Half-year report incorporating Appendix 4D

Santos Limited and its controlled entities.

For the period ended 30 June 2019, under Listing Rule 4.2.

Santos

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4D FOR THE PERIOD ENDED 30 JUNE 2019

	2019 US$million	2018 US$million	Change %
Revenue from ordinary activities	1,974	1,680	17.5
Statutory Profit from ordinary activities after tax attributable to members	388	104	273.1
Net Profit for the period attributable to members	388	104	273.1

Interim Dividend	Amount per security US cents	Franked amount per security at 30% tax US cents
Directors resolved to pay an interim dividend in relation to the half-year ended 30 June 2019.		
Ordinary securities	6.0	6.0
28 August 2019 is the record date for determining entitlements to the dividend		

CONTENTS

Half-year Report 30 June 2019

RESULTS FOR THE PERIOD

	2019 US$million	Change
Underlying profit[1]	411	89%
Product sales	1,974	18%
EBITDAX[1]	1,260	43%
Free cash flow[1]	638	74%
Interim dividend (UScps)	6.0	71%

[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 & NSW, Northern Australia 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 2019, and the auditor's review report thereon.

REVIEW AND RESULTS OF OPERATIONS

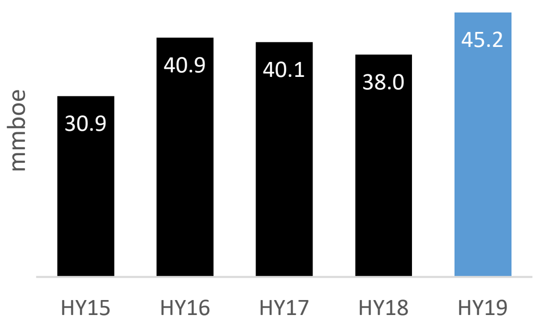
Unless otherwise stated, all references to dollars are to US dollars.

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

Summary of results table	2019	2018	Variance
	mmboe	mmboe	%
Production volume	37.0	28.0	32.2
Sales volume	45.2	38.0	19.0
	$million	$million	
Product sales	1,974	1,680	17.5
EBITDAX[1]	1,260	883	42.7
Exploration and evaluation expensed	(28)	(45)	37.8
Depreciation and depletion	(460)	(328)	(40.2)
Net impairment loss	(38)	(76)	50.0
Change in future restoration assumptions	2	9	(77.8)
EBIT[1]	736	443	66.1
Net finance costs	(146)	(108)	(35.2)
Taxation expense	(202)	(231)	12.6
Net profit for the period	388	104	273.1
Underlying profit for the period[2]	411	217	89.4

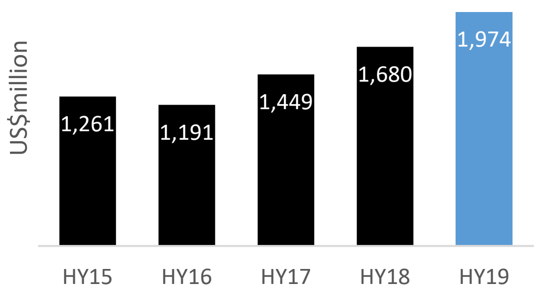
1. *EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit/(loss) are non-IFRS measures that are presented to provide an understanding of the underlying performance of Santos' operations.*
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



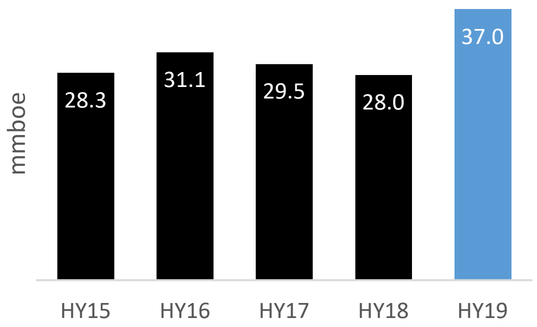
Sales volumes of 45.2 million barrels of oil equivalent (mmboe) were 19% higher than the previous first half. The higher volumes were due to the Quadrant acquisition more than doubling sales in Western Australia combined with growth in the Cooper Basin and Queensland. PNG volumes recovered following the PNG Highlands earthquake in February 2018.

Sales revenue



Sales revenue was up 18% compared to the previous first half to a record $2 billion, primarily due to higher sales volumes and higher LNG prices. The average realised LNG price rose 11% to US$9.97/mmBtu but the average realised oil price fell 4% to US$72.11/bbl.

Production



Production was up 32% to a record 37 mmboe primarily due to the Quadrant acquisition in Western Australia, higher production in the Cooper Basin and Queensland, and recovery in PNG production following the PNG Highlands earthquake in February 2018. This was partly offset by the sale of Santos' Asian assets in the second half of 2018.

Review of Operations

Santos' operations are focused on five core, long-life natural gas assets: Cooper Basin, Queensland and NSW, PNG, Northern Australia 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 a low-cost, cash flow positive business by building production, investing in new technology to lower development and exploration costs, and increasing utilisation of infrastructure including the Moomba plant.

Cooper Basin	HY19	HY18
Production (mmboe)	7.7	7.5
Sales volume (mmboe)	11.1	10.3
Product sales (US$m)	534	502
Production cost (US$/boe)	7.91	8.42
EBITDAX (US$m)	291	229
Capex (US$m)	130	108

Cooper Basin EBITDAX was $291 million, 27% higher than the first half of 2018 primarily due to higher sales revenue due to higher oil prices, in addition to lower production costs of US$7.91/boe, down 6%, resulting from cost saving and efficiency initiatives.

Santos' share of Cooper Basin sales gas and ethane production of 29.6 petajoules (PJ) was in-line with the corresponding period. Higher production from increased drilling activity and newly connected wells was offset by the impact of planned maintenance at the Moomba plant.

Santos' share of oil production was up 20% to 1.7 million barrels due to strong oil development outcomes and a dedicated drilling rig.

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 2.6 million tonnes in the first half of 2019 and shipped 44 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.

