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9 November 2015

## Strategic Review completed: \$3.5 billion capital initiatives strengthen balance sheet

### Key Points

- \$3.5 billion reduction of net debt through:
  - \$520 million from sale of interest in Kipper gas field to Mitsui E&P Australia Pty Ltd
  - \$500 million private placement at a 15% premium to last close to an affiliate of the China-based international private equity firm, Hony Capital
  - \$2.5 billion fully underwritten accelerated pro-rata renounceable Entitlement Offer with retail entitlements trading
- Significant liquidity position increasing to over \$5 billion in cash and undrawn facilities
- New dividend framework
- Future operating strategy to be driven by priority for improved return on capital performance

Santos has today announced completion of its strategic review with \$3.5 billion of capital initiatives to strengthen the Company's balance sheet.

The initiatives being implemented complete the strategic review commenced in August this year, under the leadership of Executive Chairman, Peter Coates.

Mr Coates said: "The \$3.5 billion of capital initiatives reinforce the Santos balance sheet and mark a significant step towards restoring long term value for shareholders."

"The review has shown that we can further streamline the business and enhance financial discipline and the Board is absolutely committed to pursuing those opportunities.

"We are very confident that the steps taken today will drive better returns for shareholders by strengthening the company's financial position and underscoring the value of its high quality and diverse asset base.

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"The outcomes of the strategic review include an invitation to shareholders to participate in the Entitlement Offer. They can do so in the knowledge of a reinforced balance sheet and ongoing capital discipline to deliver better shareholder returns despite variable oil price environments," Mr Coates said.

## Sale of interest in Kipper Field, \$520 million

Santos has reached agreement to sell its 35% non-operated interest in the Kipper gas field, located in the Gippsland Basin, offshore Victoria to Mitsui E&P Australia Pty Ltd ("Mitsui").

Under the terms of the transaction, Mitsui has agreed to pay Santos \$520 million in cash. The sale is subject to customary consents and regulatory approvals and is expected to complete in the first quarter of 2016.

"The sale of Kipper realises good value for this asset despite difficult oil and gas market conditions in recent times," Mr Coates said.

"While the capital initiatives announced today mean that Santos is under no pressure to sell further assets, the strategic review attracted significant interest from substantial oil and gas industry operators and investors.

"We expect inbound interest may continue and we will respond accordingly in the normal course. We will only sell assets where there is a compelling value case for our shareholders and it is consistent with the company's strategy," Mr Coates said.

## Placement to Hony, \$500 million

Santos has entered into a binding Share Subscription Agreement with an affiliate of Hony Capital ("Hony"), a major global financial investor. Under the terms of the agreement, Hony will subscribe for 73,529,412 fully paid ordinary shares in Santos, at a price of \$6.80 per share.

This reflects a premium of 15% to the company's last closing price of \$5.91 on 6 November 2015 and a 76.6% premium to the offer price of \$3.85 per new share under the Entitlement Offer. Hony affiliates already hold 1.4% of Santos' issued capital and the placement of shares will increase this to 7.9%.

Hony has provided binding commitments to take up its full pro-rata entitlement under the Entitlement Offer and not to increase its total holding in Santos above 9.9% for a period of 3 months. Hony has also agreed not to divest to any unrelated party, any of its shares in Santos acquired through the placement and Entitlement Offer for a period of 12 months, without the Company's consent, subject to limited exceptions.

Mr Coates said the share placement to Hony reflects a clear vote of confidence and underpins the Santos value proposition.

## Entitlement Offer, \$2.5 billion

In light of these positive outcomes from the strategic review, the Santos Board has given careful consideration to the question of an equity issue and decided to take action to strengthen the Santos balance sheet through a \$2.5 billion fully underwritten, 1 for 1.7 accelerated pro rata renounceable Entitlement Offer launched today.

“The Directors believe that it is in the interests of all shareholders to unequivocally strengthen the balance sheet at this time through this issue,” Mr Coates said.

“We have been mindful of the fact that Santos has a large and supportive retail shareholder base.

“The structure of this offer enables shareholders to either buy shares at an attractive discount through the Entitlement Offer, or sell their entitlements for value. No shareholder will be forced to buy shares in the offer,” he said.

Refer to the Attachment for further details on the Entitlement Offer.

