ASX / Media Release

Santos

22 May 2018

Santos rejects Harbour proposal and terminates discussions

On 21 May 2018 Santos received a conditional binding offer from Harbour Energy Ltd (Harbour) to acquire 100 per cent of Santos shares by way of a scheme of arrangement at a cash price of US$5.21 per share (currently equivalent to A$6.86[1] per share) (Final Proposal). Harbour indicated that it would be willing to increase its offer to US$5.25 per share (currently equivalent to A$6.91[1] per share) if Santos was willing to extend certain oil price hedging arrangements.

Harbour subsequently confirmed that the price offered under the Final Proposal was “best and final” and followed a seven week period of engagement with Harbour on the price and terms of an indicative proposal announced on 3 April 2018 (Indicative Proposal).

Following extensive due diligence, the Final Proposal price was increased by 4.6 per cent to US$5.21 per share from the price of US$4.98 per share in the Indicative Proposal. The consideration would be in US dollars and Santos shareholders would be subject to fluctuations in the AUD/USD exchange rate, with no adjustment if the US dollar depreciated against the Australian dollar.

Since receipt of the Indicative Proposal, Brent oil prices have increased by 14 per cent and the share prices of other major ASX-listed energy peers by an average of 18 per cent[2]. The Santos business has continued to perform well and is generating strong free cash flow.

The Final Proposal was a highly leveraged private equity-backed structure that, prior to implementation, would have required Santos to provide significant support for Harbour’s debt raising and to hedge a significant proportion of oil-linked production. In addition, the Final Proposal was stated to be subject to various conditions, including FIRB approval and restrictions on the conduct of Santos’ business from the time of entering into the Scheme Implementation Deed until implementation.

After careful consideration of all aspects of the Final Proposal, the Santos independent directors and Managing Director & CEO have unanimously resolved to reject the Final Proposal on the basis that it does not represent a full value of the company and, when combined with the associated risks, is not in the best interests of Santos shareholders.

Accordingly, Santos has now terminated all discussions with Harbour Energy.

[1] AUD/USD exchange rate of 0.7598 as at 22 May 2018. Source: Bloomberg.
[2] Dated Brent oil price and equal weighted average of Woodside and Oil Search performance based on closing share prices from 29 March to 21 May 2018. Source: Bloomberg

Media enquiries
Joanna Vaughan
+61 2 9276 1134 / +61 (0) 419 111 779
joanna.vaughan@santos.com

Investor enquiries
Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T +61 8 8116 5000 F +61 8 8116 5131
www.santos.com

In arriving at this decision, Santos has had regard to the following matters:

Santos Board believes superior shareholder value could be realised by executing existing strategy

- The significant improvement in operating performance over the past two years and a continuing positive outlook;
- Santos expecting to reach its 2019 net debt target of $2 billion more than a year ahead of schedule, based on current oil prices;
- Santos' strong balance sheet enabling restoration of fully-franked dividends in the near term;
- The superior value for shareholders that the Santos Board believes could be realised through the execution of Santos' existing strategy, capitalising on its strong free cash flows, sustainable low cost operating model and significant growth opportunities; and
- Feedback from shareholders indicating support for Santos' existing strategy and management.

Offer price too low; control premium inadequate

- The reduction in the implied premium for Santos shareholders since the Indicative Proposal, in light of the strengthening oil price and ASX-listed energy peer group performance;
- Harbour's confirmation that the Final Offer was "best and final"; and
- A US dollar-based bid with foreign exchange risk for more than 120,000 retail shareholders.

Private equity transaction structure complex, high risk, uncertain and unequal treatment of shareholders

- The complexity and risk in the transaction structure, including its reliance on a high level of debt funding;
- Prior to shareholders having the opportunity to consider the Final Proposal, Santos being required to assist Harbour's debt raising and to undertake significant hedging, removing potential upside to higher oil prices;
- Unequal treatment of shareholders – Santos' largest shareholders being offered an opportunity that was not available to all shareholders to remain invested in Santos; and
- Uncertainty for shareholders due to a protracted execution timetable, which exposed the business to a high degree of risk and would have constrained the execution of Santos' existing strategy.

Santos Chairman Keith Spence said: "Santos has a well-developed strategy, strong leadership and management team and outstanding growth opportunities that the Board believes will deliver superior value for its shareholders over time."

