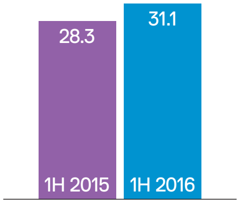
2016 first-half shareholder update

Santos

We have the energy.

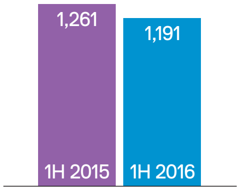
2016 first-half performance

PRODUCTION VOLUME
mmboe



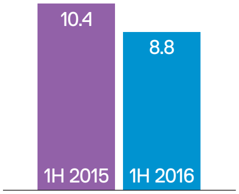
First-half production was a record 31.1 million barrels of oil equivalent, up 10% on the previous year. LNG production was up 37%, reflecting the ramp-up of GLNG and strong performances from both PNG LNG and Darwin LNG.

SALES REVENUE
US$ million



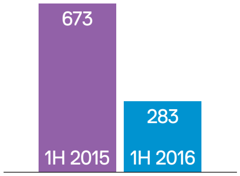
Sales revenue was 6% lower, notwithstanding the higher production, due to lower realised oil and LNG prices. The average realised oil price was down 29% to US$42.79 per barrel and the average LNG price was 42% lower at US$5.70/mmbtu compared to the first-half of 2015.

UNIT PRODUCTION COSTS
US$/boe



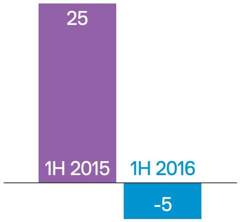
With a focus on labour costs, procurement, supply chain management and other process improvement initiatives, unit production costs were down 15% half on half to US$8.80 per barrel of oil equivalent.

CAPITAL EXPENDITURE
US$ million



Capital expenditure was down 58% to US$283 million, reflecting the end of the company's major LNG investment phase and a prudent and disciplined approach to capital allocation.

UNDERLYING PROFIT/ LOSS AFTER TAX
US$ million



The underlying loss was primarily due to lower realised oil and LNG prices. Including impairments and other one-off items, a net loss after tax of US$1,104 million was reported. The GLNG impairment of US$1,050 million after tax reflected a slower ramp-up in upstream gas production and the impact of a lower oil price.

For a reconciliation between the underlying profit (non-IFRS financial information) and net profit after tax, please see the 2016 Half-year report incorporating Appendix 4D at **www.santos.com**

The role of gas in a cleaner energy world

Natural gas will play a leading role in our clean energy future. As the world transitions to renewables, we must also ensure we maintain a reliable, affordable and sustainable energy supply. Gas provides a cleaner energy source that is both reliable and affordable and, most importantly, can provide the flexibility to balance supply and demand spikes associated with the integration of intermittent renewable sources.

Santos is also playing a key role in reducing global CO_2 emissions through the export of natural gas. Australia's LNG exports are forecast to be ~85 million tonnes per year by 2020. Assuming Australia's LNG exports are used to replace coal-fired power generation with natural gas power generation, it could reduce global greenhouse gas emissions by almost 300 million tonnes. To put this in perspective, this is more than 50 percent of Australia's total annual emissions of 535 $MtCO_2e$.

The International Energy Agency forecasts that natural gas will be the only fossil fuel that increases its share of the global energy mix through to 2030, up from 21 percent to 23 percent of global energy consumed. This recognises natural gas as a cleaner burning fuel that can be used for base load electricity and also has the ability to react quickly to electricity market demands when newer intermittent renewable generation reduces its output.

Message from the Chairman

Peter Coates

Dear Shareholder,

Santos reported a 2016 half-year net loss after tax of US$1,104 million, reflecting lower oil prices and a $1,050 million after tax impairment of GLNG. The average realised oil price was down 29 percent to US$42.79 per barrel and the average realised LNG price was 42 percent lower at US$5.70/mmbtu compared with the first-half of 2015. Excluding the impairment and other one-off items, the company recorded an underlying net loss of US$5 million after tax.

The impairment charge for GLNG reflects the impact of lower oil prices on our long-term operating assumptions for the asset. Capital expenditure constraints have led to a slower ramp-up of GLNG equity gas production and an increase in the price of third-party gas. This has caused Santos to adjust its upstream gas supply and third-party gas pricing assumptions for the asset. Whilst clearly disappointing, we firmly believe in the long-term growth of LNG consumption and demand globally. GLNG will continue to be an important part of our LNG portfolio and a key supplier of LNG to the Asian market. The impairment will not affect GLNG's ability to meet its LNG offtake commitments.

During the period, Santos continued to take further action to strengthen its balance sheet and drive costs out of the business. Net debt was reduced by US$220 million to US$4.5 billion and liquidity stood at US$3.3 billion, comprised of US$1.0 billion in cash and US$2.3 billion in undrawn bilateral facilities.

The delivery of GLNG Train 2 in August marked the end of a six-year major LNG investment phase for Santos. Since first LNG in September 2015, the GLNG Project has shipped 60 cargoes following the near flawless start-up of the plant on Curtis Island. Our aim now is to deliver value by establishing GLNG as the industry leader in low-cost onshore operations.

