Half-year report incorporating Appendix 4D

Santos Limited and its controlled entities.

For the period ended 30 June 2021, under Listing Rule 4.2.

Santos

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4D FOR THE PERIOD ENDED 30 JUNE 2021

	2021 US$million	2020 US$million	Change %
Revenue from ordinary activities	**2,040**	1,668	22
Statutory profit/(loss) from ordinary activities after tax attributable to members	**354**	(289)	(222)
Net profit/(loss) for the period attributable to members	**354**	(289)	(222)

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 2021		
Ordinary securities	5.5	5.5
20 August 2021 is the record date for determining entitlements to the dividend		

CONTENTS

RESULTS FOR THE PERIOD

	2021 US$million	Change %
Underlying profit[1]	**317**	**50**
Product sales	**2,040**	**22**
EBITDAX[1]	**1,231**	**24**
Free cash flow[1]	**572**	**33**
Interim dividend (UScps)	**5.5**	**162**

[1] *Underlying profit, EBITDAX (earnings before interest, tax, impairment, depreciation and depletion, exploration and evaluation expensed, and change in future restoration assumptions) 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

A proudly Australian company, Santos is a leading supplier of natural gas, a fuel for the future, providing clean energy to improve the lives of people in Australia and Asia.

Santos is already Australia's biggest domestic gas supplier, a leading Asia-Pacific LNG supplier and aims to be a world-leading clean fuels company, achieving net-zero emissions by 2040.

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 2021, and the auditor's review report thereon.

REVIEW AND RESULTS OF OPERATIONS

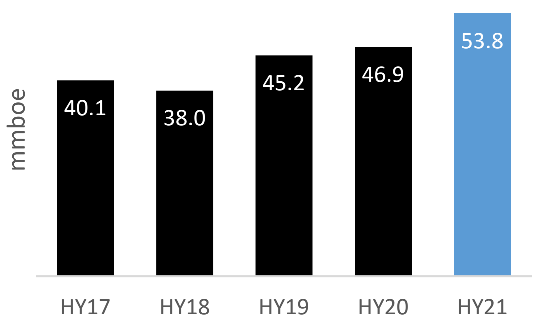
Unless otherwise stated, all references to dollars are to US dollars.

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

Summary of results table	2021	2020	Variance
	mmboe	**mmboe**	**%**
Production volume	**47.3**	38.5	23
Sales volume	**53.8**	46.9	15
	$million	**$million**	**%**
Product sales	**2,040**	1,668	22
EBITDAX[1]	**1,231**	995	24
Exploration and evaluation expensed	**(41)**	(25)	64
Depreciation and depletion	**(614)**	(486)	26
Net impairment loss	**(8)**	(756)	(99)
Change in future restoration assumptions	**20**	5	300
EBIT[1]	**588**	(267)	(320)
Net finance costs	**(109)**	(124)	(12)
Taxation (expense)/benefit	**(125)**	102	(223)
Net profit/(loss) for the period	**354**	(289)	(222)
Underlying profit for the period[1,2]	**317**	212	50

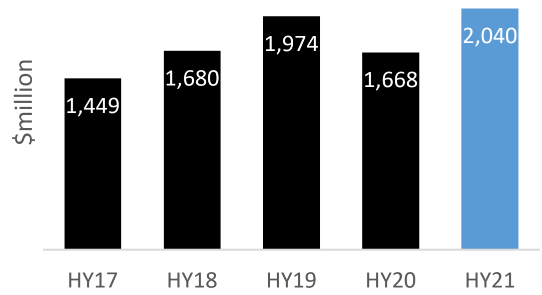
1. *EBITDAX (earnings before interest, tax, impairment, depreciation and depletion, exploration and evaluation expensed, and change in future restoration assumptions), EBIT (earnings before interest and tax) and underlying profit are non-IFRS measures that are presented to provide an understanding of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

Sales volume



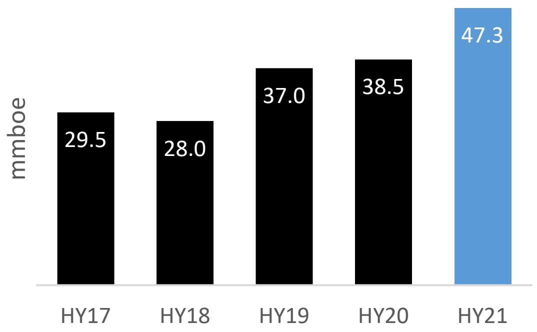
Sales volumes increased 15% to a half-year record of 53.8 million barrels of oil equivalent (mmboe). The higher volumes were primarily due to higher average equity interest in Bayu-Undan and increased gas nominations in Western Australia.

Product sales



Product sales were up 22% compared to the previous first half due to significantly higher volumes of liquefied natural gas (LNG), in tandem with higher realised pricing on oil, naphtha, and gas and ethane. This was partially offset by lower realised pricing on LNG.

Production



Production was up 23% to a record 47.3 mmboe in the first half, primarily due to the higher interest in Bayu-Undan from May 2020 combined with stronger gas production in Western Australia.

Review of Operations

Santos' operations are focused on five core, long-life asset hubs: Cooper Basin, Queensland and NSW, Papua New Guinea, Northern Australia and Timor-Leste, and Western Australia.

Cooper Basin

The Cooper Basin produces natural gas, gas liquids and crude oil. Gas is sold primarily to domestic retailers, industry and for the production of liquefied natural gas, while gas liquids and crude oil are sold in domestic and export markets.

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

Santos is also focused on reducing emissions by investing in carbon capture and storage (CCS). The 1.7 million tonne per annum Moomba CCS project was investment ready at the end of the first half, subject to eligibility for Australian Carbon Credit Units which is expected by the end of 2021.

Cooper Basin	HY21	HY20
Production (mmboe)	7.9	8.5
Sales volume (mmboe)	11.0	12.5
Product sales (US\$m)	466	440
Production cost (US\$/boe)	8.84	7.78
EBITDAX (US\$m)	211	197
Capex (US\$m)	141	143

Cooper Basin EBITDAX was \$211 million, 7% higher than the first half of 2020, as a result of favourable realised liquid pricing, and favourable domestic gas pricing due to realised exchange rates.