Queensland and NSW	HY19	HY18
Production (mmboe)	6.3	5.9
Sales volume (mmboe)	10.6	11.0
Product sales (US$m)	516	463
Production cost (US$/boe)	5.32	6.39
EBITDAX (US$m)	321	285
Capex (US$m)	133	110

Queensland and NSW EBITDAX was $321 million, 13% higher than the first half of 2018. This was a result of higher sales revenue reflecting higher LNG prices along with additional cargoes shipped in the first half of 2019. Production costs of US$5.32/boe, down 17%, were lower due to higher well uptime.

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 2019 and shipped 56 cargoes. Production was higher than the corresponding period due to recovery from the PNG Highlands earthquake in February 2018.

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. Santos, along with the other PNG LNG parties, are in discussions to build alignment for the proposed construction of three additional LNG trains at the PNG LNG site, one for the PNG LNG project (Santos 13.5% interest) and two for the Papua LNG project (in which Santos does not have an equity interest). Santos expects to earn an access fee from the Papua LNG project for use of existing PNG LNG infrastructure. Santos has also signed a letter of intent to farm-in to PRL 3 which contains the multi-tcf P'nyang field.

PNG	HY19	HY18
Production (mmboe)	6.4	4.6
Sales volume (mmboe)	5.9	4.1
Product sales (US$m)	325	215
Production cost (US$/boe)	5.78	6.91
EBITDAX (US$m)	283	165
Capex (US$m)	20	15

PNG EBITDAX was $283 million, 72% higher than the first half of 2018, due to higher sales volumes and higher LNG prices.

Northern Australia

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

The LNG plant near Darwin has a single LNG train with a nameplate capacity of 3.7 mtpa. LNG production of 1.6 million tonnes in the first half was in-line with the corresponding period.

Santos' strategy in Northern Australia is to support plans to progress Darwin LNG backfill, expand the company's acreage footprint and appraise the onshore McArthur Basin.

The Barossa project (Santos 25% interest) entered the front-end engineering and design (FEED) phase in 2018 and is the leading candidate to backfill Darwin LNG. A final investment decision is targeted in early 2020. Successful development of Barossa would extend the operating life of Darwin LNG for more than 20 years, and more than double Santos' current production in Northern Australia.

Northern Australia	HY19	HY18
Production (mmboe)	1.6	1.7
Sales volume (mmboe)	1.7	1.7
Product sales (US$m)	85	76
Production cost (US$/boe)	21.31	23.23
EBITDAX (US$m)	50	35
Capex (US$m)	17	29

Northern Australia EBITDAX was $50 million, 43% higher than the first half of 2018. Unit production costs were lower than the prior first half primarily due to a plant shutdown in May 2018.

Western Australia

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

In late 2018, Santos completed the acquisition of Quadrant Energy for US$2.15 billion plus contingent payments related to the Bedout Basin. Quadrant significantly strengthened Santos' position in Western Australia, including 100% ownership and operatorship of the Varanus Island and Devil Creek gas hubs, and a leading position in the highly prospective Bedout Basin.

Santos successfully appraised the significant oil discovery at Dorado (Santos 80% interest) in the Bedout Basin in the first half of 2019. Dorado opens a new basin with high prospectivity in permits where Santos has a high equity position. A FEED-entry decision on a potential Dorado development is targeted for 2020.

Western Australia	HY19	HY18
Production (mmboe)	14.9	5.6
Sales volume (mmboe)	13.8	5.7
Product sales (US$m)	417	168
Production cost (US$/boe)	7.63	8.90
EBITDAX (US$m)	314	114
Capex (US$m)	122	17

Western Australia EBITDAX was $314 million, 175% higher than the first half of 2018, predominantly due to the acquisition of Quadrant in the second half of 2018.

Santos' share of Western Australia gas production more than doubled to 68.8 PJ in the first half due to the acquisition of Quadrant.

Santos' share of condensate and oil production also grew strongly to 773,000 and 2,396,000 barrels respectively.

Net Profit

The 2019 first half net profit was $388 million; compared with a $104 million net profit at half-year 2018. The $284 million increase in net profit is driven through increased production and sales volumes; as well as the significant reduction in the before tax impairment loss of $38 million posted in 2019, compared to the $76 million posted in 2018.

Underlying profit of $411 million includes items after tax of $23 million (before tax of $34 million), referred to in the reconciliation of net profit/(loss) to underlying profit below.

Reconciliation of Net Profit/(Loss) to Underlying Profit	2019 $million			2018 $million		
	Gross	Tax	Net	Gross	Tax	Net
Net profit after tax attributable to equity holders of Santos Limited			388			104
Add/(deduct) the following:						
Impairment losses	38	(12)	26	76	–	76
Gains on sale of non-current assets	(10)	3	(7)	(55)	16	(39)
Fair value adjustments on embedded derivatives and hedges	6	(2)	4	–	–	–
Fair value adjustments on commodity hedges	–	–	–	109	(33)	76
	34	(11)	23	130	(17)	113
Underlying profit[1]			411			217

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 2019 was $7,532 million.

CASH FLOW

The net cash inflow from operating activities of $1,051 million was 63% higher than the first half of 2018. This increase is principally attributable to higher receipts from customers, offset by higher payments to suppliers and employees and higher taxes. Net cash used in investing activities of $359 million was $101 million higher than the first half of 2018, primarily due to increased asset additions, partially offset by movements in working capital. Cash flows used in financing activities were $671 million higher than the first half of 2018, predominantly due to the repayment of the $500 million bank term loan facility, repayment of the $600 million uncovered ECA supported loan facility, dividend payment of $127 million, offset by the issuance of a $600 million senior unsecured fixed rate bond.

OUTLOOK

Sales volume guidance is maintained in the range of 90 to 97 mmboe and production guidance is maintained in the range of 73 to 77 mmboe for 2019.

POST BALANCE DATE EVENTS

On 21 August 2019, the Directors resolved to pay a fully franked interim dividend of US$0.06 per fully paid ordinary share on 26 September 2019 to shareholders registered in the books of the Company at the close of business on 28 August 2019 ("Record Date"). Consistent with 2018 dividends, the dividend will be paid in AUD and the currency conversion will be based on the foreign exchange rate determined on the Record Date. The Board also resolved that the Dividend Reinvestment Plan ("DRP") will not be in operation for the 2019 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 2019.

