

27 June 2017

Strategic relationship with ENN and Hony announced

Santos today announced a strategic relationship with existing shareholders ENN Group (ENN) and Hony Capital (Hony). ENN and Hony are associated shareholders of Santos with an aggregate relevant interest of 15.1% of Santos shares. The strategic relationship will become effective and remain in effect for so long as ENN and Hony have a relevant interest in 15% or more of Santos shares.

The strategic relationship is based on mutual cooperation and assistance in order to support the growth of Santos. It is the intention of ENN and Hony that Santos will be the primary investment vehicle for material investment by them in upstream gas reserves and LNG production in Australia and PNG. ENN and Hony will support future investment by Santos and Santos will use reasonable endeavours to include ENN and Hony in investment opportunities where it is in the best interests of Santos shareholders as a whole.

Santos Chairman Peter Coates said: "Santos welcomes the formalisation of a strategic relationship with Hony and ENN. Hony became a major shareholder in 2015 and together with ENN has continued to support Santos through challenging times. We look forward to a closer relationship with Hony and ENN and their support for the continued growth of Santos for the benefit of all shareholders."

Chairman Wang, founder of ENN said: "ENN and Hony strongly support the new growth strategy of Santos under the leadership of CEO Kevin Gallagher and the Santos Board. The strategic relationship will effectively link up the upstream E&P competence of Santos with China's fast growing downstream market of natural gas, and explore many opportunities for Santos to realise its full potential as a leading producer of gas and LNG."

As part of the strategic relationship, Mr Eugene Shi will join the Board as a non-executive director. Mr Shi is Vice President ENN Ecological Holdings Ltd and has more than 20 years experience across capital markets, M&A, strategy and business development.

The agreement will terminate if ENN and Hony cease to have a relevant interest in at least 15% of Santos shares or may be terminated by Santos, ENN or Hony 12 months after ENN ceases to have any nominee Director on the board of Santos.

The agreement contains confidentiality provisions and restrictions on trading whilst the nominee Director is in the possession of Board information. Further, the agreement includes relevant protections for all shareholders, including trading restrictions around confidential information and supporting a board recommendation in the event of a change in control transaction, subject to certain conditions.

A copy of the agreement between Santos, ENN and Hony is attached to this release.

Ends.

Media enquiries

Rob Malinauskas
+61 8 8116 5918/ +61 (0) 438 862 132
robert.malinauskas@santos.com

Investor enquiries

Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

Santos Limited

ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T +61 8 8116 5000 F +61 8 8116 5131
www.santos.com

Santos Ltd
ABN 80 007 550 923
Santos Centre
60 Flinders Street
Adelaide South Australia 5000
GPO Box 2455
Adelaide South Australia 5001
Telephone: 61 8 8116 5000
www.santos.com



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Wang Yusuo
ENN Holding Investment Limited
ENN Ecological Holdings Co. Limited
United Faith Ventures Limited
ENN Group International Investment Limited
Xinneng (Hong Kong) Energy Investment Limited

("ENN")

John Zhao
Hony Partners Group LLP
Hony Managing Partners Ltd
Great Multitude Limited
Well Honour Developments Ltd
Exponential Fortune Group Ltd

("Hony")

Dear Chairman Wang and Mr Zhao,

The Santos Limited ("Santos") Board is pleased to acknowledge the strategic contribution and commitment of ENN and Hony as major shareholders of Santos. The purpose of this letter is to record our agreement as to the relationship between Santos, ENN and Hony and how ENN and Hony will manage its investment going forward.

Notwithstanding anything in this letter, the parties agree that the arrangements set out in this agreement will remain in effect for so long as ENN and Hony have an aggregate relevant interest of 15% or more of Santos. Santos, ENN or Hony may also terminate this agreement at any time from the date that is 12 months after any director nominated by ENN ceases to be a member of the Santos board with no replacement having been appointed or elected.

1. Strategic relationship

ENN and Hony are associated shareholders of Santos with the aggregated interest of 15.11% (ENN is 10.31%, Hony is 4.80%). ENN Holding Investment Limited ("ENN Holdings") owns and controls 48% of ENN Ecological Holdings Co. Ltd ("ENN Ecological") either directly or through its controlled entities. Santos, ENN and Hony wish to establish a long-term strategic relationship involving mutual cooperation and assistance. ENN and Hony have confidence in Santos and will continue to support its growth and the decisions made by the Board in the best interests of all shareholders.

It is the mutual intention of ENN and Hony that Santos will be the primary investment vehicle for any material investment in upstream gas reserves and LNG production in Australia and PNG that are introduced by them in accordance with the process set out below.

Before making any direct material investment in any upstream investment in gas reserves or LNG production in Australia and PNG, each of ENN and Hony will notify the Santos Board of all details of which they are aware at the relevant time of each such investment opportunity, for the Board's consideration of whether Santos wishes to pursue the investment opportunity. If the Santos Board determines that Santos will pursue a relevant investment opportunity, the parties agree to pursue that investment opportunity together (whether through Santos or with co-investment from ENN and/or Hony). If the Santos Board notifies ENN and/or Hony (as applicable) that it does not wish to pursue an opportunity, does not give notice to ENN and/or Hony within a reasonable timeframe following notice that it wishes to pursue the opportunity or subsequently withdraws from an investment opportunity, then ENN and Hony will be free to pursue the relevant opportunity without any further obligation to Santos in respect of the opportunity.

