



# Half-year report incorporating Appendix 4D

Santos Limited and its controlled entities.

For the period ended 30 June 2018, under Listing Rule 4.2.

**Santos**

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

## APPENDIX 4D FOR THE PERIOD ENDED 30 JUNE 2018

	2018 US\$million	2017 US\$million	Change %
Revenue from ordinary activities	1,680	1,449	16
Statutory Profit/(Loss) from ordinary activities after tax attributable to members	104	(506)	nm
Net Profit/(Loss) for the period attributable to members	104	(506)	nm

Interim Dividend	Amount per security US cents	Franked amount per security at 30% tax US cents
Directors resolved to pay an interim dividend in relation to the half-year ended 30 June 2018.		
Ordinary securities	3.5	3.5
29 August 2018 is the record date for determining entitlements to the dividend		

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## RESULTS FOR THE PERIOD

	2018 US\$million	Change
Underlying profit <sup>1</sup>	217	↑ 99%
Product sales	1,680	↑ 16%
EBITDAX <sup>1</sup>	883	↑ 23%
Free cash flow <sup>1</sup>	367	↑ 22%
Interim dividend (UScps)	3.5	↑ 3.5cps

<sup>1</sup> Underlying profit, EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment) and free cash flow (operating cash flows less investing cash flows net of acquisitions and disposals) are non-IFRS measures that are presented to provide an understanding of the performance of Santos' operations. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the Company's auditor.

## ABOUT SANTOS

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 disciplined, focused strategy to drive sustainable shareholder value: the Cooper Basin; Queensland and NSW; Papua New Guinea; Northern Australia; and Western Australia. Each of these core assets provide stable production, long-term revenue streams and significant upside opportunities. As a low-cost, reliable and high performance business, we are proud to deliver the economic and environmental benefits of natural gas to homes and businesses throughout Australia and Asia.

## 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 half-year ended 30 June 2018, and the auditor's review report thereon.

### REVIEW AND RESULTS OF OPERATIONS

Unless otherwise stated, all references to dollars are to US dollars.

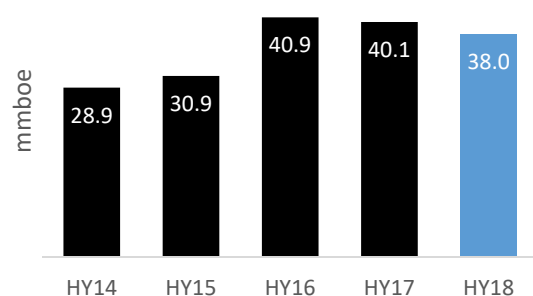
A review of the results of the operations of the consolidated entity during the half-year is as follows:

Summary of results table	2018	2017	Variance
	mmboe	mmboe	%
Production volume	28.0	29.5	(5)
Sales volume	38.0	40.1	(5)
	\$million	\$million	
Product sales	1,680	1,449	16
EBITDAX <sup>1</sup>	883	718	23
Exploration and evaluation expensed	(45)	(53)	15
Depreciation and depletion	(328)	(348)	6
Net impairment loss	(76)	(920)	92
Change in future restoration assumptions	9	–	100
EBIT <sup>1</sup>	443	(603)	173
Net finance costs	(108)	(139)	22
Taxation (expense)/benefit	(231)	236	(198)
Net profit/(loss) for the period	104	(506)	nm
Underlying profit for the period <sup>2</sup>	217	109	99

1 EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit/(loss) are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations.

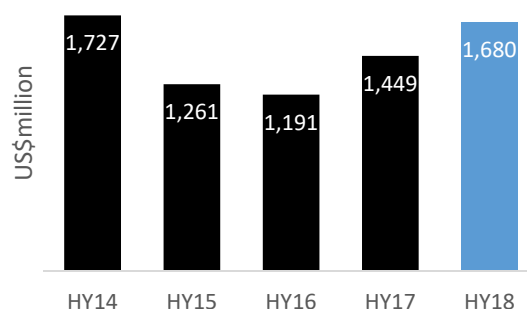
2 Underlying profit excludes the impacts of asset acquisitions, disposals and impairments and the impact of hedging. Please refer to page 5 for the reconciliation from net profit/(loss) to underlying profit/(loss) for the period. The calculation of underlying profit has changed from prior periods, please refer page 5 for further details. Prior period underlying profit has been restated to a like for like basis for comparability. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the Company's auditor.

### Sales volume



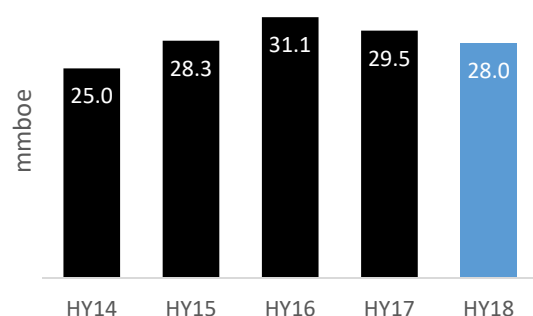
Sales volumes of 38 million barrels of oil equivalent (mmboe) were 5% lower than the previous half. Lower LNG sales volumes due to a temporary outage at PNG LNG, following the PNG Highlands earthquake in February 2018, combined with planned maintenance at Darwin LNG, were partially offset by higher Cooper Basin oil sales volumes.

### Sales revenue



Sales revenue was up 16% compared to the previous half to \$1.7 billion, primarily due to higher oil and LNG prices and higher oil sales volumes. The average realised oil price was up 38% to US\$75/bbl and the average realised LNG price rose 24% to US\$8.96/mmBtu.

## Production



Production was 5% lower than the previous half primarily due to the temporary outage at PNG LNG following the PNG Highlands earthquake partially offset by higher Cooper Basin, Queensland and Western Australia gas production.

## Review of Operations

Santos' operations are focused on five core, long-life natural gas assets: Cooper Basin, Queensland and NSW, PNG, 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 a low-cost, cash flow positive business by building production, investing in new technology to lower development and exploration costs, and increasing utilisation of infrastructure including the Moomba plant.