Santos' share of Cooper Basin sales gas and ethane production of 32.6 petajoules (PJ) was 6% lower than the prior corresponding period due to lower drilling activity as a result of the impact of COVID-19 on joint venture budgets. Santos' share of oil production was also lower due to natural field decline with no new oil wells drilled in the first half consistent with joint venture budgets. A fourth drilling rig was added to the program at the end of the first half and will see a higher number of wells drilled in the second half as the drilling program recovers from budget phasing caused by COVID-19 during the first half.

Queensland and NSW

The GLNG project in Queensland produces 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 3 million tonnes in the first half of 2021, 3% higher than the prior corresponding period, and shipped 51 cargoes (2020 first half 51 cargoes). Santos aims to build GLNG gas supply through upstream development, seek opportunities to extract value from existing infrastructure and drive efficiencies to operate at lowest cost.

Queensland and NSW	HY21	HY20
Production (mmboe)	6.7	6.6
Sales volume (mmboe)	10.5	11.2
Product sales (US\$m)	376	502
Production cost (US\$/boe)	5.55	5.45
EBITDAX (US\$m)	183	294
Capex (US\$m)	79	93

Queensland and NSW EBITDAX was \$183 million, 38% lower than the first half of 2020. This was a result of realised LNG pricing, reflecting the linkage of sales contracts to a lagged Japan Customs-cleared Crude (JCC) price.

Papua New Guinea

Santos' business in Papua New Guinea (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 4.1 million tonnes in the first half of 2021, 6% lower than the prior corresponding period due to planned maintenance, and shipped 53 cargoes (2020 first half 57 cargoes).

Santos' strategy in PNG is to work with its partners to align interests, and support and participate in backfill and expansion opportunities at PNG LNG.

Papua New Guinea	HY21	HY20
Production (mmboe)	6.1	6.5
Sales volume (mmboe)	5.8	6.0
Product sales (US$m)	261	267
Production cost (US$/boe)	4.04	4.85
EBITDAX (US$m)	213	224
Capex (US$m)	4	26

PNG EBITDAX was $213 million, 5% lower than the first half of 2020, due to decreased sales and production, resulting from a five-week maintenance program at the LNG plant, deferred from 2020 due to the impact of COVID-19.

Northern Australia and Timor-Leste

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

The LNG plant near Darwin has a single LNG train with a nameplate capacity of 3.7 mtpa. LNG production of 1.6 million tonnes was 18% higher than first half 2020 due to higher upstream gas production and stronger customer demand. The LNG plant shipped 23 cargoes in the first half (2020 first half 22 cargoes).

Santos' share of gas production was higher in the first half of 2021 due to the completion in May 2020 of the acquisition of ConocoPhillips' assets in Northern Australia and Timor-Leste, including Bayu-Undan and DLNG. The acquisition increased Santos' interest in Bayu-Undan and DLNG to 68.4%. In April 2021, Santos completed the sale of 25% interests in Bayu-Undan and DLNG to SK E&S, which reduced Santos' interests in both assets to 43.4%.

A 3-well infill drilling campaign on the Bayu-Undan field commenced in early 2021 with first production from the first well achieved in July 2021.

In March 2021, Santos announced the final investment decision to proceed with the Barossa gas and condensate project to backfill DLNG. First gas production from Barossa is expected in the first half of 2025.

Northern Australia and Timor-Leste	HY21	HY20
Production (mmboe)	10.0	3.5
Sales volume (mmboe)	10.2	3.7
Product sales (US$m)	383	146
Production cost (US$/boe)	13.95	20.00
EBITDAX (US$m)	286	76
Capex (US$m)	148	37

Northern Australia and Timor-Leste EBITDAX was $286 million, 276% higher than the first half of 2020, predominantly due to the acquisition of the ConocoPhillips northern Australia assets in May 2020, resulting in an increased average working interest in Bayu-Undan, offset by the April 2021 25% sell-down to SK E&S.

Western Australia

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

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

Following successful appraisal of the offshore Dorado field (Santos 80% interest), a FEED-entry decision for an integrated oil and gas project was taken in June 2021. Dorado opens a new basin with high prospectivity in permits where Santos has high equity positions.

Western Australia	HY21	HY20
Production (mmboe)	16.6	13.4
Sales volume (mmboe)	16.5	12.7
Product sales (US$m)	500	274
Production cost (US$/boe)	5.94	6.55
EBITDAX (US$m)	388	205
Capex (US$m)	134	52

Western Australia EBITDAX was $388 million, 89% higher than the first half of 2020, predominantly due to increased sales volumes and higher gas prices. Gas and ethane sales volumes increased due to higher customer nominations and an increase in spot sales.

Santos' share of Western Australia domestic gas production of 85.7 PJ in the first half was 30% higher than the prior corresponding period due to the commencement of a new 12-year domestic contract in June 2020 and higher overall customer demand.

Oil volumes were 15% lower than the prior corresponding period due to the Ningaloo Vision FPSO remaining off-station for planned maintenance and shutdown activity. Production recommenced from the Ningaloo Vision FPSO in March 2021 and first production from a 3-well infill drilling campaign on the Van Gogh field commenced in July 2021, with incremental production from the two remaining wells expected in the second half of 2021.

Net Profit/(Loss)

The 2021 first half net profit was $354 million, compared with a $289 million net loss at half-year 2020. The $643 million increase in net profit is driven predominantly through the lower after-tax impairment loss of $6 million, compared to the $526 million posted in 2020. Further, net profit was higher due to increased realised oil and gas prices, and increased sales volumes.

Underlying profit of $317 million includes adjustments after tax of $37 million decrease ($41 million increase before tax), referred to in the reconciliation of net profit/(loss) to underlying profit below.

Reconciliation of Net Profit/(Loss) to Underlying Profit		**2021 $million**			**2020 $million**	
	Gross	Tax	Net	Gross	Tax	Net
Net profit/(loss) after tax attributable to equity holders of Santos Limited			**354**			(289)
Add/(deduct) the following:						
Net gain on disposal of a group of assets	(25)	(26)	**(51)**	–	–	–
Impairment losses	8	(2)	**6**	756	(230)	526
Fair value adjustments on commodity hedges	56	(17)	**39**	(39)	12	(27)
Costs associated with acquisitions and disposals	2	(1)	**1**	3	(1)	2
One-off PRRT credit	–	(32)	**(32)**	–	–	–
	41	(78)	**(37)**	720	(219)	501
Underlying profit[1]			**317**			212

1. *Underlying profit excludes the impacts of asset acquisitions, disposals, impairments and the impact of commodity 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 2021 was $7,303 million.

