducted through joint arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships.

The differences between joint operations and joint ventures are as follows:

Types of arrangement	Joint operation	Joint venture
Characteristics	A joint operation involves the joint control, and often the joint ownership, of assets contributed to, or acquired for the purpose of, the joint operation. The assets are used to obtain benefits for the parties to the joint operation and are dedicated to that purpose.	The Group has interests in joint ventures, whereby the venturers have contractual arrangements that establish joint control over the economic activities of the entities.
Rights and obligations	Each party has control over its share of future economic benefits through its share of the joint operation, and has rights to the assets, and obligations for the liabilities, relating to the arrangement.	Parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Accounting method	The interests of the Group in joint operations are brought to account by recognising the Group's share of jointly controlled assets, share of expenses and liabilities incurred, and the income from its share of the production of the joint operation.	<p>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 Group's statement of financial position at cost and adjusted thereafter to recognise the post-acquisition changes to the Group's share of net assets of the joint venture. 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.</p> <p>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. Dividends receivable from the joint venture reduce the carrying amount of the investment in the consolidated financial statements of the Group.</p>

6.3 JOINT ARRANGEMENTS (CONTINUED)

(a) Joint operations

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

Joint operation	Area of cash-generating unit/area of interest	Principal activities	2018 % Interest	2017 % Interest
Barrow Island	Barrow	Oil production	28.6	28.6
Bayu-Undan	Bayu-Undan	Gas and liquids production	11.5	11.5
Chim São/Dua ¹	Vietnam (Block 12W)	Oil and gas production	–	31.9
Fairview	GLNG	Gas production	22.8	22.8
GLNG Downstream	GLNG	LNG facilities	30.0	30.0
Halyard/Spar ³	Varanus Island	Gas production	100.0	45.0
Harriet ⁴	Barrow-HJV	Oil and gas production	100.0	–
John Brookes ³	Varanus Island	Gas production	100.0	45.0
Madura Offshore ¹	Madura PSC	Gas production	–	67.5
Macedon/ Pyrenees ⁴	North Carnarvon	Oil and gas production	28.6	–
PNG LNG	PNG LNG	Gas and liquids production	13.5	13.5
Reindeer ³	Reindeer	Gas production	100.0	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 ¹	Sampang PSC	Oil and gas production	–	45.0
SWQ Unit	Cooper Basin	Gas production	60.1	60.1
Exploration and evaluation assets				
Block R ²	Sabah Block R PSC	Oil and gas exploration	–	20.0
Caldita/Barossa	Bonaparte Basin	Contingent gas resource	25.0	25.0
EP161, EP162 and EP189	McArthur Basin	Contingent gas resource	75.0	75.0
WA-435-P, WA-437-P ⁴	Bedout	Contingent oil and gas	80.0	–
WA-436-P, WA-438-P ⁴	Bedout	Oil and gas exploration	70.0	–
WA-58-R (WA-274-P)	Bonaparte Basin	Gas development	30.0	30.0
WA-80-R	Browse	Contingent gas resource	47.8	47.8
WA-281-P ⁵	Browse	Gas and liquids exploration	70.5	47.8
Muruk 1	PNG	Gas and liquids exploration	20.0	20.0
Petrel	Bonaparte Basin	Contingent gas resource	40.3	35.0
PRL-9	PNG	Gas and liquids exploration	40.0	40.0
Tern, Frigate ⁶	Bonaparte Basin	Contingent gas resource	46.0	40.0

1 Company sold 6 September 2018

2 Company sold 4 December 2018

3 Through acquisition of Quadrant Energy on 27 November 2018, the interest in this joint operation became 100% owned by Santos

4 Participation in joint operation is as a result of the acquisition of Quadrant Energy on 27 November 2018

5 Two joint venture partners resolved to withdraw from the permit in 2018 resulting in Santos' interest increasing to 70.5%

6 Santos acquired an additional 6% interest in Tern and Frigate during 2018 resulting in Santos' interest increasing to 46%

Notes to the Consolidated Financial Statements

Section 6: Group Structure

6.3 JOINT ARRANGEMENTS (CONTINUED)

(b) Share of investments in joint ventures

The Group's only material joint venture is Darwin LNG Pty Ltd, which operates the Darwin LNG liquefaction facility that 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:

Share of investment in Darwin LNG Pty Ltd	2018	2017
	US\$million	US\$million
Reconciliation to carrying amount:		
Opening net assets 1 January	375	490
Profit for the period	38	93
Reduction in capital	(120)	(115)
Dividends paid	(26)	(93)
Closing net assets 31 December	267	375
Group's share (%)	11.5%	11.5%
Group's share of closing net assets (\$million)	31	43
Carrying amount of investments in joint ventures (\$million)	31	43
Summarised statement of comprehensive income:		
Profit for the period	38	93
Other comprehensive income	–	–
Total comprehensive income	38	93
Group's share of profit	4	11
Dividends received from joint venture	3	11

The following are the joint ventures in which the Group has an interest, including those which are immaterial:

Joint venture	2018	2017
	% Interest	% Interest
Darwin LNG Pty Ltd	11.5	11.5
GLNG Operations Pty Ltd	30.0	30.0
GLNG Property Pty Ltd	30.0	30.0

(c) Income from all joint ventures

A reconciliation of the Group's total income from all joint ventures:

	2018	2017
	US\$million	US\$million
Share of Darwin LNG Pty Ltd net profits	4	11
Total share of net profits	4	11

At 31 December 2018 the Group reassessed the carrying amount of its investments in joint ventures for indicators of impairment. As a result, no impairment was recorded (2017: nil).

