

Half-year report incorporating Appendix 4D

Santos Limited and its controlled entities.

For the period ended 30 June 2020, under Listing Rule 4.2.

Santos

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4D FOR THE PERIOD ENDED 30 JUNE 2020

	2020 US\$million	2019 US\$million	Change %
Revenue from ordinary activities	1,668	1,974	(16)
Statutory (loss)/profit from ordinary activities after tax attributable to members	(289)	388	(175)
Net (loss)/profit for the period attributable to members	(289)	388	(175)

Interim Dividend	Amount per security US cents	Franked amount per security at 30% tax US cents
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Directors resolved to pay an interim dividend in relation to the half-year ended 30 June 2020.

Ordinary securities	2.1	2.1
26 August 2020 is the record date for determining entitlements to the dividend		

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Half-year Report 30 June 2020

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RESULTS FOR THE PERIOD

	2020 US\$million	Change %
Underlying profit¹	212	(48)
Product sales	1,668	(16)
EBITDAX¹	995	(21)
Free cash flow¹	431	(32)
Interim dividend (UScps)	2.1	(65)

¹ Underlying profit, EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment) and free cash flow (operating cash flows, less investing cash flows (net of acquisitions and disposals and major growth capex), less lease liability payments) are non-IFRS measures that are presented to provide an understanding of the performance of Santos' operations. 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.

ABOUT SANTOS

Santos is an Australian natural gas company. Established in 1954, the company's purpose is to provide sustainable returns for our shareholders by supplying reliable, affordable and cleaner energy to improve the lives of people in Australia and Asia.

Five core long-life natural gas assets sit at the heart of a clear and consistent strategy to Transform, Build and Grow the business: Western Australia, the Cooper Basin, Queensland and NSW, Northern Australia and Timor-Leste, and Papua New Guinea. Each core asset provides stable production, long-term revenue streams and significant upside opportunities. Santos today is a safe, low-cost, reliable and high performance business, proudly delivering the economic and environmental benefits of natural gas to homes and businesses throughout Australia and Asia.

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 2020, and the auditor's review report thereon.

REVIEW AND RESULTS OF OPERATIONS

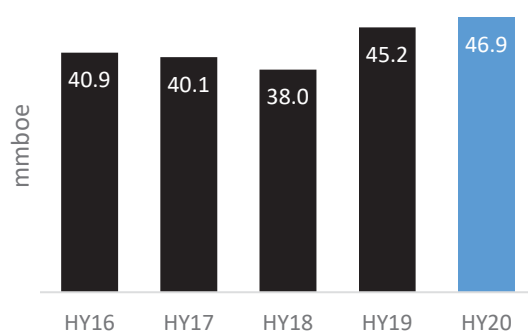
Unless otherwise stated, all references to dollars are to US dollars.

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

Summary of results table	2020	2019	Variance
	mmboe	mmboe	%
Production volume	38.5	37.0	4
Sales volume	46.9	45.2	4
	\$million	\$million	
Product sales	1,668	1,974	(16)
EBITDAX ¹	995	1,260	(21)
Exploration and evaluation expensed	(25)	(28)	11
Depreciation and depletion	(486)	(460)	(6)
Net impairment loss	(756)	(38)	nm
Change in future restoration assumptions	5	2	150
EBIT ¹	(267)	736	(136)
Net finance costs	(124)	(146)	15
Taxation benefit/(expense)	102	(202)	151
Net profit for the period	(289)	388	(175)
Underlying profit for the period ²	212	411	(48)

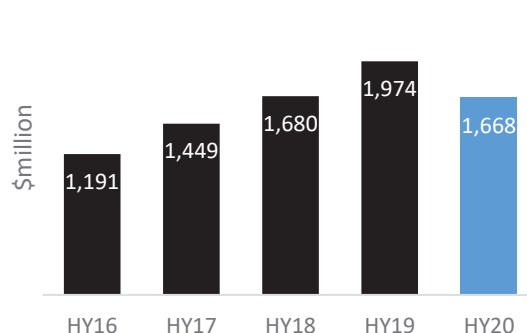
1. EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit/(loss) are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations.
2. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments and the impact of hedging. Please refer to page 5 for the reconciliation from net profit/(loss) to underlying profit/(loss) for the period. The calculation of underlying profit has remained consistent with prior periods. 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



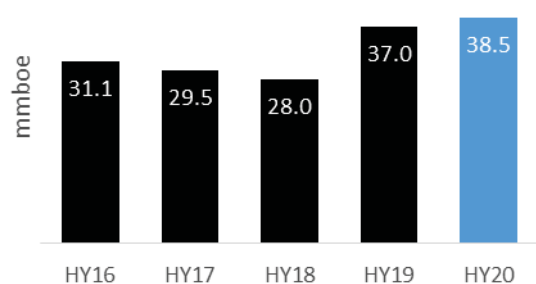
Sales volumes increased 4% to a half-year record of 46.9 million barrels of oil equivalent (mmboe). The higher volumes were primarily due to a higher interest in Bayu-Undan and Darwin LNG following completion in May 2020 of the acquisition of ConocoPhillips' assets in northern Australia and Timor-Leste, partially offset by slightly lower domestic gas sales volumes.

Sales revenue



Sales revenue was down 16% compared to the previous first half due to significantly lower oil and LNG prices resulting from the impact of the COVID-19 pandemic. The average realised oil price fell 34% to US\$47.83/bbl and the average realised LNG price dropped 14% to US\$8.57/mmBtu.

Production



Production was up 4% to a record 38.5 mmmboe in the first half, primarily due to the higher interest in Bayu-Undan from May 2020 combined with stronger onshore gas production in the Cooper Basin and Queensland.

Review of Operations

Santos' business in the first half of 2020 was impacted by the twin economic shocks of significantly lower oil prices and the COVID-19 pandemic.

Santos committed to supporting government and community efforts to limit the impact of the pandemic and ensure business continuity. The company implemented a series of measures to protect the health and safety of its people, including restricting travel, implementing social distancing measures across all of our operations and making changes to field and office working arrangements. We have been able to have continued operations at all our sites as a result of these measures to date.

Santos also implemented financial measures appropriate to the business environment to ensure the company remains a low-cost, reliable and sustainable business through the oil price cycle. These included a \$550 million (38%) reduction in forecast 2020 capital expenditure, a \$50 million reduction in forecast 2020 production costs and a target free cash flow breakeven oil price of \$25 per barrel. This included deferrals of our growth projects, including final investment decision on the Barossa project which is deferred until business conditions improve.

