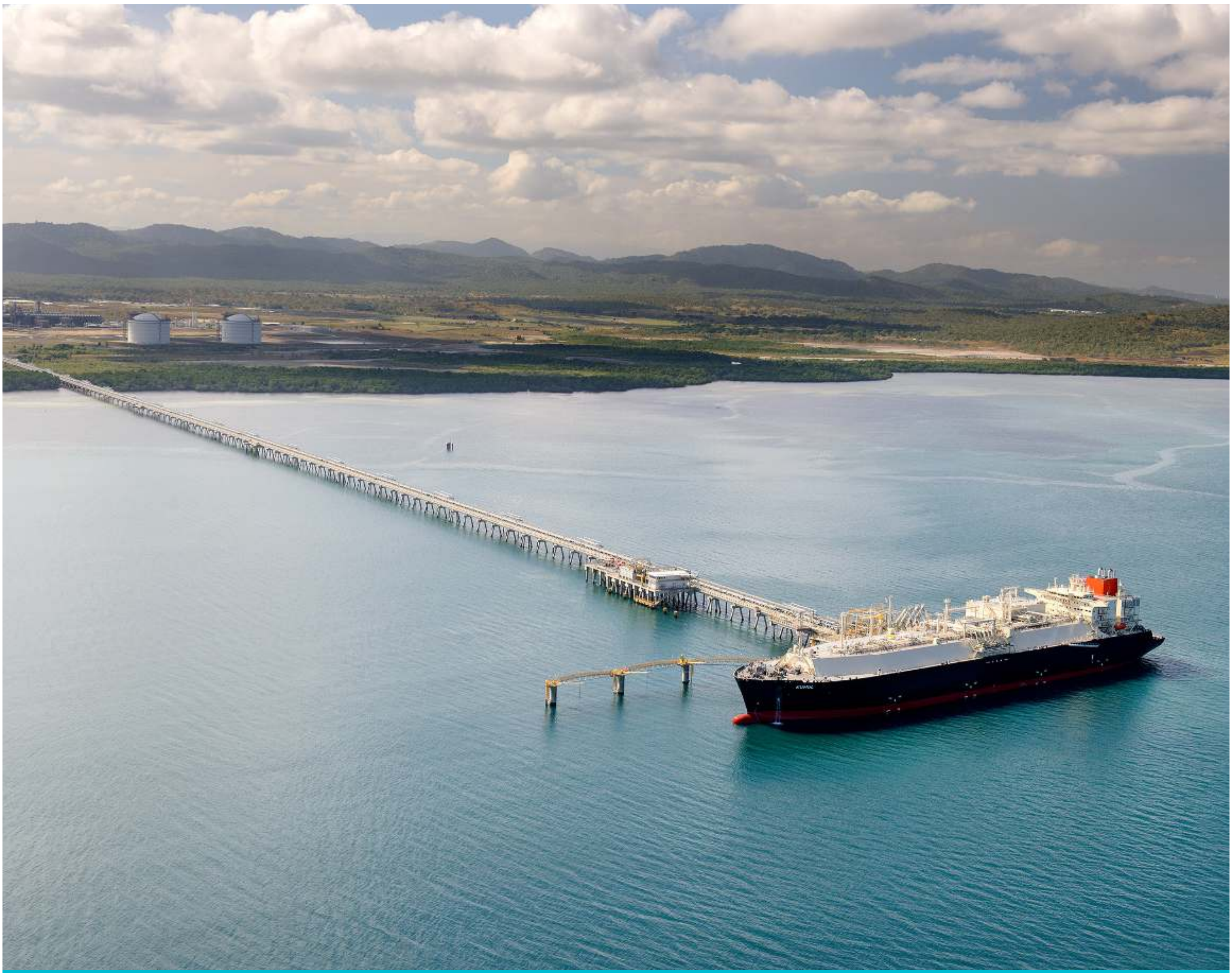

# Half-year report incorporating Appendix 4D

Santos Limited and its controlled entities.
For the period ended 30 June 2017, under Listing Rule 4.2.

Santos

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

## APPENDIX 4D FOR THE PERIOD ENDED 30 JUNE 2017

| | 2017 US$million | 2016 US$million | Change % |
|---|---|---|---|
| Revenue from ordinary activities | 1,496 | 1,205 | 24 |
| Statutory Profit/(Loss) from ordinary activities after tax attributable to members | (506) | (1,104) | 54 |
| Net Profit/(Loss) for the period attributable to members | (506) | (1,104) | 54 |

| Interim Dividends | Amount per security US cents | Franked amount per security at 30% tax US cents |
|---|---|---|
| On 23 August 2017, the Directors resolved not to pay an interim dividend in relation to the half-year ended 30 June 2017. | | |
| Ordinary securities | Nil | Nil |

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### Half-year Report 30 June 2017


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## ABOUT SANTOS

Santos is an Australian natural gas company. Established in 1954, the company is proud to deliver the economic and environmental benefits of natural gas to homes and businesses throughout 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, GLNG, Papua New Guinea, Northern Australia and Western Australia Gas. Each of these core assets provide stable production, long-term revenue streams and significant upside opportunities.

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

The Santos turnaround is now well underway. A three phase strategy to Transform, Build and Grow the business will drive returns as we continue to focus on the exploration, development, production and sale of natural gas.

Santos is focused on delivering sustainable shareholder value by becoming a low-cost, reliable and high performance business with the financial flexibility to build and grow the business through the oil price cycle.

# 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 2017, and the auditor's review report thereon.

## REVIEW AND RESULTS OF OPERATIONS

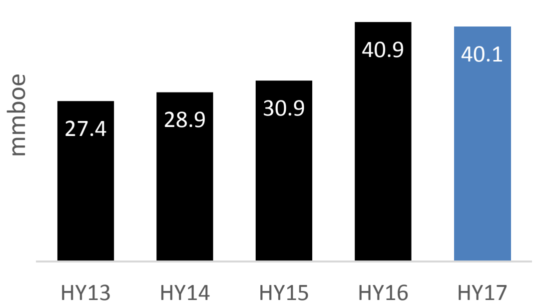
Unless otherwise stated, all references to dollars are to US dollars.