6.4 PARENT ENTITY DISCLOSURES

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

	2018 US\$million	2017 US\$million
Net profit for the period	1,082	282
Total comprehensive income	1,084	282
Current assets	353	344
Total assets	10,512	11,897
Current liabilities	309	474
Total liabilities	2,912	4,564
Issued capital	9,036	9,034
Accumulated profits reserve	1,585	595
Other reserves	(1,306)	(556)
Accumulated losses	(1,715)	(1,740)
Total equity	7,600	7,333

Commitments of the parent entity

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

Capital expenditure commitments	42	44
Minimum exploration commitments	25	10

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

All interest-bearing loans and borrowings, as disclosed in note 5.1, with the exception of the finance leases and secured bank loans, are arranged through Santos Finance Ltd, which is a wholly-owned subsidiary of Santos Limited. All interest-bearing loans and borrowings of Santos Finance Ltd are guaranteed by Santos Limited.

Contingent liabilities of the parent entity

Contingent liabilities arise in the ordinary course of business through claims against Santos Limited, including contractual, third-party and contractor claims. In most instances it is not possible to reasonably predict the outcome of these claims, and as at reporting date Santos Limited believes that the aggregate of such claims will not materially impact the Company's financial report.

Notes to the Consolidated Financial Statements

Section 6: Group Structure

6.5 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 ("the Instrument"), the Company and each of the wholly-owned subsidiaries within the Closed Group (collectively, "the Closed Group") are relieved from the *Corporations Act 2001* (Cth) requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Instrument, the Closed Group has entered into a Deed of Cross Guarantee ("the 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* (Cth). The subsidiaries have also given a similar guarantee in the event that the Company is wound up.

Set out below is a consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated accumulated losses for the year ended 31 December 2018 of the Closed Group.

	2018 US\$million	2017 US\$million
Consolidated income statement		
Product sales	1,585	1,193
Cost of sales	(1,149)	(1,038)
Gross profit	436	155
Other revenue	95	122
Other income	465	98
Other expenses	(187)	(130)
Impairment of non-current assets	242	328
Interest income	43	15
Profit before tax	1,094	588
Income tax expense	(123)	(232)
Royalty-related tax expense	(23)	(1)
Total tax expense	(146)	(233)
Net profit for the period	948	355
Consolidated statement of comprehensive income		
Net profit for the period	948	355
Other comprehensive income, net of tax:		
Net actuarial gain on defined benefit plan	2	–
Total comprehensive income	950	355
Summary of movements in the Closed Group's accumulated losses:		
Accumulated losses at 1 January	(2,153)	(2,256)
Opening balance adjustment on adoption of new accounting standard	–	5
Adjusted accumulated losses at 1 January	(2,153)	(2,251)
Transfer to accumulated profits reserve	(1,063)	(282)
Net profit for the period	948	355
Net actuarial gain on defined benefit plan	2	–
Share-based payment transactions	6	6
Less: Accumulated losses of companies removed during the period	–	19
Accumulated losses at 31 December	(2,260)	(2,153)

6.5 DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated statement of financial position as at 31 December 2018 of the Closed Group.

	2018 US\$million	2017 US\$million
Current assets		
Cash and cash equivalents	98	89
Trade and other receivables	2,856	3,121
Other current assets	147	168
Total current assets	3,101	3,378
Non-current assets		
Other financial assets	8,221	15,736
Exploration and evaluation assets	192	166
Oil and gas assets	2,064	2,372
Other non-current assets	650	524
Total non-current assets	11,127	18,798
Total assets	14,228	22,176
Current liabilities		
Trade and other payables	2,500	4,971
Other current liabilities	100	146
Total current liabilities	2,600	5,117
Non-current liabilities		
Interest-bearing loans and borrowings	3,713	9,188
Provisions	842	1,010
Other non-current liabilities	114	101
Total non-current liabilities	4,669	10,299
Total liabilities	7,269	15,416
Net assets	6,959	6,760
Equity		
Issued capital	9,036	9,036
Reserves	183	(123)
Accumulated losses	(2,260)	(2,153)
Total equity	6,959	6,760

Notes to the Consolidated Financial Statements

Section 7: People

This section includes information relating to the various programs the Group uses to reward and recognise our people. It includes details of our employee benefits, share-based payment schemes and key management personnel.

7.1 EMPLOYEE BENEFITS

Wages, salaries and sick leave

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled within 12 months of the reporting date, are recognised in respect of employee service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-vesting sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long-term service benefits

Liabilities for long service leave and annual leave that is not expected to be taken within 12 months of the respective service being provided, are recognised and measured at the present value of the estimated future cash outflows to be made in respect of employee service up to the reporting date.

Defined benefit plan

The Group's net obligation in respect of the defined benefit superannuation plan is calculated by estimating the discounted amount of future benefits that employees have earned in relation to their service in the current and prior periods and deducting the fair value of any plan assets.

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

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

During the period, an expense of \$4 million (2017: \$1 million) was recorded in relation to the defined benefit plan.

The Group expects to contribute \$nil to the defined benefit superannuation plan in 2019 (2018: \$1 million).

Defined contribution plans

The Group makes contributions to several defined contribution superannuation plans. Obligations for contributions are recognised as an expense in the income statement as incurred. The amount incurred during the year was \$8 million (2017: \$10 million).

The following amounts are recognised in the Group's statement of financial position in relation to employee benefits:

	2018 US\$million	2017 US\$million
Non-current assets		
Defined benefit surplus	3	3
Current provisions		
Employee benefits	55	49
Non-current provisions		
Employee benefits	9	8
Defined benefit obligations	1	1
Total non-current provisions	10	9
Total employee benefits provisions	65	58

7.2 SHARE-BASED PAYMENT PLANS

The Group provides benefits to employees of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance in part through shares or rights over shares.

There are two main share-based payment plans: equity-settled share-based payment plans and cash-settled share-based payment plans. The equity-settled plans consist of the general employee share-based payment plans, Executive Long-Term Incentive share-based payment plans and Executive Short-Term incentive share-based payment plans.

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

	Note	2018 US\$000	2017 US\$000
<i>Employee expenses:</i>			
General employee share plans:			
Share1000 Plan	7.2(a)(i)	(824)	(948)
ShareMatch Plan (matched SARs)	7.2(a)(i)	(1,947)	(2,300)
Executive Long-Term Incentive share-based payment plans – equity-settled	7.2(a)(ii)	(5,693)	(6,120)
Executive Short-Term Incentive share-based payment plans – equity-settled	7.2(a)(iii)	(2,244)	(1,005)
		(10,708)	(10,373)

The net impact on retained earnings from share-based payment plans, net of Treasury shares utilised in the current year, is \$6 million. The net impact on retained earnings from share-based payment plans in 2017 was \$6 million.