Santos recognised an impairment of \$756 million (before tax), mainly relating to the GLNG project at 30 June 2020. The impairment charge is due to revised oil price assumptions resulting from the effects of the COVID-19 pandemic on energy market demand fundamentals.

The COVID-19 crisis continues to put demand pressure on industries across the globe and Santos is not immune. To assist in enabling the retention of permanent employees, Santos received US\$1 million (A\$1.5 million) in JobKeeper payments in the first half of 2020.

Santos' disciplined, low-cost operating model is designed to ensure the company is well-positioned to leverage its growth opportunities when business conditions improve.

Santos' operations are focused on five core, long-life natural gas assets: Cooper Basin, Queensland and NSW, PNG, Northern Australia and Timor-Leste, and Western Australia.

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 production growth by being a low-cost business, increase reserves, invest in new technology to lower development and exploration costs, reduce emissions and increase utilisation of infrastructure including the Santos-operated Moomba and Port Bonython plants (Santos 66.7% interest).

Santos is also assessing the significant potential for carbon capture and storage (CCS) in the Cooper Basin by progressing engineering studies on a potential CCS project with the capacity to store up to 1.7 million tonnes of carbon dioxide per annum.

Cooper Basin	HY20	HY19
Production (mmmboe)	8.5	7.7
Sales volume (mmmboe)	12.5	11.1
Product sales (US\$m)	440	534
Production cost (US\$/boe)	7.78	7.91
EBITDAX (US\$m)	197	291
Capex (US\$m)	143	130

Cooper Basin EBITDAX was \$197 million, 32.3% lower than the first half of 2019, primarily due to lower realised oil prices, offset by higher sales volumes and lower production costs of US\$7.78/boe, down 1.6%, resulting from cost saving and efficiency initiatives.

Santos' share of Cooper Basin sales gas and ethane production of 34.8 petajoules (PJ) was 18% higher than the corresponding period due to strong flow rates from new gas wells combined with lower equipment downtime.

Queensland and NSW

The GLNG project in Queensland 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 2.9 million tonnes in the first half of 2020, 14% higher than the corresponding period, and shipped 51 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.

Santos is also seeking to progress the proposed Narrabri domestic gas project in NSW, subject to government approvals.

Queensland and NSW	HY20	HY19
Production (mmboe)	6.6	6.3
Sales volume (mmboe)	11.2	10.6
Product sales (US\$m)	502	516
Production cost (US\$/boe)	5.45	5.32
EBITDAX (US\$m)	294	321
Capex (US\$m)	93	133

Queensland and NSW EBITDAX was \$294 million, 8.4% lower than the first half of 2019. This was a result of lower sales revenue reflecting lower LNG prices and higher production costs of US\$5.45/boe, up 2.4% from first half of 2019.

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.

The LNG plant produced 4.3 million tonnes in the first half of 2020, in-line with the corresponding period, and shipped 57 cargoes.

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.

PNG	HY20	HY19
Production (mmboe)	6.5	6.4
Sales volume (mmboe)	6.0	5.9
Product sales (US\$m)	267	325
Production cost (US\$/boe)	4.85	5.78
EBITDAX (US\$m)	224	283
Capex (US\$m)	26	20

PNG EBITDAX was \$224 million, 20.8% lower than the first half of 2019, due to lower LNG prices.

Northern Australia and Timor-Leste

Santos' business in Northern Australia and Timor-Leste is centred on the Bayu-Undan/Darwin LNG (DLNG) project. In operation since 2006, DLNG produces LNG and gas liquids for export to global markets.

The LNG plant near Darwin has a single LNG train with a nameplate capacity of 3.7 mtpa. LNG production of 1.4 million tonnes was 11% lower than first half 2019 due to natural field decline and lower customer demand due to COVID-19.

In May 2020, Santos completed the acquisition of the ConocoPhillips assets in northern Australia and Timor-Leste, including DLNG, Barossa and Poseidon. The acquisition provided Santos with operating interests in long-life, low-cost natural gas assets and strategic LNG infrastructure with expansion potential.

The acquisition increased Santos' interest in DLNG to 68.4% and Barossa to 62.5%, and Santos now operates both projects. The acquisition contributed 1.7 mmboe of production since completion.

The Barossa project is planned to backfill DLNG and extend its life for more than 20 years. A final investment decision on Barossa was planned for the first half of 2020, but was deferred until business conditions improve given the uncertain economic impact of COVID-19 combined with lower oil prices.

Northern Australia and Timor-Leste	HY20	HY19
Production (mmboe)	3.5	1.6
Sales volume (mmboe)	3.7	1.7
Product sales (US\$m)	146	85
Production cost (US\$/boe)	20.00	21.31
EBITDAX (US\$m)	76	50
Capex (US\$m)	37	17

Northern Australia and Timor-Leste EBITDAX was \$76 million, 52.0% higher than the first half of 2019, predominantly due to the acquisition of the ConocoPhillips northern Australia assets in May 2020.

Western Australia

Santos is the largest producer of domestic natural gas in Western Australia and is also a significant producer of natural gas liquids and oil.

Santos' assets include 100% ownership and operatorship of the Varanus Island and Devil Creek gas hubs, a 28.6% interest in the Macedon gas hub and a leading position in the highly prospective Bedout Basin.

Following successful appraisal of the offshore Dorado field (Santos 80% interest) in 2019, a FEED-entry decision for a potential oil and liquids development is targeted for the second half of 2020. Dorado opens a new basin with high prospectivity in permits where Santos has high equity positions.

Western Australia	HY20	HY19
Production (mmboe)	13.4	14.9
Sales volume (mmboe)	12.7	13.8
Product sales (US\$m)	274	417
Production cost (US\$/boe)	6.55	7.63
EBITDAX (US\$m)	205	314
Capex (US\$m)	52	122

Western Australia EBITDAX was \$205 million, 34.7% lower than the first half of 2019, predominantly due to lower sales volumes and lower gas prices.

Santos' share of Western Australia domestic gas production of 63.8 PJ in the first half was slightly lower than the corresponding period, primarily due to an unplanned outage at a major customer facility in the first quarter.

Oil volumes were lower than the corresponding period due to the Ningaloo Vision FPSO (Van Gogh, Coniston and Novara fields) being off-station for the planned shipyard maintenance campaign. Due to the COVID-19 restrictions in the shipyard, the FPSO is now expected back on station in the first quarter of 2021.