CASH FLOW

The net cash inflow from operating activities of $942 million was 12% higher than the first half of 2020. The increase is principally attributable to higher receipts from customers, due mainly to an increase in sales volumes and higher realised pricing, offset by higher payments for commodity hedging, which stems from an increase in the oil price above the average hedged ceiling price for the period of $55/bbl.

Net cash used in investing activities of $334 million was 70% lower than the first half of 2020, primarily due to the acquisition of the ConocoPhillips northern Australia and Timor-Leste assets in the prior year. In 2021, there were investing cash inflows from the disposal of 25% interests in the Bayu-Undan and Darwin LNG assets, offset by higher payments for oil and gas assets and exploration and evaluation assets, due to higher capital expenditure.

Cash flows generated from financing activities were $479 million, 4% lower than the first half of 2020, predominantly due to the drawdown of borrowings from the new US$1 billion 10-year 144A/Reg-S bond issue, offset by a prepayment of the $200 million revolving tranche of the 2026 syndicated loan facility, and partial repayments of both PNG LNG project financing and the uncovered ECA supported loan facility.

OUTLOOK

Sales volume guidance is maintained in the range of 100 to 105 mmboe and production guidance is maintained in the range of 87 to 91 mmboe for 2021.

POST BALANCE DATE EVENTS

On 16 August 2021, the Directors resolved to pay a fully-franked interim dividend of US5.5 cents per fully paid ordinary share on 22 September 2021 to shareholders registered in the books of the Company at the close of business on 20 August 2021 ("Record Date").

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 2021.

Subsequent to reporting date of 30 June 2021, the Group issued irrevocable repayment notices to repay the following debt facilities:

- US$200 million of 2024 Term loan, being a partial repayment on 19 July 2021;
- US$108 million EFIC ECA Facility, being a full repayment on 13 August 2021; and
- US$129 million SACE ECA Facility, being a full repayment on 13 August 2021.

On 20 July 2021, the Group announced that Santos had submitted a confidential, non-binding indicative all-scrip merger proposal to the Oil Search Board. It was announced on 2 August 2021 that Santos and Oil Search had reached an agreement that under revised merger proposal terms, Oil Search shareholders would receive 0.6275 new Santos shares for each Oil Search share held via a Scheme of Arrangement. The merger proposal is non-binding with in principle agreement between both parties which is subject to due diligence.

Subject to each party completing due diligence and the parties entering into a binding implementation agreement, the intention of the Oil Search Board is to unanimously recommend that their shareholders vote in favour of the merger proposal. Any such recommendation would be subject to an independent expert concluding that the proposal is in the best interest of Oil Search shareholders, in the absence of a superior proposal being made.

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
McArdle	Janine Marie
Spence	Keith William (Chairman)
Shi[1]	Yujiang (Eugene)

[1] *Mr Yujiang Shi ceased to be a Director of Santos Limited effective 10 March 2021.*

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 16 August 2021 in accordance with a resolution of the Directors.

Director
16 August 2021

Building a better working world

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Auditors' independence declaration to the directors of Santos Limited

As lead auditor for the review of the half-year financial report of Santos Limited for the half-year ended 30 June 2021, 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

Ernst & Young

D S Lewsen
Partner

Adelaide
16 August 2021

DL:AJ:SANTOS:002

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	**30 June 2021 US$million**	30 June 2020 US$million
Revenue from contracts with customers – Product sales	2.2(a)	**2,040**	1,668
Cost of sales	2.3	**(1,483)**	(1,244)
Gross profit		**557**	424
Revenue from contracts with customers – Other	2.2(a)	**72**	60
Other income	2.5	**72**	35
Impairment of non-current assets	3.4	**(8)**	(756)
Other expenses	2.3	**(119)**	(48)
Finance income	4.2	**2**	12
Finance costs	4.2	**(111)**	(136)
Share of net profit of associates	3.5	**14**	18
Profit/(Loss) before tax		**479**	(391)
Income tax (expense)/benefit		**(82)**	156
Royalty-related taxation expense		**(43)**	(54)
Total taxation (expense)/benefit		**(125)**	102
Net profit/(loss) for the period attributable to owners of Santos Limited		**354**	(289)
Earnings per share attributable to the equity holders of Santos Limited (¢)			
Basic profit/(loss) per share		**17.0**	(13.9)
Diluted profit/(loss) per share		**16.9**	(13.9)
Dividends per share (¢)			
Paid during the period	2.4	**5.0**	5.0
Declared in respect of the period	2.4	**5.5**	2.1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	30 June 2021 US$million	30 June 2020 US$million
Net profit/(loss) for the period	**354**	(289)
Other comprehensive (loss)/income, net of tax:		
Other comprehensive income to be reclassified to the income statement in subsequent periods:		
Exchange loss on translation of foreign operations	**(17)**	–
	(17)	–
(Loss)/gain on derivatives designated as cash flow hedges	**(195)**	16
Tax effect	**59**	(5)
	(136)	11
Net other comprehensive (loss)/income to be reclassified to the income statement in subsequent periods	**(153)**	11
Items not to be reclassified to the income statement in subsequent periods:		
Fair value changes on financial liabilities designated at fair value due to own credit risk	**(1)**	1
Tax effect	**–**	–
	(1)	1
Net other comprehensive (loss)/income that will not be reclassified to the income statement in subsequent periods	**(1)**	1
Other comprehensive (loss)/income, net of tax	**(154)**	12
Total comprehensive income/(loss) attributable to owners of Santos Limited	**200**	(277)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Note	30 June 2021 US$million	31 December 2020 US$million
Current assets			
Cash and cash equivalents		**2,417**	1,319
Trade and other receivables		**684**	560
Prepayments		**22**	39
Contract assets	2.2(b)	**19**	23
Inventories		**294**	288
Assets held for sale	2.6	**259**	438
Other financial assets		**1**	29
Total current assets		**3,696**	2,696
Non-current assets			
Contract assets	2.2(b)	**97**	106
Investments in associates and joint ventures	3.5	**396**	413
Other financial assets		**17**	24
Prepayments		**38**	2
Exploration and evaluation assets	3.1	**1,013**	1,818
Oil and gas assets	3.2	**11,293**	10,925
Other land, buildings, plant and equipment		**262**	248
Deferred tax assets		**1,310**	1,041
Goodwill		**383**	383
Total non-current assets		**14,809**	14,960
Total assets		**18,505**	17,656
Current liabilities			
Trade and other payables		**825**	558
Contract liabilities	2.2(b)	**117**	64
Lease liabilities		**130**	121
Interest-bearing loans and borrowings		**243**	233
Current tax liabilities		**31**	31
Provisions		**155**	177
Liabilities directly associated with assets held for sale	2.6	**7**	312
Commodity derivatives (oil hedges)		**196**	35
Other financial liabilities		**4**	4
Total current liabilities		**1,708**	1,535
Non-current liabilities			
Contract liabilities	2.2(b)	**249**	281
Lease liabilities		**287**	336
Interest-bearing loans and borrowings		**4,977**	4,309
Deferred tax liabilities		**1,104**	904
Provisions		**2,853**	3,039
Other liabilities		**–**	1
Other financial liabilities		**24**	24
Total non-current liabilities		**9,494**	8,894
Total liabilities		**11,202**	10,429
Net assets		**7,303**	7,227
Equity			
Issued capital	4.3	**9,001**	9,013
Reserves		**849**	1,107
Accumulated losses		**(2,547)**	(2,893)
Equity attributable to owners of Santos Limited		**7,303**	7,227
Total equity		**7,303**	7,227

