2017 first-half shareholder update

Santos

2017 first-half performance

"These are strong results that reflect the transformation of Santos into a low cost, reliable and high-performance business. This operational performance reflects increased productivity, the benefits of a lower cost structure, and the importance of a stronger balance sheet."

Kevin Gallagher, Managing Director & CEO

COOPER BASIN

+ Cost base transformed, further reductions expected
+ Gas development well costs down 58% since 2014
+ Commitment to exploration and appraisal renewed

GLNG

+ 42 cargoes shipped in the first-half
+ Roma gas development well costs down 83% since 2014
+ Acceleration of development activity to unlock more near term gas supply

PAPUA NEW GUINEA

+ 54 cargoes shipped in the first-half
+ Record annualised production rate of ~8.6 million tonnes per annum in June
+ Muruk well exploration success

NORTHERN AUSTRALIA

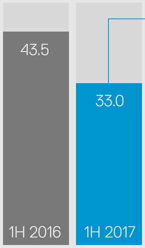
+ 26 cargoes shipped in the first-half
+ Barossa field two-well appraisal campaign strengthened its position as lead candidate for Darwin LNG backfill

WESTERN AUSTRALIA GAS

+ Low cost operations with capacity and reserves to meet short and long-term demand
+ Robust domestic demand from mining and industrial customers

FORECAST FREE CASH FLOW BREAKEVEN REDUCED

Forecast free cash flow breakeven[1]
US$ per bbl

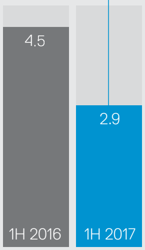


↓24%

+ US$302 million free cash flow generated in the first-half
+ Focus remains on maximising operating cash flow to reduce debt

BALANCE SHEET STRENGTHENED

Net debt
US$billion

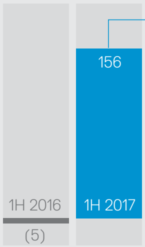


↓36%

+ Ample liquidity of US$4.2 billion in cash and undrawn bilateral facilities
+ Target US$2 billion in net debt by the end of 2019
+ No interim dividend declared
+ Significant interest savings targeted through lower cost refinancing

UNDERLYING PROFIT INCREASED

Underlying net profit after tax
US$ million

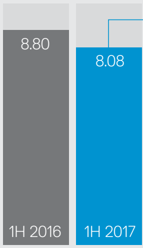


↑US$161 million

+ Underlying profit US$161 million higher
+ Net loss of US$506 million incorporates a US$689 million after-tax net impairment

DISCIPLINED COST CONTROL

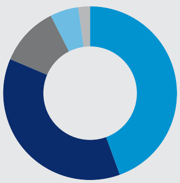
Upstream unit production cost
US$ per boe



↓8%

+ Cultural shift to lean, focused operations with rigorous cost control
+ Proven cost performance supports increasing development activity to unlock future gas supply

First-half production
mmboe

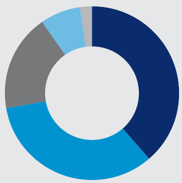


Sales gas and ethane	13.2
Sales gas to LNG plant	10.9
Crude oil	3.3
Condensate	1.6
LPG	0.6

First-half sales volume
mmboe

Own product	29.1
Third-party product	11.0

First-half sales revenue
US$million



LNG	562
Sales gas and ethane	491
Crude oil	262
Condensate	106
LPG	32

1 Free cash flow breakeven is the average annual oil price in 2017 at which cash flows from operating activities (including hedging) equals cash flows from investing activities. Forecast methodology uses corporate assumptions. Excludes one-off restructuring and redundancy costs and asset divestitures.

Message from the Managing Director and Chief Executive Officer

Dear Shareholder,

Since commencing our turnaround strategy to deliver a low-cost, reliable and high performance business, Santos has taken tough and decisive action to restructure the business, remove substantial costs, rebuild cash flow and strengthen the balance sheet.

As a result, I am pleased to announce a significant turnaround in the underlying performance of the company. In the first-half of 2017 we:

- Reduced our 2017 forecast free cash flow breakeven to US$33/bbl
- Generated US$302 million in free cash flow, before asset sales
- Reduced net debt by $564 million to US$2.9 billion, and
- Reported an underlying net profit after tax of US$156 million.

Following a change in a number of asset and macro assumptions in determining the carrying value of our assets, a non-cash net impairment charge of US$689 million was also recorded which resulted in a half-year net loss after tax of US$506 million. The impairment reflected a write-down of our GLNG asset and the undeveloped Ande Ande Lumut oil field in Indonesia, predominantly due to lower US$ oil price assumptions. This was offset by a positive net write-back of US$336 million on our Cooper Basin asset due to higher assumed development activity and production supported by significant improvements in costs, particularly across our drilling operations

Pleasingly, strong operating performance from our core assets resulted in an upgrade to our full-year production guidance from 55-60 mmboe to 57-60 mmboe and our full-year sales volumes guidance from 75-80 mmboe to 77-82 mmboe.

While strong progress has been made to strengthen the balance sheet, we will continue to prioritise debt repayment and have a stated target to reduce net debt to US$2 billion by the end of 2019. From this position of strength, the company will be well placed to fund new growth projects and continue to grow shareholder returns. Given this focus, the Board did not to declare an interim dividend. I understand that this will be disappointing for many shareholders but I am convinced that the current focus on debt reduction is the right course of action and will deliver sustainable shareholder value in the longer term.

FIVE CORE LONG-LIFE NATURAL GAS ASSETS

In late 2016 we announced a three phase strategy to Transform, Build and Grow the business by focussing on five core long-life natural gas assets.