Net Loss

The 2020 first half net loss was \$289 million, compared with a \$388 million net profit at half-year 2019. The \$677 million decrease in net profit is driven through decreased gas and oil prices mainly resulting from the COVID-19 macro-economic impacts, as well as, an increase in the before tax impairment loss of \$756 million posted in 2020, compared to the \$38 million posted in 2019.

Underlying profit of \$212 million includes items after tax of \$501 million (before tax of \$720 million), referred to in the reconciliation of net (loss)/profit to underlying profit below.

Reconciliation of Net (Loss)/Profit to Underlying Profit	2020 \$million			2019 \$million		
	Gross	Tax	Net	Gross	Tax	Net
Net (loss)/profit after tax attributable to equity holders of Santos Limited			(289)			388
Add/(deduct) the following:						
Impairment losses	756	(230)	526	38	(12)	26
Gains on sale of non-current assets	–	–	–	(10)	3	(7)
Fair value adjustments on derivatives and hedging	(39)	12	(27)	6	(2)	4
Costs associated with acquisitions and disposals	3	(1)	2	–	–	–
	720	(219)	501	34	(11)	23
Underlying profit ¹			212			411

1. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments and the impact of hedging. The calculation of underlying profit has remained consistent to prior periods. 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.

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SANTOS LIMITED

Equity attributable to equity holders of Santos Limited at 30 June 2020 was \$7,298 million.

CASH FLOW

The net cash inflow from operating activities of \$838 million was 20% lower than the first half of 2019. The decrease is principally attributable to lower receipts from customers due mainly to lower oil prices as a result of the impact of COVID-19 and higher royalty taxes paid, offset by lower payments to suppliers and employees and lower borrowing costs. Net cash used in investing activities of \$1,119 million was \$760 million higher than the first half of 2019, primarily due to the acquisition of the ConocoPhillips northern Australia and Timor-Leste assets. Cash flows generated from financing activities were \$1,292 million higher than the first half of 2019, predominantly due to the drawdown of borrowings from the new 2-year term loan facility of \$750 million during 2020, and the repayments of the \$500 million bank term loan facility and repayment of the \$600 million uncovered ECA supported loan facility during 2019.

OUTLOOK

Sales volume guidance is maintained in the range of 101 to 107 mmboe and production guidance is maintained in the range of 83 to 88 mmboe for 2020.

POST BALANCE DATE EVENTS

On 19 August 2020, the Directors resolved to pay a fully-franked interim dividend of US\$0.021 per fully paid ordinary share on 24 September 2020 to shareholders registered in the books of the Company at the close of business on 26 August 2020 ("Record Date"). The Board also resolved that the Dividend Reinvestment Plan ("DRP") will not be in operation for the 2020 interim dividend.

The financial effect of these dividends has not been brought to account in the half-year financial report for the six months ended 30 June 2020.

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
Cowan	Guy Michael
Gallagher	Kevin Thomas (Managing Director and Chief Executive Officer)
Goh	Hock
Guan	Yu
Guthrie	Vanessa Ann
Hearl	Peter Roland
McArdle	Janine Marie
Spence	Keith William (Chairman)

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 19 August 2020 in accordance with a resolution of the Directors.



Director

19 August 2020



**Building a better
working world**

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

Auditors' independence declaration to the directors of Santos Limited

As lead auditor for the review of the half-year financial report of Santos Limited for the half-year ended 30 June 2020, 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'R J Curtin'.

R J Curtin
Partner

Adelaide
19 August 2020

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	30 June 2020 US\$million	30 June 2019 US\$million
Revenue from contracts with customers – Product sales	2.2	1,668	1,974
Cost of sales	2.3	(1,244)	(1,228)
Gross profit		424	746
Revenue from contracts with customers – Other	2.2	60	69
Other income		35	55
Impairment of non-current assets	3.4	(756)	(38)
Other expenses	2.3	(48)	(99)
Finance income	4.2	12	16
Finance costs	4.2	(136)	(162)
Share of net profit of associates	3.6	18	3
(Loss)/Profit before tax		(391)	590
Income tax benefit/(expense)		156	(156)
Royalty-related taxation expense		(54)	(46)
Total taxation benefit/(expense)		102	(202)
Net (loss)/profit for the period attributable to owners of Santos Limited		(289)	388
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic (loss)/profit per share		(13.9)	18.7
Diluted (loss)/profit per share		(13.9)	18.5
Dividends per share (¢)			
Paid during the period	2.4	5.0	6.2
Declared in respect of the period	2.4	2.1	6.0

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 2020

	30 June 2020 US\$million	30 June 2019 US\$million
Net (loss)/profit for the period	(289)	388
Other comprehensive income, net of tax:		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Income/(Loss) on derivatives designated as cash flow hedges	16	(6)
Tax effect	(5)	2
	11	(4)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	11	(4)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Fair value changes on financial liabilities designated at fair value due to own credit risk	1	(4)
Tax effect	-	1
	1	(3)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	1	(3)
Other comprehensive income/(loss), net of tax	12	(7)
Total comprehensive (loss)/income attributable to owners of Santos Limited	(277)	381

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 2020

	Note	30 June 2020 US\$million	31 December 2019 US\$million
Current assets			
Cash and cash equivalents		1,262	1,067
Trade and other receivables		518	554
Prepayments		25	40
Contract assets	2.2(b)	22	23
Inventories		284	301
Other financial assets		25	195
Total current assets		2,136	2,180
Non-current assets			
Contract assets	2.2(b)	122	130
Investment in associate	3.6	806	13
Other financial assets		31	29
Prepayments		2	–
Exploration and evaluation assets	3.1	1,767	1,187
Oil and gas assets	3.2	10,795	11,396
Other land, buildings, plant and equipment		234	223
Deferred tax assets		1,081	870
Goodwill		481	481
Total non-current assets		15,319	14,329
Total assets		17,455	16,509
Current liabilities			
Trade and other payables		549	719
Contract liabilities	2.2(b)	58	125
Lease liabilities		111	114
Interest-bearing loans and borrowings		225	196
Current tax liabilities		43	38
Provisions		134	122
Other financial liabilities		6	5
Total current liabilities		1,126	1,319
Non-current liabilities			
Contract liabilities	2.2(b)	302	233
Lease liabilities		287	311
Interest-bearing loans and borrowings		4,435	3,800
Deferred tax liabilities		874	811
Provisions		3,104	2,329
Other liabilities		1	1
Other financial liabilities		28	29
Total non-current liabilities		9,031	7,514
Total liabilities		10,157	8,833
Net assets		7,298	7,676
Equity			
Issued capital	4.3	9,019	9,010
Reserves		1,109	759
Accumulated losses		(2,830)	(2,093)
Total equity		7,298	7,676