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

		30 June 2021 US$million	30 June 2020 US$million
Cash flows from operating activities			
Receipts from customers		**2,057**	1,841
Interest received		**2**	12
Dividends received from associate	3.5	**29**	10
Pipeline tariffs and other receipts		**94**	92
Payments to suppliers and employees		**(868)**	(922)
Restoration expenditure		**(14)**	(16)
Exploration and evaluation seismic and studies		**(34)**	(34)
Royalty and excise paid		**(28)**	(31)
(Payments for)/proceeds from commodity hedging		**(66)**	39
Borrowing costs paid		**(84)**	(100)
Income taxes paid		**(23)**	(3)
Royalty-related taxes paid		**(114)**	(64)
Insurance proceeds		**–**	7
Overriding royalty		**(9)**	7
Net cash provided by operating activities		**942**	838
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		**(91)**	(71)
Oil and gas assets		**(378)**	(320)
Other land, buildings, plant and equipment		**(13)**	(14)
Acquisitions of exploration and evaluation assets		**(10)**	–
Costs associated with acquisition of subsidiaries		**(7)**	(14)
Acquisitions of a group of assets, net of cash acquired		**–**	(695)
Proceeds from disposal of non-current assets		**186**	–
Borrowing costs paid		**(21)**	(10)
Return of capital – Investments in associate	3.5	**–**	5
Net cash used in investing activities		**(334)**	(1,119)
Cash flows from financing activities			
Dividends paid		**(104)**	(92)
Drawdown of borrowings		**996**	747
Repayments of borrowings		**(320)**	(93)
Repayment of lease liabilities		**(62)**	(45)
Purchase of shares on-market (Treasury shares)	4.3	**(31)**	(16)
Net cash provided by financing activities		**479**	501
Net increase in cash and cash equivalents		**1,087**	220
Cash and cash equivalents at the beginning of the period		**1,319**	1,067
Effects of exchange rate changes on the balances of cash held in foreign currencies		**11**	(25)
Cash and cash equivalents at the end of the period		**2,417**	1,262

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Equity attributable to owners of Santos Limited					
US$million	**Issued capital**	**Translation reserve**	**Hedging reserve**	**Accumulated profits reserve**	**Accumulated losses**	**Total equity**
Balance at 1 January 2020	9,010	(965)	(10)	1,734	(2,093)	7,676
Transfer retained profits to accumulated profits reserve	–	–	–	430	(430)	–
Items of comprehensive income:						
Net loss for the period	–	–	–	–	(289)	(289)
Other comprehensive income for the period	–	–	12	–	–	12
Total comprehensive income/(loss) for the period	–	–	12	–	(289)	(277)
Transactions with owners in their capacity as owners:						
Dividends paid	–	–	–	(92)	–	(92)
On-market share purchase (Treasury shares)	(16)	–	–	–	–	(16)
Share-based payment transactions	25	–	–	–	(18)	7
Balance at 30 June 2020	9,019	(965)	2	2,072	(2,830)	7,298
Balance at 1 July 2020	9,019	(965)	2	2,072	(2,830)	7,298
Items of comprehensive income:						
Net loss for the period	–	–	–	–	(68)	(68)
Other comprehensive income/(loss) for the period	–	55	(13)	–	–	42
Total comprehensive (loss)/income for the period	–	55	(13)	–	(68)	(26)
Transactions with owners in their capacity as owners:						
Dividends paid	–	–	–	(44)	–	(44)
On-market share purchase (Treasury shares)	(15)	–	–	–	–	(15)
Share-based payment transactions	9	–	–	–	5	14
Balance at 31 December 2020	9,013	(910)	(11)	2,028	(2,893)	7,227
Balance at 1 January 2021	**9,013**	**(910)**	**(11)**	**2,028**	**(2,893)**	**7,227**
Items of comprehensive income:						
Net profit for the period	**–**	**–**	**–**	**–**	**354**	**354**
Other comprehensive loss for the period	**–**	**(17)**	**(137)**	**–**	**–**	**(154)**
Total comprehensive income/(loss) for the period	**–**	**(17)**	**(137)**	**–**	**354**	**200**
Transactions with owners in their capacity as owners:						
Dividends paid	**–**	**–**	**–**	**(104)**	**–**	**(104)**
On-market share purchase (Treasury shares)	**(31)**	**–**	**–**	**–**	**–**	**(31)**
Share-based payment transactions	**19**	**–**	**–**	**–**	**(8)**	**11**
Balance at 30 June 2021	**9,001**	**(927)**	**(148)**	**1,924**	**(2,547)**	**7,303**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the half-year consolidated 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 2021 ("the half-year financial report") comprises the Company and its controlled entities ("the Group"). Santos Limited is the ultimate parent entity of the Group.