Notes to the Consolidated Financial Statements

Section 7: People

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

(a) Equity-settled share-based payment plans

The cost of equity-settled transactions is determined by the fair value at the grant date using an appropriate valuation model. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are met. Currently, the Company has four equity-settled share-based payment plans in operation, the details of which are as follows:

i. General employee share plans

Santos operates two general employee share plans, the Share1000 Plan and the ShareMatch Plan. Eligible employees have the option to participate in either the Share1000 Plan or the ShareMatch Plan. Members of the Executive Committee ("Excom"), 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	ShareMatch
What is it?	The Share1000 Plan provides for grants of fully paid ordinary shares up to a value determined by the Board, which in 2018 was A\$1,000 per employee (2017: A\$1,000).	The ShareMatch Plan allows for the purchase of shares through salary sacrificing up to A\$5,000 over a maximum 12-month period, and to receive matched SARs at a 1:1 ratio or as otherwise set by the Board.
The employee's ownership and right to deal with them	Subject to restrictions until the earlier of the expiration of the three-year restriction period and the time when the employee ceases to be in employment.	Upon vesting, subject to restrictions until the earlier of the expiration of the restriction period (which will be three 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.
How is the fair value recognised?	The fair value of these shares is recognised as an employee expense with a corresponding increase in issued capital, and the fair value per share is determined by the Volume Weighted Average Price ("VWAP") of ordinary Santos shares on the ASX during the week up to and including the date of issue of the shares.	The fair value of the shares is recognised as an increase in issued capital and a corresponding increase in loans receivable. 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 services required 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 and recognised as an employee expense for the term of the matched SARs.

The following shares were issued pursuant to the employee share plans during the period:

Year	Issue date	Share1000 Plan		ShareMatch Plan	
		Issued shares No.	Fair value per share A\$	Issued shares No.	Fair value per share A\$
2018	9 July 2018	176,480	6.24	439,664	6.24
2017	20 October 2017	244	4.23	–	–
2017	28 September 2017	301,340	4.10	553,416	4.10

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

i. General employee share plans (continued)

The number of SARs outstanding, and movements throughout the financial year are:

Year	Beginning of the year No.	Granted No.	Lapsed No.	Vested No.	End of the year No.
2018 Total	1,764,952	439,664	(75,402)	(615,471)	1,513,743
2017 Total	1,665,931	553,416	(70,085)	(384,310)	1,764,952

The inputs used in the valuation of the SARs are as follows:

Matched SARs grant	2018
Share price on grant date (A\$)	6.37
Exercise price (A\$)	nil
Right life (weighted average, years)	3
Expected dividends (% p.a.)	1.3
Fair value at grant date (A\$)	6.13

The loan arrangements relating to the ShareMatch Plan are as follows:

During the year the Company utilised \$2 million of Treasury shares (2017: \$2 million) under the ShareMatch Plan, with \$2 million (2017: \$2 million) received from employees under loan arrangements. The movements in loans receivable from employees are:

	2018 US\$000	2017 US\$000
Employee loans at 1 January	1,327	1,350
Treasury shares utilised during the year	2,040	1,779
Cash received during the year	(2,152)	(1,869)
Foreign exchange movement	(111)	67
Employee loans at 31 December	1,104	1,327

ii. Executive Long-Term Incentive share-based payment plans

The Company's Executive Long-Term Incentive Program ("LTI Program") provides for eligible executives selected by the Board to receive SARs upon the satisfaction of set market and non-market performance conditions. Each SAR 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.

The fair value of SARs 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 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 SARs do not vest due to non-market-related conditions.

The 2018 LTI Program offers consisted only of SARs. Performance Awards were granted to eligible executives in 2018 who were granted one four-year grant (1 January 2018 – 31 December 2021).

Notes to the Consolidated Financial Statements

Section 7: People

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

ii. Executive Long-Term Incentive share-based payment plans (continued)

Vesting of the grants is based on the following performance targets:

- 25% of the SARs are subject to Santos' Total Shareholder Return ("TSR") relative to the performance of the ASX 100 companies ("ASX 100 comparator group");
- 25% are subject to Santos' TSR relative to the performance of the Standard & Poor's Global 1200 Energy Index companies ("S&P GEI comparator group");
- 25% are subject to Santos' Free Cash Flow Breakeven Point ("FCFBP") relative to internal targets; and
- 25% are subject to Santos' Return on Average Capital Employed ("ROACE") relative to internal targets, measured at the end of the performance period.

The numbers of SARs outstanding at the end of, and movements throughout, the financial year are:

Year	Beginning of the year No.	Granted No.	Lapsed No.	Vested No.	End of the year No.
2018 Total	11,498,252	3,300,981	(3,466,683)	–	11,332,550
2017 Total	9,402,644	4,291,977	(2,196,369)	–	11,498,252

The SARs granted during 2018 totalling 3,300,981 were issued across the following four tranches, each with varying valuations:

Senior Executive LTI – granted 21 March 2018

Performance Awards	2018			
	P1	P2	P3	P4
Performance index	ASX 100	S&P GEI	FCFBP	ROACE
Fair value at grant date (A\$)	3.05	3.18	4.82	4.82
Share price on grant date (A\$)	5.07	5.07	5.07	5.07
Exercise price (A\$)	nil	nil	nil	nil
Expected volatility (weighted average, % p.a.)	46	46	46	46
Right life (weighted average, years)	4	4	4	4
Expected dividends (% p.a.)	1.3	1.3	1.3	1.3
Risk-free interest rate (% p.a.)	2.2	2.2	2.2	2.2
Total granted (No.)	695,221	695,209	695,192	695,176

CEO LTI – granted 7 May 2018

Performance Awards	2018			
	P1	P2	P3	P4
Performance index	ASX 100	S&P GEI	FCFBP	ROACE
Fair value at grant date (A\$)	4.18	4.39	5.84	5.84
Share price on grant date (A\$)	6.12	6.12	6.12	6.12
Exercise price (A\$)	nil	nil	nil	nil
Expected volatility (weighted average, % p.a.)	47	47	47	47
Right life (weighted average, years)	4	4	4	4
Expected dividends (% p.a.)	1.3	1.3	1.3	1.3
Risk-free interest rate (% p.a.)	2.2	2.2	2.2	2.2
Total granted (No.)	130,046	130,046	130,046	130,045

The above tables include the valuation assumptions used for Performance Awards SARs granted during the current year. The expected vesting period of the SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the SARs is indicative of future trends, which may not necessarily be the actual outcome.