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 2020

	30 June 2020 US\$million	30 June 2019 US\$million
Cash flows from operating activities		
Receipts from customers	1,841	2,197
Interest received	12	16
Dividends received from associate	3.6	5
Pipeline tariffs and other receipts	92	79
Payments to suppliers and employees	(922)	(959)
Exploration and evaluation seismic and studies	(34)	(45)
Restoration expenditure	(16)	(6)
Royalty and excise paid	(31)	(45)
Proceeds from commodity hedging	2.3	–
Borrowing costs paid	(100)	(134)
Income taxes paid	(3)	(24)
Royalty-related taxes paid	(64)	(49)
Insurance proceeds	7	4
Overriding royalty	7	12
Net cash provided by operating activities	838	1,051
Cash flows from investing activities		
Payments for:		
Exploration and evaluation assets	(71)	(88)
Oil and gas assets	(320)	(286)
Other land, buildings, plant and equipment	(14)	(5)
Acquisitions of exploration and evaluation assets	–	(8)
Costs associated with acquisition of subsidiaries	(14)	(6)
Acquisitions of a group of assets, net of cash acquired	3.5	–
Proceeds on disposal of non-current assets	–	40
Borrowing costs paid	(10)	(6)
Return of capital – investment in associate	3.6	–
Net cash used in investing activities	(1,119)	(359)
Cash flows from financing activities		
Dividends paid	(92)	(127)
Drawdown of borrowings	747	592
Repayments of borrowings	(93)	(1,210)
Repayment of principal portion of lease liabilities	(45)	(42)
Purchase of shares on-market (Treasury shares)	4.3	(4)
Net cash provided by/(used in) financing activities	501	(791)
Net increase/(decrease) in cash and cash equivalents	220	(99)
Cash and cash equivalents at the beginning of the period	1,067	1,316
Effects of exchange rate changes on the balances of cash held in foreign currencies	(25)	(2)
Cash and cash equivalents at the end of the period	1,262	1,215

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 2020

US\$million	Equity attributable to owners of Santos Limited					Total equity
	Issued capital	Translation reserve	Hedging reserve	Accumulated profits reserve	Accumulated losses	
Balance at 1 January 2019	9,031	(965)	(13)	1,585	(2,359)	7,279
Opening balance adjustment on adoption of new accounting standard – AASB 16 Leases	–	–	–	–	(6)	(6)
<i>Items of comprehensive income:</i>						
Net profit for the period	–	–	–	–	388	388
Other comprehensive loss for the period	–	–	(7)	–	–	(7)
Total comprehensive (loss)/income for the period	–	–	(7)	–	388	381
<i>Transactions with owners in their capacity as owners:</i>						
Dividends paid	–	–	–	(127)	–	(127)
On-market share purchase (held as Treasury shares)	(4)	–	–	–	–	(4)
Share-based payment transactions	4	–	–	–	5	9
Balance at 30 June 2019	9,031	(965)	(20)	1,458	(1,972)	7,532
Balance at 1 July 2019	9,031	(965)	(20)	1,458	(1,972)	7,532
Transfer retained profits to accumulated profits reserve	–	–	–	400	(400)	–
Reclassification of own credit risk reserve	–	–	14	–	(14)	–
<i>Items of comprehensive income:</i>						
Net profit for the period	–	–	–	–	286	286
Other comprehensive loss for the period	–	–	(4)	–	–	(4)
Total comprehensive (loss)/income for the period	–	–	(4)	–	286	282
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued	1	–	–	–	–	1
Dividends paid	–	–	–	(124)	–	(124)
On-market share purchase (held as Treasury shares)	(27)	–	–	–	–	(27)
Share-based payment transactions	5	–	–	–	7	12
Balance at 31 December 2019	9,010	(965)	(10)	1,734	(2,093)	7,676
Balance at 1 January 2020	9,010	(965)	(10)	1,734	(2,093)	7,676
Transfer retained profits to accumulated profits reserve	–	–	–	430	(430)	–
<i>Items of comprehensive income:</i>						
Net loss for the period	–	–	–	–	(289)	(289)
Other comprehensive income for the period	–	–	12	–	–	12
Total comprehensive income/(loss) for the period	–	–	12	–	(289)	(277)
<i>Transactions with owners in their capacity as owners:</i>						
Dividends paid	–	–	–	(92)	–	(92)
On-market share purchase (held as Treasury shares)	(16)	–	–	–	–	(16)
Share-based payment transactions	25	–	–	–	(18)	7
Balance at 30 June 2020	9,019	(965)	2	2,072	(2,830)	7,298

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

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

SECTION I: 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 2020 (“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 19 August 2020.

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 financing and investing activities 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 2019 and considered together with any public announcements made by the Company during the six months ended 30 June 2020, in accordance with the continuous disclosure obligations of the ASX listing rules.

The Group’s half-year financial report is presented in United States dollars (“US\$”), as that presentation currency most reliably reflects the global business performance of the Group as a whole and is more comparable with our peers.

The functional currency of the Parent and the majority of subsidiaries is United States dollars.

Changes to significant accounting policies are described in Section 5.

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 2019, except for those that have arisen as a result of new standards, amendments to standards and interpretations effective from 1 January 2020.

In addition, significant judgements, estimates and assumptions for the half-year ended 30 June 2020 include consideration to the COVID-19 pandemic. The carrying value of certain assets and liabilities have been measured with revised corporate assumptions resulting from the effects of the COVID-19 pandemic on energy market demand fundamentals, in particular a lower oil price. The impacts of COVID-19 will continue to be monitored.

Other than disclosures specifically in note 3.4 *Impairment of non-current assets*, the Group has attempted, wherever possible, to reflect the changed operating conditions apparent with COVID-19, with specific consideration given to estimates and judgements applied in the following key areas:

- Exploration and evaluation assets
- Oil and gas assets
- Acquisitions and disposals
- Leases
- Taxation

The Group has implemented financial measures appropriate to the business environment to ensure that the Group continues to remain reliable and sustainable, under COVID-19 economic conditions. This includes ensuring the Group is well-positioned to leverage growth opportunities when business conditions improve.