The half-year financial report was authorised for issue in accordance with a resolution of the Directors on 16 August 2021.

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* (Cth).

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 2020 and considered together with any public announcements made by the Company during the six months ended 30 June 2021, in accordance with the continuous disclosure obligations of the ASX listing rules.

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

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

Changes to significant accounting policies are described in Section 5.

1.3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The significant accounting judgements, estimates and assumptions adopted in the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 31 December 2020, except for those that have arisen as a result of new standards, amendments to standards and interpretations effective from 1 January 2021.

In addition, significant judgements, estimates and assumptions for the half-year ended 30 June 2021 include consideration to the COVID-19 pandemic. The carrying value of certain assets and liabilities have been measured with revised corporate assumptions resulting from the effects of the COVID-19 pandemic on energy market demand fundamentals. The impacts of COVID-19 will continue to be monitored.

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

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

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

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

SECTION 2: FINANCIAL PERFORMANCE

This section focuses on the operating results and financial performance of the Group. It includes disclosures of segmental financial information and dividends.

2.1 SEGMENT INFORMATION

The Group has identified its operating segments to be the five key assets/operating areas of the Cooper Basin, Queensland & NSW, Papua New Guinea ("PNG"), Northern Australia & Timor-Leste, and Western Australia, based on the nature and geographical location of the assets, and "Other" non-core assets. This is the basis on which internal reports are provided to the Chief Executive Officer for assessing performance and determining the allocation of resources within the Group.

Segment performance is measured based on earnings before interest, tax, impairment, depreciation and depletion, exploration and evaluation expensed and change in future restoration assumptions ("EBITDAX"). Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

US$million	Cooper Basin 2021	Queensland & NSW 2021	PNG 2021	Northern Australia & Timor-Leste 2021	Western Australia 2021	Corporate, exploration, eliminations & other 2021	Total 2021
Revenue							
Product sales to external customers	409	348	261	383	500	139	2,040
Inter-segment product sales[1]	57	28	–	–	–	(85)	–
Revenue – other from external customers	41	7	3	–	4	17	72
Total segment revenue	**507**	**383**	**264**	**383**	**504**	**71**	**2,112**
Costs							
Production costs	(70)	(37)	(25)	(139)	(99)	(7)	(377)
Other operating costs	(48)	(57)	(21)	–	(2)	(37)	(165)
Third-party product purchases	(184)	(81)	(1)	–	–	(58)	(324)
Inter-segment purchases[1]	–	(28)	–	–	–	28	–
Other	6	3	(4)	42	(15)	(47)	(15)
EBITDAX	**211**	**183**	**213**	**286**	**388**	**(50)**	**1,231**
Depreciation and depletion	(141)	(124)	(70)	(70)	(203)	(6)	(614)
Exploration and evaluation expensed	(10)	(3)	–	(5)	(16)	(7)	(41)
Net impairment loss	–	(8)	–	–	–	–	(8)
Change in future restoration assumptions	–	–	–	–	20	–	20
EBIT	**60**	**48**	**143**	**211**	**189**	**(63)**	**588**
Net finance costs						(109)	(109)
Profit before tax							479
Income tax expense						(82)	(82)
Royalty-related taxation expense	–	–	–	(1)	(42)	–	(43)
Net profit for the period							**354**

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

2.1 SEGMENT INFORMATION (continued)

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

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

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Revenue from contracts with customers

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

	30 June 2021 US$million	30 June 2020 US$million
Product sales:		
Gas, ethane and liquefied gas	**1,452**	1,253
Crude oil	**312**	274
Condensate and naphtha	**203**	102
Liquefied petroleum gas	**73**	39
Total product sales[1]	**2,040**	1,668

[1] Total product sales include third-party product sales of $429 million (2020: $408 million).

Revenue – other:		
Liquidated damages	**–**	8
Pipeline tolls and tariffs	**50**	40
Unwind of acquired contract liabilities	**3**	3
Other	**19**	9
Total revenue – other	**72**	60
Total revenue from contracts with customers	**2,112**	1,728

2.2 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(b) Assets and liabilities related to contracts with customers

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

	30 June 2021 US$million	31 December 2020 US$million
Contract assets		
Current		
Acquired contract assets	**19**	23
	19	23
Non-current		
Acquired contract assets	**97**	106
	97	106
Total contract assets	**116**	129
Contract liabilities		
Current		
Acquired contract liabilities	**6**	6
Deferred revenue	**111**	58
	117	64
Non-current		
Acquired contract liabilities	**11**	14
Deferred revenue	**238**	267
	249	281
Total contract liabilities	**366**	345

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

	Note	30 June 2021 US$million	31 December 2020 US$million
Acquired contract assets			
Opening balance		**129**	153
Other expenses	2.3	**(13)**	(24)
Total acquired contract assets		**116**	129
Acquired contract liabilities			
Opening balance		**20**	26
Revenue – other	2.2(a)	**(3)**	(6)
		17	20
Contract liabilities – Deferred income			
Opening balance		**325**	332
Additional receipts in advance		**48**	48
Revenue from contracts with customers – product sales		**(32)**	(67)
Interest accretion for financing component	4.2	**8**	17
Other		**–**	(5)
		349	325
Total contract liabilities		**366**	345

2.3 EXPENSES

	30 June 2021 US$million	30 June 2020 US$million
Cost of sales:		
Production expenses	**377**	284
Other operating costs:		
LNG plant costs	**27**	29
Pipeline tariffs, processing tolls and other	**90**	68
Movement on onerous pipeline contracts	**(2)**	(1)
Royalty and excise	**46**	31
Shipping costs	**4**	5
Total other operating costs	**165**	132
Total cash cost of production	**542**	416
Depreciation and depletion costs:		
Depreciation of plant, equipment and buildings	**376**	285
Depletion of subsurface assets	**238**	201
Total depreciation and depletion	**614**	486
Third-party product purchases	**324**	309
Decrease in product stock	**3**	33
Total cost of sales	**1,483**	1,244
Other expenses:		
Selling	**7**	5
General and administration	**25**	29
Costs associated with acquisitions and disposals	**2**	3
Foreign exchange hedging (gains)/losses	**(17)**	9
Other foreign exchange (gains)/losses	**(11)**	6
Fair value losses/(gains) on commodity derivatives (oil hedges)	**56**	(39)
Fair value hedges, gains on the hedging instrument	**(1)**	–
Exploration and evaluation expensed	**41**	25
Unwind of acquired contract assets	**13**	9
Other	**4**	1
Total other expenses	**119**	48