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

ii. *Executive Long-Term Incentive share-based payment plans (continued)*

Vesting of Performance Awards

All Performance Awards are subject to hurdles based on the Company's TSR relative to both the ASX 100 and S&P GEI comparator group over the performance period, as well as the FCFBP and ROACE at the end of the vesting period. There is no re-testing of performance conditions. Each tranche of the Performance Awards subject to TSR granted during 2018 vests in accordance with the following vesting schedule:

TSR percentile ranking	% of grant vesting
< 51st percentile	0%
= 51st percentile	50%
52nd to 75th percentile	Further 2.0% for each percentile over 51st
≥ 76th percentile	100%

Restriction period

Shares allocated on vesting of SARs granted in 2012 may be subject to additional restrictions on dealing for five or seven years after the original grant date, depending on whether the executive elected to extend the trading restrictions period beyond the vesting date. Shares allocated on the vesting of SARs that were granted prior to 2012 will be subject to further restrictions on dealing for a maximum of 10 years after the original grant date. No amount is payable on grant or vesting of the SARs.

iii. *Executive Deferred Short-Term Incentives ("STIs")*

Deferred shares

Deferred STIs represent a proportion of the total executive STI of the applicable year that has been deferred into shares. The deferred shares are subject to a 24-month continuous service period following the year to which the STI related. The number of deferred STIs outstanding at the end of, and movements throughout, the financial year are:

Year	Beginning of the year No.	Granted No.	Lapsed No.	Vested No.	End of the year No.
2018 Total	261,011	312,731	–	(261,011)	312,731
2017 Total	308,163	261,011	–	(308,163)	261,011

On 14 March 2018 the Company issued 312,731 deferred shares to eligible executives. The share price on the grant date was A\$4.86 and the fair value was A\$4.74 after applying a 1.4% dividend yield assumption to the valuation.

Share acquisition rights

On 19 April 2017 the Company issued 80,571 SARs subject to a 24-month continuous service condition starting on 1 January 2017 and ending and vested on 31 December 2018. The share price on the grant date was A\$3.66 and the fair value was A\$3.57 after applying a 1.4% dividend yield assumption to the valuation. The issued SARs represented the portion of 2016 deferred STI which was allocated to eligible executives as SARs rather than deferred shares.

Notes to the Consolidated Financial Statements

Section 7: People

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

iv. Executive and other equity grants

- a. On 11 February 2016 the Company issued 166,911 SARs subject to a 24-month continuous service condition starting on 1 February 2016 and ending on 31 January 2018, which vested on 1 February 2018.

The share price on the grant date was A\$3.05 and the fair value was A\$2.86 after applying a 3.3% dividend yield assumption to the valuation.

- b. On 11 July 2016 the Company issued 42,585 SARs subject to a 24-month continuous service condition starting on 1 May 2016 and ending on 30 April 2018, which vested on 1 May 2018.

The share price on the grant date was A\$4.80 and the fair value was A\$4.61 after applying a 2.2% dividend yield assumption to the valuation.

- c. On 1 April 2018 the Company issued 235,878 SARs, subject to a 24-month continuous service condition starting on 1 April 2018 and ending on 31 March 2020. During 2018, 7,981 SARs lapsed, leaving 227,897 SARs remaining at the end of 2018. If this service condition is satisfied, the remaining SARs will vest on 1 April 2020.

The share price on the grant date was A\$5.89 and the fair value was A\$5.76 after applying a 1.3% dividend yield assumption to the valuation.

- d. On 1 April 2018 the Company issued 515,181 SARs, subject to a 36-month continuous service condition starting on 1 April 2018 and ending on 31 March 2021. If this service condition is satisfied, the SARs will vest on 1 April 2021.

The share price on the grant date was A\$5.89 and the fair value was A\$5.68 after applying a 1.3% dividend yield assumption to the valuation.

- e. On 5 November 2018 the Company issued 7,650 SARs, subject to a 12-month continuous service condition starting on 5 November 2018 and ending on 4 November 2019. If this service condition is satisfied, the SARs will vest on 5 November 2019.

The share price on the grant date was A\$6.37 and the fair value was A\$6.28 after applying a 1.3% dividend yield assumption to the valuation.

- f. On 5 November 2018 the Company issued 7,649 SARs, subject to a 24-month continuous service condition starting on 5 November 2018 and ending on 4 November 2020. If this service condition is satisfied, the SARs will vest on 5 November 2020.

The share price on the grant date was A\$6.37 and the fair value was A\$6.20 after applying a 1.3% dividend yield assumption to the valuation.

7.2 SHARE-BASED PAYMENT PLANS (CONTINUED)

(b) Options

The Company has not granted options over unissued shares under the Executive Long-Term Incentive share-based payment plans since 2009. The information as set out below relates to options issued under the Executive Long-Term Incentive share-based payment plans in 2009 and earlier that have vested in prior years:

	Beginning of the year No.	Lapsed No.	Exercised No.	End of the year No.	Exercisable at end of the year No.
2018					
Vested in prior years	807,988	(757,439)	–	50,549	50,549
Weighted average exercise price (A\$)	15.55	15.60	–	14.81	14.81
2017					
Vested in prior years	1,159,288	(351,300)	–	807,988	807,988
Weighted average exercise price (A\$)	15.01	13.76	–	15.55	15.55

(c) 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.