The half-year financial report has been prepared using a going concern basis of preparation and the Group continues to be able to pay its debts as they fall due.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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, Queensland & NSW, Papua New Guinea (“PNG”), Northern Australia & Timor-Leste, and Western Australia, based on the nature and geographical location of the assets, and “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.

The assets acquired as part of the ConocoPhillips northern Australia asset acquisition have been incorporated into the Northern Australia & Timor-Leste segment, since acquisition date of 28 May 2020.

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.

Changes to segment information

The “Northern Australia” reporting segment has been renamed “Northern Australia & Timor-Leste” following the signing of the new maritime boundary between Australia and Timor-Leste during 2019. Comparative disclosures have been restated to a consistent basis.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.1 SEGMENT INFORMATION

US\$million	Cooper Basin 2020	Queensland & NSW 2020	PNG 2020	Northern Australia & Timor-Leste 2020	Western Australia 2020	Corporate, exploration, eliminations & other 2020	Total 2020
Revenue							
Product sales to external customers	336	474	267	146	274	171	1,668
Inter-segment product sales ¹	104	28	–	–	–	(132)	–
Revenue – other from external customers	31	4	6	–	11	8	60
Total segment revenue	471	506	273	146	285	47	1,728
Costs							
Production costs	(66)	(36)	(32)	(71)	(88)	9	(284)
Other operating costs	(27)	(39)	(19)	–	(2)	(45)	(132)
Third-party product purchases	(142)	(119)	–	–	–	(48)	(309)
Inter-segment purchases ¹	–	(29)	–	–	–	29	–
Other	(39)	11	2	1	10	7	(8)
EBITDAX	197	294	224	76	205	(1)	995
Depreciation and depletion	(121)	(123)	(68)	(34)	(134)	(6)	(486)
Exploration and evaluation expensed	(5)	(2)	(5)	(3)	(5)	(5)	(25)
Net impairment loss	(39)	(663)	–	(13)	(14)	(27)	(756)
Change in future restoration assumptions	–	–	4	–	1	–	5
EBIT	32	(494)	155	26	53	(39)	(267)
Net finance costs						(124)	(124)
Loss before tax							(391)
Income tax benefit						156	156
Royalty-related taxation expense	–	–	–	(26)	(28)	–	(54)
Net loss for the period							(289)

¹ Inter-segment pricing is determined on an arm's length basis. Inter-segment sales are eliminated on consolidation.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.1 SEGMENT INFORMATION

	Cooper Basin	Queensland & NSW	PNG	Northern Australia & Timor-Leste	Western Australia	Corporate, exploration, eliminations & other	Total
US\$million (Restated)	2019	2019	2019	2019	2019	2019	2019
Revenue							
Product sales to external customers	464	487	325	85	417	196	1,974
Inter-segment product sales ¹	70	29	–	–	–	(99)	–
Revenue – other from external customers	34	6	3	–	20	6	69
Total segment revenue	568	522	328	85	437	103	2,043
Costs							
Production costs	(61)	(33)	(37)	(35)	(114)	7	(273)
Other operating costs	(41)	(39)	(24)	–	(3)	(38)	(145)
Third-party product purchases	(194)	(119)	–	–	–	(90)	(403)
Inter-segment purchases ¹	(1)	(36)	–	–	–	37	–
Other	20	26	16	–	(6)	(18)	38
EBITDAX	291	321	283	50	314	1	1,260
Depreciation and depletion	(97)	(108)	(66)	(25)	(155)	(9)	(460)
Exploration and evaluation expensed	(3)	(1)	(2)	(5)	(29)	12	(28)
Net impairment loss	(2)	(4)	–	–	(32)	–	(38)
Change in future restoration assumptions	–	–	–	–	2	–	2
EBIT	189	208	215	20	100	4	736
Net finance costs						(146)	(146)
Profit before tax							590
Income tax expense						(156)	(156)
Royalty-related taxation expense	–	(15)	–	(10)	(18)	(3)	(46)
Net profit for the period							388

¹ Inter-segment pricing is determined on an arm's length basis. Inter-segment sales are eliminated on consolidation

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Revenue from contracts with customers

The Group's operations and main revenue streams are those described in the last annual financial report.

	30 June 2020 US\$million	30 June 2019 US\$million
Product sales:		
Gas, ethane and liquefied gas	1,253	1,364
Crude oil	274	402
Condensate and naphtha	102	161
Liquefied petroleum gas	39	47
Total product sales¹	1,668	1,974
Revenue – other:		
Liquidated damages	8	16
Pipeline tolls & tariffs	40	42
Unwind of acquired contract liabilities	3	3
Other	9	8
Total revenue – other	60	69
Total revenue from contracts with customers	1,728	2,043

¹ Total product sales include third-party product sales of \$408 million (2019: \$475 million).

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	30 June 2020 US\$million	31 December 2019 US\$million
Contract assets		
Current		
Acquired contract assets	22	23
	22	23
Non-current		
Acquired contract assets	122	130
	122	130
Total contract assets	144	153
Contract liabilities		
Current		
Acquired contract liabilities	6	6
Deferred revenue	52	119
	58	125
Non-current		
Acquired contract liabilities	17	20
Deferred revenue	285	213
	302	233
Total contract liabilities	360	358

The following table illustrates the movement in contract asset and contract liability balances for the current reporting period:

	Note	30 June 2020 US\$million	31 December 2019 US\$million
Acquired contract assets			
Opening balance		153	185
Other expenses	2.3	(9)	(32)
Total acquired contract assets		144	153
Acquired contract liabilities			
Opening balance		26	33
Revenue – other	2.2(a)	(3)	(7)
		23	26
Contract liabilities – Deferred income			
Opening balance		332	340
Additional receipts in advance		37	45
Revenue from contracts with customers – product sales		(38)	(65)
Interest accretion for financing component		8	18
Other		(2)	(6)
		337	332
Total contract liabilities		360	358

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.3 EXPENSES

	30 June 2020 US\$million	30 June 2019 US\$million
Cost of sales:		
Production expenses	284	273
Other operating costs:		
LNG plant costs	29	28
Pipeline tariffs, processing tolls and other	68	78
Movement on onerous pipeline contracts	(1)	(13)
Royalty and excise	31	47
Shipping costs	5	5
Total other operating costs	132	145
Total cash cost of production	416	418
Depreciation and depletion costs:		
Depreciation of plant, equipment and buildings	285	274
Depletion of subsurface assets	201	183
Total depreciation and depletion	486	457
Third-party product purchases	309	403
Decrease/(increase) in product stock	33	(50)
Total cost of sales	1,244	1,228
Other expenses:		
Selling	5	8
General & administration	29	29
Depreciation	–	3
Foreign exchange losses	15	1
Fair value gains on commodity derivatives (oil hedges)	(39)	–
Fair value hedges, losses on the hedging instrument	–	6
Exploration and evaluation expensed	25	28
Unwind of acquired contract assets	9	21
Other	4	3
Total other expenses	48	99