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**
2021			
Final dividend per ordinary share – paid on 25 March 2021	Franked	5.0	104
2020			
Interim dividend per ordinary share – paid on 24 September 2020	Franked	2.1	44

Dividends declared in respect of the period:	**Franked/ unfranked**	**Dividend per share US¢**	**Total US$million**
2021			
Interim dividend per ordinary share	Franked	5.5	114

2.5 OTHER INCOME

	Note	**30 June 2021 US$million**	30 June 2020 US$million
Other income			
Net gain on disposal of a group of assets	2.6	**25**	–
Loss on sale of non-current assets		**(1)**	–
Change in future restoration assumptions for non-producing assets		**20**	5
Other income associated with lease arrangements		**22**	20
Insurance recoveries		**–**	7
Overriding royalties		**6**	1
Other		**–**	2
Total other income		**72**	35

2.6 DISPOSAL OF ASSETS

In connection with the acquisition of ConocoPhillips' northern Australian assets (which completed in May 2020), the Group entered into the following transactions for the disposal of assets:

- Disposal of a 25% interest in Bayu-Undan and Darwin LNG to SK E&S, which completed on 30 April 2021; and
- A letter of intent to sell a 12.5% interest in Barossa to Jera, upon achieving FID in March 2021. As completion of the 12.5% Barossa disposal is expected in the short term, the associated assets and liabilities have been classified as held for sale as at 30 June 2021.

For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable. Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less costs of disposal if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised.

		30 June 2021 US$million		
Carrying value of assets and liabilities	Note	**Net Assets Disposed**	**Net Assets Held for Sale**	**Total**
Other working capital		**22**	**–**	**22**
Prepayments		**–**	**11**	**11**
Investment in equity accounted associate disposed	3.5	**323**	**–**	**323**
Oil and gas assets disposed		**70**	**248**	**318**
Assets		**415**	**259**	**674**
Trade and other payables		**–**	**(7)**	**(7)**
Restoration provisions disposed		**(298)**	**–**	**(298)**
Liabilities		**(298)**	**(7)**	**(305)**
Net assets		**117**	**252**	**369**

Actual and anticipated net gain on the disposal was $25 million. There were no disposals of non-current assets in the financial reporting period ended 30 June 2020.

SECTION 3: CAPITAL EXPENDITURE AND OPERATING ASSETS

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		
	Note	**30 June 2021 US$million**	31 December 2020 US$million	30 June 2020 US$million
Balance at the beginning of the period		**1,818**	1,767	1,187
Acquisitions		**2**	17	587
Additions		**120**	82	67
Expensed relating to unsuccessful wells		**(7)**	(7)	(4)
Impairment losses	3.4	**(8)**	(23)	(49)
Transfer to oil and gas assets in development	3.2	**(841)**	–	–
Transfer to oil and gas assets in production	3.2	**(66)**	(26)	(27)
Exchange differences		**(5)**	8	6
Balance at the end of the period		**1,013**	1,818	1,767
Comprising:				
Acquisition costs		**653**	1,299	673
Successful exploration wells		**280**	490	1,086
Pending determination of success		**80**	29	8
		1,013	1,818	1,767

3.2 OIL AND GAS ASSETS

		Six months ended		
	Note	**30 June 2021 US$million**	31 December 2020 US$million	30 June 2020 US$million
Assets in development				
Balance at the beginning of the period		**140**	127	108
Additions[1]		**256**	13	19
Transfer from exploration and evaluation assets	3.1	**841**	–	–
Assets classified as held for sale		**(280)**	–	–
Balance at the end of the period		**957**	140	127
Producing assets				
Balance at the beginning of the period		**10,785**	10,668	11,288
Additions[1]		**132**	681	351
Acquisition		**–**	–	207
Transfer from exploration and evaluation assets	3.1	**66**	26	27
Remeasurement of lease arrangements		**(21)**	(7)	(18)
Transfer from/(to) assets held for sale		**4**	(74)	–
Disposals		**(3)**	–	–
Depreciation and depletion		**(614)**	(530)	(480)
Impairment losses	3.4	**–**	(18)	(707)
Exchange differences		**(13)**	39	–
Balance at the end of the period		**10,336**	10,785	10,668
Total oil and gas assets[2]		**11,293**	10,925	10,795
Comprising:				
Exploration and evaluation expenditure pending commercialisation		**11**	11	66
Other capitalised expenditure		**11,282**	10,914	10,729
		11,293	10,925	10,795

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 COMMITMENTS FOR EXPENDITURE

The Group has the following commitments for expenditure for which no liabilities have been recorded in the financial statements as the goods or services have not been received, including commitments for non-cancellable lease arrangements where the lease term has not commenced;

	30 June 2021			31 December 2020		
US$million	**Capital**	**Minimum exploration**	**Leases**	Capital	Minimum exploration	Leases
Not later than one year	**356**	**74**	**126**	148	57	43
Later than one year but not later than five years	**532**	**286**	**543**	85	233	101
Later than 5 years	**–**	**7**	**1,670**	–	7	1
	888	**367**	**2,339**	233	297	145

The increase in capital and lease commitments since 31 December 2020 relates predominantly to the Barossa project including pipeline, Barossa FPSO lease arrangement and Bayu-Undan infill drilling campaign.

3.4 IMPAIRMENT OF NON-CURRENT ASSETS

Impairment expense recorded during the period is as follows:

	30 June 2021 US$million	30 June 2020 US$million
Oil and gas assets	–	669
Exploration and evaluation assets	8	87
Total impairment	**8**	756

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

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

Significant judgement – Impairment of oil and gas assets

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves and resources, future production profiles, commodity prices, costs and foreign exchange rates. Additionally, risks associated with climate change are factored into the value-in-use ("VIU") calculation and will continue to be monitored.