7.3 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2018 US\$000	2017 US\$000
Short-term employee benefits	7,794	7,306
Post-employment benefits	205	195
Other long-term benefits	73	80
Termination benefits	31	288
Share-based payments	2,757	2,277
	10,860	10,146

(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.

Notes to the Consolidated Financial Statements

Section 8: Other

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent liabilities, events after the end of the reporting period, remuneration of auditors and changes to accounting policies and disclosures.

8.1 CONTINGENT LIABILITIES

Contingent liabilities arise in the ordinary course of business through claims against the Group, including contractual, third-party and contractor claims. In most instances it is not possible to reasonably predict the outcome of these claims, and as at reporting date the Group believes that the aggregate of such claims will not materially impact the Group's financial report.

8.2 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 February 2019, the Directors of Santos Limited resolved to pay a final dividend of US6.2 cents in respect of the 2018 financial year. Consequently, the financial effect of these dividends has not been brought to account in the full-year financial statements for the year ended 31 December 2018. Refer to note 2.6 for details.

8.3 REMUNERATION OF AUDITORS

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:

	2018 US\$000	2017 US\$000
Ernst & Young (Australia)	2,014	1,566
Overseas network firms of Ernst & Young (Australia)	57	116
	2,071	1,682

(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:

	2018 US\$000	2017 US\$000
Ernst & Young (Australia) for other assurance services	212	401
Ernst & Young (Australia) for taxation and other services	1,708	341
Overseas network firms of Ernst & Young (Australia) for taxation services	-	14
	1,920	756

8.4 ACCOUNTING POLICIES

(a) Changes in accounting policies and disclosures

The Group applied the following amendments to accounting standards applicable for the first time for the financial year beginning 1 January 2018:

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

The adoption of this amendment did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

In addition, several other standard amendments and interpretations were applicable for the first time in 2018, but were not relevant to the Company and do not impact the Group's annual consolidated financial statements or half-year condensed financial statements.

(b) Adoption of AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. AASB 15 establishes a five-step model to be applied to all contracts with customers. The Group has adopted AASB 15 from 1 January 2018.

In accordance with the transition provisions of AASB 15, the Group has adopted the full retrospective transition approach, where any adjustment to historical revenue transactions (that impacts net profit) has been recorded against opening retained earnings as at 1 January 2017. Comparatives for the 2017 reporting period have been restated.

The Group undertook a detailed review of its revenue contracts that were entered into during the transition period and concluded that there were no adjustments required to net profit or opening retained earnings on transition. No transition practical expedients were applied.

Application of AASB 15 has resulted in the following insignificant transition adjustments:

- reclassification of other income and other revenues to revenue from contracts with customers; and
- adjustments of equal or similar amounts to product sales and cost of sales line items, arising from gas swap arrangements.

The total impact of transition adjustments on 31 December 2017 reported revenue is as follows:

	31 December 2017	Transition adjustment	(Restated) 31 December 2017
Revenue from contracts with customers – Product sales	3,107	(7)	3,100
Cost of sales	(2,272)	(31)	(2,303)
Gross profit	835	(38)	797
Revenue from contracts with customers – Other	65	33	98
Other income	123	2	125
Other expenses	(411)	3	(408)
Total		–	

The Group has elected to change from the “entitlements method” to the “sales method” of accounting for sales revenue. Previously under the entitlements method, sales revenue was recognised on the basis of the Group's interest in a producing field. Under the sales method, revenue will be recognised based on volumes sold under contracts with customers, at the point in time where performance obligations are considered met. Refer to note 2.2 for further details of the Group's revenue accounting policy.

No other changes arising from the adoption of AASB 15 have had a material effect on the financial reporting of the Group.

Notes to the Consolidated Financial Statements

Section 8: Other

8.4 ACCOUNTING POLICIES (CONTINUED)

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning on or after 1 January 2019, 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.

i) AASB 16 Leases

Description AASB 16 provides a new lessee accounting model which requires a lessee to recognise a right of use asset representing its right to use the underlying asset and lease liabilities, for all leases with a term of more than 12 months, unless the underlying asset is of a low value. The depreciation of the right of use asset and interest on the lease liability will be recognised in the consolidated income statement.

Impact on Group financial report The Group operates predominantly as a lessee. The standard will affect primarily the accounting for the Group's operating leases, with no significant impact expected for the Group's finance leases.

A project team was established comprising appropriate leasing subject matter specialists, with a detailed review of AASB 16 and relevant industry guidance being performed. In addition, the Group undertook a detailed identification and assessment exercise, to identify and quantify the impact of leasing arrangements that existed as at the transition date of the standard.

The Group expects to apply the modified retrospective transition approach, with election of the option to retrospectively measure the right-of-use asset using the transition discount rate.

Furthermore, the Group plans to elect the following transition practical expedients:

- i. lease arrangements with a short remaining term from date of initial application;
- ii. discount rates applied to a portfolio of leases with similar characteristics; and
- iii. use of hindsight with regards to determination of the lease term.

The cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Notwithstanding the impact of the IFRIC tentative agenda decision relating to AASB 16 *Leases*, having consideration for AASB 11 *Joint Arrangements*, and based on the information currently available, the Group estimates the following impact on its consolidated statement of financial position as at 31 December 2018:

Estimated impact on Consolidated Statement of Financial Position ¹	US\$million
Right-of-use assets	264
Lease liabilities	294

¹ The net effect of the lease liabilities and right-of-use assets, adjusted for deferred tax will be recognised against retained earnings.

The Group does not expect the adoption of AASB 16 to impact its ability to comply with debt covenants.

As at the reporting date, the Group has non-cancellable operating lease commitments of \$242 million (refer note 3.5).