Cooper Basin	HY18	HY17
Production (mmboe)	7.5	7.1
Sales volume (mmboe)	10.3	10.4
Product sales (US\$m)	502	375
Production cost (US\$/boe)	8.42	9.72
EBITDAX (US\$m)	229	157
Capex (US\$m)	108	84

Cooper Basin EBITDAX was \$229 million, 46% higher than the first half of 2017 primarily due to higher sales revenue impacted by higher oil prices, in addition to lower production costs of US\$8.42/boe, down 13%, resulting from cost saving and efficiency initiatives.

Santos' share of Cooper Basin sales gas and ethane production of 29.7 petajoules (PJ) was 4% higher than the corresponding period, primarily due to higher drilling activity and strong production from newly connected wells, which more than offset the impact of planned maintenance at the Moomba plant.

Santos' share of oil and condensate production was 1.4 million and 448,800 barrels respectively.

## Queensland and NSW

The GLNG project in Queensland 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 2.5 million tonnes in the first half of 2018 and shipped 40 cargoes.

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	HY18	HY17
Production (mmboe)	5.9	5.6
Sales volume (mmboe)	11.0	10.6
Product Sales (US\$m)	463	354
Production cost (US\$/boe)	6.39	5.95
EBITDAX (US\$m)	285	153
Capex (US\$m)	110	79

Queensland and NSW EBITDAX was \$285 million, 86% higher than the first half of 2017. This was a result of higher sales revenue reflecting the ramp up of upstream production and higher LNG prices.

### 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 in the first half of 2018 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.

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. 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	HY18	HY17
Production (mmboe)	4.6	6.2
Sales volume (mmboe)	4.1	5.8
Product Sales (US\$m)	215	248
Production cost (US\$/boe)	6.91	4.32
EBITDAX (US\$m)	165	203
Capex (US\$m)	15	16

PNG EBITDAX was \$165 million, 19% lower than the first half of 2017.

### 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. LNG production of 1.5 million tonnes in the first half was lower than the corresponding period, due to a planned one-month maintenance shutdown in May 2018.

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 our 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. Santos has a 25% interest in Barossa and successful development would extend the operating life of Darwin LNG for more than 20 years, and more than double Santos' current production in Northern Australia.

Northern Australia	HY18	HY17
Production (mmboe)	1.7	2.1
Sales volume (mmboe)	1.7	2.2
Product Sales (US\$m)	76	78
Production cost (US\$/boe)	23.23	17.36
EBITDAX (US\$m)	35	44
Capex (US\$m)	29	44

Northern Australia EBITDAX was \$35 million, 20% lower than the first half of 2017. Unit production costs were impacted by the planned shutdown in May 2018.

### Western Australia

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

Santos' position in two WA domestic gas hubs (Varanus Island and Devil Creek) provides opportunities to meet short and long-term domestic gas demand in the state.

Santos' focus in WA is to grow production and market share in the WA domestic gas market.

Western Australia	HY18	HY17
Production (mmboe)	5.6	5.0
Sales volume (mmboe)	5.7	5.2
Product Sales (US\$m)	168	152
Production cost (US\$/boe)	8.90	9.41
EBITDAX (US\$m)	114	129
Capex (US\$m)	17	35

Western Australia EBITDAX was \$114 million, 12% lower than the first half of 2017.

Santos' share of Western Australia gas production increased 17% to 27.9 PJ in the first half of 2018 due to strong asset performance and the commencement of two new gas sales contracts. Santos' share of condensate and oil production was 307,600 and 475,700 barrels respectively.

### Asia

Santos' non-core Asian assets have been packaged and run separately as a standalone business. These assets include Santos interests in Indonesia, Vietnam, Malaysia and Bangladesh.

In May 2018, Santos announced the sale of its Asian portfolio to Ophir Energy plc for US\$221 million. Under the terms of the sale, the transaction will have an effective date of 1 January 2018. Completion is expected in the second half of 2018, and is subject to customary consents and approvals for a transaction of this nature. Santos' 50% interest in the North West Natuna PSC (Ande Ande Lumut) oil development in Indonesia is not included in the transaction package, with the intention that Santos exit this asset separately.

Asia	HY18	HY17
Production (mmboe)	2.8	3.5
Sales volume (mmboe)	2.7	3.3
Product Sales (US\$m)	134	128
Production cost (US\$/boe)	11.22	10.83
EBITDAX (US\$m)	92	99
Capex (US\$m)	4	9

Asia EBITDAX was \$92 million, 7% lower than the first half of 2017.

Total production and sales volumes from the Asian assets were lower than the previous half-year due to natural field decline and lower net entitlement.

## Net Profit/(Loss)

The 2018 first half net profit was \$104 million; compared with a \$506 million loss at half-year 2017. The \$610 million increase in net profit is driven in part by a higher commodity price; as well as the significant reduction in the before tax impairment loss of \$76 million posted in 2018, compared to the \$920 million posted in 2017.

Underlying profit of \$217 million includes items after tax of \$113 million (before tax of \$130 million), referred to in the reconciliation of net profit/(loss) to underlying profit below.

Reconciliation of Net Profit/(Loss) to Underlying Profit/(Loss) <sup>1</sup>	2018			2017		
	Gross	Tax	Net	Gross	Tax	Net
<b>Net profit/(loss) after tax attributable to equity holders of Santos Limited</b>			<b>104</b>			<b>(506)</b>
Add/(deduct) the following:						
Impairment losses	76	–	<b>76</b>	920	(231)	<b>689</b>
Gains on sale of non-current assets	(55)	16	<b>(39)</b>	(68)	17	<b>(51)</b>
Fair value adjustments on embedded derivatives and hedges	–	–	<b>–</b>	(2)	–	<b>(2)</b>
Fair value adjustments on commodity hedges	109	(33)	<b>76</b>	(30)	9	<b>(21)</b>
	130	(17)	<b>113</b>	820	(205)	<b>615</b>
Underlying profit <sup>1</sup>			<b>217</b>			<b>109</b>

<sup>1</sup> Underlying profit 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 for comparability. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the Company's auditor.

## EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SANTOS LIMITED / DIVIDENDS

Equity attributable to equity holders of Santos Limited at 30 June 2018 was \$6,998 million.

On 22 August 2018, the Directors resolved to pay a fully franked interim dividend of \$0.035 per fully paid ordinary share on 27 September 2018 to shareholders registered in the books of the Company at the close of business on 29 August 2018 ("Record Date"). The Board also resolved that the Dividend Reinvestment Plan ("DRP") will not be in operation for the 2018 interim dividend.

## CASH FLOW

The net cash inflow from operating activities of \$644 million was 0.6% higher than the first half of 2017. This increase is principally attributable to higher receipts from customers, offset by higher payments to suppliers and employees and higher taxes. Net cash used in investing activities of \$258 million was \$36 million higher than the first half of 2017 primarily due to lower proceeds realised from disposal of assets in 2018, of \$23 million compared to \$130 million in 2017. Cash flows used in financing activities were \$100 million lower than the first half of 2017, predominantly due to \$250 million early repayment of the ECA facility in 2017, as well as lower proceeds from issues of ordinary shares in 2018.

## OUTLOOK

Sales volume guidance is maintained in the range of 72 to 76 mmbob and production guidance is maintained in the range of 55 to 58 mmbob for 2018.

## POST BALANCE DATE EVENTS

On 22 August 2018, the Directors of Santos Limited resolved to pay an interim dividend on ordinary shares in respect of the 2018 half-year period as outlined above. The financial effect of these dividends has not been brought to account in the half-year financial report for the six months ended 30 June, 2018.

On 22 August 2018, Santos announced the acquisition of Quadrant Energy for US\$2.15 billion. The acquisition is forecast to complete in the second half of 2018. The acquisition has no financial effect in the half-year financial statements for the six months ended 30 June 2018.

## DIRECTORS

The names of Directors of the Company in office during or since the end of the half-year are:

Surname	Other Names
Allen	Yasmin Anita
Coates <sup>1</sup>	Peter Roland (Chairman)
Cowan	Guy Michael
Gallagher	Kevin Thomas (Managing Director and Chief Executive Officer)
Goh	Hock
Guthrie	Vanessa Ann
Hearl	Peter Roland
Shi	Yujiang
Spence <sup>2</sup>	Keith William (Chairman)

<sup>1</sup> Mr Coates ceased to be a Director and Chairman of Santos Limited effective 19 February, 2018.

<sup>2</sup> Mr Spence was appointed a Director of Santos Limited on 1 January 2018 and was appointed Chairman on 19 February 2018

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

## ROUNDING

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

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* (Cth) is set out on page 7 and forms part of this report.

This report is made out on 22 August 2018 in accordance with a resolution of the Directors.

**Director**  
22 August 2018

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

As lead auditor for the review of Santos Limited for the half-year ended 30 June 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Santos Limited and the entities it controlled during the financial period.

Ernst & Young

R J Curtin  
Partner  
Adelaide  
22 August 2018



CONSOLIDATED INCOME STATEMENT  
FOR SIX MONTHS ENDED 30 JUNE 2018

	Note	30 June 2018 \$million	(Restated) 30 June 2017 \$million
Revenue from contracts with customers – Product sales	2.2	1,680	1,449
Cost of sales	2.3	(1,162)	(1,097)
<b>Gross profit</b>		<b>518</b>	<b>352</b>
Revenue from contracts with customers – Other	2.2	47	57
Other income		68	73
Impairment of non-current assets	3.4	(76)	(920)
Other expenses	2.3	(115)	(170)
Finance income	4.1	12	14
Finance costs	4.1	(120)	(153)
Share of net profit of joint ventures		1	5
<b>Profit/(loss) before tax</b>		<b>335</b>	<b>(742)</b>
Income tax (expense)/benefit	2.4	(212)	228
Royalty-related taxation (expense)/benefit		(19)	8
Total taxation (expense)/benefit		(231)	236
<b>Net profit/(loss) for the period attributable to owners of Santos Limited</b>		<b>104</b>	<b>(506)</b>
<b>Earnings per share attributable to the equity holders of Santos Limited (¢)</b>			
Basic profit/(loss) per share		5.0	(24.4)
Diluted profit/(loss) per share		5.0	(24.4)
<b>Dividends per share (¢)</b>			
Paid during the period	2.5	–	–
Declared in respect of the period	2.5	3.5	–

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	30 June 2018 \$million	(Restated) 30 June 2017 \$million
<b>Net profit/(loss) for the period</b>	<b>104</b>	<b>(506)</b>
<b>Other comprehensive income, net of tax:</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange (loss)/gain on translation of foreign operations	(186)	116
Tax effect	-	-
	<b>(186)</b>	<b>116</b>
(Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations	(83)	132
Tax effect	25	(41)
	<b>(58)</b>	<b>91</b>
(Loss)/gain on derivatives designated as cash flow hedges	(16)	9
Tax effect	5	(3)
	<b>(11)</b>	<b>6</b>
<b>Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>	<b>(255)</b>	<b>213</b>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gain on the defined benefit plan	3	2
Tax effect	(1)	(1)
	<b>2</b>	<b>1</b>
Loss on financial liabilities at fair value through other comprehensive income (FVOCI)	(2)	(30)
Tax effect	1	10
	<b>(1)</b>	<b>(20)</b>
<b>Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods</b>	<b>1</b>	<b>(19)</b>
<b>Other comprehensive (loss)/income, net of tax</b>	<b>(254)</b>	<b>194</b>
<b>Total comprehensive loss attributable to owners of Santos Limited</b>	<b>(150)</b>	<b>(312)</b>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