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

| Summary of results table | 2017 | 2016 | Variance |
|---|---|---|---|
| | mmboe | mmboe | % |
| Production volume | **29.5** | 31.1 | (5) |
| Sales volume | **40.1** | 40.9 | (2) |
| | $million | $million | |
| Product sales | **1,453** | 1,191 | 22 |
| EBITDAX[1] | **718** | 491 | 46 |
| Exploration and evaluation expensed | **(53)** | (47) | (13) |
| Depreciation and depletion | **(348)** | (399) | 13 |
| Net impairment loss | **(920)** | (1,516) | 39 |
| EBIT[1] | **(603)** | (1,471) | 59 |
| Net finance costs | **(139)** | (131) | (6) |
| Taxation benefit/(expense) | **236** | 498 | (53) |
| Net profit/(loss) for the period | **(506)** | (1,104) | 54 |
| Underlying profit/(loss) for the period[1] | **156** | (5) | 3220 |

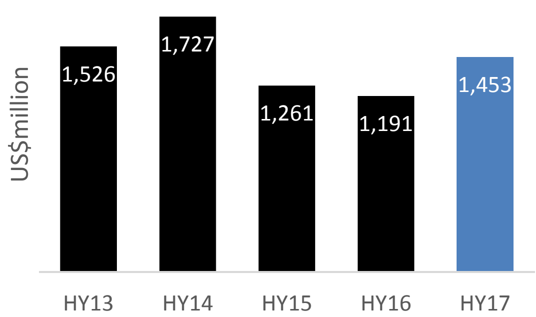
1 *EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit/(loss) are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. Please refer to page 5 for the reconciliation from net profit/(loss) to underlying profit/(loss) for the period. 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



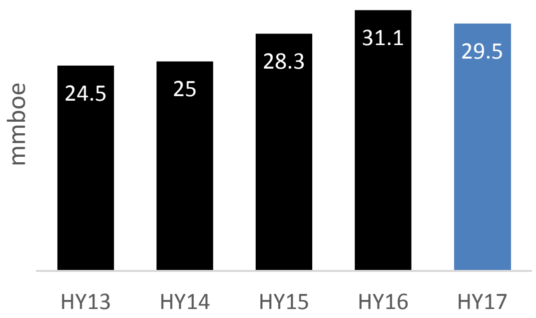

Sales volumes of 40.1 million barrels of oil equivalent (mmboe) were 2% lower than the previous half. Higher LNG sales volumes due to the ramp-up of GLNG, ongoing strong production from PNG LNG, and higher domestic gas sales in WA, were offset by asset sales and lower Cooper Basin sales volumes.

### Sales revenue




Sales revenue was up 22% compared to the previous half to $1.5 billion, primarily due to higher oil and LNG prices. The average realised oil price was up 28% to US$55/bbl and the average realised LNG price rose 26% to US$7.21/mmBtu.

## Production




Production was 5% lower than the previous half primarily due to the sale of the Victorian, Mereenie and Stag assets, partially offset by the ramp-up of GLNG and higher PNG LNG production.

## Review of Operations

Santos' operations are focused on five core, long-life natural gas assets: Cooper Basin, GLNG, PNG, Northern Australia and Western Australia Gas. Other assets are run separately for value as a standalone business.

### *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 | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 7.1 | 7.7 |
| Sales volume (mmboe) | 10.4 | 11.4 |
| Revenue (US$m) | 379 | 345 |
| Production cost (US$/boe) | 9.72 | 11.04 |
| EBITDAX (US$m) | 157 | 104 |
| Capex (US$m) | 84 | 90 |

Cooper Basin EBITDAX was $157 million, 51% higher than the first half of 2016 primarily due to higher sales revenue impacted by higher oil prices, in addition to lower production costs resulting from cost saving initiatives.

Santos' share of Cooper Basin sales gas and ethane production of 28.6 petajoules (PJ) was lower than the corresponding period (31.5 PJ) due to lower development activity and natural field decline.

During the 2017 half-year, Santos recognised an impairment write-back of $336 million after tax. The impacts of lower US$ oil price assumptions were more than offset by a continuation of the cost efficiencies and performance improvement achieved during 2016 allowing increased drilling activity and production.

### *GLNG*

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

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

The LNG plant produced 2.4 million tonnes in the first half of 2017 and shipped 42 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.

| GLNG | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 5.6 | 4.3 |
| Sales volume (mmboe) | 10.6 | 9.1 |
| Revenue (US$m) | 354 | 218 |
| Production cost (US$/boe) | 5.95 | 7.34 |
| EBITDAX (US$m) | 156 | 65 |
| Capex (US$m) | 75 | 97 |

GLNG EBITDAX was $156 million, 141% higher than the first half of 2016. This was a result of higher sales revenue reflecting the ramp up of upstream production and higher LNG prices.

Following a review, Santos recognised an impairment charge against the carrying value for GLNG of $867 million after tax in the 2017 half-year accounts. The impairment was primarily due to lower forecast US$ oil 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 and operated at record rates in the first half of 2017, producing four million tonnes of LNG and shipping 54 cargoes. Condensate production was 5.4 million barrels.

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.

In the first half of 2017, Santos and its partners announced a potentially significant new gas discovery at Muruk, located 21 kilometres from the existing PNG LNG production facilities at Hides. Data from the Muruk drilling program will be evaluated to inform forward appraisal options. Well site preparations are being planned ahead of a potential Muruk appraisal program in 2018.

| PNG | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 6.2 | 5.9 |
| Sales volume (mmboe) | 5.8 | 5.7 |
| Revenue (US$m) | 248 | 207 |
| Production cost (US$/boe) | 4.32 | 4.52 |
| EBITDAX (US$m) | 203 | 165 |
| Capex (US$m) | 8 | 1 |

PNG EBITDAX was $203 million, 23% higher than the first half of 2016 mainly due to higher LNG prices.

## *Northern Australia*

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

The LNG plant near Darwin has a single LNG train with a nameplate capacity of 3.7 mtpa. DLNG continued to perform strongly in the first half of 2017, producing 1.7 million tonnes of LNG and shipping 26 cargoes. Condensate production was three million barrels.

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.

