Tax Contribution Disclosure

31 December 2016

Santos

The Board and Management of Santos Ltd are pleased to present the first Tax Contribution Disclosure for the year ended 31 December 2016.

In line with the Santos Tax Policy, the Board has approved adoption of the Board of Taxation's Voluntary Tax Transparency Code (the "Code") and the disclosures in this report are provided in accordance with the recommendations contained in Part A and Part B of the Code.

We also voluntarily provide this disclosure as part of our commitment to following good corporate governance practices and in being transparent in relation to our tax policy, tax strategy, our international related party dealings and tax contributions.

Executive Summary

- As a leading Australian oil and gas producer over 70% of Santos' business assets and revenues are both generated and subject to tax in Australia
- Our tax contribution for 2016 is consistent with a sustained period of lower corporate profits experienced in the oil and gas sector after a significant fall in global oil prices from mid-2014
- In 2016, while Santos did not pay any cash income tax in Australia, it paid over AUD$67 million in Australian taxes, including excise and state petroleum royalties.
- Since 2011, Santos has invested in excess of USD$16 billion in Australian capital development projects, particularly the Gladstone LNG project, which commenced production in September 2015
- Our consolidated financial results remain characterised by the Australian businesses and for 2016 we made an accounting and tax loss
- As an Australian headquartered oil and gas company, our material accounting and tax differences arise from:
    - Profits of overseas businesses which are exempt from tax in Australia. These profits have already been subject to tax in foreign jurisdictions at rates comparable to Australia, or in some cases at higher rates of tax
    - Tax depreciation of significant past and present capital investments made in Australia, in particular investments in the Gladstone LNG project and the Cooper Basin. In addition, our significant past and present investment in Australian exploration activities, aimed at generating new natural gas production and revenues
- Santos has a Board approved Tax Policy and the company has formally recognised the importance of tax risk management through its inclusion in the scope of the Audit and Risk Committee, which reports to the Board
- Santos pays its taxes as required by law and the average effective tax rate between 2011 to 2015 was over 30%. The effective tax rate for 2016 was 29.49%
- Santos is rated as a key (lower risk) taxpayer by the Australian Taxation Office (ATO)

An Australian energy pioneer since 1954

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 West Australian 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.

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.

Santos is built on a strong foundation of sustainability and social responsibility

Sustainability is an integral part of Santos. This means we responsibly manage our environmental impact, working in partnership with the communities in which we operate, focussing on the health, safety and wellbeing of our people and reliably managing our business across all of our operations.

Embedded in our approach to working with local communities is a commitment to establish and maintain enduring and mutually beneficial relationships. A key part of this is employing locally. Santos employees live and work in many of the communities where we operate, and are actively involved in our community programs and activities.

Open and transparent communication is critical to being a responsible and trusted community member. We actively listen to community concerns and expectations and integrate them into our business planning. Project-specific community engagement plans for our major operations ensure open channels of communication.

For all major projects, we undertake assessments to guide our work and mitigate our social impacts, identify the social benefits we can deliver and guide our community investment strategies. These social benefits and investments include local employment and training, use of local suppliers, provision of health and essential services, infrastructure investment and sponsorship of community events and programs.

As an Australian company, we recognise and respect Aboriginal peoples' attachment to their country and the importance of Aboriginal cultural heritage. We involve Aboriginal people when managing any potential cultural heritage risk resulting from our operations.

We see participating in a voluntary tax transparency initiative as an essential part of our social responsibility and we trust that the disclosures below provide potential users with a better understanding on the link between our business activities and our tax contributions.

Part A

The following disclosures are made in accordance with Part A of the Code to complement our annual disclosures in the 2016 audited statutory accounts:

- A summary of accounting profit (or accounting loss) before income tax expense
- A reconciliation of accounting profit (or accounting loss) before income tax expense to income tax expense (or income tax benefit), identifying material differences
- A reconciliation from income tax expense (or income tax benefit) to Australian income tax payable (or income tax loss), identifying material differences
- The effective tax rates for Australian and global operations

The Santos 2016 statutory accounts are presented on a consolidated basis using US dollars (USD) as the presentation currency. Where applicable, we have noted below certain differences between the consolidated results and our Australian tax disclosures.