	Note	30 June 2018 \$million	31 December 2017 \$million
<b>Current assets</b>			
Cash and cash equivalents		1,492	1,231
Trade and other receivables		411	440
Prepayments		11	28
Inventories		252	266
Other financial assets		14	–
Tax receivable		40	7
Assets held for sale	3.5	282	–
<b>Total current assets</b>		<b>2,502</b>	<b>1,972</b>
<b>Non-current assets</b>			
Prepayments		15	17
Investments in joint ventures		44	43
Other financial assets		38	134
Exploration and evaluation assets	3.1	355	459
Oil and gas assets	3.2	9,215	9,536
Other land, buildings, plant and equipment		103	126
Deferred tax assets		1,139	1,419
<b>Total non-current assets</b>		<b>10,909</b>	<b>11,734</b>
<b>Total assets</b>		<b>13,411</b>	<b>13,706</b>
<b>Current liabilities</b>			
Trade and other payables		455	495
Other liabilities		12	5
Contract liabilities		16	3
Interest-bearing loans and borrowings		803	207
Current tax liabilities		18	17
Provisions		125	142
Other financial liabilities		132	82
Liabilities directly associated with assets held for sale	3.5	182	–
<b>Total current liabilities</b>		<b>1,743</b>	<b>951</b>
<b>Non-current liabilities</b>			
Other liabilities		2	1
Contract liabilities		103	113
Interest-bearing loans and borrowings		3,026	3,736
Deferred tax liabilities		160	240
Provisions		1,344	1,494
Other financial liabilities		35	20
<b>Total non-current liabilities</b>		<b>4,670</b>	<b>5,604</b>
<b>Total liabilities</b>		<b>6,413</b>	<b>6,555</b>
<b>Net assets</b>		<b>6,998</b>	<b>7,151</b>
<b>Equity</b>			
Issued capital	4.2	9,028	9,034
Reserves		122	51
Accumulated losses		(2,152)	(1,934)
<b>Total equity</b>		<b>6,998</b>	<b>7,151</b>

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

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	30 June 2018 \$million	30 June 2017 \$million
<b>Cash flows from operating activities</b>		
Receipts from customers	1,725	1,542
Interest received	12	14
Dividends received	–	7
Pipeline tariffs and other receipts	23	43
Payments to suppliers and employees	(889)	(739)
Exploration and evaluation seismic and studies	(45)	(28)
Restoration expenditure	(11)	(22)
Royalty and excise paid	(27)	(26)
Borrowing costs paid	(88)	(126)
Income taxes paid	(47)	(37)
Income taxes received	2	23
Royalty-related tax paid	(13)	(13)
Other operating activities	2	2
<b>Net cash provided by operating activities</b>	<b>644</b>	<b>640</b>
<b>Cash flows from investing activities</b>		
Payments for:		
Exploration and evaluation assets	(17)	(93)
Oil and gas assets	(251)	(240)
Other land, buildings, plant and equipment	(3)	(3)
Acquisitions of exploration and evaluation assets	(4)	(14)
Borrowing costs paid	–	(5)
Proceeds on disposal of non-current assets	23	130
Other investing activities	(6)	3
<b>Net cash used in investing activities</b>	<b>(258)</b>	<b>(222)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	–	–
Repayments of borrowings	(112)	(368)
Proceeds from issues of ordinary shares	–	152
Purchase of shares on market (Treasury shares)	(8)	(4)
<b>Net cash used in financing activities</b>	<b>(120)</b>	<b>(220)</b>
<b>Net increase in cash and cash equivalents</b>	<b>266</b>	<b>198</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,231</b>	<b>2,026</b>
Effects of exchange rate changes on the balances of cash held in foreign currencies	(5)	2
<b>Cash and cash equivalents at the end of the period</b>	<b>1,492</b>	<b>2,226</b>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Equity attributable to owners of Santos Limited						Total equity \$million
	Issued capital \$million	Translation reserve \$million	Hedging reserve \$million	Financial liabilities at FVOCI \$million	Accumulated profits reserve \$million	Accumulated losses \$million	
<b>Balance at 1 January 2017</b>	8,883	(830)	7	–	313	(1,298)	7,075
Net loss for the period	–	–	–	–	–	(506)	(506)
Other comprehensive income/(loss) for the period	–	207	6	(20)	–	1	194
Total comprehensive income/(loss) for the period	–	207	6	(20)	–	(505)	(312)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued	151	–	–	–	–	–	151
Share buy-back (held as Treasury shares)	(3)	–	–	–	–	–	(3)
Share-based payment transactions	3	–	–	–	–	3	6
<b>Balance at 30 June 2017</b>	9,034	(623)	13	(20)	313	(1,800)	6,917
<b>Balance at 1 July 2017</b>	9,034	(623)	13	(20)	313	(1,800)	6,917
Transfer retained profits to accumulated profits reserve	–	–	–	–	282	(282)	–
<i>Items of comprehensive income:</i>							
Net profit for the period	–	–	–	–	–	146	146
Other comprehensive income/(loss) for the period	–	95	(8)	(1)	–	(1)	85
Total comprehensive income/(loss) for the period	–	95	(8)	(1)	–	145	231
<i>Transactions with owners in their capacity as owners:</i>							
Share buy-back (held as Treasury shares)	(5)	–	–	–	–	–	(5)
Share-based payment transactions	5	–	–	–	–	3	8
<b>Balance at 31 December 2017</b>	9,034	(528)	5	(21)	595	(1,934)	7,151
<b>Balance at 1 January 2018</b>	9,034	(528)	5	(21)	595	(1,934)	7,151
Transfer retained profits to accumulated profits reserve	–	–	–	–	327	(327)	–
<i>Items of comprehensive income:</i>							
Net profit for the period	–	–	–	–	–	104	104
Other comprehensive (loss)/income for the period	–	(244)	(11)	(1)	–	2	(254)
Total comprehensive (loss)/income for the period	–	(244)	(11)	(1)	–	106	(150)
<i>Transactions with owners in their capacity as owners:</i>							
Share buy-back (held as Treasury shares)	(8)	–	–	–	–	–	(8)
Share-based payment transactions	2	–	–	–	–	3	5
<b>Balance at 30 June 2018</b>	9,028	(772)	(6)	(22)	922	(2,152)	6,998

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

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## SECTION I: BASIS OF PREPARATION

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This section provides information about the basis of preparation of the half-year financial report, and certain accounting policies that are not disclosed elsewhere.