Under this new strategy, Santos employees have demonstrated discipline and strength of character to transform the company from a high-cost business struggling at low oil prices, to a lean, low-cost business that is now sustainable through the oil price cycle.

Core to this transformation has been the turnaround in performance of our operated assets in the Cooper Basin and GLNG. The Santos 'drill-complete-connect' process is delivering real, sustainable cost savings and Australia's lowest-cost onshore operations.

By adopting innovation, lean principles and focussing on technical limits across drilling cycles, drilling costs in the Cooper Basin have reduced by nearly 60% since 2014 and drilling cycle times have halved. We are now seeing new opportunities emerge in the Cooper that will help increase gas supply and deliver more gas to the East Coast market.

At GLNG, our drill-complete-connect costs at Roma have reduced by 83% since 2014 and we have reduced drilling cycle times by 68%. This progress will change the way we look at new developments going forward, including new Queensland CSG developments as well as our Narrabri Gas Project.

Our high margin conventional assets continue to perform strongly. PNG LNG is operating significantly above nameplate capacity, reaching an annualised production rate of 8.6 million tonnes in June this year, the highest monthly rate since start-up. Darwin LNG continued its strong operating performance in the first-half and continues to be an important and strategic infrastructure project for the development of onshore and offshore resources in Northern Australia. In Western Australia, our low cost gas operations continue to meet the robust demand from domestic mining and industrial customers and are well placed with capacity and reserves to meet short and long-term demand.

Importantly, Santos is not a single asset company. The diversity of our core assets offers investors a strong portfolio of production and growth opportunities that are capable of delivering sustainable shareholder value over the long term.

GROWTH OPPORTUNITIES

Following the significant turnaround in the company's underlying performance, we are now in a position to focus on the next phase of growth, with significant progress having already been made across our Northern Australia, PNG and Narrabri assets

In PNG, the Muruk exploration well drilling program in the Southern Highlands confirmed the discovery of a potentially significant new gas field. Muruk is situated only 21 kilometres from the existing PNG LNG Hides gas conditioning plant. Santos will continue to invest in PNG and look to participate in and support our joint-venture partners in the expansion of the PNG LNG project over time.

In Northern Australia, a two-well appraisal program in the Barossa field was successfully completed in the first-half of this year. Positive results from the campaign strengthened the field's position as the lead candidate to supply backfill gas to Darwin LNG. Good progress is being made on the proposed development and we expect to be in a position to approve Front End Engineering and Design (FEED) in early 2018.

And in New South Wales, the Narrabri Gas Project has the potential to supply significant volumes of gas into the East Coast market. We are currently working on plans to bring Narrabri back into our core portfolio, where we will look to apply our low cost 'drill-complete-connect' framework developed in the Cooper Basin and GLNG upstream operations to increase the value of this project. The project is currently seeking environmental approvals before moving into the appraisal phase. A final investment decision will only occur when the project has the necessary approvals in place.

Santos remains focused on the delivery of natural gas because we believe it has a critical role to play in delivering clean and reliable energy in both Australia and Asia. We continue to work constructively with the Federal Government and our partners to achieve the desired outcome of affordable and reliable energy for Australian households and manufacturers alongside a thriving gas export industry.

Santos is focused on cash and operational efficiencies and will also increase capital investment in the business to maintain and grow production. A disciplined and focused approach to capital management is embedded in our operating model and our priority remains to reduce debt whilst retaining the flexibility to invest in development and growth opportunities that are aligned with our core assets.

Disappointingly, our injury rate increased in the first half. While these injuries were of low severity, you can rest assured we are working tirelessly to improve our safety performance. As the CEO of Santos, I am absolutely committed to ensuring all our employees return home safely.

I remain confident that Santos will deliver significant value to shareholders over time. The business is turning around and there is more to come on our cost out program. With a stronger balance sheet, we are now well positioned to deliver value in the current oil price environment.

The Santos turnaround strategy is on track and is delivering strong results. I continue to be excited by the opportunities before us and I look forward to reporting on our progress and success.

Yours sincerely,

K. T. Gallagher

KEVIN GALLAGHER
Managing Director & CEO

Fuelling Australia's economy

Santos has taken decisive action to deliver more affordable and reliable energy to Australian households and businesses. So far in 2017 we have:

- Fuelled 700 Australian manufacturing jobs through the Qenos ethane agreement
- Redirected enough export gas back into Australia to power 330,000 homes for two years
- Redirected export gas to South Australia's Pelican Point gas-powered electricity plant
- Swapped gas to bring it to the east coast economy faster and cheaper

Natural gas powers 40% of Australia's manufacturing industry. Affordable and reliable natural gas is essential to the sustainability and success of this sector. The agreement to maintain the essential supply of ethane gas to Qenos' Botany Bay plant from now until the end of 2019 will support the production of polyethylene which is used across a range of Australian industries, including agriculture, consumer packaging and water conservation.

Santos will continue to proactively pursue transactions that capture value for our shareholders and extend our long and proud history of delivering competitive wholesale gas supply. Santos is an Australian-owned energy company. That means our Australian shareholders, employees and customers all want affordable and reliable energy. We have been supplying energy to Australian households and businesses for over 50 years, and we will continue to make this a priority.

CHANGE OF SHARE REGISTRY MANAGEMENT SERVICES

On Monday 3rd July 2017, the provider of Santos' share registry management services transferred to Boardroom Pty Limited.

Please direct all shareholding enquiries to:

Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001

Toll free: 1300 096 259
International: +61 2 8016 2832

Email: santos@boardroomlimited.com.au
Website: www.boardroomlimited.com.au

CONTACT SANTOS LIMITED

ABN 80 007 550 923

Ground Floor Santos Centre
60 Flinders Street
Adelaide SA 5000

GPO Box 2455
Adelaide SA 5001

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

Santos