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

2.4 DIVIDENDS

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

Dividends recognised during the period	Franked/ unfranked	Dividend per share US¢	Total US\$million
2020			
Final dividend per ordinary share – paid on 26 March 2020	Franked	5.0	92
2019			
Interim dividend per ordinary share – paid on 26 September 2019	Franked	6.0	124
Dividends declared in respect of the period:			
2020			
Interim dividend per ordinary share	Franked	2.1	44

After the reporting date, on 19 August 2020, the Directors resolved to pay a fully franked interim dividend of US\$0.021 per fully paid ordinary share, to shareholders registered in the books of the Company at the close of business on 26 August 2020 (“Record Date”). Consequently, the financial effect of the dividend has not been brought to account in the half-year financial statements for the six months ended 30 June 2020, and will be recognised in subsequent financial reports.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

	Note	Six months ended		
		30 June 2020 US\$million	31 December 2019 US\$million	30 June 2019 US\$million
Balance at the beginning of the period		1,187	1,084	981
Acquisitions	3.5	587	18	–
Additions		67	95	147
Expensed		(4)	14	(38)
Impairment losses		(49)	(17)	(7)
Transfer to oil and gas assets in production	3.2	(27)	(5)	(1)
Exchange differences		6	(2)	2
Balance at the end of the period		1,767	1,187	1,084
Comprising:				
Acquisition costs		673	675	672
Successful exploration wells		1,086	440	148
Pending determination of success		8	72	264
		1,767	1,187	1,084

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.2 OIL AND GAS ASSETS

	Note	Six months ended		
		30 June 2020 US\$million	31 December 2019 US\$million	30 June 2019 US\$million
Assets in development				
Balance at the beginning of the period		108	130	290
Additions ¹		19	–	31
Transfer to oil and gas assets in production		–	(22)	(191)
Balance at the end of the period		127	108	130
Producing assets				
Balance at the beginning of the period		11,288	11,349	10,993
Additions ¹		351	460	652
Acquisition	3.5	207	–	–
Transfer from exploration and evaluation assets	3.1	27	5	1
Transfer from oil and gas assets in development		–	22	191
Disposals		(18)	–	–
Depreciation and depletion		(480)	(542)	(457)
Impairment losses		(707)	(6)	(31)
Balance at the end of the period		10,668	11,288	11,349
Total oil and gas assets²		10,795	11,396	11,479
Comprising:				
Exploration and evaluation expenditure pending commercialisation		66	61	88
Other capitalised expenditure		10,729	11,335	11,391
		10,795	11,396	11,479

1. Includes impact on restoration assets following changes in future restoration provision assumptions.

2. Includes impact of AASB 16 recognition of right-of-use assets.

3.3 CAPITAL COMMITMENTS

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

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.4 IMPAIRMENT OF NON-CURRENT ASSETS

Impairment expense recorded during the period is as follows:

	30 June 2020 US\$million	30 June 2019 US\$million
Oil and gas assets	669	31
Exploration and evaluation assets	87	7
Total impairment	756	38

The carrying amounts of the Group's exploration and evaluation assets and oil and gas assets are reviewed at each reporting date to determine whether there is any indication of impairment or impairment reversal. Where an indicator of impairment or impairment reversal exists, a formal estimate of the recoverable amount is made.

Goodwill is tested at least annually for impairment and more frequently if there are indications that it might be impaired.

Significant judgement – Impairment of oil and gas assets

For oil and gas assets, 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, commodity prices, costs and foreign exchange rates. Additionally, risks associated with climate change are factored into the value-in-use ("VIU") calculation and will continue to be monitored.

In most cases, the present value of future cash flows is most sensitive to estimates of future oil price and discount rates. The estimated future cash flows for the VIU calculation are based on estimates, the most significant of which are hydrocarbon reserves and resources, future production profiles, commodity prices, operating costs including third-party gas purchases and any future development costs necessary to produce the reserves and resources. Under a fair value less costs of disposal ("FVLCD") calculation, future cash flows are based on estimates of hydrocarbon reserves in addition to other relevant factors such as value attributable to additional resource and exploration opportunities beyond reserves based on production plans.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually, however, in light of the impacts of the COVID-19 pandemic, corporate assumptions have been revised for the half-year reporting period ended 30 June 2020. Where volumes are contracted, future prices are based on the contracted price.

The nominal future Brent prices (US\$/bbl) used were:

	2020	2021	2022	2023	2024	2025
30 June 2020	45.00	50.00	55.00	62.50	67.65¹	69.00¹
31 December 2019	65.00	66.30	72.83 ²	74.28 ²	75.77 ²	77.29 ²

¹ Based on US\$62.50/bbl (2020 real) from 2024 escalated at 2.0% p.a.

² Based on US\$70.00/bbl (2020 real) from 2022 escalated at 2.0% p.a.

Forecasts of the exchange rate for foreign currencies, where relevant, are estimated with reference to observable external market data and forward values, including analysis of broker and consensus estimates.

The future estimated rates applied were (A\$/US\$):

2020	2021 ¹
0.67	0.70

¹ From 2021 the long-term exchange rate assumption remains at A\$:US\$0.70.

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the countries in which the asset operates. The range of pre-tax discount rates that have been applied to non-current assets is between 10.05% and 20.31%.