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T +61 8 8116 5000 F +61 8 8116 5131
www.santos.com

Santos rejects Harbour proposal and terminates discussions

22 May 2018

Santos

Disclaimer and important notice

This presentation contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, geotechnical factors, drilling and production results, gas commercialisation, development progress, operating results, engineering estimates, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial markets conditions in various countries, approvals and cost estimates.

All references to dollars, cents or $ in this document are to United States currency, unless otherwise stated.

Santos rejects Harbour proposal and terminates discussions

Santos

- On 21 May 2018 Santos received a conditional binding offer from Harbour Energy Ltd (Harbour) to acquire 100 per cent of Santos shares by way of a scheme of arrangement at a cash price of US$5.21 per share (currently equivalent to A$6.86[1] per share) (Final Proposal). Harbour indicated that it would be willing to increase its offer to US$5.25 per share (currently equivalent to A$6.91[1] per share) if Santos was willing to extend certain oil price hedging arrangements.
- Following extensive due diligence, the Final Proposal price was increased by 4.6 per cent to US$5.21 per share from the price of US$4.98 per share in the Indicative Proposal. The consideration would be in US dollars and Santos shareholders would be subject to fluctuations in the AUD/USD exchange rate, with no adjustment if the US dollar depreciated against the Australian dollar.
- The Final Proposal is currently worth A$6.86[1] per share and for every 1 US cent movement in the AUD/USD exchange rate, the cash amount for shareholders would change by approximately A$0.09 per share
- Since receipt of the Indicative Proposal, Brent oil prices have increased by 14 per cent and the share prices of other major ASX-listed energy peers by an average of 18 per cent[2]. The Santos business has continued to perform well and is generating strong free cash flow.
- The Final Proposal was a highly leveraged private equity-backed structure that, prior to implementation, would have required Santos to provide significant support for Harbour's debt raising and to hedge a significant proportion of oil-linked production. In addition, the Final Proposal was stated to be subject to various conditions, including FIRB approval and restrictions on the conduct of Santos' business from the time of entering into the Scheme Implementation Deed until implementation.
- After careful consideration of all aspects of the Final Proposal, the Santos independent directors and Managing Director & CEO have unanimously resolved to reject the Final Proposal on the basis that it does not represent a full value of the company and, when combined with the associated risks, is not in the best interests of Santos shareholders.

[1] Based on AUD/USD exchange rate of 0.7598 as at 22 May 2018. Source: Bloomberg
[2] Date Brent oil price and equal weighted average of Woodside and Oil Search performance. Based on closing share prices from 29 March 2018 to 21 May 2018. Source: Bloomberg

Rationale for rejection

Santos

The Santos independent directors and Managing Director/CEO unanimously rejected the Harbour Proposal

Santos Board believes superior shareholder value could be realised by existing strategy

- Significant improvement in operating performance over the past two years and a continuing positive outlook
- Well-developed strategy to capitalise on strong free cash flows, sustainable low-cost operating model and significant growth opportunities
- On track to achieve net debt target more than a year ahead of plan, allowing restoration of fully-franked dividends in the near term
- Company now resilient and well-positioned to generate cash flow through the oil price cycle
- Feedback from shareholders indicated strong support for the existing strategy and management

Offer price too low

Control premium inadequate

- Offer price not reflective of improved market conditions, stronger oil prices and LNG demand outlook
- Implied control premium for shareholders significantly lower than the Initial Proposal based on strengthening oil price and ASX-listed energy peer group performance
- Harbour price “best and final”
- No shareholder protection provided for fluctuations in the AUD/USD exchange rate. For every 1 US cent movement in the AUD/USD exchange rate, the price would change by A$0.09 per share, impacting a large Australian retail shareholder base

Private Equity transaction structure complex, high risk, uncertain and unequal treatment of shareholders