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
Guthrie	Vanessa Ann
Hearl	Peter Roland
Shi[1]	Yujiang
Guan[2]	Yu
Spence	Keith William (Chairman)

[1]*Mr Shi ceased to be a Director of Santos Limited effective 2 May 2019.*
[2]*Mr Guan was appointed a Director of Santos Limited on 3 May 2019.*

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 21 August 2019 in accordance with a resolution of the Directors.

Director
21 August 2019

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Auditor's 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 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Santos Limited and the entities it controlled during the financial period.

Ernst & Young

R J Curtin
Partner
Adelaide
21 August 2019

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	**30 June 2019 US$million**	30 June 2018 US$million
Revenue from contracts with customers – Product sales	2.2	**1,974**	1,680
Cost of sales	2.3	**(1,228)**	(1,162)
Gross profit		**746**	518
Revenue from contracts with customers – Other	2.2	**69**	47
Other income		**55**	68
Impairment of non-current assets	3.4	**(38)**	(76)
Other expenses	2.3	**(99)**	(115)
Finance income	4.2	**16**	12
Finance costs	4.2	**(162)**	(120)
Share of net profit of joint ventures		**3**	1
Profit before tax		**590**	335
Income tax expense		**(156)**	(212)
Royalty-related taxation expense		**(46)**	(19)
Total taxation expense		**(202)**	(231)
Net profit for the period attributable to owners of Santos Limited		**388**	104
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic profit per share		**18.7**	5.0
Diluted profit per share		**18.5**	5.0
Dividends per share (¢)			
Paid during the period	2.4	**6.2**	–
Declared in respect of the period	2.4	**6.0**	3.5

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 2019

	30 June 2019 US$million	30 June 2018 US$million
Net profit for the period	**388**	104
Other comprehensive income, net of tax:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange loss on translation of foreign operations	**–**	(186)
Tax effect	**–**	–
	–	(186)
Loss on foreign currency loans designated as hedges of net investments in foreign operations	**–**	(83)
Tax effect	**–**	25
	–	(58)
Loss on derivatives designated as cash flow hedges	**(6)**	(16)
Tax effect	**2**	5
	(4)	(11)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(4)**	(255)
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gain on the defined benefit plan	**–**	3
Tax effect	**–**	(1)
	–	2
Loss on financial liabilities at fair value through other comprehensive income (FVOCI)	**(4)**	(2)
Tax effect	**1**	1
	(3)	(1)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(3)**	1
Other comprehensive loss, net of tax	**(7)**	(254)
Total comprehensive profit/(loss) attributable to owners of Santos Limited	**381**	(150)

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 2019

	Note	30 June 2019 US$million	31 December 2018 US$million
Current assets			
Cash and cash equivalents		**1,215**	1,316
Trade and other receivables		**406**	521
Prepayments		**10**	32
Contract assets		**17**	–
Inventories		**304**	288
Other financial assets		**14**	28
Tax receivable		**–**	13
Total current assets		**1,966**	2,198
Non-current assets			
Prepayments		**15**	16
Contract assets		**99**	137
Investments in joint ventures		**22**	31
Other financial assets		**36**	31
Exploration and evaluation assets	3.1	**1,107**	1,004
Oil and gas assets	3.2	**11,421**	11,224
Other land, buildings, plant and equipment		**187**	119
Deferred tax assets		**1,746**	1,746
Goodwill		**628**	628
Total non-current assets		**15,261**	14,936
Total assets		**17,227**	17,134
Current liabilities			
Trade and other payables		**556**	661
Other liabilities		**1**	3
Contract liabilities		**80**	32
Lease liabilities	5.3(c)	**91**	1
Interest-bearing loans and borrowings	4.1	**344**	966
Current tax liabilities		**18**	63
Provisions		**130**	116
Other financial liabilities		**4**	6
Total current liabilities		**1,224**	1,848
Non-current liabilities			
Other liabilities		**2**	2
Contract liabilities		**215**	268
Lease liabilities	5.3(c)	**268**	61
Interest-bearing loans and borrowings	4.1	**3,907**	3,891
Deferred tax liabilities		**1,766**	1,614
Provisions		**2,282**	2,147
Other financial liabilities		**31**	24
Total non-current liabilities		**8,471**	8,007
Total liabilities		**9,695**	9,855
Net assets		**7,532**	7,279
Equity			
Issued capital	4.3	**9,031**	9,031
Reserves		**473**	607
Accumulated losses		**(1,972)**	(2,359)
Total equity		**7,532**	7,279

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 2019

	30 June 2019 US$million	30 June 2018 US$million
Cash flows from operating activities		
Receipts from customers	**2,197**	1,725
Interest received	**16**	12
Dividends received	**5**	–
Pipeline tariffs and other receipts	**79**	23
Payments to suppliers and employees	**(959)**	(889)
Exploration and evaluation seismic and studies	**(45)**	(45)
Restoration expenditure	**(6)**	(11)
Royalty and excise paid	**(45)**	(27)
Borrowing costs paid	**(134)**	(88)
Income taxes paid	**(24)**	(47)
Income taxes received	**–**	2
Royalty-related taxes paid	**(49)**	(13)
Other operating activities	**16**	2
Net cash provided by operating activities	**1,051**	644
Cash flows from investing activities		
Payments for:		
Exploration and evaluation assets	**(88)**	(17)
Oil and gas assets	**(286)**	(251)
Other land, buildings, plant and equipment	**(5)**	(3)
Acquisitions of oil and gas assets	**(8)**	–
Costs associated with acquisition of subsidiaries	**(6)**	–
Acquisitions of exploration and evaluation assets	**–**	(4)
Proceeds on disposal of non-current assets	**40**	23
Borrowing costs paid	**(6)**	–
Other investing activities	**–**	(6)
Net cash used in investing activities	**(359)**	(258)
Cash flows from financing activities		
Dividends paid	**(127)**	–
Drawdown of borrowings	**592**	–
Repayments of borrowings	**(1,210)**	(112)
Repayment of lease liabilities	**(42)**	–
Purchase of shares on-market (Treasury shares)	**(4)**	(8)
Net cash used in financing activities	**(791)**	(120)
Net (decrease)/increase in cash and cash equivalents	**(99)**	266
Cash and cash equivalents at the beginning of the period	**1,316**	1,231
Effects of exchange rate changes on the balances of cash held in foreign currencies	**(2)**	(5)
Cash and cash equivalents at the end of the period	**1,215**	1,492