During the first half of 2017, a two-well appraisal drilling campaign in the Barossa field (Santos 25%) was successfully completed. Positive results from the campaign, including a successful production test of Barossa-6, strengthened the field's position as lead candidate to supply backfill gas to Darwin LNG. The campaign significantly reduced resource uncertainty and further confirmed the high deliverability potential of the primary Elang reservoir.

| Northern Australia | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 2.1 | 2.2 |
| Sales volume (mmboe) | 2.2 | 2.2 |
| Revenue (US$m) | 78 | 71 |
| Production cost (US$/boe) | 17.36 | 16.95 |
| EBITDAX (US$m) | 45 | 37 |
| Capex (US$m) | 40 | 1 |

Northern Australia EBITDAX was $45 million, 22% higher than the first half of 2016 mainly due to higher commodity prices.

## *WA Gas*

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.

| WA Gas | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 4.3 | 4.7 |
| Sales volume (mmboe) | 4.5 | 3.9 |
| Revenue (US$m) | 116 | 74 |
| Production cost (US$/boe) | 5.29 | 4.78 |
| EBITDAX (US$m) | 116 | 126 |
| Capex (US$m) | 5 | 10 |

WA Gas EBITDAX was $116 million, 8% lower than the first half of 2016.

Santos' share of Western Australia gas and condensate production in the first half of 2017 was 23.9 PJ and 0.2 mmbbl respectively.

## *Other assets – Asia, NSW and WA Oil*

Santos' other assets have been packaged and run separately as a standalone business. These assets include Santos interests in Indonesia, Vietnam, New South Wales and Western Australia oil. The portfolio will be continually optimised to drive efficiency and shareholder value.

Consistent with optimising the portfolio to maximise value, Santos sold its Victorian assets and Mereenie (Northern Territory) effective 1 January 2017.

| Other assets | HY17 | HY16 |
|---|---|---|
| Production (mmboe) | 4.2 | 6.2 |
| Sales volume (mmboe) | 4.0 | 6.4 |
| Revenue (US$m) | 167 | 217 |
| Production cost (US$/boe) | 14.72 | 14.65 |
| EBITDAX (US$m) | 116 | 103 |
| Capex (US$m) | 39 | 43 |

Other assets EBITDAX was $116 million, 13% higher than the first half of 2016.

Total production and sales volumes from Other assets were lower than the previous half-year due to the sale of the Victorian, Mereenie and Stag assets.

During the 2017 half-year, Santos recognised an impairment charge of $149 million after tax on the non-core Ande Ande Lumut asset in Indonesia following an assessment of the impact of lower oil prices.

## Net Loss

The 2017 first half net loss was $506 million; compared with a $1,104 million loss at half-year 2016. The $598 million decrease in net loss is primarily due to higher product sales driven by higher commodity prices, in addition to a before tax impairment loss of $920 million; compared with $1,516 million at half-year 2016.

Net loss includes items after tax of $662 million (before tax of $959 million), referred to in the reconciliation of net profit/(loss) to underlying profit/(loss) below.

| **Reconciliation of Net Profit/(Loss) to Underlying Profit/(Loss)[1]** | **2017 $million** | | | **2016 $million** | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Tax** | **Net** | **Gross** | **Tax** | **Net** |
| **Net profit/(loss) after tax attributable to equity holders of Santos Limited** | | | **(506)** | | | **(1,104)** |
| Add/(deduct) the following: | | | | | | |
| Impairment losses | 920 | (231) | **689** | 1,516 | (455) | **1,061** |
| Gains on sale of non-current assets | (68) | 17 | **(51)** | 6 | (2) | **4** |
| Insurance recovery on remediation and related costs for incidents | - | - | **-** | (9) | - | **(9)** |
| Foreign exchange losses/(gains) | 93 | (78) | **15** | 29 | (29) | **-** |
| Fair value adjustments on embedded derivatives and hedges | (32) | 9 | **(23)** | 12 | (4) | **8** |
| Onerous contract | 31 | (9) | **22** | 26 | (8) | **18** |
| Redundancy/restructure | 2 | (1) | **1** | 24 | (7) | **17** |
| Other one-off tax adjustment | 13 | (4) | **9** | - | - | **-** |
| | 959 | (297) | **662** | 1,604 | (505) | **1,099** |
| Underlying profit/(loss)[1] | | | **156** | | | **(5)** |

1 *Underlying profit/(loss) is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited however the gross numbers presented above 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 2017 was $6,917 million.

On 23 August 2017, the Directors resolved not to pay an interim dividend in relation to the half-year ended 30 June 2017.

## CASH FLOW

The net cash inflow from operating activities of $662 million was 127% higher than the first half of 2016. This increase is principally attributable to higher sales revenue driven by favourable product prices and increased sales volume. Net cash used in investing activities of $244 million was $264 million higher than the first half of 2016 primarily due to the proceeds realised from the disposal in 2016 of $411 million compared to $130 million in 2017. Cash flows used in financing activities were $99 million higher than the first half of 2016 predominantly due to the early repayment of a $250 million ECA facility, offset by the proceeds on share purchase plan of $148 million.

## OUTLOOK

Sales volume guidance is upgraded to 77 to 82 mmboe and production guidance is maintained in the range of 57 to 60 mmboe for 2017.

## POST BALANCE DATE EVENTS

On 23 August 2017, Santos exercised its option to redeem its €1,000 million subordinated notes at the first call date of 22 September 2017.

On 23 August 2017, the Directors of Santos Limited resolved not to pay an interim dividend in relation to the half-year ended 30 June 2017.

## 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 | Peter Roland (Chairman) |
| Cowan | Guy Michael |
| Franklin | Roy Alexander |
| Gallagher | Kevin Thomas (Managing Director and Chief Executive Officer) |
| Goh | Hock |
| Hearl | Peter Roland |
| Martin | Gregory John Walton |
| Sheffield[1] | Scott Douglas |
| Guthrie[2] | Vanessa Ann |
| Shi[3] | Yujiang |

*1 Mr Sheffield ceased to be a Director of Santos Limited on 4 May 2017 at the completion of the 2017 Annual General Meeting.*
*2 Dr Guthrie was appointed a Director of Santos Limited by the Board with effect from 1 July 2017 and will stand for election at the Company's next Annual General Meeting.*
*3 Mr Shi was appointed a Director of Santos Limited by the Board with effect from 26 June 2017 and will stand for election at the Company's next Annual General Meeting.*

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 23 August 2017 in accordance with a resolution of the Directors.