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### 1.1 CORPORATE INFORMATION

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Santos Limited (“the Company”) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (“ASX”). The condensed consolidated financial report of the Company for the six months ended 30 June 2018 (“the half-year financial report”) comprises the Company and its controlled entities (“the Group”). Santos Limited is the ultimate parent entity in the Group.

The half-year financial report was authorised for issue in accordance with a resolution of the Directors on 22 August 2018.

The half-year financial report is presented in United States dollars.

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### 1.2 BASIS OF PREPARATION

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This general purpose half-year financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual financial report for the year ended 31 December 2017 and considered together with any public announcements made by the Company during the six months ended 30 June 2018, in accordance with the continuous disclosure obligations of the ASX listing rules.

Changes to significant accounting policies are described in Section 5.

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### 1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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The significant accounting judgements, estimates and assumptions adopted in the half-year financial report are consistent with those applied in the preparation of the Group’s annual financial report for the year ended 31 December 2017, except for those that have arisen as a result of new standards, amendments to standards and interpretations effective from 1 January 2018, as outlined in note 5.4.

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## SECTION 2: FINANCIAL PERFORMANCE

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This section focuses on the operating results and financial performance of the Group. It includes disclosures of segmental financial information and dividends.

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### 2.1 SEGMENT INFORMATION

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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 (“WA”), 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. Comparative disclosures have been restated to a consistent basis.

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 in 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 and NSW” and WA Oil is now reported under the segment “Western Australia”. Comparative disclosures have been restated to a consistent basis.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

2.1 SEGMENT INFORMATION (continued)

\$million	Cooper Basin 2018	Queensland & NSW 2018	PNG 2018	Northern Australia 2018	Western Australia 2018	Asia 2018	Corporate, exploration, eliminations & other 2018	Total 2018
<b>Revenue</b>								
Product sales to external customers	449	416	215	75	168	134	223	1,680
Inter-segment product sales <sup>1</sup>	53	47	–	–	–	–	(100)	–
Revenue – other from external customers	27	6	2	–	4	–	8	47
<b>Total segment revenue</b>	<b>529</b>	<b>469</b>	<b>217</b>	<b>75</b>	<b>172</b>	<b>134</b>	<b>131</b>	<b>1,727</b>
<b>Costs</b>								
Production costs	(63)	(38)	(31)	(40)	(50)	(31)	10	(243)
Other operating costs	(31)	(38)	(22)	–	(8)	(8)	(53)	(160)
Third-party product purchases	(200)	(120)	–	–	–	–	(106)	(426)
Inter-segment purchases*	(3)	(33)	–	–	–	–	36	–
Other	(3)	45	1	–	–	(3)	(55)	(15)
<b>EBITDAX</b>	<b>229</b>	<b>285</b>	<b>165</b>	<b>35</b>	<b>114</b>	<b>92</b>	<b>(37)</b>	<b>883</b>
Depreciation and depletion	(98)	(86)	(58)	(24)	(39)	(13)	(10)	(328)
Exploration and evaluation expensed	–	–	–	–	–	–	(45)	(45)
Net impairment (loss)/reversal	–	(4)	(25)	–	–	(47)	–	(76)
Change in future restoration assumptions	–	–	–	–	9	–	–	9
<b>EBIT</b>	<b>131</b>	<b>195</b>	<b>82</b>	<b>11</b>	<b>84</b>	<b>32</b>	<b>(92)</b>	<b>443</b>
Net finance costs							(108)	(108)
Profit before tax								335
Income tax expense							(212)	(212)
Royalty-related taxation benefit/(expense)	–	–	–	–	(22)	–	3	(19)
<b>Net profit for the period</b>								<b>104</b>

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



NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

2.1 SEGMENT INFORMATION (continued)

\$million (Restated)	Cooper Basin 2017	Queensland & NSW 2017	PNG 2017	Northern Australia 2017	Western Australia 2017	Asia 2017	Corporate, exploration, eliminations & other 2017	Total 2017
<b>Revenue</b>								
Product sales to external customers	315	347	248	78	152	128	181	1,449
Inter-segment product sales <sup>1</sup>	60	7	–	–	–	–	(67)	–
Revenue – other from external customers	26	7	3	–	23	–	(2)	57
<b>Total segment revenue</b>	<b>401</b>	<b>361</b>	<b>251</b>	<b>78</b>	<b>175</b>	<b>128</b>	<b>112</b>	<b>1,506</b>
<b>Costs</b>								
Production costs	(69)	(34)	(27)	(37)	(47)	(34)	9	(239)
Other operating costs	(37)	(33)	(22)	–	(8)	(7)	(82)	(189)
Third-party product purchases	(82)	(84)	(1)	–	–	–	(120)	(287)
Inter-segment purchases*	(1)	(57)	–	–	–	–	58	–
Other	(55)	–	2	3	9	12	(44)	(73)
<b>EBITDAX</b>	<b>157</b>	<b>153</b>	<b>203</b>	<b>44</b>	<b>129</b>	<b>99</b>	<b>(67)</b>	<b>718</b>
Depreciation and depletion	(72)	(96)	(52)	(29)	(49)	(37)	(13)	(348)
Exploration and evaluation expensed	–	–	–	–	–	–	(53)	(53)
Net impairment (loss)/reversal	480	(1,241)	(4)	–	(6)	(149)	–	(920)
<b>EBIT</b>	<b>565</b>	<b>(1,184)</b>	<b>147</b>	<b>15</b>	<b>74</b>	<b>(87)</b>	<b>(133)</b>	<b>(603)</b>
Net finance costs							(139)	(139)
Loss before tax								(742)
Income tax benefit							228	228
Royalty-related taxation benefit/(expense)	–	–	–	3	(12)	–	17	8
<b>Net loss for the period</b>								<b>(506)</b>