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 2019

	Equity attributable to owners of Santos Limited						
US$million	**Issued capital**	**Translation reserve**	**Hedging reserve**	**Financial liabilities at FVOCI**	**Accumulated profits reserve**	**Accumulated losses**	**Total equity**
Balance at 1 January 2018	9,034	(528)	5	(21)	595	(1,934)	7,151
Transfer retained profits to accumulated profits reserve	–	–	–	–	327	(327)	–
Items of comprehensive income:							
Net profit for the period	–	–	–	–	–	104	104
Other comprehensive (loss)/income for the period	–	(244)	(11)	(1)	–	2	(254)
Total comprehensive (loss)/income for the period	–	(244)	(11)	(1)	–	106	(150)
Transactions with owners in their capacity as owners:							
On-market share purchase (held as Treasury shares)	(8)	–	–	–	–	–	(8)
Share-based payment transactions	2	–	–	–	–	3	5
Balance at 30 June 2018	9,028	(772)	(6)	(22)	922	(2,152)	6,998
Balance at 1 July 2018	9,028	(772)	(6)	(22)	922	(2,152)	6,998
Transfer retained profits to accumulated profits reserve	–	–	–	–	736	(736)	–
Items of comprehensive income:							
Net profit for the period	–	–	–	–	–	526	526
Other comprehensive (loss)/income for the period	–	(193)	14	1	–	–	(178)
Total comprehensive (loss)/income for the period	–	(193)	14	1	–	526	348
Transactions with owners in their capacity as owners:							
Dividends paid	–	–	–	–	(73)	–	(73)
On-market share purchase (held as Treasury shares)	(2)	–	–	–	–	–	(2)
Share-based payment transactions	5	–	–	–	–	3	8
Balance at 31 December 2018	9,031	(965)	8	(21)	1,585	(2,359)	7,279
Balance at 1 January 2019	**9,031**	**(965)**	**8**	**(21)**	**1,585**	**(2,359)**	**7,279**
Opening balance adjustment on adoption of new accounting standard (refer note 5.3(c))	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**
Items of comprehensive income:							
Net profit for the period	**–**	**–**	**–**	**–**	**–**	**388**	**388**
Other comprehensive (loss)/income for the period	**–**	**–**	**(4)**	**(3)**	**–**	**–**	**(7)**
Total comprehensive (loss)/income for the period	**–**	**–**	**(4)**	**(3)**	**–**	**388**	**381**
Transactions with owners in their capacity as owners:							
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)**	**4**	**(24)**	**1,458**	**(1,972)**	**7,532**

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

SECTION 1: BASIS OF PREPARATION

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

1.1 CORPORATE INFORMATION

Santos Limited ("the Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The condensed consolidated financial report of the Company for the six months ended 30 June 2019 ("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 21 August 2019.

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

1.2 BASIS OF PREPARATION

This general purpose half-year financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and 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 2018 and considered together with any public announcements made by the Company during the six months ended 30 June 2019, in accordance with the continuous disclosure obligations of the ASX listing rules.

Santos Limited and some subsidiaries changed functional currency to US dollars effective 1 January 2019. Refer to note 5.3(b) for further detail.

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 2018, except for those that have arisen as a result of new standards, amendments to standards and interpretations effective from 1 January 2019, as outlined in note 5.3.

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 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. Comparative disclosures have been restated to a consistent basis.

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 in Segment information

As at 1 January 2019, the "Asia" reporting segment was no longer required, due to the divestment of the majority of the assets that were reported under that segment. Comparative disclosures have been restated to a consistent basis.

2.1 SEGMENT INFORMATION

US$million	Cooper Basin 2019	Queensland & NSW 2019	PNG 2019	Northern Australia 2019	Western Australia 2019	Corporate, exploration, eliminations & other 2019	Total 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.

2.1 SEGMENT INFORMATION

US$million (Restated)	Cooper Basin 2018	Queensland & NSW 2018	PNG 2018	Northern Australia 2018	Western Australia 2018	Corporate, exploration, eliminations & other 2018	Total 2018
Revenue							
Product sales to external customers	449	416	215	75	168	357	1,680
Inter-segment product sales[1]	53	47	–	–	–	(100)	–
Revenue – other from external customers	27	6	2	–	4	8	47
Total segment revenue	**529**	**469**	**217**	**75**	**172**	**265**	**1,727**
Costs							
Production costs	(63)	(38)	(31)	(40)	(50)	(21)	(243)
Other operating costs	(31)	(38)	(22)	–	(8)	(61)	(160)
Third-party product purchases	(200)	(120)	–	–	–	(106)	(426)
Inter-segment purchases[1]	(3)	(33)	–	–	–	36	–
Other	(3)	45	1	–	–	(58)	(15)
EBITDAX	**229**	**285**	**165**	**35**	**114**	**55**	**883**
Depreciation and depletion	(98)	(86)	(58)	(24)	(39)	(23)	(328)
Exploration and evaluation expensed	(4)	(1)	(4)	(9)	(2)	(25)	(45)
Net impairment loss	–	(4)	(25)	–	–	(47)	(76)
Change in future restoration assumptions	–	–	–	–	9	–	9
EBIT	**127**	**194**	**78**	**2**	**82**	**(40)**	**443**
Net finance costs						(108)	(108)
Profit before tax							335
Income tax expense						(212)	(212)
Royalty-related taxation (expense)/benefit	–	–	–	–	(22)	3	(19)
Net profit for the period							**104**

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

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	30 June 2019 US$million	30 June 2018 US$million
Product sales:		
Gas, ethane and liquefied gas	**1,364**	1,114
Crude oil	**402**	400
Condensate and naphtha	**161**	132
Liquefied petroleum gas	**47**	34
Total product sales[1]	**1,974**	1,680

[1] Total product sales include third party product sales of $475 million (2018: $523 million).