## Capital preservation initiatives and revised dividend framework

With the strategic review now complete, return on capital and financial discipline will continue to be an important focus for the business.

The Company remains committed to driving operational and capital efficiency gains to maximise value for shareholders. As previously announced on 23 October 2015, Santos has reduced its 2015 capex guidance by a further \$200 million to \$1.8 billion, in addition to the \$700 million of capex savings previously announced.

A revised dividend framework to better reflect the Company’s exposure to oil-linked LNG pricing and the cyclical characteristics of global oil markets will be adopted.

The Board considers it will be appropriate in future to set dividends as a payout ratio of earnings. Subject to business conditions, this is expected to be a minimum of 40% of underlying net profit after tax.

For the 2015 final dividend, subject to market conditions, Santos’ intention is to target a payment of 5 cents per share on the expanded capital base following the placement and Entitlement Offer as announced today.

ENDS.

## Attachment: Entitlement Offer details

The Entitlement Offer comprises a fully underwritten 1 for 1.7 accelerated pro rata renounceable entitlement offer that includes the ability to trade retail entitlements on the ASX.

The Entitlement Offer is expected to raise approximately \$2.5 billion.

The Offer Price of \$3.85 per share represents a 34.9% discount to Santos' closing price of \$5.91 on the ASX on Friday, 6 November 2015 and a 25.2% discount to the theoretical ex-entitlement price (TERP) of \$5.15.

The Entitlement Offer consists of an accelerated institutional entitlement offer ("Institutional Entitlement Offer") and a retail entitlement offer that includes the ability for eligible shareholders to trade their retail entitlements on ASX ("Retail Entitlement Offer").

Under the Entitlement Offer, eligible shareholders are entitled to subscribe for 1 new Santos ordinary share for every 1.7 existing Santos ordinary shares ("Entitlement") held as at 7.00pm (Sydney time) on Thursday, 12 October 2015.

New Santos ordinary shares issued under the Entitlement Offer will rank equally with existing Santos shares in all respects.

### Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Monday, 9 November 2015 to Tuesday, 10 November 2015.

Eligible Institutional Shareholders can choose to take up all, part or none of their Entitlements ("Institutional Entitlements"). Institutional Entitlements cannot be sold on ASX. Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and Institutional Entitlements of ineligible institutional shareholders, will be offered for sale through the institutional shortfall bookbuild ("Institutional Shortfall Bookbuild") on Wednesday, 11 November 2015. Any proceeds from the sale of Institutional Entitlements under the Institutional Shortfall Bookbuild in excess of the offer price of \$3.85 per share will be remitted proportionally to those institutional shareholders, less any applicable withholding tax.

Santos shares have been placed in trading halt while the Institutional Entitlement Offer and the Institutional Shortfall Bookbuild are undertaken.

### Retail Entitlement Offer

Eligible retail shareholders in Australia and New Zealand will be invited to participate in the Retail Entitlement Offer at the same offer price and offer ratio as the Institutional Entitlement Offer. The Retail Offer will open at 9.00am (Sydney time) on Tuesday, 17 November 2015 and close at 5.00pm (Sydney time) on Monday, 30 November 2015.

Eligible retail shareholders will be allotted Entitlements ("Retail Entitlements") which can be traded on the ASX. If they do not wish to take up all or part of their Retail Entitlements, they can seek to sell all or part of their Retail Entitlements on the ASX or by transferring it directly to another person to realise value for those Retail Entitlements ahead of the retail shortfall bookbuild (discussed below). Retail Entitlements can be traded on the ASX from Thursday, 12 November 2015 (on a deferred settlement basis) to Monday, 23 November 2015.

Eligible retail shareholders should carefully read the retail entitlement offer booklet and accompanying personalised entitlement and acceptance form which are expected to be despatched on Wednesday, 18 November 2015 and will be made available on the ASX website on Friday, 13 November 2015.

Retail Entitlements which are not exercised by the close of the Retail Entitlement Offer, and Retail Entitlements that would otherwise have been offered to ineligible retail shareholders, will be sold through the retail shortfall bookbuild on Thursday, 3 December 2015 ("Retail Shortfall Bookbuild"). Any proceeds from the sale of Retail Entitlements under the Retail Shortfall Bookbuild in excess of the offer price of \$3.85 will be remitted proportionally to those retail shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those retail shareholders.