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

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current spot prices and forward curves. Future commodity prices are reviewed at least annually, however, in light of the impacts of the COVID-19 pandemic, corporate assumptions have been revised for the half-year reporting period ended 30 June 2021. Where volumes are contracted, future prices are based on the contracted price.

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

	2021	**2022**	**2023**	**2024**	**2025**	**2026**
30 June 2021	55.00	60.00	62.50	66.72[1]	68.18[1]	69.68[1]

[1.] Based on US$62.50/bbl (2021 real) from 2024 escalated at 2.2% p.a.

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

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

2021	**2022**	**2023**
0.78	0.78	0.75[1]

[1.] From 2023 the long-term exchange rate assumption remains at A$:US$0.75.

The discount rates applied to the future forecast cash flows are based on the weighted average cost of capital, adjusted for risks where appropriate, including functional currency of the asset, and risk profile of the countries in which the asset operates. The range of pre-tax discount rates that have been applied to non-current assets is between 10% and 28%.

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

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

Recoverable amount

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

3.4 IMPAIRMENT OF NON-CURRENT ASSETS (continued)

Recoverable amounts and resulting impairment write-downs recognised for the half-year ended 30 June 2021 are:

	Segment	Subsurface assets US$million	Plant and equipment US$million	Total US$million	Recoverable amount[1] US$million
Exploration and evaluation assets:					
Gunnedah Basin	Queensland & NSW	8	–	8	
Total impairment of exploration and evaluation		**8**	**–**	**8**	
Total impairment of exploration and evaluation and oil and gas assets		**8**	**–**	**8**	nil[2]

1. Producing oil and gas asset amounts above are calculated using the VIU method, whilst all exploration and evaluation asset amounts use the FVLCD method.
2. Impairment of exploration and evaluation assets relates to certain individual licenses/areas of interest that have been impaired to nil.

Exploration and evaluation assets

The impairment of exploration and evaluation assets have arisen primarily from a consequential delay or reduction in future capital expenditure that diminishes the path to commercialisation.

3.5 INVESTMENTS IN EQUITY ACCOUNTED ASSOCIATES AND JOINT VENTURES

The Group's only material equity accounted investment is Darwin LNG Pty Ltd, which operates the Darwin LNG liquefaction facility that currently processes gas from the Bayu-Undan gas fields. On 30 April 2021, the Group sold a 25% interest in Darwin LNG Pty Ltd to SK E&S, reducing its equity interest to 43.4% (refer to note 2.6 for further details). The investment will continue to be accounted for as an equity accounted investment in an associate, given the Group is deemed to have only significant influence over the separately incorporated company, based on the structure of voting and decision making rights.

The 25% interest disposed of was classified as a non-current asset held for sale, and disclosed as such, in the Group's consolidated annual financial report for the period ended 31 December 2020. The disposal resulted in the reduction of $323 million in carrying value of the Group's equity accounted investment in Darwin LNG Pty Ltd.

Summarised financial information of the investment in associate, based on the amounts presented in its financial statements, and a reconciliation to the carrying amount of the investment in the condensed consolidated financial report, are set out below:

Share of investment in Darwin LNG Pty Ltd	Note	30 June 2021 US$million	31 December 2020 US$million
Group's equity interest[1]		**43.4%**	68.4%
Summarised net asset position			
Current assets		**213**	150
Non-current assets		**1,252**	1,484
Current liabilities		**(145)**	(109)
Non-current liabilities		**(408)**	(452)
Closing net assets		**912**	1,073
Group's share of net assets		**396**	**734**
Equity accounted investment held for sale		**–**	*321*
Equity accounted investment not subject to sale		***396***	*413*
Summarised income statement			
Gross profit		**62**	270
Other income and expenses		**27**	3
Depreciation and amortisation		**(52)**	(191)
Profit before tax		**37**	82
Income tax expense		**(15)**	(16)
Net profit after tax for the period		**22**	66
Group's share of net profit of associate		**14**	33
Reconciliation to carrying amount			
Opening balance		**734**	13
Add: Group's share of net profit		**14**	33
Add: Additional equity investment in Darwin LNG Pty Ltd		**–**	790
Less: Disposal of equity investment in Darwin LNG Pty Ltd[1]	2.6	**(323)**	–
		425	836
Dividends received		**(29)**	(39)
Return of capital		**–**	(63)
Carrying amount of investments in associate		**396**	734

[1]. On 30 April 2021, the Group disposed of a 25% interest in Darwin LNG Pty Ltd to SK E&S, resulting in a reduction to carrying value of $323 million. The Group is only entitled to 43.4% of the associate's net profit after tax from the date of disposal, being 1 May 2021.

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

The following significant transactions impacting interest-bearing loans and borrowings have occurred during the period ended 30 June 2021:

- Undrawn bilateral facilities of US$300 million were refinanced and the cancellation of an existing US$50 million facility was executed during March 2021;
- On 29 April 2021, the Group issued a US$1 billion 144A/Reg-S bond for a fixed coupon rate of 3.649% for a period of 10 years, maturing in April 2031; and
- On 13 May 2021, the Group made a prepayment of US$200 million on the revolving tranche of the 2026 syndicated loan facility.

4.2 NET FINANCE COSTS

	Note	**30 June 2021 US$million**	30 June 2020 US$million
Finance income:			
Interest income		**2**	12
Total finance income		**2**	12
Finance costs:			
Interest paid to third parties		**(101)**	(109)
Finance costs associated with lease liabilities		**(7)**	(8)
Deduct borrowing costs capitalised		**21**	10
		(87)	(107)
Unwind of the effect of discounting on contract liabilities – deferred revenue	2.2(b)	**(8)**	(8)
Unwind of the effect of discounting on provisions		**(17)**	(21)
Total finance costs		**(111)**	(136)
Net finance costs		**(109)**	(124)

4.3 ISSUED CAPITAL

	Six months ended					
	30 June 2021 Number of shares	31 December 2020 Number of shares	30 June 2020 Number of shares	**30 June 2021 US$million**	31 December 2020 US$million	30 June 2020 US$million
Movement in fully paid ordinary shares						
Balance at the beginning of the period	**2,083,066,041**	2,083,077,353	2,083,096,626	**9,013**	9,019	9,010
On-market shares purchased (Treasury shares)	**–**	–	–	**(31)**	(15)	(16)
Utilisation of Treasury shares on vesting of employee share schemes	**–**	–	–	**19**	9	25
Replacement of ordinary shares with shares purchased on-market	**–**	(11,312)	(19,273)	**–**	–	–
Balance at the end of the period	**2,083,066,041**	2,083,066,041	2,083,077,353	**9,001**	9,013	9,019