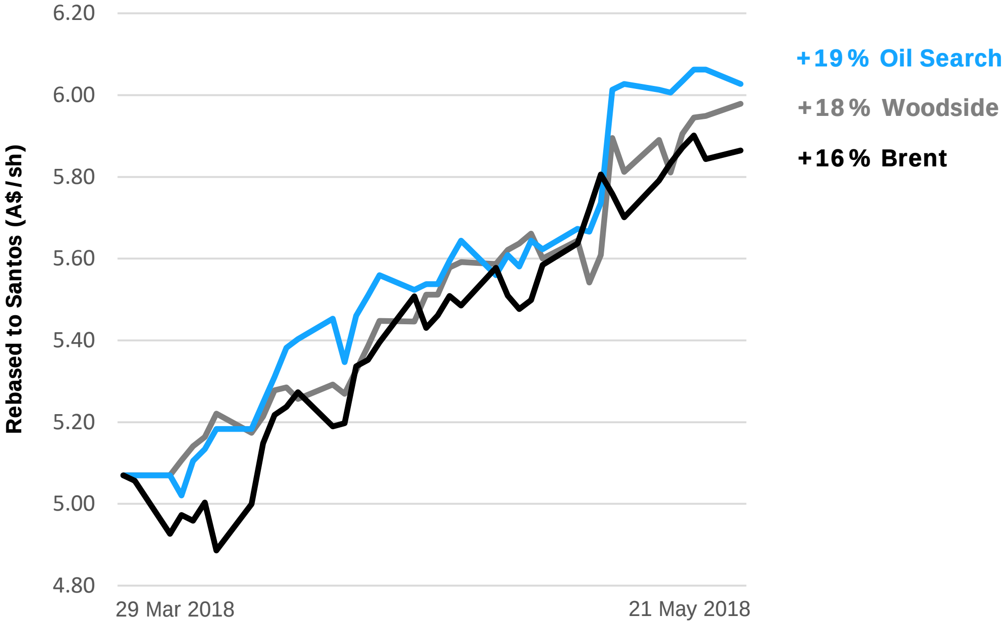
- Complex and high risk transaction structure, including a reliance on a very high level of debt funding and significant Santos support to facilitate Harbour’s debt raising prior to implementation
- Prior to shareholders having the opportunity to consider the Final Proposal, Santos was required by Harbour to undertake significant oil price hedging, potentially limiting future shareholder returns should the transaction not complete
- Private Equity bidder with no Australian presence or synergies
- Uncertainty for shareholders due to protracted execution timetable, risk and constraints on execution of Santos’ existing strategy
- Unequal treatment of shareholders. Largest shareholders offered opportunity to remain invested and benefit from the turnaround in Santos’ business performance, improved oil prices and the strong, long-term demand for energy in the Asia-Pacific. This opportunity not available to any other shareholders

Inadequate premium for control

Santos

Market conditions improved and oil price stronger

Relative performance



+ Since the date of Harbour's Initial Proposal:
  + Oil price has increased by 16%[1]
  + Share prices of ASX listed peers (Woodside and Oil Search) have increased by 18% on average[2]
+ Santos' indicative undisturbed share price would be higher based on this improved market performance
+ Therefore the implied premium for shareholders is significantly lower than the Initial Proposal

[1] Brent oil price based on Bloomberg ticker EURCRBRDT Index (AUD)
[2] Equal weighted average of Woodside and Oil Search performance. Based on closing shares prices from 29 March 2018 to 21 May 2018
Source: Bloomberg

Santos leveraged to an increasing oil price

Oil and LNG markets strengthening

- Every $10/bbl increment in oil price above free cash flow breakeven increases free cash flow by $250-300 million per annum
- Only ~13% of total production hedged to the end of 2019, strong upside exposure to higher oil prices

In terms of stronger near-term oil prices, **Santos' balance sheet is de-gearing faster**, increasing the equity value in the capital structure....Furthermore, the faster de-gearing of Santos' balance sheet accelerates the pivot towards **unlocking growth** in earnest.

Citi, May 2018

Our commodity team has **upgraded Brent oil price forecasts to US$90/bbl by 2020**.......There remains **significant upside to energy equities** should oil prices sustain current levels......

Morgan Stanley, May 2018

We..... introduce a **2Q $90/bbl Brent price target for 2019** and see a risk of $100/bbl oil next year, although..... these market dynamics could unfold over a shorter timeframe.