Entitlements may only be exercised by eligible shareholders, being persons who have a registered address in Australia or New Zealand, and certain categories of institutional investors in British Virgin Islands, Canada (British Columbia, Ontario and Quebec provinces), China, European Economic Area (Belgium, Denmark, Germany, Luxembourg, Netherlands), France, Hong Kong, Ireland, Italy, Japan, Korea, Malaysia, New Zealand, Norway, Singapore, South Africa, Sweden, Switzerland, United Arab Emirates (excluding the Dubai International Financial Centre) and United Kingdom. Persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase or trade Entitlements on market, or take up or exercise Entitlements purchased on market or transferred from another person.

It is the responsibility of purchasers of Retail Entitlements to inform themselves of the eligibility criteria for exercise. If holders of Retail Entitlements after the trading period do not meet the eligibility criteria, they will not be able to exercise the Retail Entitlements. In the event that holders are not able to take up their Retail Entitlements, those Retail Entitlements will be sold into the Retail Shortfall Bookbuild and holders may receive no value for them.

## Shareholder enquiries

Retail shareholders who have any questions about the Retail Entitlement Offer should speak with their broker or adviser and/or call the Santos Offer Information Line on 1300 017 716 within Australia or +61 3 9938 4343 outside Australia from 8.30am to 5.30pm (Sydney time) Monday to Friday.

## Key dates

Key dates for the Entitlement Offer:

<b>Event</b>	<b>Date<sup>(a)</sup> (b)</b>
Trading halt	9 November 2015
Institutional Entitlement Offer opens	9 November 2015
Institutional Entitlement Offer closes	10 November 2015
Institutional Shortfall Bookbuild	11 November 2015
Trading halt lifted	12 November 2015
Record date for Entitlement Offer	7.00pm (Sydney time), Thursday 12 November 2015
Retail Entitlement Offer trading on ASX commences (on a deferred settlement basis)	12 November 2015
Retail Entitlement Offer opens	17 November 2015
Retail Offer Booklet despatched	18 November 2015
Settlement of Institutional Entitlement Offer	19 November 2015
Issue and quotation of new shares under the Institutional Entitlement Offer	20 November 2015
Retail entitlements trading on ASX ends	23 November 2015
Retail Entitlement Offer closes	30 November 2015
Retail Shortfall Bookbuild	3 December 2015
Settlement of Retail Offer	9 December 2015
Issue of new shares under the Retail Entitlement Offer	10 December 2015
New shares under the Retail Entitlement Offer commence trading on ASX	11 December 2015

(a) Timetable is subject to change. Santos reserves the right to alter the above dates at its discretion and without notice, subject to the ASX Listing Rules and Corporations Act.

(b) All dates and times refer to Australian Eastern Daylight Time (AEDT).

## IMPORTANT NOTICE

*This release may not be released or distributed in the United States. This release does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. Neither the entitlements nor the new shares to be offered and sold in the Entitlement Offer have been, nor will be, registered under the U.S. Securities Act of 1933 (U.S. Securities Act) or under the securities laws of any state or other jurisdiction of the United States. The entitlements and the new shares may not*

*be granted to, or taken up by, any person in the United States or any person acting for the account or benefit of a person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.*

*This announcement contains certain 'forward looking statements'. Forward looking statements can generally be identified by the use of forward looking words such as, 'expect', 'anticipate', 'likely', 'intend', 'should', 'could', 'may', 'predict', 'plan', 'propose', 'will', 'believe', 'forecast', 'estimate', 'target', 'outlook', 'guidance', 'potential' and other similar expressions within the meaning of securities laws of applicable jurisdictions and include.*

*The forward looking statements contained in this announcement are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of Santos, its directors and management, and may involve significant elements of subjective judgement and assumptions as to future events, which may or may not be correct. Refer to the 'Key Risks' in Appendix A1 of this Investor Presentation released to ASX on 9 November 2015 for a summary of certain general and specific risk factors that may affect Santos. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements. A number of important factors could cause actual results or performance to differ materially from the forward looking statements, including the risk factors set out in this announcement. Investors should consider the forward looking statements contained in this announcement in light of those disclosures. The forward looking statements are based on information available to Santos as at the date of this announcement.*

*Except as required by law or regulation (including the ASX Listing Rules), Santos undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements.*