	30 June 2021 Number of shares	31 December 2020 Number of shares	30 June 2020 Number of shares
Movement in Treasury shares			
Balance at the beginning of the period	**6,464,902**	5,089,269	5,005,588
On-market shares purchased	**5,500,000**	3,833,330	4,666,670
Treasury shares utilised:			
Santos Employee Share1000 Plan	**–**	(195,110)	(7,488)
Santos Employee ShareMatch Plan	**–**	(1,740,621)	(14,832)
Utilised on vesting of SARs	**(504,036)**	(535,560)	(232,903)
Executive STI (deferred SARs)	**(576,552)**	–	(471,090)
Executive LTI (ordinary shares)	**(3,604,952)**	9,117	(3,837,403)
Santos Employee Share1000 Plan (relinquished shares)	**11,887**	15,789	–
Replacement of ordinary shares with shares purchased on-market	**–**	(11,312)	(19,273)
Balance at the end of the period	**7,291,249**	6,464,902	5,089,269

4.4 FINANCIAL RISK MANAGEMENT

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk and liquidity risk arises in the normal course of the Group's business. The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its corporate objectives and meet its obligations to stakeholders. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

The Group uses various methods to measure the types of financial risk to which it is exposed. These methods include cash flow at risk and sensitivity analysis in the case of foreign exchange, interest rate and commodity price risk, and ageing and credit rating concentration analysis for credit risk.

Financial risk management is carried out by a central treasury department ("Treasury") which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and cover specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(a) Foreign currency risk

Foreign exchange risk arises from commercial transactions and valuations of assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group is exposed to foreign currency risk principally through the sale of products, borrowings and capital and operating expenditure incurred in currencies other than the functional currency. In order to economically hedge foreign currency risk, the Group from time to time enters into forward foreign exchange, foreign currency swap and foreign currency option contracts.

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

All borrowings are denominated in US dollars and held by US dollar functional currency companies. As a result, there were no net foreign currency gains or losses arising from translation of US dollar-denominated borrowings recognised in the income statement in 2021.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation, are restated to functional currency 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. During the reporting period ended 30 June 2021, the Group secured an additional A$275 million of 2021 and A$400 million of 2022 foreign exchange hedging.

(b) Market risk

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps have been entered into as fair value hedges of long-term notes. When transacted, these swaps had maturities ranging from 1 to 20 years, aligned with the maturity of the related notes.

The Group's interest rate swaps have a notional contract amount of $227 million (31 December 2020: $227 million) and a net fair value of $17 million (31 December 2020: $23 million). The net fair value amounts were recognised as fair value derivatives.

Commodity price risk

The Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil price linked contracts. The Group may enter into oil price swap and option contracts to manage its commodity price risk. At 30 June 2021, the Group has 13.7 million barrels of open oil price swap and option contracts (31 December 2020: 11 million), covering 2021 and 2022 exposures, which are designated in cash flow hedge relationships. During the reporting period ended 30 June 2021, the Group hedged an additional 4 million barrels of 2021 and 6 million barrels of 2022 exposure.

(c) Fair values

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

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

The financial assets and liabilities of the Group are all initially recognised in the statement of financial position at their fair values. Receivables, payables, interest-bearing liabilities and other financial assets and liabilities, which are not subsequently measured at fair value, are carried at amortised cost.

4.4 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair values (continued)

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.

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

Financial liabilities

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

Interest rates used for determining fair value

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

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

	30 June 2021 %	30 June 2020 %
Derivatives	0.1 – 1.8	0.1 – 0.9
Loans and borrowings	0.1 – 1.8	0.1 – 0.9

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 16 August 2021, the Directors of Santos Limited declared an interim dividend of US5.5 cents per ordinary share in respect of the 2021 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 2021. Refer to note 2.4 for details.

Subsequent to reporting date of 30 June 2021, the Group issued irrevocable repayment notices to repay the following debt facilities:

- US$200 million of 2024 Term loan, being a partial repayment on 19 July 2021;
- US$108 million EFIC ECA Facility, being a full repayment on 13 August 2021; and
- US$129 million SACE ECA Facility, being a full repayment on 13 August 2021.

On 20 July 2021, the Group announced that Santos had submitted a confidential, non-binding indicative all-scrip merger proposal to the Oil Search Board. It was announced on 2 August 2021 that Santos and Oil Search had reached an agreement that under revised merger proposal terms, Oil Search shareholders would receive 0.6275 new Santos shares for each Oil Search share held via a Scheme of Arrangement. The merger proposal is non-binding with in principle agreement between both parties which is subject to due diligence.

Subject to each party completing due diligence and the parties entering into a binding implementation agreement, the intention of the Oil Search Board is to unanimously recommend that their shareholders vote in favour of the merger proposal. Any such recommendation would be subject to an independent expert concluding that the proposal is in the best interest of Oil Search shareholders, in the absence of a superior proposal being made.

5.3 ACCOUNTING POLICIES

Significant accounting policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 31 December 2020, except for new standards, amendments to standards and interpretations effective from 1 January 2021.

A number of standards, amendments and interpretations, were applicable for the first time in 2021. These have not had a significant or immediate impact on the Group's half-year condensed financial statements.

DIRECTORS' DECLARATION

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 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 16th day of August 2021

On behalf of the Board:

Director

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Independent auditors' review report to the members of Santos Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Santos Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2021, 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 2021 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 2021 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.

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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.

Independence

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

Ernst & Young

Ernst & Young

D S Lewsen	D A J Hall
Partner	Partner

Adelaide
16 August 2021

APPENDIX 4D
FOR THE SIX MONTHS ENDED 30 JUNE 2021

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

NTA BACKING

	30 June 2021	**30 June 2020**
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 2021	30 June 2020
	%	%
Joint venture and associate entities		
Darwin LNG Pty Ltd	**43.4**	68.4
GLNG Operations Pty Ltd	**30.0**	30.0
GLNG Property Pty Ltd	**30.0**	30.0