Application of standard	1 January 2019
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8.4 ACCOUNTING POLICIES (CONTINUED)

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

ii) AASB 2018–6 Amendments to Australian Accounting Standards – Definition of a Business

Description	This standard applies to annual reporting periods beginning on or after 1 January 2020 but is available for early adoption.
Impact on Group financial report	This is a prospective application of the standard and will provide further clarity on the accounting treatment for future acquisition transactions.
Application of standard	1 January 2019 (early adoption)

Several other amendments to standards and interpretations will apply on or after 1 January 2019, and have not yet been applied, however they are not expected to impact the Group's annual consolidated financial statements or half-year condensed consolidated financial statements.

Directors' Declaration

for the year ended 31 December 2018

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 2018 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 1.1; 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 2018.
3. As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 6.5 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 ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

Dated this 20th day of February 2019

On behalf of the Board:



Director

Independent Auditor's Report to the Members of Santos Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Santos Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Independent Auditor's Report to the Members of Santos Limited (continued)

Acquisition of Quadrant Energy Holdings Pty Ltd

Why significant

On 27 November 2018 the Group completed the acquisition of Quadrant Energy Holdings Pty Ltd ("Quadrant"). As disclosed in Note 6.2 of the financial report, the Group acquired total assets of \$4,679m, assumed total liabilities of \$3,105m and recognised total goodwill of \$628m.

As outlined in Note 6.2, the acquisition accounting remains provisional as at 31 December 2018, as permitted by Australian Accounting Standards.

The acquisition is significant and complex due to the value of the assets acquired and consideration paid and the judgment required by the Group to measure the fair values of the following assets acquired and liabilities assumed:

- oil and gas assets;
- exploration and evaluation assets;
- decommissioning and restoration liabilities;
- contractual assets and liabilities;
- contingent liabilities, commitments and any associated indemnification assets;
- deferred tax assets and liabilities;
- contingent consideration; and
- working capital balances.

How our audit addressed the key audit matter

Our audit procedures included the following:

- considered the accounting acquisition date applied with reference to the achievement of control over the acquired business interests.
- evaluated the Group's determination of the purchase consideration with reference to the underlying share sale agreements and cash consideration paid.
- evaluated the qualifications, competence and objectivity of external and internal experts used by the Group to determine the oil and gas reserves and resources, and the fair value of oil and gas assets, exploration and evaluation assets, and restoration liabilities.
- assessed the fair value of oil and gas assets and exploration and evaluation assets, with the assistance of our valuation specialists, including:
 - considered whether the modelling methodology applied was in accordance with the requirements of Australian Accounting Standards;
 - performed valuation cross checks on the acquired oil and gas assets and exploration and evaluation assets with reference to reserves and/or contingent and prospective resource multiples;
 - assessed the assumptions used by comparing key assumptions such as oil and gas prices, discount rates, inflation rates, and foreign exchange rates to gas sales agreements and external market data;
 - assessed the operating cost forecasts and capital expenditure forecasts against costs incurred historically and trend analysis.
- assessed decommissioning and restoration provision fair values, with the assistance of our restoration specialists, as follows:
 - examined third party restoration cost estimates;
 - assessed the cost estimate methodologies adopted and contingency rates included;
 - assessed legislative/regulatory requirements;
 - assessed the discount rate applied.
- involved our taxation specialists in the assessment of the fair value determinations as follows:
 - considered the current and deferred tax effects of both income tax and petroleum resource rent tax on the accounting for the acquisition;
 - assessing tax contingencies.
- assessed the identification and measurement of acquired contingent liabilities.
- agreed the working capital balances, including adjustments to recognise these balances at fair value, to bank statements, invoices, operator statements and underlying books and records.

Estimation of oil and gas reserves and resources

Why significant

Estimation of oil and gas reserves and resources was conducted for the Group, by specialist engineers, requiring significant judgment and the use of a number of assumptions, particularly those disclosed in Note 3.2 of the financial report.

These estimates can have a material impact on the financial statements and the results of the Group, primarily in the following areas:

- capitalisation and classification of expenditure as exploration and evaluation assets (refer Note 3.1), or oil and gas assets (Note 3.2);
- valuation of oil and gas assets and impairment testing (Note 3.3);
- valuation of assets on acquisition, as was the case with the acquisition of Quadrant Energy Holdings Pty Limited during 2018 (Note 6.2);
- calculation of depreciation, depletion and amortisation of assets (Note 3.2); and
- the calculation of decommissioning and restoration provisions (Note 3.4).

How our audit addressed the key audit matter

Our audit procedures focused on the work of the Group's experts and included the following:

- assessed the qualifications, competence and objectivity of both the Group's internal and external experts involved in the estimation process.
 - evaluated the adequacy of the experts' work to determine if the work undertaken was appropriate.
 - considered the Group's reserves estimation process and controls, including Santos' internal certification process for technical and commercial experts who are responsible for reserves, and the design of Santos Reserves Guidelines and Reserves Management Process and its alignment with the guidelines prepared by the Society of Petroleum Engineers (SPE).
 - assessed the Group's controls over the estimation process, to assess and approve the reserves and resources volumes in accordance with the guidelines prepared by the SPE.
 - assessed whether key economic assumptions used in the estimation of reserves and resources volumes were consistent with those utilised by the Group in the impairment testing of exploration and evaluation and oil and gas assets, where applicable.
 - analysed the reasons for reserve revisions or the absence of reserves revisions where expected, and assessed changes in reserves or lack of changes in reserves for consistency with other information that we obtained throughout the audit.
 - agreed the reserves and resources volumes to the applicable financial information, including the calculation of depreciation, depletion and amortisation and valuation of assets and impairment testing, as applicable.
-

Independent Auditor's Report to the Members of Santos Limited (continued)

Recovery of carrying value of exploration and evaluation and oil and gas assets

Why significant

Australian Accounting Standards, require the Group to assess throughout the reporting period whether there is any indication that an asset may be impaired, or that reversal of a previously recognised impairment may be required. If any such indication exists, an entity shall estimate the recoverable amount of the asset. At 31 December 2018, the Group has concluded, based on its impairment indicators assessment, that there were no indicators of impairment or reversals of previous impairments for any of its oil and gas cash generating units (CGUs).