KEY TERMS

Accounting Profit (or Accounting Loss) Before Income Tax Expense accounting revenues less expenses before income tax expense as determined under accounting standards

Income Tax Expense (or Income Tax Benefit) the total of current tax expense and deferred tax expense, which is included in the accounting profit (or accounting loss) during the current period

Current Tax Expense this is an estimate only of the tax payable for the current year (it is not how much tax is actually paid for the year)

Deferred Tax Expense (or Deferred Tax Benefit) costs can be deducted for accounting and tax over different periods. Deferred tax expense is the movement in the current year of the future differences between accounting and tax amounts (for example, balance sheet differences between exploration claimed for tax but capitalised for accounting)

Permanent or Non-Temporary Differences these differences reflect amounts recognised for accounting purposes that will not be recognised for tax purposes (or vice versa). They are permanent in nature as they are not expected to have any future impact (for example, the Research and Development tax concession)

Timing or Temporary Differences these differences reflect amounts recognised both for accounting and tax purposes, but at different times. They are timing in that they will have a future impact on tax (for example different rates for accounting and tax depreciation of assets)

Effective Tax Rate this is income tax expense (or income tax benefit) divided by accounting profit (or accounting loss) before tax. It is a measure of the extent to which the taxable profits (or losses) of the company will be subject to tax. Variations typically arise from permanent or non-temporary differences between accounting and tax (for example, accounting adjustments for foreign exchange variations)

Impairment an adjustment to the book value of an asset in the accounts as a result of a change in assumptions about the future value of the asset (for example, the fall in oil price assumptions). The impairment is charged to accounting profit, but is not deducted for tax

ACCOUNTING PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

The majority of Santos revenues in 2016 were generated from its Australian businesses, along with its businesses in Papua New Guinea, Vietnam and Indonesia, and these were all profitable on a pre-tax accounting basis, with the exception of GLNG. This Queensland based LNG asset sustained an accounting impairment of USD$1,500 million, which drove an accounting loss before tax of USD$1,485 million.

Item	USD$ millions
Revenue from product sales	2,594
Cost of product sales	(2,153)
Gross profit	441
Other revenue (royalties, tariffs and tolls)	33
Other income (pipeline tariffs, net gain/(loss) on asset sales)	157
Impairment of non-current assets	(1,561)
Other expenses (exploration & evaluation, selling & administrative expenses)	(284)
Finance income	15
Finance costs	(296)
Share of net profit of joint ventures	10
Accounting profit (accounting loss) before tax	**(1,485)**

ACCOUNTING PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE TO INCOME TAX EXPENSE / (BENEFIT)

Overall, the adjustments giving rise to income tax expense/(benefit) do not result in a material difference between income tax expense based on the pre-tax accounting loss and the adjusted income tax expense.

The effective tax rate for Santos in 2016 was 29.5%.

Item	USD$ millions
Accounting profit (accounting loss) before tax	**(1,485)**
Income tax expense (benefit) @ 30%	(446)
Non temporary differences	
• Foreign losses not recognised	(2)
• Non tax deductible expenses	3
• Foreign exchange and other translation variations	14
• Tax adjustments relating to the prior year	(2)
• Tax adjustments relating to earlier years	(11)
• Royalty related tax expense	7
• Other	(1)
Income tax expense (benefit)	**(438)**

INCOME TAX EXPENSE / (BENEFIT) TO INCOME TAX PAID

Taxes paid in foreign countries are disclosed in Part B. These are calculated on a different basis to the Australian Tax Consolidated Group (TCG). As Santos is a predominantly Australian business, we have elected to disclose the calculation of the Australian TCG tax loss for 2016. Commensurate with making a tax loss for the year, no Australian income tax was paid or payable by Santos.

The tax adjustments to the accounting loss to calculate the taxable income/(loss) are shown below. Santos calculates its Australian TCG taxable income using Australian dollars (AUD).

Additions are non-tax-deductible amounts that are already included in accounting profit/(loss) before tax (or alternatively, taxable amounts not already included in accounting profit/(loss) before tax).

Subtractions are non-taxable amounts already included in accounting profit/(loss) before tax (or alternatively, tax-deductible amounts not already included in accounting profit/(loss) before tax).

As indicated in the table below, tax adjustments giving rise to the 2016 tax loss of the Australian TCG (AUD$751 million) can be attributed to the following:

- Profits of overseas businesses which are exempt from tax in Australia. These profits have already been subject to tax in foreign jurisdictions at rates comparable to Australia, or in some cases at higher rates of tax
- Tax depreciation of significant past and present capital investments made in Australia, in particular investments in the Gladstone LNG project and the Cooper Basin. In addition, our significant past and present investment in Australian exploration activities, aimed at generating new natural gas production and revenues

Item	millions
Consolidated Accounting loss before tax - USD$	**(1,485)**
Consolidated Accounting loss before tax - AUD$	**(1,986)**
• Accounting impairment expense	2,088
• Accounting depreciation	1,452
• Accounting foreign exchange losses	160
• Taxable profit on sale of assets	39
• Trading stock adjustment	18
• Non tax-deductible expenses	16
• Tax depreciation	(1,329)
• Non-taxable overseas income	(886)
• Non-taxable accounting profit on sale of assets	(189)
• Tax-deductible exploration costs	(126)
• Other (provisions, finance costs and lease adjustments)	(8)
Australian TCG Taxable income (tax loss) - AUD$	**(751)**
Australian Income tax payable (nil if tax loss incurred) - AUD$	**0**

Part B

The following disclosures are made in accordance with Part B of the Code.

GOVERNANCE AND TAX RISK

The Santos Board and Management are committed to the highest standards of corporate governance, which includes our approach to tax risk management.