**Director**

23 August 2017

Ernst & Young
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
ey.com/au

# 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 2017, 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
23 August 2017

## CONSOLIDATED INCOME STATEMENT
## FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | Note | **30 June 2017 $million** | 30 June 2016 $million |
|---|---|---|---|
| Product sales | 2.2 | **1,453** | 1,191 |
| Cost of sales | 2.3 | **(1,088)** | (1,081) |
| **Gross profit** | | **365** | 110 |
| Other revenue | | **43** | 14 |
| Other income | | **74** | 74 |
| Impairment of non-current assets | 3.4 | **(920)** | (1,516) |
| Other expenses | 2.3 | **(170)** | (158) |
| Finance income | 4.1 | **14** | 6 |
| Finance costs | 4.1 | **(153)** | (137) |
| Share of net profit of joint ventures | | **5** | 5 |
| **Loss before tax** | | **(742)** | (1,602) |
| Income tax benefit | | **228** | 506 |
| Royalty-related tax benefit/(expense) | | **8** | (8) |
| Total tax benefit | | **236** | 498 |
| **Net loss for the period attributable to owners of Santos Limited** | | **(506)** | (1,104) |
| | | | |
| **Earnings per share attributable to the equity holders of Santos Limited (¢)** | | | |
| Basic loss per share | | **(24.4)** | (62.4) |
| Diluted loss per share | | **(24.4)** | (62.4) |
| | | | |
| **Dividends per share (¢)** | | | |
| Paid during the period | 2.4 | **–** | 4 |
| Declared in respect of the period | 2.4 | **–** | – |

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 2017

| | 30 June 2017 $million | 30 June 2016 $million |
|---|---|---|
| **Net loss for the period** | **(506)** | (1,104) |
| **Other comprehensive income, net of tax:** | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | |
| Exchange gain on translation of foreign operations | **116** | 12 |
| Tax effect | **–** | – |
| | **116** | 12 |
| Gain on foreign currency loans designated as hedges of net investments in foreign operations | **132** | 113 |
| Tax effect | **(41)** | (34) |
| | **91** | 79 |
| Gain on derivatives designated as cash flow hedges | **9** | 4 |
| Tax effect | **(3)** | (1) |
| | **6** | 3 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **213** | 94 |
| *Items not to be reclassified to profit or loss in subsequent periods:* | | |
| Actuarial gain/(loss) on the defined benefit plan | **2** | (1) |
| Tax effect | **(1)** | – |
| | **1** | (1) |
| Loss on financial liabilities at fair value through other comprehensive income (FVOCI) | **(30)** | – |
| Tax effect | **10** | – |
| | **(20)** | – |
| **Net other comprehensive loss not being reclassified to profit or loss in subsequent periods** | **(19)** | (1) |
| **Other comprehensive income, net of tax** | **194** | 93 |
| **Total comprehensive loss attributable to owners of Santos Limited** | **(312)** | (1,011) |

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 2017

| | Note | 30 June 2017 $million | 31 December 2016 $million |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **2,226** | 2,026 |
| Trade and other receivables | | **364** | 367 |
| Prepayments | | **32** | 34 |
| Inventories | | **284** | 321 |
| Other financial assets | | **17** | 7 |
| Tax receivable | | **6** | 15 |
| Assets held for sale | | **–** | 180 |
| **Total current assets** | | **2,929** | 2,950 |
| **Non-current assets** | | | |
| Receivables | | **5** | 5 |
| Prepayments | | **21** | 17 |
| Investments in joint ventures | | **47** | 56 |
| Other financial assets | | **145** | 152 |
| Exploration and evaluation assets | 3.1 | **422** | 495 |
| Oil and gas assets | 3.2 | **9,617** | 10,398 |
| Other land, buildings, plant and equipment | | **130** | 135 |
| Deferred tax assets | | **1,356** | 1,054 |
| **Total non-current assets** | | **11,743** | 12,312 |
| **Total assets** | | **14,672** | 15,262 |
| **Current liabilities** | | | |
| Trade and other payables | | **474** | 520 |
| Deferred income | | **9** | 23 |
| Interest-bearing loans and borrowings | | **415** | 420 |
| Current tax liabilities | | **2** | 3 |
| Provisions | | **95** | 121 |
| Other financial liabilities | | **264** | 366 |
| Liabilities directly associated with assets held for sale | | **–** | 103 |
| **Total current liabilities** | | **1,259** | 1,556 |
| **Non-current liabilities** | | | |
| Deferred income | | **108** | 99 |
| Interest-bearing loans and borrowings | | **4,565** | 4,819 |
| Deferred tax liabilities | | **210** | 221 |
| Provisions | | **1,590** | 1,464 |
| Other financial liabilities | | **23** | 23 |
| **Total non-current liabilities** | | **6,496** | 6,626 |
| **Total liabilities** | | **7,755** | 8,182 |
| **Net assets** | | **6,917** | 7,080 |
| **Equity** | | | |
| Issued capital | 4.2 | **9,034** | 8,883 |
| Reserves | | **(317)** | (510) |
| Accumulated losses | | **(1,800)** | (1,293) |
| **Total equity** | | **6,917** | 7,080 |

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 2017

| | 30 June 2017 $million | 30 June 2016 $million |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | **1,542** | 1,278 |
| Interest received | **14** | 7 |
| Dividends received | **7** | 6 |
| Pipeline tariffs and other receipts | **43** | 7 |
| Payments to suppliers and employees | **(739)** | (824) |
| Exploration and evaluation seismic and studies | **(28)** | (35) |
| Royalty and excise paid | **(26)** | (16) |
| Borrowing costs paid | **(126)** | (105) |
| Income taxes paid | **(37)** | (24) |
| Income taxes received | **23** | – |
| Royalty-related taxes paid | **(13)** | (10) |
| Other operating activities | **2** | 7 |
| **Net cash provided by operating activities** | **662** | 291 |
| **Cash flows from investing activities** | | |
| Payments for: | | |
| Exploration and evaluation assets | **(93)** | (58) |
| Oil and gas assets | **(262)** | (314) |
| Other land, buildings, plant and equipment | **(3)** | (7) |
| Acquisitions of oil and gas assets | **(14)** | – |
| Borrowing costs paid | **(5)** | (15) |
| Proceeds on disposal of non-current assets | **130** | 411 |
| Other investing activities | **3** | 3 |
| **Net cash (used in)/provided by investing activities** | **(244)** | 20 |
| **Cash flows from financing activities** | | |
| Dividends paid | **–** | (43) |
| Repayments of borrowings | **(368)** | (75) |
| Proceeds/(costs) from issues of ordinary shares | **148** | (3) |
| **Net cash used in financing activities** | **(220)** | (121) |
| **Net increase in cash and cash equivalents** | **198** | 190 |
| **Cash and cash equivalents at the beginning of the period** | **2,026** | 839 |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | **2** | 5 |
| **Cash and cash equivalents at the end of the period** | **2,226** | 1,034 |