	30 June 2019 US$million	30 June 2018 US$million
Revenue – other:		
Liquidated damages	**16**	5
Pipeline tolls & tariffs	**42**	35
Unwind of acquired contract liabilities	**3**	–
Other	**8**	7
Total revenue – other	**69**	47
Total revenue from contracts with customers	**2,043**	1,727

2.3 EXPENSES

	30 June 2019 US$million	30 June 2018 US$million
Cost of sales:		
Production costs:		
Production expenses	**273**	227
Production facilities – operating leases	**–**	16
Total production costs	**273**	243
Other operating costs:		
LNG plant costs	**28**	33
Pipeline tariffs, processing tolls and other	**78**	84
Movement on onerous pipeline contracts	**(13)**	–
Royalty and excise	**47**	35
Shipping costs	**5**	8
Total other operating costs	**145**	160
Total cash cost of production	**418**	403
Depreciation and depletion costs:		
Depreciation of plant, equipment and buildings	**274**	212
Depletion of subsurface assets	**183**	115
Total depreciation and depletion	**457**	327
Third-party product purchases	**403**	426
(Increase)/decrease in product stock	**(50)**	6
Total cost of sales	**1,228**	1,162
Other expenses:		
Selling	**8**	7
General & administration	**29**	43
Depreciation	**3**	1
Foreign exchange losses/(gains)	**1**	(90)
Fair value losses on commodity derivatives (oil hedges)	**–**	109
Fair value hedges, losses/(gains):		
On the hedging instrument	**6**	13
On the hedged item attributable to the hedged risk	**–**	(13)
Exploration and evaluation expensed	**28**	45
Unwind of acquired contract assets	**21**	–
Other	**3**	–
Total other expenses	**99**	115

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
2019			
Final dividend per ordinary share – paid on 28 March 2019	Franked	6.2	127
2018			
Interim dividend per ordinary share – paid on 27 September 2018	Franked	3.5	73

Dividends declared in respect of the period:	Franked/ unfranked	Dividend per share US¢	Total US$million
2019			
Interim dividend per ordinary share	Franked	6.0	125

After the reporting date, on 21 August 2019, the Directors resolved to pay a fully franked interim dividend of US$0.06 per fully paid ordinary share, to shareholders registered in the books of the Company at the close of business on 28 August 2019 ("Record Date"). Consistent with 2018 dividends, the dividend will be paid in AUD and the currency conversion will be based on the foreign exchange rate determined on the 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 2019, and will be recognised in subsequent financial reports.

SECTION 3: CAPITAL EXPENDITURE, OPERATING ASSETS AND RESTORATION OBLIGATIONS

This section includes information about the assets used by the Group to generate profits and revenue, specifically information relating to exploration and evaluation assets, oil and gas assets, and commitments for capital expenditure not yet recognised as a liability.

The life cycle of our assets is summarised as follows:

3.1 EXPLORATION AND EVALUATION ASSETS

	Six months ended		
	30 June 2019 US$million	31 December 2018 US$million	30 June 2018 US$million
Balance at the beginning of the period	**1,004**	355	459
Acquisitions	**–**	624	4
Additions	**147**	62	25
Disposals	**–**	(2)	–
Expensed	**(38)**	(8)	(2)
Impairment losses	**(7)**	(24)	(29)
Transfer to oil and gas assets in production	**(1)**	7	(7)
Net impairment losses on assets transferred to held for sale	**–**	–	(76)
Exchange differences	**2**	(10)	(19)
Balance at the end of the period	**1,107**	1,004	355
Comprising:			
Acquisition costs	**695**	687	70
Successful exploration wells	**148**	221	173
Pending determination of success	**264**	96	112
	1,107	1,004	355

3.2 OIL AND GAS ASSETS

	Six months ended		
	30 June 2019 US$million	31 December 2018 US$million	30 June 2018 US$million
Assets in development			
Balance at the beginning of the period	**207**	153	119
Additions[1]	**31**	53	36
Transfer to oil and gas assets in production	**(191)**	1	(1)
Exchange differences	**–**	–	(1)
Balance at the end of the period	**47**	207	153
Producing assets			
Balance at the beginning of the period	**11,017**	9,062	9,417
Transition – Right-of-use assets	**185**	–	–
Additions[1,2]	**467**	163	226
Acquisition	**–**	2,241	–
Transfer from exploration and evaluation assets	**1**	(7)	7
Transfer from oil and gas assets in development	**191**	(1)	1
Disposals	**–**	(3)	–
Depreciation and depletion	**(457)**	(328)	(316)
Net impairment losses	**(31)**	–	–
Transfer to assets held for sale	**–**	–	(153)
Net impairment reversals on assets transferred to held for sale	**–**	–	29
Exchange differences	**1**	(110)	(149)
Balance at the end of the period	**11,374**	11,017	9,062
Total oil and gas assets	**11,421**	11,224	9,215
Comprising:			
Exploration and evaluation expenditure pending commercialisation	**88**	91	98
Other capitalised expenditure	**11,333**	11,133	9,117
	11,421	11,224	9,215

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

Since 31 December 2018, the Group has entered into additional capital commitments of approximately $55 million.

3.4 IMPAIRMENT OF NON-CURRENT ASSETS

Impairment expense recorded during the period is as follows:

	30 June 2019 US$million	30 June 2018 US$million
Assets held for sale	**–**	47
Exploration and evaluation assets	**7**	29
Oil and gas assets	**31**	–
Total impairment	**38**	76

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.

The expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, third party supply, commodity prices, costs and foreign exchange rates. In most cases, the present value of future cash flows is most sensitive to estimates of future commodity prices, discount rates and production.

Future prices (US$/bbl) used were:

2019	**2020**	**2021**	**2022**	**2023[1]**	**2024[1]**
65.00	66.30	67.63	74.28	75.77	77.29

1. Based on US$70/bbl (2019 real) from 2022 escalated at 2% p.a.

The future estimated foreign exchange rate applied is A$1/US$0.75.

The discount rates applied to the future forecast cash flows are based on the Group's weighted average cost of capital, adjusted for risks where appropriate, 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 11% and 17%.

In the event that future circumstances vary from these assumptions, the recoverable amount of the Group's oil and gas assets could change materially and result in impairment losses or the reversal of previous impairment losses.