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 amount

The recoverable amount of an asset or CGU is the greater of its FVLCD (based on level 3 fair value hierarchy) and its VIU, using an asset's estimated future cash flows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.4 IMPAIRMENT OF NON-CURRENT ASSETS (continued)

Recoverable amounts and resulting impairment write-downs recognised for the half-year ended 30 June 2020 are:

	Segment	Subsurface assets US\$million	Plant and equipment US\$million	Total US\$million	Recoverable amount ¹ US\$million
Oil and gas assets – producing:					
GLNG	Queensland & NSW	161	494	655	3,560
Other	Western Australia	10	4	14	nil
Total impairment of oil and gas assets		171	498	669	
Exploration and evaluation assets:					
Amadeus	Exploration	27	–	27	nil ²
Cooper Basin Unconventional Resource – PEL 570	Cooper Basin	27	–	27	nil ²
PEL 100	Cooper Basin	11	–	11	nil ²
Burnside	Northern Australia & Timor-Leste	14	–	14	nil ²
Gunnedah Basin	Queensland & NSW	8	–	8	nil ²
Total impairment of exploration and evaluation		87	–	87	
Total impairment of exploration and evaluation and oil and gas assets		258	498	756	

¹ Recoverable amounts represent the carrying values of assets before deducting the carrying value of restoration liabilities. Producing oil and gas asset amounts above are calculated using the VIU method, whilst all exploration and evaluation asset amounts use the FVLCD method.

² Impairment of exploration and evaluation assets relates to certain individual licenses/areas of interest that have been impaired to nil.

Oil and gas assets – producing

The primary driver of the impairment recognised for oil and gas producing assets was the revised corporate assumptions resulting from the effects of the COVID-19 pandemic on energy market demand fundamentals, in particular a lower oil price.

Exploration and evaluation assets

The impairment of exploration and evaluation assets have arisen primarily from the lower oil price environment, and in some cases, a consequential delay or reduction in future capital expenditure that diminishes the path to commercialisation.

Sensitivity

To the extent 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:

Oil and gas asset	Production decrease 5% US\$million	Discount rate increase 0.5% US\$million	Oil price decrease US\$5/bbl all years US\$million
GLNG	241	184	484

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.5 ACQUISITIONS AND DISPOSALS

On 28 May 2020, the Group successfully completed the acquisition of ConocoPhillips' northern Australian assets, for a purchase price of \$1,265 million plus contingent consideration of \$200 million payable on the Barossa project achieving final investment decision. In accordance with Group accounting policy, the contingent consideration will not be recognised until conditions for payment have been achieved. The net cash settlement on completion of the transaction was \$874 million, inclusive of transaction costs of \$39 million, which have been capitalised.

Under the terms of the Sale and Purchase Agreement, Santos has acquired interests in the following:

- 56.9% equity accounted investment in Darwin LNG Pty Ltd
- 56.9% undivided interest in the Bayu-Undan project and associated pipeline
- 37.5% joint operation interest in the Barossa project
- 40% joint operation interest in the Poseidon project

With the exception of the acquisition of an additional interest in the equity accounted investment in Darwin LNG Pty Ltd, which is accounted for as a step-up acquisition of an investment in an equity accounted associate, all other assets have been accounted for as asset acquisitions. Refer to Note 3.6 for additional details related to the step-up acquisition in Darwin LNG Pty Ltd.

Purchase consideration, including capitalised transaction costs, has been allocated against identifiable assets and liabilities acquired, based on their relative fair values determined on acquisition date.

Details of the purchase consideration and purchase price allocation to net identifiable assets acquired are as follows:

	Note	30 June 2020 US\$million
Cash and cash equivalents		420
Lease liabilities		(35)
Current tax liabilities		(23)
Exploration and evaluation assets	3.1	587
Oil and gas assets	3.2	207
Other land, buildings, plant and equipment		13
Restoration liabilities		(669)
Investment in associate	3.6	790
Net other assets and liabilities acquired		14
Net identifiable assets acquired		1,304
Purchase consideration		
Purchase consideration transferred		1,265
Add: Transaction costs		39
Total purchase consideration		1,304
Less: Cash acquired on acquisition		(420)
Less: Accrued estimated transaction costs		(10)
Net cash flow on acquisition		874
<i>Cash flow recorded for period ended 31 December 2019</i>		177
<i>Cash flow recorded for period ended 30 June 2020 – purchase consideration</i>		695
<i>Cash flow recorded for period ended 30 June 2020 – transaction costs</i>		2
Total cash flow		874

The results of the acquired assets have been included within the Group's consolidated results from the date of acquisition. The acquired assets have contributed \$69 million in sales revenue, \$29 million in earnings before interest and tax, and \$29 million in free cash flow to the Group's result since acquisition date.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.6 INVESTMENTS IN EQUITY ACCOUNTED ASSOCIATES AND JOINT VENTURES

The Group's only material equity accounted investment is Darwin LNG Pty Ltd, which operates the Darwin LNG liquefaction facility that currently processes gas from the Bayu-Undan gas fields. As described in Note 3.5 of the interim consolidated financial statements, an additional interest of 56.9% was acquired in Darwin LNG Pty Ltd, bringing the Group's total interest to 68.4%. The investment will continue to be accounted for as an equity accounted investment in an associate, given the Group is deemed to have only significant influence over the separately incorporated company, based on the structure of voting and decision making rights.

Summarised financial information of the investment in associate, based on the amounts presented in its financial statements and adjusted for fair value adjustments at acquisition and other differences in accounting policies, are set out below:

Share of investment in Darwin LNG Pty Ltd	30 June 2020 US\$million	31 December 2019 US\$million
Group's equity interest	68.4%	11.5%
Summarised net asset position		
Current assets	129	141
Non-current assets	1,566	230
Current liabilities	(76)	(137)
Non-current liabilities	(440)	(118)
Closing net assets	1,179	116
Group's share of net assets	806	13
Summarised income statement		
Gross profit	125	142
Other income and expenses	5	91
Depreciation and amortisation	(84)	(123)
Profit before tax	46	110
Income tax expense	(1)	(40)
Net profit after tax for the period	45	70
Group's share of net profit of associates¹	18	8
Reconciliation to carrying amount		
Opening balance	13	31
Add: Group's share of net profit	18	8
Add: Additional equity investment in Darwin LNG Pty Ltd	790	–
	821	39
Dividends received	(10)	(12)
Return of capital	(5)	(14)
Carrying amount of investments in associate	806	13

¹ The Group is only entitled to 68.4% of the associate's net profit after tax from the date of acquisition, being 28 May 2020.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

3.7 LEASES

The Group's leasing activities

The Group leases a number of different types of assets, including properties and plant and production equipment, such as oil rigs.