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 2017

| | Equity attributable to owners of Santos Limited | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Issued capital $million** | **Translation reserve $million** | **Hedging reserve $million** | **Financial liabilities at FVOCI $million** | **Accumulated profits reserve $million** | **Accumulated losses $million** | **Total equity $million** |
| Balance at 1 January 2016 | 8,119 | (808) | (12) | – | 121 | 1 | 7,421 |
| Transfer retained profits to accumulated profits reserve | – | – | – | – | 258 | (258) | – |
| *Items of comprehensive income:* | | | | | | | |
| Net loss for the period | – | – | – | – | – | (1,104) | (1,104) |
| Other comprehensive income/(loss) for the period | – | 91 | 3 | – | – | (1) | 93 |
| Total comprehensive income/(loss) for the period | – | 91 | 3 | – | – | (1,105) | (1,011) |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Shares issued | 21 | – | – | – | – | – | 21 |
| Dividends to shareholders | – | – | – | – | (66) | – | (66) |
| Share-based payment transactions | – | – | – | – | – | 4 | 4 |
| **Balance at 30 June 2016** | 8,140 | (717) | (9) | – | 313 | (1,358) | 6,369 |
| Balance at 1 July 2016 | 8,140 | (717) | (9) | – | 313 | (1,358) | 6,369 |
| Net loss for the period | – | – | – | – | – | 57 | 57 |
| Other comprehensive income/(loss) for the period | – | (113) | 16 | – | – | 2 | (95) |
| Total comprehensive income/(loss) for the period | – | (113) | 16 | – | – | 59 | (38) |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Shares issued | 743 | – | – | – | – | – | 743 |
| Share-based payment transactions | – | – | – | – | – | 6 | 6 |
| **Balance at 31 December 2016** | 8,883 | (830) | 7 | – | 313 | (1,293) | 7,080 |
| Opening balance adjustment on adoption of new accounting standard (refer Note 5.4) | – | – | – | – | – | (5) | (5) |
| **Balance at 1 January 2017** | **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)** |
| *Transactions with owners in their capacity as owners:* | | | | | | | |
| Shares issued | **151** | **–** | **–** | **–** | **–** | **–** | **151** |
| Share buy-back (held as Treasury shares) | **(3)** | **–** | **–** | **–** | **–** | **–** | **(3)** |
| Share-based payment transactions | **3** | **–** | **–** | **–** | **–** | **3** | **6** |
| **Balance at 30 June 2017** | **9,034** | **(623)** | **13** | **(20)** | **313** | **(1,800)** | **6,917** |

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

## SECTION 1: BASIS OF PREPARATION

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

### 1.1 CORPORATE INFORMATION

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 2017 ("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 23 August 2017.

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

### 1.2 BASIS OF PREPARATION

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 cash flows 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 2016 and considered together with any public announcements made by the Company during the six months ended 30 June 2017, in accordance with the continuous disclosure obligations of the ASX listing rules.

### 1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 2016.

## SECTION 2: FINANCIAL PERFORMANCE

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

### 2.1 SEGMENT INFORMATION

The Group has identified its operating segments to be the five key assets/operating areas of the Cooper Basin; Gladstone LNG ("GLNG"); Papua New Guinea ("PNG"); Northern Australia; and Western Australia gas; based on the nature and geographical location of the assets, plus "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.

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.

### 2.1 SEGMENT INFORMATION (continued)

| | Cooper Basin | | GLNG | | PNG | | Northern Australia | | WA Gas | | Other | | Corporate, exploration, eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$million** | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Revenue** | | | | | | | | | | | | | | | | |
| Sales to external customers | 319 | 330 | 347 | 210 | 248 | 207 | 78 | 71 | 116 | 74 | 165 | 214 | 180 | 85 | 1,453 | 1,191 |
| Inter-segment sales* | 60 | 15 | 7 | 8 | – | – | – | – | – | – | 2 | 3 | (69) | (26) | – | – |
| Other revenue from external customers | 16 | 8 | 4 | 6 | 2 | 3 | – | – | 19 | – | 3 | – | (1) | (3) | 43 | 14 |
| **Total segment revenue** | 395 | 353 | 358 | 224 | 250 | 210 | 78 | 71 | 135 | 74 | 170 | 217 | 110 | 56 | 1,496 | 1,205 |
| **Costs** | | | | | | | | | | | | | | | | |
| Production costs | (69) | (85) | (34) | (31) | (27) | (26) | (35) | (37) | (25) | (23) | (61) | (91) | 12 | 20 | (239) | (273) |
| Other operating costs | (37) | (40) | (33) | (35) | (22) | (19) | (3) | – | (8) | (2) | (8) | (8) | (78) | (66) | (189) | (170) |
| Third-party product purchases | (73) | (108) | (84) | (62) | (1) | (1) | – | – | – | – | – | – | (120) | (79) | (278) | (250) |
| Inter-segment purchases* | (1) | (2) | (57) | (30) | – | – | – | – | – | – | – | – | 58 | 32 | – | – |
| Other | (58) | (14) | 6 | (1) | 3 | 1 | 5 | 3 | 14 | 77 | 15 | (15) | (57) | (72) | (72) | (21) |
| **EBITDAX** | 157 | 104 | 156 | 65 | 203 | 165 | 45 | 37 | 116 | 126 | 116 | 103 | (75) | (109) | 718 | 491 |
| Depreciation and depletion | (72) | (97) | (96) | (107) | (52) | (52) | (29) | (24) | (36) | (36) | (50) | (66) | (13) | (17) | (348) | (399) |
| Exploration and evaluation expensed | – | – | – | – | – | – | – | – | – | – | – | – | (53) | (47) | (53) | (47) |
| Net impairment reversal /(loss) | 480 | – | (1,238) | (1,500) | – | – | – | – | (6) | – | (152) | (16) | (4) | – | (920) | (1,516) |
| **EBIT** | 565 | 7 | (1,178) | (1,542) | 151 | 113 | 16 | 13 | 74 | 90 | (86) | 21 | (145) | (173) | (603) | (1,471) |
| Net finance costs | | | | | | | | | | | | | (139) | (131) | (139) | (131) |
| **Loss before tax** | | | | | | | | | | | | | | | (742) | (1,602) |
| Income tax benefit | | | | | | | | | | | | | 228 | 506 | 228 | 506 |
| Royalty-related tax benefit/(expense) | – | – | – | – | – | – | – | (1) | (11) | (4) | 11 | (9) | 8 | 6 | 8 | (8) |
| **Net loss for the period** | | | | | | | | | | | | | | | (506) | (1,104) |