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allow. Consequently, it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairments or reversals of impairments under different sets of assumptions in subsequent reporting periods.

Recoverable amounts and resulting impairment write-downs recognised for the half-year ended 30 June 2019 are:

	Segment	**Subsurface assets US$million**	**Plant and equipment US$million**	**Total US$million**	**Recoverable amount[1] US$million**
Oil and gas assets – producing:					
Barrow	Western Australia	–	29	29	nil
Other	Various	2	–	2	nil
Total impairment of oil and gas assets		2	29	31	
Exploration and evaluation assets:					
Gunnedah Basin	Queensland & NSW	4	–	4	nil[2]
Other	Various	3	–	3	nil[2]
Total impairment of exploration and evaluation		7	–	7	
Total impairment of exploration and evaluation and oil and gas assets		9	29	38	

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

3.4 IMPAIRMENT OF NON-CURRENT ASSETS (continued)

Oil and gas assets

Barrow

The impairment of Barrow has arisen due to an increase in oil and gas asset carrying values, following remeasurement of restoration obligations. The recoverable amount of the asset is nil.

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 13 March 2019, the Group issued a US$600 million senior unsecured fixed rate bond transaction in the US dollar Regulation S market. The bonds have been priced at a fixed coupon of 5.25%, for a period of 10 years, maturing on 13 March 2029.

Additionally, during the six months ended 30 June 2019, debt repayments included the repayment of the US$500 million bank term loan facility on 14 March 2019 and US$600 million of uncovered ECA supported loan facility on 21 March 2019.

4.2 NET FINANCE COSTS

	30 June 2019 US$million	30 June 2018 US$million
Finance income:		
Interest income	**16**	12
Total finance income	**16**	12
Finance costs:		
Interest paid to third parties	**(121)**	(95)
Finance costs associated with lease liabilities	**(9)**	(4)
Deduct borrowing costs capitalised	**6**	2
	(124)	(97)
Unwind of the effect of discounting on provisions and deferred revenue	**(38)**	(23)
Total finance costs	**(162)**	(120)
Net finance costs	**(146)**	(108)

4.3 ISSUED CAPITAL

	Six months ended					
	30 June 2019 Number of shares	31 December 2018 Number of shares	30 June 2018 Number of shares	**30 June 2019 US$million**	31 December 2018 US$million	30 June 2018 US$million
Movement in fully paid ordinary shares						
Balance at the beginning of the period	**2,082,979,345**	2,083,015,428	2,083,070,879	**9,031**	9,028	9,034
Share purchase plan, net of costs	**–**	–	–	**–**	–	–
On-market shares purchased (Treasury shares)	**–**	–	–	**(4)**	(2)	(8)
Issue of Treasury shares on vesting of employee share schemes	**–**	–	–	**4**	5	2
Replacement of restricted classes of ordinary shares with shares purchased on-market	**(15,472)**	(36,083)	(55,451)	**–**	–	–
Balance at the end of the period	**2,082,963,873**	2,082,979,345	2,083,015,428	**9,031**	9,031	9,028

	30 June 2019 Number of shares	31 December 2018 Number of shares	30 June 2018 Number of shares
Movement in Treasury shares			
Balance at the beginning of the period	**1,231,710**	2,121,765	587,993
On-market shares purchased	**750,000**	500,000	2,000,000
Treasury shares utilised:			
Santos Employee Share1000 Plan	**–**	(176,480)	–
Santos Employee ShareMatch Plan	**–**	(439,664)	–
Utilised on vesting of SARs	**(26,682)**	(575,010)	(40,461)
Executive STI (deferred SARs)	**(696,921)**	–	(312,731)
Executive STI (ordinary shares)	**(80,571)**	–	–
Executive sign-on grants	**–**	(166,911)	(42,585)
Santos Employee Share1000 Plan (relinquished shares)	**–**	4,093	–
Replacement of partially paid shares with shares purchased on-market	**–**	–	(15,000)
Replacement of ordinary shares with shares purchased on-market	**(15,472)**	(36,083)	(55,451)
Balance at the end of the period	**1,162,064**	1,231,710	2,121,765

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 which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and covers specific financial risks, such as foreign exchange risk, interest rate risk 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 may from time to time enter into forward foreign exchange, foreign currency swap and foreign currency option contracts.

The Group has certain investments in operations whose net assets are exposed to foreign currency translation risk.

US dollar denominated borrowings, previously held by AU dollar functional currency companies, are now held by US dollar functional currency companies (refer to note 5.3(b) for further detail). All associated hedges of US dollar denominated investments in foreign operations ($1,407 million principal value) were terminated on 1 January 2019. There were no net foreign currency gains or losses arising from US dollar denominated borrowings recognised in the income statement in 2019.

The Group has AU dollar denominated lease liabilities, and other monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation. These items 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 had entered into interest rate swaps which fixed the reference rate on $1.2 billion of US dollar denominated floating rate debt. These contracts matured in March 2019.

The Group's interest rate swaps have a notional contract amount of $377 million (2018: $1,577 million) and a net fair value of $30 million (2018: $45 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 crude oil price swap and option contracts to manage its commodity price risk. At 30 June 2019, the Group has 9.6 million barrels (December 2018: 4.9 million barrels) of open oil price swap and option contracts, 5.4 million barrels covering 2019 exposures (December 2018: 4.9 million barrels) and 4.2 million barrels covering 2020 exposures (December 2018: nil). These contracts are designated as cash flow hedges.

4.4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair values

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:

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. 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 reporting date.

Financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency, the present value is converted to US dollars at the foreign exchange spot rate prevailing at reporting date.

Interest rates used for determining fair value

The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve and credit spreads at the reporting date.

The interest rates including credit spreads used to determine fair value were as follows:

	30 June 2019 %	31 December 2018 %
Derivatives	**1.7 – 2.4**	1.5 – 2.8
Loans and borrowings	**1.7 – 2.4**	1.5 – 2.8

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's financial instruments were valued using the Level 2 valuation technique.

SECTION 5: OTHER

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

5.1 CONTINGENT LIABILITIES

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 21 August 2019, the Directors of Santos Limited declared an interim dividend on ordinary shares in respect of the 2019 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 2019. Refer to note 2.4 for details.