In 2015 we announced a new dividend framework to reflect Santos' exposure to oil-linked LNG pricing and the cyclical characteristics of global oil markets. This framework states that dividends are expected to be a minimum of 40 percent of underlying net profit, subject to business conditions. As such, the Board resolved not to pay a dividend for the first-half in light of the reported underlying net loss of US$5 million. This decision was not taken lightly and we acknowledge that this will undoubtedly be disappointing for shareholders. We do believe, however, that it is the right decision and considered to be in the overall best interests of the company.

In the first-half we also acknowledged the services of Ken Dean and Jane Hemstritch who both retired from the Board and we welcomed Peter Hearl and Guy Cowan as Directors. Peter has over 30 years' international business experience, including 18 years in the oil and gas industry with ExxonMobil. He is a director of Telstra Corporation and Treasury Wine Estates. Guy also has over 30 years' business experience, including 25 years in the oil and gas industry with Shell. He is a director of UGL Limited and Queensland Sugar Limited.

As Santos readjusts its business in response to the challenging oil price environment, we will continue to take decisive and necessary action that is in the best interest of shareholders. Kevin Gallagher has demonstrated that he is well and truly up to this task and the Board is very supportive of the measures being taken.

Finally, I would like to thank you, our shareholders, for your ongoing support. I am confident that Santos will emerge from these challenging times a strong and sustainable business that will deliver stable returns throughout the cycle.

Yours sincerely,

PETER COATES
Chairman

GLNG Train 2 started producing liquefied natural gas (LNG) on 26 May 2016.

Message from the Managing Director and CEO

Kevin Gallagher

Dear Shareholder,

On joining Santos in February of this year, I stated that my first priorities were to assess the company's assets and deliver the appropriate organisational structure to stabilise the business.

I am now pleased to report that not only have we delivered on these two priorities but we have also established a new leadership team, instituted a disciplined approach to the allocation of capital and commenced a rigorous cost-out program that is already delivering significant results.

Whilst the asset review resulted in the impairment of GLNG to better reflect the lower oil price operating environment, it also provided a clear line of sight as to the opportunity set within the broader portfolio.

The new operating model has replaced geographically defined business units with an asset-based organisational structure built on strong technical capabilities in exploration, development, production and sales. The new leadership team reflects this structure and has been reduced from 14 to 8 and all are now centralised in head office.

As part of the new operating model, we have adopted a centralised portfolio management process that enables disciplined decision-making across our portfolio of assets. Our focus is on optimising our portfolio to deliver an asset mix that achieves our goal of being free cash flow breakeven at an oil price of between US$35 to US$40 per barrel. This breakeven is defined as the oil price at which cash flows from operating activities equal cash flows from investing activities. This is an important goal because cash flows generated above this breakeven can be used to pay down debt, reinvest in the business and ultimately create sustainable shareholder value.

The US$35 to US$40 per barrel range was selected based on the long-term oil price. History shows that the oil price is cyclical and if Santos builds a portfolio of assets that can generate free cash flow at these levels then not only will the company be resilient at lower oil prices but, importantly, it will be well positioned to take advantage of higher oil prices as the global demand for energy continues to grow.

In meeting this challenge, we have a number of levers at our disposal. Not only will we continue to drive costs out of the business and increase productivity, but we will look to rationalise and reshape the portfolio to achieve our targets.

So far this year, strong progress has been made on driving costs out of the business including reducing capital expenditure by 58 percent in the first-half to US$283 million and reducing production costs by 15 percent to US$8.80 per barrel of oil equivalent.

The result of our cost out programs has seen our free cash flow breakeven reduce from US$47 to US$43.50 per barrel of oil, down US$3.50 per barrel since the start of the year. Importantly, as a business, we were cash flow positive for the last two months of the half, and I was pleased to see this trend continue in July and August.

Operationally, the company continued to perform well and set a new first-half production record of 31.1 million barrels of oil equivalent, up 10 percent on the previous year. We have set ambitious cost targets for our key assets and I have been extremely impressed at how our teams across the business have embraced the challenge to safely and sustainably drive down costs. In the Cooper Basin, for example, unit production costs are down 15 percent on the previous corresponding period and drilling costs are down A$2 million from 2014 to A$5.3 million per well.

Importantly, in a period of significant change, I am also pleased to report that we have maintained our excellent safety record, with lost time injuries at nine-year lows.

Over the next six months we will continue to focus on increasing operating cash flow through cost reduction and productivity improvements and look to further reduce net debt. Capital allocation will remain disciplined and we will look for opportunities to optimise and shape our portfolio to provide more stable returns through the cycle.

I am pleased with this strong start but there is more to be done as we seek to create sustainable shareholder value by becoming a low-cost, reliable and high-performance business.

Yours sincerely,

K. T. Gallagher

KEVIN GALLAGHER
Managing Director and CEO

SHAREHOLDING ENQUIRIES

Enquiries about shareholdings should be directed to Computershare.

Toll free: 1300 017 716 (within Australia)
International: +61 3 9938 4343
Online: www.investorcentre.com

CONTACT SANTOS LIMITED

ABN 80 007 550 923

Ground Floor Santos Centre
60 Flinders Street
Adelaide SA 5000

GPO Box 2455
Adelaide SA 5001

Tel: +61 8 8116 5000
Email: investor.relations@santos.com
Website: www.santos.com

Cover image: Moomba plant, Cooper Basin, South Australia

Santos
We have the energy.

RECYCLED
Paper made from recycled material
FSC® C010983