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

## 2.2 REVENUE

| | 30 June 2017 $million | 30 June 2016 $million |
|---|---|---|
| **Product sales:** | | |
| Gas, ethane and liquefied gas | **1,053** | 806 |
| Crude oil | **262** | 285 |
| Condensate and naphtha | **106** | 76 |
| Liquefied petroleum gas | **32** | 24 |
| **Total product sales**[1] | **1,453** | 1,191 |

1. Total product sales include third party product sales of $392 million (2016: $278 million).

## 2.3 EXPENSES

| | 30 June 2017 $million | 30 June 2016 $million |
|---|---|---|
| **Cost of Sales:** | | |
| Production costs: | | |
| Production expenses | **208** | 232 |
| Production facilities operating leases | **31** | 41 |
| Total production costs | **239** | 273 |
| Other operating costs: | | |
| LNG plant costs | **32** | 26 |
| Pipeline tariffs, processing tolls and other | **88** | 85 |
| Onerous pipeline contract | **31** | 26 |
| Royalty and excise | **30** | 19 |
| Shipping costs | **8** | 14 |
| Total other operating costs | **189** | 170 |
| Total cash cost of production | **428** | 443 |
| Depreciation of plant, equipment and buildings | **221** | 238 |
| Depletion of subsurface assets | **126** | 157 |
| Total depreciation and depletion | **347** | 395 |
| Third-party product purchases | **278** | 250 |
| Decrease/(increase) in product stock | **35** | (7) |
| **Total cost of sales** | **1,088** | 1,081 |
| **Other expenses:** | | |
| Selling | **7** | 9 |
| Corporate | **48** | 57 |
| Depreciation | **1** | 4 |
| Foreign exchange losses | **93** | 29 |
| (Gain)/loss from change in fair value of derivative financial assets designated as fair value through profit or loss | **(2)** | 1 |
| Fair value hedges, (gains)/losses: | | |
| On the hedging instrument | **5** | 10 |
| On the hedged item attributable to the hedged risk | **(35)** | 1 |
| Exploration and evaluation expensed | **53** | 47 |
| **Total other expenses** | **170** | 158 |

## 2.4 DIVIDENDS

| | Dividend per share US ¢ | Total US$ million |
|---|---|---|
| **Dividends paid during the period:** | | |
| **2017** | | |
| No dividends were paid during the period. | nil | nil |
| **2016** | | |
| Final 2015 ordinary – paid 30 Mar 2016 (A$0.05) | 4 | 66 |

All dividends paid were franked at the tax rate of 30%.

**Dividends declared in respect of the current period:**

On 23 August 2017, the Directors resolved not to pay an interim dividend in relation to the half-year ended 30 June 2017.

## 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

| | Six months ended | | |
|---|---|---|---|
| | **30 June 2017 $million** | 31 December 2016 $million | 30 June 2016 $million |
| Balance at the beginning of the period | **495** | 551 | 520 |
| Acquisitions | **35** | 36 | 1 |
| Additions | **57** | 57 | 59 |
| Expensed | **(18)** | (55) | (16) |
| Impairment losses | **(156)** | (55) | (4) |
| Transfer to oil and gas assets in development | **–** | – | (1) |
| Transfer to oil and gas assets in production | **(6)** | – | (15) |
| Transfer to assets held for sale | **–** | (28) | – |
| Exchange differences | **15** | (11) | 7 |
| **Balance at the end of the period** | **422** | 495 | 551 |
| **Comprising:** | | | |
| Acquisition costs | **82** | 150 | 186 |
| Successful exploration wells | **290** | 249 | 253 |
| Pending determination of success | **50** | 96 | 112 |
| | **422** | 495 | 551 |

## 3.2 OIL AND GAS ASSETS

| | Six months ended | | |
|---|---|---|---|
| | **30 June 2017 $million** | 31 December 2016 $million | 30 June 2016 $million |
| **Assets in development** | | | |
| Balance at the beginning of the period | **90** | 149 | 1,037 |
| Additions | **4** | 3 | 58 |
| Transfer from exploration and evaluation assets | **–** | – | 1 |
| Transfer to oil and gas assets in production | **–** | (61) | (946) |
| Disposals | **–** | – | (2) |
| Exchange differences | **–** | (1) | 1 |
| **Balance at the end of the period** | **94** | 90 | 149 |
| **Producing assets** | | | |
| Balance at the beginning of the period | **10,308** | 10,840 | 11,367 |
| Additions[1] | **179** | (44) | 353 |
| Transfer from exploration and evaluation assets | **6** | – | 15 |
| Transfer from oil and gas assets in development | **–** | 61 | 946 |
| Transfer to assets held for sale | **–** | (126) | – |
| Disposals | **–** | (46) | (2) |
| Depreciation and depletion expense | **(334)** | (326) | (381) |
| Net impairment (losses)/reversals | **(764)** | 23 | (1,512) |
| Net impairment losses on assets transferred to held for sale | **–** | (4) | – |
| Exchange differences | **128** | (70) | 54 |
| **Balance at the end of the period** | **9,523** | 10,308 | 10,840 |
| **Total oil and gas assets** | **9,617** | 10,398 | 10,989 |
| **Comprising:** | | | |
| Exploration and evaluation expenditure pending commercialisation | **182** | 223 | 338 |
| Other capitalised expenditure | **9,435** | 10,175 | 10,651 |
| | **9,617** | 10,398 | 10,989 |

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.

## 3.4 IMPAIRMENT OF NON-CURRENT ASSETS

| Impairment expense | 30 June 2017 $million | 30 June 2016 $million |
|---|---|---|
| Exploration and evaluation assets | **156** | 4 |
| Oil and gas assets | **764** | 1,512 |
| **Total impairment** | **920** | 1,516 |

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 oil price, discount rates and production.