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

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS**

	<b>30 June 2018</b>	(Restated) 30 June 2017
	<b>\$million</b>	<b>\$million</b>
Product sales:		
Gas, ethane and liquefied gas	1,114	1,049
Crude oil	400	262
Condensate and naphtha	132	106
Liquefied petroleum gas	34	32
Total product sales <sup>1</sup>	<b>1,680</b>	1,449
<sup>1</sup> Total product sales include third party product sales of \$523 million (2017: \$392 million).		
Revenue – other:		
Liquidated damages	5	25
Pipeline tolls & tariffs	35	22
Other	7	10
Total revenue – other	<b>47</b>	57
Total revenue from contracts with customers	<b>1,727</b>	1,506

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**2.3 EXPENSES**

	<b>30 June 2018</b>	(Restated) 30 June 2017
	<b>\$million</b>	<b>\$million</b>
Cost of Sales:		
Production costs:		
Production expenses	<b>227</b>	208
Production facilities operating leases	<b>16</b>	31
Total production costs	<b>243</b>	239
Other operating costs:		
LNG plant costs	<b>33</b>	32
Pipeline tariffs, processing tolls and other	<b>84</b>	88
Fair value losses on onerous pipeline contracts	<b>–</b>	31
Royalty and excise	<b>35</b>	30
Shipping costs	<b>8</b>	8
Total other operating costs	<b>160</b>	189
Total cash cost of production	<b>403</b>	428
Depreciation and depletion costs:		
Depreciation of plant, equipment and buildings	<b>212</b>	221
Depletion of sub-surface assets	<b>115</b>	126
Total depreciation and depletion	<b>327</b>	347
Third-party product purchases	<b>426</b>	287
Decrease in product stock	<b>6</b>	35
Total cost of sales	<b>1,162</b>	1,097
Other expenses:		
Selling	<b>7</b>	7
General & administration	<b>43</b>	48
Depreciation	<b>1</b>	1
Foreign exchange (gains)/losses	<b>(90)</b>	93
Fair value losses/(gains) on commodity derivatives (oil hedges)	<b>109</b>	(30)
Fair value hedges, (gains)/losses:		
On the hedging instrument	<b>13</b>	33
On the hedged item attributable to the hedged risk	<b>(13)</b>	(35)
Exploration and evaluation expensed	<b>45</b>	53
Total other expenses	<b>115</b>	170

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**2.4 TAXATION**

Current income tax expense of \$212 million (2017: tax benefit \$228 million) recognised in the income statement for the Group includes the following, which attributes to the high effective tax rate for the period:

- Foreign exchange losses relating to AUD tax bases in USD denominated companies of \$67 million; and
- Foreign losses not recognised of \$23 million, relating to impairment charge of \$76 million on the Bestari exploration asset.

**2.5 DIVIDENDS**

	Dividend per share ¢	Total \$million	Franked/ unfranked	Payment date
<b>Dividends paid during the period:</b>				
<b>2018</b>				
Nil	nil	nil		
<b>2017</b>				
Nil	nil	nil		
Franked dividends paid during the period were franked at the tax rate of 30%.				
<b>Dividends declared in respect of the current period:</b>				
2018 Interim dividend per ordinary share	<b>3.5</b>	<b>72.9</b>		

After the reporting date, on 22 August 2018, the 2018 interim dividend of 3.5 cents per share was declared by the Directors. Consequently, the financial effect of the dividend has not been brought to account in the half-year financial statements for the six months ended 30 June 2018, and will be recognised in subsequent financial reports.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**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, and commitments for capital expenditure not yet recognised as a liability.

The life cycle of our assets is summarised as follows:



**3.1 EXPLORATION AND EVALUATION ASSETS**

	<b>Six months ended</b>		
	<b>30 June 2018</b> \$million	31 Dec 2017 \$million	30 June 2017 \$million
Balance at the beginning of the period	<b>459</b>	422	495
Acquisitions	<b>4</b>	14	35
Additions	<b>25</b>	37	57
Expensed	<b>(2)</b>	–	(18)
Impairment losses	<b>(29)</b>	(7)	(156)
Transfer to oil and gas assets in production	<b>(7)</b>	(7)	(6)
Net impairment losses on assets transferred to held for sale	<b>(76)</b>	–	–
Exchange differences	<b>(19)</b>	–	15
<b>Balance at the end of the period</b>	<b>355</b>	459	422
<b>Comprising:</b>			
Acquisition costs	<b>70</b>	95	82
Successful exploration wells	<b>173</b>	253	290
Pending determination of success	<b>112</b>	111	50
	<b>355</b>	459	422

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**3.2 OIL AND GAS ASSETS**

	Six months ended		
	30 June 2018 \$million	31 Dec 2017 \$million	30 June 2017 \$million
<b>Assets in development</b>			
Balance at the beginning of the period	119	94	90
Additions	36	25	4
Transfer to oil and gas assets in production	(1)	(2)	–
Exchange differences	(1)	2	–
<b>Balance at the end of the period</b>	<b>153</b>	<b>119</b>	<b>94</b>
<b>Producing assets</b>			
Balance at the beginning of the period	9,417	9,523	10,308
Additions <sup>1</sup>	226	238	179
Transfer from exploration and evaluation assets	7	7	6
Transfer from oil and gas assets in development	1	2	–
Disposals	–	(4)	–
Depreciation and depletion	(316)	(384)	(334)
Net impairment losses	–	(1)	(764)
Transfer to assets held for sale	(153)	–	–
Net impairment reversals on assets transferred to held for sale	29	–	–
Exchange differences	(149)	36	128
<b>Balance at the end of the period</b>	<b>9,062</b>	<b>9,417</b>	<b>9,523</b>
<b>Total oil and gas assets</b>	<b>9,215</b>	<b>9,536</b>	<b>9,617</b>
<b>Comprising:</b>			
Exploration and evaluation expenditure pending commercialisation	98	95	182
Other capitalised expenditure	9,117	9,441	9,435
	<b>9,215</b>	<b>9,536</b>	<b>9,617</b>

1. Includes impact on restoration assets following changes in future restoration provision assumptions.

**3.3 CAPITAL COMMITMENTS**

There has been no material change to the capital commitments disclosed in the most recent annual financial report.

## NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 3.4 IMPAIRMENT OF NON-CURRENT ASSETS

Impairment expense recorded during the period is as follows:

	Note	30 June 2018 \$million	30 June 2017 \$million
Assets held for sale	3.5	47	–
Exploration and evaluation assets		29	156
Oil and gas assets		–	764
<b>Total impairment</b>		<b>76</b>	<b>920</b>

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. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

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, third party supply, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future commodity prices, discount rates and production.

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

2018	2019	2020	2021	2022 <sup>1</sup>	2023 <sup>1</sup>
65.00	60.00	65.00	70.00	75.77	77.29

I. Based on US\$70/bbl (2018 real) from 2022 escalated at 2% p.a.

The future estimated foreign exchange rate applied is A\$1/US\$0.75.

The discount rates applied to the future forecast cash flows are based on the Group's 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 14%.

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.

Recoverable amounts and resulting impairment write-downs recognised for the half year ended 30 June 2018 are:

Segment	Subsurface assets \$million	Plant and equipment \$million	Total \$million	Recoverable amount \$million	
<b>Exploration and evaluation assets:</b>					
PNG – PPL 426	Exploration	25	–	25	nil <sup>1</sup>
Gunnedah Basin	Exploration	4	–	4	nil <sup>1</sup>
<b>Total impairment of exploration and evaluation</b>		<b>29</b>	<b>–</b>	<b>29</b>	

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

### 3.5 ASSETS HELD FOR SALE

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

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

Following the Group's decision to divest its interests in its non-core Asian assets, the associated assets and liabilities attributed to the Asia segment, have been classified as held for sale at 3 May 2018. The sale and purchase agreements remained subject to outstanding conditions at 30 June 2018 and will be accounted for upon completion or waiver of each significant condition.

The following amounts are included within the financial statements in relation to assets and liabilities classified as held for sale:

	30 June 2018 \$million
<b>Assets and liabilities classified as held for sale</b>	
Trade and other receivables	45
Inventories	9
Other financial assets	75
Oil and gas assets	153
<b>Assets classified as held for sale</b>	<b>282</b>
Trade and other payables	46
Other liabilities	45
Restoration provisions	91
<b>Liabilities classified as held for sale</b>	<b>182</b>
<b>Net assets</b>	<b>100</b>

#### Impairment

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 has been recorded.

The impairment has arisen as each Asian asset disposed has been written down to the lower of its carrying amount and fair value less cost to sell. Upon completion of the sale, currently forecast for the second half of 2018, a gain upon disposal will arise from the carrying value recorded at 30 June 2018. In addition, upon completion, the foreign currency translation reserve relating to the companies disposed of will be recycled to the Income Statement. The Group currently forecasts that the net impairment will be offset in the full year accounts and a net gain on disposal to arise upon completion of these transactions.

#### Income statement impact

For the period ended 30 June 2018, the net loss after tax attributable to the assets held for sale is \$9 million. When excluding the net loss of the assets held for sale from the net profit of the Group, the impact on reported earnings per share is negligible.



NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**SECTION 4: 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.

**4.1 NET FINANCE COSTS**

	<b>30 June 2018</b> \$million	30 June 2017 \$million
<b>Finance income:</b>		
Interest income	12	14
<b>Total finance income</b>	<b>12</b>	14
<b>Finance costs:</b>		
Interest paid to third parties	<b>(99)</b>	(136)
Deduct borrowing costs capitalised	<b>2</b>	5
	<b>(97)</b>	(131)
Unwind of the effect of discounting on provisions	<b>(23)</b>	(22)
<b>Total finance costs</b>	<b>(120)</b>	(153)
<b>Net finance costs</b>	<b>(108)</b>	(139)

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

**4.2 ISSUED CAPITAL**

	Six months ended					
	30 June 2018 Number of shares	31 December 2017 Number of shares	30 June 2017 Number of shares	30 June 2018 \$million	31 December 2017 \$million	30 June 2017 \$million
<b>Movement in fully paid ordinary shares</b>						
Balance at the beginning of the period	2,083,070,879	2,083,221,296	2,032,389,675	9,034	9,034	8,883
Share purchase plan, net of costs	-	-	50,847,537	-	-	151
Shares purchased on-market (Treasury shares)	-	-	-	(8)	(5)	(3)
Issue of Treasury shares on vesting of employee share schemes	-	-	-	2	5	3
Replacement of restricted classes of ordinary shares with shares purchased on-market	(55,451)	(150,417)	(21,281)	-	-	-
Shares issued on vesting of share acquisition rights	-	-	5,365	-	-	-
<b>Balance at the end of the period</b>	<b>2,083,015,428</b>	<b>2,083,070,879</b>	<b>2,083,221,296</b>	<b>9,028</b>	<b>9,034</b>	<b>9,034</b>
<b>Movement in Treasury shares</b>						
Balance at the beginning of the period			587,993		735,599	-
Shares purchased on-market			2,000,000		1,200,000	1,400,000
Treasury shares utilised:						
Santos Employee Share 1000 Plan			-		(301,584)	-
Santos Employee ShareMatch Plan			-		(553,416)	-
Utilised on vesting of SARs			(40,461)		(357,724)	(21,221)
Executive STI (deferred SARs)			(312,731)		-	(261,011)
Executive STI (ordinary shares)			-		-	(193,977)
Executive sign-on grants			(42,585)		(23,777)	(166,911)
Santos Employee Share 1000 Plan (relinquished shares)			-		39,312	-
Replacement of partially paid shares with shares purchased on-market			(15,000)		-	-
Replacement of ordinary shares with shares purchased on-market			(55,451)		(150,417)	(21,281)
<b>Balance at the end of the period</b>			<b>2,121,765</b>		<b>587,993</b>	<b>735,599</b>

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### 4.3 FINANCIAL RISK MANAGEMENT

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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 which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and covers specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

#### (a) Foreign currency risk

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

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

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

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: \$1,407 million; 2017: \$1,407 million), swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2018: \$nil; 2017: \$nil), or offset by US dollar denominated cash balances (2018: \$802 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.