A Santos Tax Policy has been approved by the Board and is designed to meet current and future expectations of the community and the tax authorities, including the ATO. Tax risk is a specific matter within the scope of the Audit and Risk Committee, which report to the Santos Board.

Santos complies fully with its tax obligations and pays its taxes, as required in accordance with the laws, rules and regulations of each jurisdiction in which the company operates. The following commitments are the essence of our Tax Policy and tax strategy:

- maintaining a constructive, co-operative and transparent working relationship with tax authorities
- conducting regular, co-operative and transparent discussions with tax authorities
- complying with our disclosure requirements with tax authorities
- honouring our responsibility to our stakeholders to be a reputable corporate citizen in relation to our tax affairs
- paying our taxes, as required
- following good practice on the voluntary public disclosure of our tax affairs to ensure appropriate transparency
- maintaining strategies to ensure compliance with this tax policy. These include:
    - the maintenance of robust internal controls and processes to ensure we have consistency across our business and meet our tax obligations
    - the identification and management of tax risks in accordance with the Santos Risk Management Policy
    - the alignment of tax outcomes with commercial strategies
    - designating board and management responsibility for taxes and reporting protocols

- providing adequate professional internal and external tax resources
- pursuing certain, documented tax outcomes, including obtaining tax rulings where necessary, and
- monitoring, engaging with stakeholders and communicating the impact of material tax changes.

Approach to tax risk Santos complies fully with its tax obligations in accordance with the laws, rules and regulations of each jurisdiction in which the company operates. This not only includes jurisdictions where our business assets and operations are located, but also includes any locations where we hold a corporate presence, such as the United Kingdom.

Accepted levels of tax risk Both globally and in Australia, Santos seeks to maintain a risk rating from tax authorities consistent with our Tax Policy. In Australia, Santos has successfully maintained a key risk rating from the Commissioner of Taxation which is the lowest risk rating for a company the size of Santos. A key risk rating means the tax positions adopted by Santos are more than likely to be aligned with the ATO views on the law.

Attitude to tax planning Santos values its reputation and relationship with all tax authorities and stakeholders and seeks tax outcomes that are consistent with commercial outcomes and which are clearly understood. Santos seeks advice from independent external experts in specific circumstances, places reliance on public guidance from tax authorities and, where appropriate, seeks rulings from tax authorities.

Approach to engagement Santos has an open and transparent relationship with all tax authorities across a range of activities. In Australia, this includes:

- liaising with the ATO regarding potential transactions
- assisting the ATO with pre-lodgement compliance and post lodgement reviews
- participating in an ongoing dialogue regarding current issues relevant to Santos and the oil and gas industry
- adopting the Board of Taxation's Voluntary Tax Transparency Code

International related party dealings summary Santos predominantly carries on business in Australia with funding sourced from unrelated, reputable, independent financial institutions. Our international related party dealings are limited to a small number of non-material dealings with our subsidiaries in Papua New Guinea, Indonesia, Malaysia, Vietnam, Bangladesh and Singapore.

The main international related party dealings are:

1. The provision of technical services (Papua New Guinea, Vietnam, Malaysia and Bangladesh)
2. Captive insurance from Singapore
3. Inter-company loans to fund business activities (Papua New Guinea, Indonesia, Malaysia, Vietnam, Singapore and Bangladesh).

Santos' international related party dealings have been subject to annual ATO risk reviews and have not impacted our key risk rating.

GLOBAL TAX CONTRIBUTION

Our material Tax Contributions during 2016 are summarised below in USD$ millions:

Country	Corporate Income Tax	Royalty-Related Taxation	Govt. Royalties	Excise	Fringe Benefits Tax	Payroll Tax	Global Total USD$ millions
Australia	-	-	24	2	4	19	49
Vietnam	17	-	6	4	-	-	27
Indonesia	23	-	-	-	-	-	23
East Timor	-	14	-	-	-	-	14
Papua New Guinea	-	-	-	-	-	-	-
Total	**40**	**14**	**30**	**6**	**4**	**19**	**113**

Note tax refunds are not shown.

As stated in Part A, the Australian TCG incurred a tax loss in 2016, resulting in no Australian income tax being paid. The main factors contributing to this are:

- lower corporate profits as a result of the significant fall in global oil prices
- higher costs and tax depreciation deductions due to significant capital investments made in Australia, in particular the Gladstone LNG project.

No royalty-related taxation payments are shown for Australia as the Petroleum Resource Rent Tax (PRRT) is a profits based tax, and the economic cycle of low oil prices and significant capital investment to be recouped on those projects has adversely impacted PRRT revenues and payments not only for Santos, but across the entire industry.

In Australia, Santos also collects and remits Goods & Services Tax (GST) (net GST refunded from the ATO in 2016 was USD$11 million) and pays Pay As You Go (PAYG) withholding tax (total PAYG employment taxes paid in 2016 was USD$120 million).

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