The Group identified impairment indicators during the period in respect of certain exploration and evaluation assets. Impairment testing was undertaken which resulted in an impairment charge of \$53m being recorded during the year, as set out in Note 3.3 of the financial report.

The assessment for indicators of impairment and reversal of impairment is judgmental, and includes assessing a range of external and internal factors which could impact the recoverable amount of the cash generating units. In determining whether there was an indicator of impairment or impairment reversal, the Group considered where there was any significant changes in external and internal factors.

How our audit addressed the key audit matter

We evaluated the assessment of indicators performed by the Group and whether there had been any significant changes in the external and internal factors which would indicate an impairment or reversal of impairment existed.

We involved our valuation specialists to assist in these procedures. Specifically, we evaluated the following external and internal factors, assessing for significant changes:

- evaluated movements in commodity price assumptions with reference to contractual arrangements, market prices (where available), broker consensus, analyst views and historical performance.
- evaluated movements in discount rates and foreign exchange rates with reference to risk free rates, market indices, applicable tax rates, market risk and country risk premia, broker consensus, and historical performance.
- understood operational performance of the cash generating units relative to plan;
- compared future production profiles compared to latest reserves and resources estimates, as outlined in the key audit matter above; and
- examined the reasons for changes to recoverable amounts relative to previous assessments.

Our procedures focused on assessing the impact changes in these external and internal factors would have on the conclusions drawn by management with respect to the presence of impairment or impairment reversal indicators, and any changes from the impairment assessments of previous years.

For exploration and evaluation assets, we assessed whether any impairment indicators, as set out in AASB 6: *Exploration for and Evaluation of Mineral Resources*, were present, and assessed the conclusions reached by management.

We also focused on the adequacy of the financial report disclosures regarding the assumptions, key estimates and judgements applied by management for the Group's assessment of indicators of impairment and reversal of impairment for oil and gas and exploration and evaluation assets, and the recoverable amount of the Group's assets.

Decommissioning and restoration provisions

Why significant

The calculation of decommissioning and restoration provisions made by the Group is conducted using by both internal and external specialist engineers and requires judgment in respect of asset lives, timing of restoration work being undertaken, environmental legislative requirements, the extent of restoration activities required and estimation of future costs.

The judgments and estimates made can have a material impact on the financial report. The Group has recognised decommissioning and restoration provisions of US\$2.1 billion at 31 December 2018 which are disclosed in Note 3.4 of the financial report.

How our audit addressed the key audit matter

Our audit procedures focused on the work of the Group's experts and included the following:

- assessed the qualifications, competence and objectivity of both the Group's internal and external experts involved in the estimation process.
- evaluated the adequacy of the experts' work to determine whether their work was appropriate.
- evaluated the Group's decommissioning and restoration estimation processes.
- assessed the Group's controls over the restoration estimation process.
- tested the consistency of the application of principles and assumptions to other areas of the audit, such as reserves estimation and impairment testing.
- tested the mathematical accuracy of the Group's present value calculations and considered the appropriateness of the discount rate applied in the calculation.
- agreed the calculations to the financial report.

Accounting for deferred tax, Petroleum Resource Rent Tax and uncertain tax positions

Why significant

The financial report of the Group includes deferred tax assets arising from income taxes, including in respect of income tax losses, and Petroleum Resource Rent Tax (PRRT). The determination of the quantum, likelihood and timing of the realisation of deferred tax assets arising from income taxes and PRRT is judgmental, due to the interpretation of PRRT and income tax legislation, as well as the estimation of future taxable income.

There may be changes in, or uncertainties with respect, to the application of tax legislation, which requires the Group to make assumptions, judgments and estimates in assessing the impacts of tax legislation on the Group. The actual tax outcomes may differ from the estimates made by management.

The Group recognised a net deferred tax asset of US\$132 million at 31 December 2018 in respect of corporate income tax, which is disclosed in Note 2.4 of the financial report.

How our audit addressed the key audit matter

We assessed the Group's determination of tax payable now and in the future. We involved our taxation specialists to assist in this assessment.

We considered the Group's methodologies, assumptions and estimates in relation to the calculation of current taxes and the generation of future taxable profits to support the recognition of deferred tax assets. We considered forecasts of taxable profits and the consistency of these forecasts with the Group's budgets approved by the Board and those used in the Group's asset impairment testing.

We evaluated the assessment of uncertain tax positions, estimates and assumptions made through enquiries with the Group's taxation department, reviewed correspondence with tax authorities and advisers, and involved our tax specialists, where appropriate, to assess the associated provisions and disclosures.

We assessed the Group's disclosures in respect of PRRT and Income Taxes, included in the summary of significant accounting policies in Note 2.4 of the financial report.

Independent Auditor's Report to the Members of Santos Limited (continued)

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE REMUNERATION REPORT

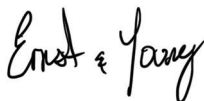
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 56 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Santos Limited for the year ended 31 December 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



Ernst & Young



R J Curtin

Partner

Adelaide

20 February 2019



L A Carr

Partner

Auditor's Independence Declaration to the Directors of Santos Limited

As lead auditor for the audit of Santos Limited for the financial year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Santos Limited and the entities it controlled during the financial year.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Ernst & Young

A handwritten signature in black ink, appearing to read 'R J Curtin'.

R J Curtin

Partner

Adelaide

20 February 2019

Securities Exchange and Shareholder Information

Listed on the Australian Securities Exchange at 31 January 2019 were 2,082,911,041 fully paid ordinary shares. Unlisted were 5,000 partly paid Plan 0 shares, 5,000 partly paid Plan 2 shares, 41,250 restricted fully paid ordinary shares issued to eligible Senior Executives pursuant to the Santos Employee Share Purchase Plan ("SESPP") and 27,054 fully paid ordinary shares issued with further restrictions pursuant to the ShareMatch Plan.