Estimates of future commodity prices have been updated from the previous reporting date.

Future prices (US$/bbl) used were:

| 2017 | 2018 | 2019 | 2020 | 2021 | 2022[1] |
|---|---|---|---|---|---|
| 50.00 | 55.00 | 60.00 | 65.00 | 70.00 | 78.51 |

1. Based on US$70/bbl (2017 real) from 2022 escalated at 2.4% in 2017 and 2.3% in each year thereafter.

The future estimated foreign exchange rate applied is A$/US$0.70 in 2017, and A$/US$0.75 in all subsequent years.

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. The range of pre-tax discount rates that have been applied to non-current assets is between 10.3% and 16.2%.

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/(reversals) recognised for the half year ended 30 June 2017 are:

| | Segment | Subsurface assets $million | Plant and equipment $million | Total $million | Recoverable amount[1] $million |
|---|---|---|---|---|---|
| ***Exploration and evaluation assets:*** | | | | | |
| AAL – Indonesia | Exploration | 149 | – | 149 | nil[2] |
| PNG – PPL 287 | Exploration | 4 | – | 4 | nil[2] |
| Gunnedah Basin | Exploration | 3 | – | 3 | nil[2] |
| Total impairment of exploration and evaluation assets | | 156 | – | 156 | |
| ***Oil and gas assets – producing:*** | | | | | |
| GLNG | GLNG | – | 1,238 | 1,238 | 4,155 |
| Cooper | Cooper Basin | (256) | (224) | (480) | 1,380 |
| Barrow | Other | – | 6 | 6 | nil |
| Total impairment of oil and gas assets | | (256) | 1,020 | 764 | |
| **Total impairment of exploration and evaluation and oil and gas assets** | | (100) | 1,020 | 920 | |

1. Recoverable amounts represent the carrying values of assets before deducting the carrying value of restoration liabilities. All producing oil and gas asset amounts are calculated using the value-in-use method, whilst all exploration and evaluation asset amounts use the fair value less costs of disposal method.
2. Impairment of exploration and evaluation assets relates to certain individual licences/areas of interest that have been impaired to nil.

## 3.4 IMPAIRMENT OF NON-CURRENT ASSETS (continued)

**Exploration and evaluation assets**

The impairment of AAL has arisen mainly from the impact of lower oil prices.

**Oil and gas assets**

*GLNG*

Since the last carrying value assessment at 31 December 2016 there have been a number of changes to relevant assumptions, principally lower US$ oil prices, that have impacted the recoverable amount. Additionally, the Australian government has introduced regulations relating to the Australian Domestic Gas Security Mechanism since 31 December 2016. The impact on recoverable amount of the lower oil price assumption, combined with a higher discount rate and lower assumed volumes of third party gas, has been partially offset by higher assumed equity gas volumes resulting from positive upstream performance and lower costs.

*Cooper Basin*

Whilst the Cooper Basin has been impacted by lower US$ oil price assumptions, this has been more than offset by lower forecast development costs combined with increased drilling activity and production, resulting in a reversal of impairment.

**Sensitivity**

To the extent the oil and gas cash generating units have been written down to their respective recoverable amounts in the current and prior years, any change in key assumptions on which the valuations are based would further impact asset carrying values. When modelled in isolation, it is estimated that changes in the key assumptions would result in the following additional impairment/lower impairment reversal:

| Sensitivity | Production decrease 5% $million | Discount rate increase 0.50% $million | Oil price decrease US$5/bbl all years $million |
|---|---|---|---|
| GLNG | 270 | 237 | 504 |
| Cooper Basin | 265 | 70 | 257 |

## 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 FINANCE INCOME/(COSTS)

| | **30 June 2017 $million** | 30 June 2016 $million |
|---|---|---|
| **Finance income:** | | |
| Interest income | **14** | 6 |
| **Total finance income** | **14** | 6 |
| **Finance costs:** | | |
| Interest paid to third parties | **(136)** | (131) |
| Deduct borrowing costs capitalised | **5** | 15 |
| | **(131)** | (116) |
| Unwind of the effect of discounting on provisions | **(22)** | (21) |
| **Total finance costs** | **(153)** | (137) |
| **Net finance costs** | **(139)** | (131) |

## 4.2 ISSUED CAPITAL

| | Six months ended | | | | | |
|---|---|---|---|---|---|---|
| | **30 June 2017 Number of shares** | 31 December 2016 Number of shares | 30 June 2016 Number of shares | **30 June 2017 $million** | 31 December 2016 $million | 30 June 2016 $million |
| **Movement in fully paid ordinary shares** | | | | | | |
| Balance at the beginning of the period | **2,032,389,675** | 1,774,816,198 | 1,766,210,639 | **8,883** | 8,140 | 8,119 |
| Institutional placement, net of costs | **–** | 256,000,000 | – | **–** | 740 | – |
| Rights issue, net of costs | **–** | – | – | **–** | – | (2) |
| Share purchase plan, net of costs | **50,847,537** | – | – | **151** | – | – |
| Santos Dividend Reinvestment Plan | **–** | – | 8,205,002 | **–** | – | 23 |
| Santos Employee Share1000 Plan | **–** | 297,036 | – | **–** | 1 | – |
| Santos Employee ShareMatch Plan | **–** | 719,764 | – | **–** | 2 | – |
| Shares purchased on market (Treasury shares) | **–** | – | – | **(3)** | – | – |
| Issue of Treasury shares on vesting of employee share schemes | **–** | – | – | **3** | – | – |
| Replacement of restricted classes of ordinary shares with shares purchased on market | **(21,281)** | – | – | **–** | – | – |
| Shares issued on vesting of share acquisition rights | **5,365** | 188,755 | 390,063 | **–** | – | – |
| Shares issued on vesting of Executive Deferred Short-term Incentive | **–** | 253,747 | – | **–** | – | – |
| Shares issued on vesting of Executive Strategy Grant | **–** | 106,827 | – | **–** | – | – |
| Santos Non-executive Director Shareholding Plan | **–** | 7,348 | 10,494 | **–** | – | – |
| **Balance at the end of the period** | **2,083,221,296** | 2,032,389,675 | 1,774,816,198 | **9,034** | 8,883 | 8,140 |

## 4.3 FINANCIAL RISK MANAGEMENT

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk and liquidity risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its corporate objectives and meet its obligations to stakeholders. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

The Group uses various methods to measure the types of financial risk to which it is exposed. These methods include cash flow at risk analysis in the case of interest rate, foreign exchange and commodity price risk, and ageing 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, 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 denominated in currencies other than the functional currency, borrowings denominated in euros and capital and operating expenditure in currencies other than US dollars, principally Australian dollars. 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 (2017: $158 million; 2016: $824 million), swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations (2017: $1,410 million; 2016: $1,410 million), or offset by US dollar denominated cash balances (2017: $1,875 million; 2016: $1,500 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 2017.