#### (b) Market risk

##### *Cash flow and fair value interest rate risk*

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

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps 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 has entered into interest rate swaps which fix the reference rate on \$1,200 million of US dollar denominated floating rate debt. These contracts are in place to cover interest payments through to 21 March 2019 and are designated as cash flow hedges.

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 \$45 million (2017: \$61 million). The net fair value amounts were recognised as fair value derivatives.

### 4.3 FINANCIAL RISK MANAGEMENT (continued)

#### **Commodity price risk**

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 30 June 2018, the Group has 9.7 million barrels (2017: 12.5 million) of open oil price option contracts covering 2018 (2018: 6.3 million; 2017: 12.5 million) and 2019 exposures (2018: 3.4 million; 2017: nil).

The 3-way collar option structure utilised for the 2018 exposures does not qualify for hedge accounting, with the movement in fair value recorded in the income statement. The 2019 exposures are hedged using zero cost collars and are designated as cash flow hedges.

#### **(c) 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 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 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:

	30 June 2018 %	31 Dec 2017 %
Derivatives	2.0 – 3.0	1.4 – 2.5
Loans and borrowings	2.0 – 3.0	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.

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## SECTION 5: OTHER

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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, and changes to accounting policies and disclosures.

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### 5.1 ACQUISITION/DISPOSAL OF CONTROLLED ENTITIES

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There were no acquisitions or disposals of controlled entities during the six months ended 30 June 2018.

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### 5.2 CONTINGENT LIABILITIES

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There has been no material change to the contingent liabilities disclosed in the most recent annual financial report.

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### 5.3 EVENTS AFTER THE END OF THE REPORTING PERIOD

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On 22 August 2018, the Directors of Santos Limited declared an interim dividend on ordinary shares in respect of the 2018 half-year period. Consequently, the financial effect of these dividends has not been brought to account in the half-year financial statements for the six months ended 30 June 2018. Refer to note 2.5 for details.

On 22 August 2018, Santos announced the acquisition of Quadrant Energy for US\$2.15 billion. The acquisition is forecast to complete in the second half of 2018. The acquisition has no financial effect in the half-year financial statements for the six months ended 30 June 2018.

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### 5.4 ACCOUNTING POLICIES

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#### (a) Significant accounting policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 31 December 2017, except for new standards, amendments to standards and interpretations effective from 1 January 2018.

The Group has adopted AASB 15 *Revenue from Contracts with Customers* ("AASB 15") from 1 January 2018. The impact of the adoption of this standard and the new accounting policies are disclosed in more detail below.

A number of other new standards are effective from 1 January 2018 but they do not have a material impact on the Group's half-year financial report.

#### (b) Adoption of AASB 15

##### **Description**

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations. The Group has adopted AASB 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the half-year consolidated financial statements.

##### **Transition**

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.

Application of AASB 15 has resulted in the following insignificant transition adjustments:

- i. Reclassification of other income and other revenues to revenue from contracts with customers; and
- ii. Adjustments of equal or similar amounts to product sales and cost of sales line items, arising from gas swap arrangements.

#### 5.4 ACCOUNTING POLICIES (continued)

##### (b) Adoption of AASB 15 (continued)

The total impact of transition adjustments on 30 June 2017 reported revenue is as follows:

	30 June 2017	Transition adjustment	(Restated) 30 June 2017
Revenue from contracts with customers –			
Product sales	1,453	(4)	<b>1,449</b>
Cost of sales	(1,088)	(9)	<b>(1,097)</b>
<b>Gross profit</b>	<b>365</b>	<b>(13)</b>	<b>352</b>
Revenue from contracts with customers – Other	43	14	<b>57</b>
Other income	74	(1)	<b>73</b>
Total		<u>–</u>	

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.

##### **Accounting policy**

###### *Revenue*

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

###### *Sales revenue*

Sales revenue is recognised 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).

Revenue earned under a production sharing contract (“PSC”) is recognised on a net entitlements basis according to the terms of the PSC. Generally, under these terms the local government retains title to the resources, and is therefore entitled to its share of the production and revenue, after allowing for the joint venture partners to extract and sell their share of hydrocarbons to recover specified costs and a profit margin.

###### *Contract liabilities*

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

## DIRECTORS' DECLARATION

### FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

In the opinion of the Directors of the Company:

1. The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001* (Cth), including:
  - (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and
  - (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth); and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 22nd day of August 2018

On behalf of the Board:

**Director**  
Adelaide

## Independent Auditor's Review Report to the Members of Santos Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of Santos Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2018, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.





## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

R J Curtin  
Partner  
Adelaide  
22 August 2018

L A Carr  
Partner

## APPENDIX 4D FOR THE SIX MONTHS ENDED 30 JUNE 2018

For 'Results for Announcement to the Market' refer to page 1 of this Half-year Report

### NTA BACKING

	30 June 2018	30 June 2017
Net tangible asset backing per ordinary security	N/A	N/A

### CHANGE IN OWNERSHIP OF CONTROLLED ENTITIES

The following companies have been approved for sale during the six months ended 30 June 2018:

Santos Asia Pacific Pty Ltd

Santos (SPV) Pty Ltd

Santos (Madura Offshore) Pty Ltd

Santos (Sampang) Pty Ltd

Santos Sabah Block R Pty Ltd

Santos Petroleum Ventures B.V.

Santos Vietnam Pty Ltd

### DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

	Percent ownership interest held at the end of the period	
	30 June 2018	30 June 2017
	%	%
<b>Joint venture entities</b>		
Darwin LNG Pty Ltd	11.5	11.5
GLNG Operations Pty Ltd	30.0	30.0
GLNG Property Pty Ltd	30.0	30.0
Lohengrin Pty Ltd <sup>1</sup>	-	-
Papua New Guinea Liquefied Natural Gas Global Company LDC	13.5	13.5

<sup>1</sup> company deregistered on 7 May 2017.