



Tax Contribution Disclosure

31st December 2017

Santos

Executive Summary

The Board and Management of Santos Ltd are pleased to present the Tax Contribution Disclosure for the year ended 31 December 2017.

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 know Australians rightly expect companies to pay their fair share of tax, so we provide this disclosure as part of our commitment to our tax policy and being transparent in relation to our tax contribution.

As a leading Australian oil and gas producer, Santos has invested in excess of US\$16 billion in Australian capital development projects since 2011, including the Gladstone LNG project, which commenced production in 2015.

We are proud of the economic and social contribution we make through creating high-skilled, high-paying jobs in regional Australia, buying from local suppliers and paying tax to state and federal governments.

The majority of Santos' business assets and revenues are in Australia so this report focuses on explaining our Australian tax contribution.

As for 2016, Santos 2017 Australian tax contribution was consistent with:

1. lower corporate profits,
2. overseas business income which is exempt from Australian tax; and
3. tax depreciation of significant past and present capital investments made in Australia.

Part A

The following disclosures are made in accordance with Part A of the Code to complement our annual disclosures in the 2017 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
- Notes on the effective tax rate

The Santos 2017 statutory accounts are presented on a consolidated basis using US dollars (USD) as the presentation currency, however Santos uses AUD for Australian income tax, so where relevant we have disclosed the AUD amounts below.



ACCOUNTING PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

The majority of Santos revenues in 2017 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, which booked an accounting impairment of US\$1,238 million.

The accounting loss before tax was US\$585 million.

Item	USD\$ millions
Revenue from product sales	3,107
Cost of product sales	(2,272)
Gross profit	835
Other revenue (royalties, tariffs and tolls)	65
Other income (pipeline tariffs, net gain/loss on asset sales)	123
Impairment of non-current assets	(938)
Other expenses (exploration & evaluation, selling & administrative expenses)	(411)
Finance income	24
Finance costs	(294)
Share of net profit of joint ventures	11
Accounting profit (accounting loss) before tax	(585)

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.

Item	USD\$ millions
Accounting profit (accounting loss) before income tax	(585)
Income tax expense (benefit) @ 30%	(176)
Non temporary differences	
• Foreign losses not recognised	51
• Non tax deductible expenses	5
• Foreign exchange and other translation variations	(71)
• Tax adjustments relating to earlier years	(19)
• Royalty related tax expense	(14)
• Other	(1)
Income tax expenses (benefit)	(225)

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 2017. 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).

As indicated in the table below, two of the material tax adjustments giving rise to the 2017 tax loss of the Australian TCG (AUD\$1,298 million) can be attributed to the following:

- Profits of overseas businesses, which are not subject to tax in Australia. These profits have already been subject to tax in foreign jurisdictions at rates comparable to, or higher, than the corporate tax rate in Australia.
- Tax depreciation of significant past and present capital investments made in Australia, in particular investments in the Gladstone LNG project and the Cooper Basis. In addition, our significant past and present investment in Australian exploration activities, aimed at generating new natural gas production and revenues



Item	\$USD millions
Consolidated Accounting loss before tax - \$USD	(585)
Consolidated Accounting loss before tax - \$AUD	(758)
• Accounting impairment expense	1,302
• Accounting depreciation	959
• Non-tax deductible expenses	26
• Other (provisions, finance costs, lease adjustments etc)	(30)
• Trading stock adjustment	(35)
• Non-taxable accounting (profit)/loss on sale of assets	(105)
• Taxable profit/(loss) on sale of assets	(121)
• Tax-deductible exploration costs	(160)
• Non-taxable overseas income	(724)
• Accounting foreign exchange (gains)/losses	(490)
• Tax depreciation	(1,163)
Australian TCG taxable income (tax loss) - \$AUD	(1,298)
Australian income tax payable (nil if tax loss incurred) - \$AUD	0

KEY TERMS

Accounting Profit (or Accounting Loss) Before Income Tax Expense accounting revenues less expenses before income tax expenses 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). This impairment is charged to accounting profit, but is not deducted for tax

Part B

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 2017 are summarised below in \$US millions:

Country	Corporate Income Tax	Royalty-Related Taxation	Government Royalties & Excise	Fringe Benefits Tax	Payroll Tax	PAYG Withholding Tax	Global Total \$USD millions
Australia	-	3	38	4	17	106	168
Vietnam	24	-	12	-	-	-	36
Indonesia	20	-	-	-	-	-	20
East Timor	6	15	-	-	-	-	21
Papua New Guinea	-	-	3	-	-	-	3
Total	50	18	53	4	17	106	248

Note tax refunds are not shown.

As stated in Part A, the Australian TCG incurred a tax loss in 2017, resulting in no Australian income tax being paid. The main factors contributing to this are noted above, being overseas income that is not subject to tax in Australia and tax depreciation of significant past and present capital investments made in Australia, in particular investments in the Gladstone LNG project and the Cooper Basin.

Minor 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.

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