5.3 ACCOUNTING POLICIES

(a) 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 2018, except for new standards, amendments to standards and interpretations effective from 1 January 2019.

The Group has adopted AASB 16 *Leases* ("AASB 16"), AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* and IFRIC 23 *Uncertainty Over Income Tax Treatments* from 1 January 2019. The impact of the adoption of these standards and other new accounting policies are disclosed in more detail below.

(b) Functional currency

The Group performed a reassessment of the parent entity's (Santos Limited) functional currency, resulting in it changing its functional currency to the US dollar, effective 1 January 2019. Additionally, a number of wholly-owned subsidiaries within the Group that had the AU dollar as their functional currency, also changed their functional currency to the US dollar effective 1 January 2019.

The change in functional currency was driven by a reassessment of the primary and where necessary, secondary indicators of economic environment that impacts the cash inflows and outflows of the companies. This included factors such as a change in mix of income stream and in some instances where companies were acting as extensions of the parent entity. The US dollar was determined to be the currency that predominantly impacted each of the companies.

The presentation currency of the Group remains US dollars.

(c) Adoption of AASB 16

Description

AASB 16 introduced a single, on-balance sheet accounting model for lessees, which replaced AASB 117 *Leases* and AASB Interpretation 4 *Determining Whether an Arrangement contains a Lease*. As a result, the Group, as a lessee, has recognised right-of-use assets representing its right to use the underlying asset, and lease liabilities, representing its obligation to make lease payments.
The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under AASB 117 and related interpretations. The details of the change in accounting policy are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under AASB Interpretation 4. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

5.3 ACCOUNTING POLICIES (continued)

(c) Adoption of AASB 16 (continued)

Accounting policy

Under AASB 16, as a lessee the Group will recognise a right-of-use asset, representing its right to use the underlying asset, and a lease liability, for all leases with a term of more than 12 months, exempting those leases where the underlying asset is deemed to be of a low-value.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date, i.e. when the underlying asset is first available for use. The right-of-use asset is initially measured to be equal to the lease liability and adjusted for any lease incentives received, initial direct costs and estimates of costs to dismantle or remove the underlying leased asset. Subsequently the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether purchase; renewal or termination options are reasonably certain to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include purchase, renewal or termination options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the value of lease liabilities and right-of-use assets recognised.

Modifications to lease arrangements

In the event that there is a modification to a lease arrangement, a determination of whether the modification results in a separate lease arrangement being recognised needs to be made.

Where the modification does result in a separate lease arrangement needing to be recognised, due to an increase in scope of a lease through additional underlying leased assets and a commensurate increase in lease payments, the measurement requirements as described above need to be applied.

Where the modification does not result in a separate lease arrangement, from the effective date of the modification, the Group will remeasure the lease liability using the redetermined lease term, lease payments and applicable discount rate. A corresponding adjustment will be made to the carrying amount of the associated right-of-use asset. Additionally, where there has been a partial or full termination of a lease, the Group will recognise any resulting gain or loss in the income statement.

Lease impact on joint operating arrangements

Where lease arrangements impact the Group's joint operating arrangements ("JOA"), the facts and circumstances of each lease arrangement in a JOA are assessed to determine the Group's rights and obligations associated with the lease arrangement.

The Group applies judgement in its determination of which party directs the use of a leased asset. Outlined below are a number of scenarios that could exist for lease arrangements which impact the Group's JOAs:

- Where it has been determined that the Group directs the use of the leased asset, and is the only party with legal obligation to pay the lessor, the Group will recognise the full lease liability and right-of-use asset on its balance sheet.
- If it has been determined that the leased asset is either jointly controlled by all parties in a joint operation, or is utilised by a single joint operation, and the Group is the only party with a legal obligation to pay the lessor; the Group will recognise its net share of the right-of-use asset; a receivable for the amounts recoverable from other parties, and the full lease liability.
- In instances where it has been determined that all parties to the joint arrangement jointly have the right to control the leased asset and all parties have a legal obligation to make lease payments to the lessor, the Group will recognise only its net share of the lease liability and right-of-use asset on its balance sheet.

5.3 ACCOUNTING POLICIES (continued)

(c) Adoption of AASB 16 (continued)

Transition

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group as a lessee recognises right-of-use assets and lease liabilities for contracts that convey a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied the modified retrospective transition approach, resulting in the cumulative effect of adopting AASB 16 as an adjustment to opening retained earnings at 1 January 2019, with no restatement to comparative information.

At transition, for leases classified as operating leases under AASB 117:

- Lease liabilities were measured at present value of the remaining lease payments, discounted using the determined incremental borrowing rate, as appropriate for each identified lease arrangement, as at 1 January 2019;
- Right-of-use assets were measured at either: (i) their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; and
- In addition, the Group elected to apply the option to adjust the carrying amount of the right-of-use assets for any onerous lease provisions that had been recognised on the Group balance sheet as at 31 December 2018.

The impact on transition is summarised below:

	1 January 2019 US$million
Oil and gas assets – right-of-use assets	**185**
Other land, buildings, plant and equipment – right-of-use assets	**79**
Other financial assets – net investment in sub-lease	**4**
Reduction of onerous lease provision	**4**
Lease liabilities	**280**
Net impact on retained earnings, before tax	**8**
Deferred tax asset	**2**
Net impact on retained earnings, after tax	**6**

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.68%.

Transition practical expedients:

The Group elected to apply the following transition practical expedients:

i. Exemption for lease arrangements with a short-remaining-term from the date of initial application;
ii. Discount rates applied to a portfolio of leases with similar characteristics;
iii. Exemption for leases where the value of the underlying leased asset is deemed to be low-value; and
iv. Use of hindsight with regards to determination of the lease term.

With the application of the above transition practical expedients, the Group recognises the lease payments associated with short-remaining-term and low-value leases as an expense on a straight-line basis over the lease term. The disclosed operating lease commitments in note 3.5 of the Group's annual financial statements for the year ended 31 December 2018, included amounts related to such leases.