Bank of America Merrill Lynch, May 2018

Delivering the strategy

Santos

Focused development of new upstream projects, leveraging existing infrastructure around our core long-life natural gas assets

Grow

+ Execute and bring on-line growth opportunities across the core portfolio
+ Focused exploration strategy to identify new high-value targets and unlock future core assets
+ Generate new revenue through low-carbon Energy Solutions projects

Build

+ Develop low-risk, brownfields growth prospects across the core portfolio
+ Pursue strategically aligned, value accretive acquisition opportunities
+ Leverage facilities and infrastructure operations strategic capability
+ Maximise margin through M&T business

Transform

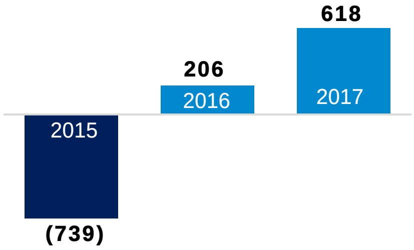
+ Diverse and resilient portfolio of five core, long-life natural gas assets
+ Robust balance sheet
+ Lowest cost onshore operator in Australia
+ Disciplined, low cost operating model, portfolio free cash flow breakeven at ≤$40/bbl oil price

Significant turnaround in business performance

Santos turnaround has delivered

$1.4 billion turnaround in free cash flow

$ million

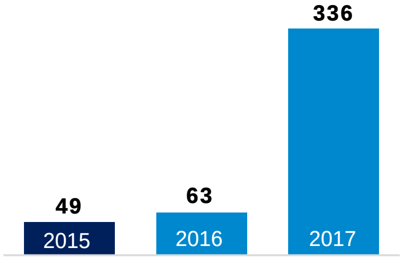


[1] Excludes acquisitions / divestments

- $318 million free cash flow generated YTD April 2018. Based on current oil price environment, forecast free cash flow ~$900-1,000 million in 2018
- Disciplined operating model embedded. Core portfolio forecast to be free cash flow breakeven[1] at ~$36/bbl

$287m increase in underlying net profit after tax

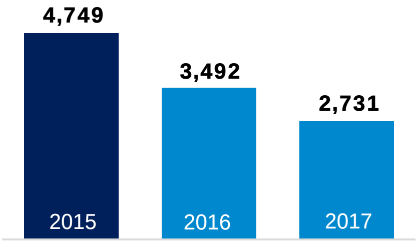
$ million



- Underlying profit up 586%
- Benefit from strong margins in current oil price environment

42% reduction in net debt

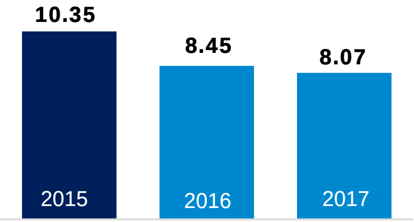
$ million



- Net debt <$2.5 billion as at 30 April 2018
- Proceeds from Asian asset sale to be applied to further reduce net debt
- At current oil prices, on track to achieve net debt target of $2 billion in 2018, more than a year ahead of plan

22% reduction in upstream unit production costs

$ per boe



- Cultural shift to lean, focused operations with rigorous cost control
- Proven cost performance and efficiency gains supportive of increasing development activity to unlock future gas supply

[1] Free cash flow breakeven is the average annual oil price at which cash flows from operating activities (including hedging) equals cash flows from investing activities. Forecast methodology uses corporate assumptions. Excludes one-off restructuring and redundancy costs, and asset divestitures and acquisitions.

Clear strategy to drive shareholder value

Santos

Santos remains focused on executing the strategic plan to Transform, Build and Grow

Low-cost, reliable and high performance business

- Low-risk, diversified portfolio with strong organic growth potential based on brownfield projects around existing infrastructure
- Australia's lowest-cost onshore operations positioned to benefit from access to export markets, LNG netback pricing, strategic infrastructure positions and gas storage
- Investing more in higher drilling activity in the Cooper Basin to increase east coast gas supply

Cash generative operating model

- Disciplined operating model is designed to generate free cash flow at >$40/bbl from five core, long-life natural gas assets
- Every $10/bbl increment in oil price above free cash flow breakeven increases free cash flow by $250-300 million per annum

Capital management and dividends

- At current oil prices, on track to achieve net debt target of $2 billion in 2018, more than a year ahead of plan, allowing restoration of fully-franked dividends in the near term
- PNG LNG expansion, Barossa backfill to Darwin LNG and the Narrabri Gas Project can be funded out of free cash flow at ~$60/bbl oil