Set out below are the carrying amounts of right-of-use assets recognised and their movements during the period:

	Oil and gas assets US\$million	Other land, buildings, plant and equipment US\$million	Total US\$million
Opening balance – 31 December 2019	295	105	400
Right-of-use assets acquired	22	13	35
Additions	8	–	8
Depreciation	(46)	(3)	(49)
Remeasurements of lease arrangements	(18)	–	(18)
Balance at 30 June 2020	261	115	376

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Lease liabilities US\$million
Opening balance – 31 December 2019	425
Lease liabilities acquired	35
Additions	8
Accretion of interest	8
Payments	(53)
Remeasurements of lease arrangements	(18)
Foreign exchange gain on lease liabilities	(7)
Balance at 30 June 2020	398

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 INTEREST-BEARING LOANS AND BORROWINGS

On 28 May 2020, the Group completed a US\$750 million variable rate 2 year term loan facility, which was drawn down to partially fund the acquisition of the ConocoPhillips' northern Australia assets.

4.2 NET FINANCE COSTS

	30 June 2020 US\$million	30 June 2019 US\$million
Finance income:		
Interest income	12	16
Total finance income	12	16
Finance costs:		
Interest paid to third parties	(109)	(121)
Finance costs associated with lease liabilities	(8)	(9)
Deduct borrowing costs capitalised	10	6
	(107)	(124)
Unwind of the effect of discounting on provisions and deferred revenue	(29)	(38)
Total finance costs	(136)	(162)
Net finance costs	(124)	(146)

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

4.3 ISSUED CAPITAL

	Six months ended					
	30 June 2020 Number of shares	31 December 2019 Number of shares	30 June 2019 Number of shares	30 June 2020 US\$million	31 December 2019 US\$million	30 June 2019 US\$million
Movement in fully paid ordinary shares						
Balance at the beginning of the period	2,083,096,626	2,082,963,873	2,082,979,345	9,010	9,031	9,031
Issue of new shares	–	155,000	–	–	1	–
On-market shares purchased (Treasury shares)	–	–	–	(16)	(27)	(4)
Issue of Treasury shares on vesting of employee share schemes	–	–	–	25	5	4
Replacement of restricted classes of ordinary shares with shares purchased on-market	(19,273)	(22,247)	(15,472)	–	–	–
Balance at the end of the period	2,083,077,353	2,083,096,626	2,082,963,873	9,019	9,010	9,031
				30 June 2020 Number of shares	31 December 2019 Number of shares	30 June 2019 Number of shares
Movement in Treasury shares						
Balance at the beginning of the period				5,005,588	1,162,064	1,231,710
On-market shares purchased				4,666,670	5,000,000	750,000
Treasury shares utilised:						
Santos Employee Share1000 Plan				(7,488)	(150,192)	–
Santos Employee ShareMatch Plan				(14,832)	(572,196)	–
Utilised on vesting of SARs				(232,903)	(561,418)	(26,682)
Executive STI (deferred SARs)				(471,090)	–	(696,921)
Executive STI (ordinary shares)				–	(7,650)	(80,571)
Executive LTI (ordinary shares)				(3,837,403)	–	–
Santos Employee Share1000 Plan (relinquished shares)				–	2,227	–
Issue of new shares				–	155,000	–
Replacement of ordinary shares with shares purchased on-market				(19,273)	(22,247)	(15,472)
Balance at the end of the period				5,089,269	5,005,588	1,162,064

4.4 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 and sensitivity analysis in the case of foreign exchange, interest rate and commodity price risk, and ageing and credit rating concentration analysis for credit risk.

Financial risk management is carried out by a central treasury department ("Treasury") which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and cover specific financial risks, such as foreign exchange risk, interest rate risk and 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, borrowings and capital and operating expenditure incurred in currencies other than the functional currency. 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 borrowings are denominated in US dollars and held by US dollar functional currency companies. 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 2020.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation, are restated to US dollar equivalents at each period end, 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 long-term notes. 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 have a notional contract amount of \$227 million (2019: \$227 million) and a net fair value of \$30 million (2019: \$26 million). The net fair value amounts were recognised as fair value derivatives.

Commodity price risk

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 oil price swap and option contracts to manage its commodity price risk. At 30 June 2020, the Group has 9.7 million barrels of open oil price swap and option contracts (2019: 6.2 million), covering 2020 exposures, which are designated in cash flow hedge relationships.

(c) Fair values

Fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market that is accessible by the Group for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability, that is accessible by the Group.

The financial assets and liabilities of the Group are all initially recognised in the statement of financial position at their fair values. Receivables, payables, interest-bearing liabilities and other financial assets and liabilities, which are not subsequently measured at fair value, are carried at amortised cost. The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

4.4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair values (continued)

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, using market interest rates for a similar instrument at the reporting date.

The fair value of oil derivative contracts is determined by estimating the difference between the relevant market prices and the contract strike price, for the notional volumes of the derivative contracts.

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 US dollars at the foreign exchange spot rate prevailing at the 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 2020	30 June 2019
	%	%
Derivatives	0.1 – 0.9	1.5 – 2.1
Loans and borrowings	0.1 – 0.9	1.5 – 2.1

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.

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 CONTINGENT LIABILITIES

Other than as disclosed in note 3.5, there has been no material change to the contingent liabilities disclosed in the most recent annual financial report.

5.2 EVENTS AFTER THE END OF THE REPORTING PERIOD

On 19 August 2020, the Directors of Santos Limited resolved to pay an interim dividend on ordinary shares in respect of the 2020 half-year period. Consequently, the financial effect of these dividends has not been brought to account in the half-year financial statements for the six months ended 30 June 2020. Refer to note 2.4 for details.

5.3 ACCOUNTING POLICIES

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 2019, except for new standards, amendments to standards and interpretations effective from 1 January 2020.

A number of standards, amendments and interpretations, including the revised Conceptual Framework, were applicable for the first time in 2020. These have not had a significant or immediate impact on the Group's half-year condensed financial statements.

DIRECTORS' DECLARATION

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 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 19th day of August 2020

On behalf of the Board:



Director



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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 auditors' 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 2020, 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 2020 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 2020 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



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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.

Independence

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

Ernst & Young

R J Curtin
Partner

Adelaide
19 August 2020

D A J Hall
Partner

APPENDIX 4D FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

NTA BACKING

	30 June 2020	30 June 2019
Net tangible asset backing per ordinary security	N/A	N/A

CHANGE IN OWNERSHIP OF CONTROLLED ENTITIES

Nil

DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

	Percent ownership interest held at the end of the period	
	30 June 2020	30 June 2019
	%	%
Joint venture and associate entities		
Darwin LNG Pty Ltd	68.4	11.5
GLNG Operations Pty Ltd	30.0	30.0
GLNG Property Pty Ltd	30.0	30.0