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 medium-term notes, long-term notes and subordinated debt. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes.

The Group's interest rate swaps had a notional contract amount of $1,777 million (2016: $1,777 million) and a net fair value of $71 million (2016: $83 million). The net fair value amounts were recognised as fair value derivatives.

***Commodity price risk exposure***

The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil price linked contracts. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk. At 30 June 2017, the Group has 5.52 million barrels of open oil price option contracts (31 December 2016: 10.95 million barrels), covering calendar 2017 exposures. The 3-way option structure does not qualify for hedge accounting, with the movement in fair value recorded in the Income Statement. The Group continues to monitor oil price volatility and to assess whether further commodity price hedging is appropriate.

## 4.3 FINANCIAL RISK MANAGEMENT (continued)

### (c) Hedging

***Hedges in place***

The Group has issued €1,000 million subordinated notes with an average fixed interest rate of 8.25%.

In order to reduce the variability of the cash flows arising from the euro principal and interest payments to September 2017, the Group entered into cross-currency interest rate swap contracts in March 2011, under which it has a right to receive interest at fixed euro rates and pay interest at floating US dollar interest rates.

These contracts are in place to cover principal and interest payments on €950 million of the subordinated notes through to the first call date in September 2017.

Subordinated notes totalling €50 million have been swapped to a fixed US dollar interest rate of 8.48% through to the first call date in September 2017.

The Group has entered into US dollar interest rate swap contracts, under which it has a right to receive interest at floating US dollar rates and pay interest at fixed US dollar interest rates. These contracts are in place to cover coupon payments on $1,200 million of US dollar floating rate loans through to March 2019.

The cross-currency and interest rate swap contracts are recognised at fair value and all gains and losses attributable to the hedged risks are recognised in the hedge reserve and reclassified into the income statement when the interest expense is recognised.

### (d) Fair values

The initial fair values of receivables, payables, interest-bearing liabilities and other financial assets and liabilities, which are not subsequently measured at fair value, approximate their carrying value.

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 and 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 Australian 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 Australian 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 2017** % | 31 December 2016 % |
|---|---|---|
| Derivatives | (0.4) – 3.3 | (0.3) – 3.9 |
| Loans and borrowings | (0.4) – 3.3 | (0.3) – 3.9 |

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.

## SECTION 5: OTHER

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent liabilities, events after the end of the reporting period, and changes to accounting policies and disclosures.

### 5.1 ACQUISITION/DISPOSAL OF CONTROLLED ENTITIES

There were no acquisitions or disposals of controlled entities during the six months ended 30 June 2017.

### 5.2 CONTINGENT LIABILITIES

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

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

On 23 August 2017, Santos exercised its option to redeem its €1,000 million subordinated notes at the first call date of 22 September 2017.

On 23 August 2017, the Directors of Santos Limited resolved not to pay an interim dividend in relation to the half-year ended 30 June 2017.

### 5.4 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 2016, except for new standards, amendments to standards and interpretations effective from 1 January 2017.

The following standards, all consequential amendments and interpretations, applicable from 1 January 2017, have been adopted by the Group. These amendments to standards and interpretations have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the half-year financial report, with the exception of AASB 9, which is discussed below:

- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses - AASB 112*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Amendments to AASB 107*

In addition, several other standard amendments were applicable for the first time in 2017, but were not relevant to the Group and do not impact the half-year financial report.

**Adoption of AASB 9 – *Financial Instruments***

The Group elected to early adopt AASB 9 *Financial Instruments* from 1 January 2017. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement,* and generally simplifies the classification and measurement of financial instruments, introduces a new expected credit loss model for calculating impairment of financial assets, and aligns hedge accounting more closely with an entity's risk management practices.

The Group has applied the new hedge accounting requirement prospectively, while the remainder of the requirements of AASB 9 have been applied retrospectively in line with the requirements of the standard.

The adoption of AASB 9 results in the following key changes in the Group's accounting and reporting:

- For the Group's financial liabilities that are measured at Fair Value through Profit and Loss ("FVTPL"), the element of gains or losses attributable to changes in the Group's own credit risk will now be recognised in Other Comprehensive Income ("OCI") instead or profit and loss, and accumulate in a reserve called "Financial Liabilities at FVOCI". During the half-year ended 30 June 2017 this amounted to a $20 million loss.
- Hedging effectiveness testing will now be performed on a prospective basis with no defined numerical range of effectiveness applied in this testing.
- The Group holds an equity investment previously measured at amortised cost under AASB 139 which is now measure at FVTPL. An opening adjustment of $5 million loss has been recognised in retained earnings upon initial measurement under AASB 9.

No other changes arising from the adoption of AASB 9 have had a material effect on the financial reporting of the Group.

# DIRECTORS' DECLARATION

## FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 2017 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 23rd day of August 2017

On behalf of the Board:

**Director**

Adelaide

Ernst & Young
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
ey.com/au

# 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 2017, 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 2017 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 2017 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.

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## Independence

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

Ernst & Young

R J Curtin
Partner
Adelaide
23 August 2017

L A Carr
Partner

# APPENDIX 4D

## FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

## NTA BACKING

| | **30 June 2017** | **30 June 2016** |
|---|---|---|
| Net tangible asset backing per ordinary security | N/A | N/A |

## CHANGE IN OWNERSHIP OF CONTROLLED ENTITIES

There were no acquisitions or disposals of controlled entities during the six months ended 30 June 2017.

## DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

| | **Percent ownership interest held at the end of the period** | |
|---|---|---|
| | **30 June 2017** | 30 June 2016 |
| | % | % |
| ***Joint venture entities*** | | |
| 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[1] | **–** | 50.0 |
| Papua New Guinea Liquefied Natural Gas Global Company LDC | **13.5** | 13.5 |

1 *company deregistered on 7 May 2017.*