Leases that were classified as finance leases under AASB 117 will continue to be recognised on the balance sheet under AASB 16. The carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined to be the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

5.3 ACCOUNTING POLICIES (continued)

(c) Adoption of AASB 16 (continued)

The table below reconciles the Group's operating lease commitments at 31 December 2018 to the transition lease liabilities recognised at 1 January 2019:

	1 January 2019 US$million
Operating lease commitment at 31 December 2018	**242**
Adjusted for:	
Short-remaining-term leases exemption	**(4)**
Low-value leases exemption	**(3)**
Leases with a commencement date post 1 January 2019	**(11)**
Arrangements reassessed as service type arrangements	**(26)**
Gross lease liabilities at 1 January 2019	**198**
Effect of discounting	**(51)**
Redetermination of lease term	**42**
Lease arrangements previously disclosed within capital commitments	**91**
Lease liability recognised on adoption of AASB 16 at 1 January 2019	**280**
Present value of existing finance leases at 31 December 2018	**62**
Total lease liabilities recognised at 1 January 2019	**342**

Current period

The Group leases a number of different types of assets, including properties and plant and production equipment, such as oil rigs. The Group presents the following in relation to AASB 16:

- Depending on the type of leased asset, right-of-use assets are presented in either 'Other land, buildings, plant and equipment' or 'Oil and gas assets'; and
- Lease liabilities in 'Lease liabilities' in the statement of financial position.

The table below provides a summary of the impact of AASB 16 on the Group's consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows for the six month period ended 30 June 2019:

	Note	30 June 2019 US$million
Consolidated income statement		
Expenses		
Depreciation included in production costs		6
Depreciation included in production costs, related to JOA recoveries	a.	18
Operating expenses	b.	(7)
Finance cost		6
Income		
Other income, related to JOA recoveries	a.	18
Foreign exchange gain		3
Net expense recognised in the income statement		2

Formerly under AASB 117, operating lease costs were either expensed as operating expenses (predominantly production costs) or capitalised as part of non-current assets.

5.3 ACCOUNTING POLICIES (continued)

(c) Adoption of AASB 16 (continued)

	Note	30 June 2019 US$million
Consolidated statement of financial position		
Assets		
Oil and gas assets – right-of-use assets		**211**
Other land, buildings, plant and equipment – right-of-use assets		**75**
Other financial assets – net investment in sublease		**4**
Deferred tax asset		**2**
Liabilities		
Lease liabilities		**297**
Onerous lease provisions		**(3)**
Net impact on net assets		**(2)**
Equity		
Income statement impact related to leases for the period		**(2)**
Total impact on equity		**(2)**
Consolidated statement of cash flows		
Operating cash flows		
Pipeline tariffs and other receipts (*Inflow*)	a.	**18**
Payments to suppliers and employees (*Inflow*)	c.	**16**
Payment of lease liability financing costs (*Outflow*)		**(5)**
Investing cash flows		
Oil and gas assets (*Inflow*)	c.	**13**
Financing cash flows		
Repayment of lease liabilities (*Outflow*)		**(42)**
Net impact on cash flows		**–**

Notes:

a. Where the Group has recognised the gross right-of-use asset and is the only party with a legal obligation to pay the lessor, depreciation is recognised on the entire right-of-use asset and a finance cost is recognised on the lease liability. Any recovery of the lease payments from other parties is recognised as other income – related to JOA recoveries in the income statement. This results in an insignificant impact to the income statement.

b. The decrease in operating expenses represents the operating lease costs that were previously expensed under AASB 117, now capitalised as part of the right-of-use asset under AASB 16, which will be depreciated.

c. The impact on operating cash flows and investing cash flows is the removal of the payments for operating lease costs incurred (previously under AASB 117), which were either expensed through operating costs or capitalised to non-current assets.

For the six month period ended 30 June 2019, the following expense has been recognised in the income statement for lease arrangements that have been classified as short-term or for low-value assets:

	30 June 2019 US$million
Short-term leases	**3**
Leases for low-value assets	**1**
Total expense recognised	**4**

5.3 ACCOUNTING POLICIES (continued)

(d) AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business

Description

The effect of these changes is that the new definition of a business is narrower. The new definition clarifies that to be considered a business, the acquired set of activities and assets should at minimum include an input and substantive process, that together significantly contribute to the ability to create outputs.

This could result in fewer business combinations being recognised, more specifically where acquisitions and disposals relate to exploration and evaluation assets. Whilst the amendments provide additional guidance, it introduces a number of considerations and decision points which need to be assessed to apply the new definition. The standard also provides an optional 'asset concentration test', which when applied offers a simplified assessment of whether the acquisition is a business or not.

Impact

The recognition criteria and other considerations will be applied to any acquisition and disposal transactions from 1 January 2019 onwards.

(e) IFRIC 23 – Uncertainty Over Income Tax Treatments

Description

The Group have applied IFRIC 23 from 1 January 2019 and it serves to clarify how to apply the recognition and measurement requirements of AASB 112 *Income Taxes*, when there are uncertain tax positions ('UTP').

When there is a UTP, the interpretation addresses the following:

- Recognition and measurement using either a:
  - (i) 'most likely amount' methodology – when the outcome is binary or concentrated to a specific matter; or
  - (ii) 'expected value' or probability-weighted methodology – when there is a range of possible outcomes;
- Additional disclosure considerations, more specifically, around the judgements and estimates/assumptions used in determining tax related balances; and
- Whether UTPs are to be assessed separately or bundled together.

Impact

The recognition, measurement and disclosure requirements of the standard have been applied to any UTPs which were under consideration for the period ended 30 June 2019.

Where UTPs have required significant estimates and judgements to be made around determination of related tax balances, these will be disclosed.

DIRECTORS' DECLARATION

FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2019 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 21st day of August 2019

On behalf of the Board:

Director
Adelaide

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Independent Auditor's Review Report to the Members of Santos Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Santos Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2019, 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 2019 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 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Building a better working world

Independence

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

Ernst & Young

R J Curtin
Partner
Adelaide
21 August 2019

L A Carr
Partner

APPENDIX 4D
FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

NTA BACKING

	30 June 2019	**30 June 2018**
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 2019	30 June 2018
	%	%
Joint venture entities		
Darwin LNG Pty Ltd	**11.5**	11.5
GLNG Operations Pty Ltd	**30.0**	30.0
GLNG Property Pty Ltd	**30.0**	30.0