There were 115,810 holders of all classes of issued ordinary shares, including: 1 holder of Plan 0 shares; 1 holder of Plan 2 shares; 11 holders of restricted shares pursuant to the SESPP; and 26 holders of ShareMatch shares with further restrictions. This compared with 132,026 holders of all classes of issued ordinary shares a year earlier.

As at the date of this report there are also: 9 holders of 50,549 Options granted pursuant to the Santos Executive Share Option Plan; 140 holders of 12,090,927 Share Acquisition Rights pursuant to the SESPP and 769 holders of 1,504,107 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 and ShareMatch Plan represent all of the voting power in Santos. The holdings of the 20 largest holders of ordinary shares represent 74.37% of the total voting power in Santos (68.41% on 31 January 2018). The largest shareholders of fully paid ordinary shares in Santos as shown in the Company's Register of Members at 31 January 2019 were:

Name/Address 1	Balance as at 31-01-2019	%
HSBC Custody Nominees (Australia) Limited	534,293,017	25.65%
Citicorp Nominees Pty Limited	453,437,737	21.77%
J P Morgan Nominees Australia Pty Limited	329,555,521	15.82%
National Nominees Limited	109,068,250	5.24%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/c>	50,807,710	2.44%
BNP Paribas Noms Pty Ltd <DRP>	13,088,315	0.63%
Argo Investments Limited	10,942,014	0.53%
Citicorp Nominees Pty Limited <Colonial First State Inv A/c>	9,702,469	0.47%
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/c>	9,470,777	0.45%
AMP Life Limited	5,693,227	0.27%
UBS Nominees Pty Ltd	3,391,011	0.16%
UBS Nominees Pty Ltd	2,660,000	0.13%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,423,684	0.12%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	2,416,578	0.12%
UBS Nominees Pty Ltd	2,321,154	0.11%
HSBC Custody Nominees (Australia) Limited - A/c 2	2,097,409	0.10%
Netwealth Investments Limited <Wrap Services A/c>	2,096,690	0.10%
BNP Paribas Nominees Pty Ltd <HUB24 Custodial Serv Ltd DRP>	2,094,245	0.10%
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/c>	1,830,848	0.09%
Custodial Services Limited <Beneficiaries Holding A/c>	1,695,133	0.08%
Total Securities of Top 20 Holdings	1,549,085,789	74.37%
Total of Securities	2,082,911,041	

ANALYSIS OF SHARES – RANGE OF SHARES HELD

Holdings Ranges	Holders	Total Units	%
1-1,000	40,680	19,099,069	0.917
1,001-5,000	49,828	125,437,961	6.022
5,001-10,000	14,305	103,198,055	4.955
10,001-100,000	10,447	220,389,054	10.581
100,001-99,999,999,999	285	1,614,786,902	77.525
Totals	115,545	2,082,911,041	100.000

Substantial Shareholders as disclosed by notices received by the Company as at 20 February 2019:

Name	Number of voting shares held	Date of Notice
Hony Partners Group, L.P. and others	309,734,518*	5 May 2017
ENN Ecological Holdings Co Ltd and others	314,734,518*	5 May 2017
Santos Limited	318,192,274*	27 June 2017

* At 27 June 2017, Hony held approximately 4.8% of Santos' issued capital and ENN held approximately 10.31%. Hony and ENN have a relevant interest in each other's shares by reason of an Acting in Concert agreement dated 27 April 2017. Santos has a relevant interest in the shareholdings of Hony and ENN by reason of the Strategic Relationship agreement announced by Santos on 27 June 2017.

For Directors' shareholdings see the Directors' Report as set out on page 16 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.

Glossary

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.

the company

Santos Ltd and all 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 (2C)

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

crude oil

A general term for unrefined liquid petroleum or hydrocarbons.

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 $\times 10^9$

A terajoule (TJ) is equal to 1 joule $\times 10^{12}$

A petajoule (PJ) is equal to 1 joule $\times 10^{15}$

liquid hydrocarbons (liquids)

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

LNG

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

Lost-Time Injury Frequency Rate (LTIFR)

A statistical measure of health and safety performance, calculated by the number of hours worked. A lost-time injury is a work-related injury or illness that results in a persons disability, or time lost from work of one day shift or more.

LPG

Liquefied petroleum gas. A mixture of light hydrocarbons derived from oilbearing 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.

mmbbl

million barrels

mmboe

million barrels of oil equivalent.

mmBtu

million British thermal units

mtpa

million tonnes per annum

oil

A mixture of liquid hydrocarbons of different molecular weights.

proved reserves (1P)

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

proved 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 proved 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.

t

tonnes

Conversion factors

Sales gas and ethane	1 PJ = 171,937 boe $\times 10^3$
Crude oil	1 barrel = 1 boe
Condensate	1 barrel = 0.935 boe
LPG	1 tonne = 8,458 boe
LNG	1 PJ = 18,040 tonnes
LNG	1 tonne = 52.54 mmBtu

For a comprehensive online conversion calculator tool, please visit our homepage at www.santos.com

Corporate Directory

Santos Limited ABN 80 007 550 923

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).

COMPANY SECRETARY

Christian Paech joined Santos in 2004 and was appointed to the role of General Counsel in 2010 and Company Secretary in 2017. He has over 20 years' experience in commercial and corporate law and governance, including in private practice with Herbert Smith Freehills and Ashurst. He holds a Bachelor of Commerce and a Bachelor of Laws (Honours) from the University of Adelaide.

Amanda Devonish joined Santos in 2012 and was appointed to the role of Company Secretary in 2017. She has over 15 years' experience in commercial and corporate legal practice. She holds a Bachelor of Commerce and Bachelor of Laws from the University of Adelaide.

REGISTERED AND HEAD OFFICE

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Australia

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Facsimile: +61 8 8116 5050
Website: **www.santos.com**

SHARE REGISTER

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Level 12, 225 George Street
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Australia

GPO Box 3993
Sydney NSW 2001
Australia

Website: **www.boardroomlimited.com.au**
Shareholder Access: **www.investorserve.com.au**
Telephone: 1300 096 259 (within Australia)
+61 2 8016 2832 (International)





Santos