In consideration of the parties agreeing to the matters set out in this document and for the development of the long-term strategic relationship with ENN and Hony:

- (1) Santos will use reasonable endeavours to provide ENN with the following opportunities:
 - (a) including ENN and Hony in commercial opportunities for investment in all aspects of LNG production including treatment, transportation, port facilities, onshore storage and the purchase of LNG, where such participation is reasonably considered to be in the best interest of Santos shareholders as a whole;
 - (b) providing ENN with the opportunity to invest in these opportunities either directly via JV type arrangements or via equity placements in Santos Ltd; and
 - (c) Santos will accept a secondment of 1 or 2 ENN employees a year into the upstream part of LNG production as part of the Santos technical training program on terms to be agreed in good faith.
- (2) ENN and Hony will support Santos by:
 - (a) giving due consideration and support in respect of future capital raising proposals;
 - (b) duly considering and investigating all opportunities for co-investment with Santos in upstream asset acquisitions and expansion opportunities presented by Santos from time-to-time; and
 - (c) proposing opportunities to Santos to increase its access to gas opportunities in China that align with its strategic business objectives.

2. Board representation

As part of the strategic relationship, the Board will invite ENN to nominate one person (**Nominee**) as a director of Santos, as an addition to the Board.

Where Santos receives a notice of nomination as an addition to the Board, the nomination committee of the Board will consider whether the person so nominated has the requisite skill, knowledge and experience to properly perform his or her duties as a director of Santos.

For the avoidance of doubt, the lack of independence of the Nominee or employment of the Nominee by ENN (or any of its affiliates) does not of itself establish reasonable grounds for not approving the Nominee.

If the nomination committee approves the Nominee, the directors may appoint the Nominee as a director. If the Nominee retires or is removed from office as a director, ENN will be entitled to nominate a replacement nominee to be considered and appointed as a director in accordance with

this Agreement. Unless otherwise agreed, ENN will procure the resignation or removal of the Nominee as a director if this agreement is terminated or ceases to have effect.

It is acknowledged by ENN and Hony that all proceedings of the Board will be conducted in English. Where a Nominee requires english language support for Board meetings, this support will be provided by an appropriately skilled interpreter to be provided by ENN and approved by the Board.

Prior to the appointment becoming effective, the Nominee being appointed must enter into a deed of access, insurance and indemnity and other agreements with Santos in substantially the same form as those currently in place with other directors or otherwise required to give effect to this agreement.

Further to this, it is important that Santos is not perceived to be encouraging ENN and Hony to use its shareholding as a blocking stake in the company. Accordingly, ENN and Hony agree that at all times after a Nominee is appointed as a Director of Santos, it will procure the exercise of voting and disposal rights attached to Santos shares in which they hold a relevant interest in accordance with a majority recommendation of the Board made to all shareholders of Santos in relation to a third party offer for Santos shares proposed under a scheme of arrangement or an off-market takeover bid (in the absence of a superior proposal) ("Third Party Offer").

The parties agree that the obligations in the preceding paragraph do not apply to ENN or Hony in circumstances where:

- the offer price for Santos shares under the Third Party Offer is less than the weighted average purchase price of the Santos shares in which ENN and Hony have a relevant interest prior to the offer being made; or
- the disposal of Santos shares in which ENN Ecological holds a relevant interest requires the approval of ENN Ecological shareholders in general meeting (pursuant to the applicable rules of the Shanghai Stock Exchange or applicable law) and such approval is not obtained from the shareholders.

Where ENN Ecological requires shareholder approval to dispose of Santos shares under a Third Party Offer, ENN will use all reasonable endeavours to ensure that such approval is obtained within 21 days of a request to do so including, without limitation, ENN Holdings procuring that all shares in ENN Ecological which are owned or controlled by ENN Holdings or its controlled entities are voted in favour of such approval.

For the avoidance of doubt, where the Santos Board receives and recommends a Third Party Offer, nothing in this document prevents ENN or Hony from making a counter-offer for Santos shares under its own scheme of arrangement or an off-market takeover bid proposal (the terms of which are superior to the Third Party Offer).

3. Confidentiality

ENN and Hony acknowledge and agree that all information received by the ENN nominee director in connection with his/her position as a director is confidential board information ("Board Information"). The Board Information may contain confidential information and material non-public price sensitive information, which is subject to the provisions of Division 1 of Part 2D.1 and Division 3 of Part 7.10 of the Corporations Act 2001. Accordingly:

- ENN, Hony and the Nominee must not, whilst the Nominee is in possession of any Board Information in relation to Santos do anything which would constitute a breach of section 183 or sub-sections 1043A(1) or (2) of the Corporations Act;
- the Nominee must not deal in Santos securities outside of approved director trading windows;
- Hony and ENN must not deal in Santos securities during the following periods:
 - 14 days prior to the Santos AGM and the issue of any quarterly results;

- 45 days prior to the release of Santos' full year results;
- 30 days prior to the release of Santos' half year results; and
- at any time when the Nominee has been notified by the Chairman of Santos that the Board is in possession of material non-public price sensitive information. The Nominee will promptly notify ENN and Hony of any such periods; and
- each of ENN and Hony must direct its officers and employees who may possess or be given any information in relation to Santos not to do anything which would constitute a breach of section 183 or sub-sections 1043A(1) or (2) of the Corporations Act.

ENN and Hony will procure that all Board Information is kept confidential and is not disclosed by the nominee director to any person without the prior written consent of Santos. ENN and Hony will indemnify Santos on demand for any loss or damage incurred as a result of a breach of this provision and will ensure that all Board Information is returned or destroyed if requested by Santos.

Terms used in this letter that are not otherwise defined have the same meaning as those terms are defined under the Corporations Act 2001.

Yours sincerely

Peter Coates AO
Chairman

Accepted and agreed on behalf of each entity comprising ENN:

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Wang Yusuo – Chairman ENN

Accepted and agreed on behalf of each entity comprising Hony:

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John Zhao – CEO