SANTOS FINANCE LTD

A.B.N. 81 002 799 537

(INCORPORATED IN NEW SOUTH WALES ON 6 JULY 1984)

GENERAL PURPOSE FINANCIAL REPORT

31 DECEMBER 2017

SANTOS FINANCE LTD

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 $000**	2016 $000
Finance income		**340,824**	361,052
Finance costs		**(249,456)**	(321,576)
Net finance income	3	**91,368**	39,476
Intercompany debt forgiveness expense		**(524)**	(3,752)
Impairment (loss) / gain on receivables due from related entities		**(277,224)**	129,284
Foreign exchange (loss) / gain		**(129,082)**	26,099
Gains / (losses) on fair value hedges		**17,020**	(53,715)
Other expenses	4	**(82,157)**	(19,747)
(Loss) / profit before tax		**(380,599)**	117,645
Income tax (expense) / benefit	5	**(74,541)**	12,035
(Loss) / profit for the period attributable to equity holders of Santos Finance Ltd		**(455,140)**	129,680

This income statement is to be read in conjunction with the notes to the financial statements.

SANTOS FINANCE LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 $000**	2016 $000
Net (loss) / profit for the period		**(455,140)**	129,680
Other comprehensive (loss) / income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
(Loss) / gain on derivatives designated as cash flow hedges		**(12,089)**	22,857
Tax effect		**3,607**	(6,857)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Loss on financial liabilities designated as FVTPL		**(41,568)**	-
Tax effect		**13,256**	-
Other comprehensive (loss) / income, net of tax	12	**(36,794)**	16,000
Total comprehensive (loss) / income		**(491,934)**	145,680

This statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

SANTOS FINANCE LTD

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	**2017 $000**	2016 $000
Current assets			
Cash and cash equivalents	6	**1,164,759**	2,291,977
Prepayments		**5,499**	3,718
Other financial assets	7	**116,020**	135,379
Tax receivable		**204,006**	-
Total current assets		**1,490,284**	2,431,074
Non-current assets			
Prepayments		**3,904**	3,483
Other financial assets	7	**4,553,430**	4,707,854
Deferred tax asset	11	**114,949**	377,168
Total non-current assets		**4,672,283**	5,088,505
Total assets		**6,162,567**	7,519,579
Current Liabilities			
Trade and other payables	8	**25,697**	55,125
Interest-bearing loans and borrowings	9	**82,573**	396,930
Current tax liabilities		**-**	33,546
Other financial liabilities	10	**118,154**	530,950
Total current liabilities		**226,424**	1,016,551
Non-current liabilities			
Interest-bearing loans and borrowings	9	**5,007,678**	5,082,629
Other financial liabilities	10	**-**	-
Total non-current liabilities		**5,007,678**	5,082,629
Total liabilities		**5,234,102**	6,099,180
Net assets		**928,465**	1,420,399
Equity			
Issued capital	12	**2,334,471**	2,334,471
Reserves	12	**(106,142)**	(69,347)
Accumulated losses		**(1,299,864)**	(844,725)
Total equity attributable to equity holders of Santos Finance Ltd		**928,465**	1,420,399

This statement of financial position is to be read in conjunction with the notes to the financial statements.

SANTOS FINANCE LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 $000**	2016 $000
Cash flows from operating activities			
Interest received		**25,507**	5,492
Borrowing costs paid		**(221,014)**	(212,629)
Operating costs paid		**(2,299)**	(4,176)
Net cash used in operating activities	14	**(197,806)**	(211,313)
Cash flows from financing activities			
Repayment of borrowings		**(1,942,481)**	(16,439)
Receipts from related entities		**3,598,130**	3,049,252
Payments to related entities		**(2,391,324)**	(604,900)
Net cash (used in) / from financing activities		**(735,675)**	2,427,913
Net (decrease) / increase in cash		**(933,481)**	2,216,600
Cash and cash equivalents at the beginning of the year		**2,291,977**	30,417
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(193,736)**	44,960
Cash and cash equivalents at the end of the year	6	**1,164,759**	2,291,977

This statement of cash flows is to be read in conjunction with the notes to the financial statements.

SANTOS FINANCE LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued capital $000	**Hedging reserve $000**	**Financial Liabilities at FVOCI $000**	**Other reserves $000**	**Accumulated losses $000**	**Total equity $000**
Balance at 1 January 2016	2,334,471	776	-	(86,123)	(974,405)	1,274,719
Profit for the period	-	-	-	-	129,680	129,680
Other comprehensive income	-	16,000	-	-	-	16,000
Total comprehensive income for the period	-	16,000	-	-	129,680	145,680
Balance at 31 December 2016	2,334,471	16,776	-	(86,123)	(844,725)	1,420,399
Balance at 1 January 2017	**2,334,471**	**16,776**	**-**	**(86,123)**	**(844,725)**	**1,420,399**
Loss for the period	**-**	**-**	**-**	**-**	**(455,140)**	**(455,140)**
Other comprehensive losses	**-**	**(8,482)**	**(28,312)**	**-**	**-**	**(36,794)**
Total comprehensive loss for the period	**-**	**(8,482)**	**(28,312)**	**-**	**(455,140)**	**(491,934)**
Balance at 31 December 2017	**2,334,471**	**8,294**	**(28,312)**	**(86,123)**	**(1,299,865)**	**928,465**

This statement of changes in equity is to be read in conjunction with the notes to the financial statements.

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant Accounting Policies

Santos Finance Limited ("the Company") is a company incorporated and domiciled in Australia. The Company is a for-profit entity for the purpose of preparing the financial statements.

The address of the registered office is:

Ground Floor Santos Centre
60 Flinders Street
Adelaide SA 5000

The financial report was authorised for issue by the Directors on 22 March 2018.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and fixed rate notes that are hedged by an interest rate swap or a cross-currency swap, which are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars, unless otherwise stated, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Report) Instrument 2016/91.

Santos Limited and its wholly owned subsidiaries ("the Santos Group") have planned to fund the ongoing activities of the Company through twelve months from the date of signing the financial statements. Santos Limited has the financial capacity to finance the activities of the Company through existing inter-company loan arrangements if necessary. Accordingly, the Company should be able to pay its debts as and when they fall due in the normal conduct of its business activities.

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Adoption of new accounting standards and interpretations

The following Australian accounting standards and amendments to standards, which became applicable from 1 January 2017, have been adopted by the Company.

- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.*
- AASB 2016-1 *Amendments to Australian Accounting Standards –Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of these amendments did have an impact on the amounts disclosed in the current period and will continue to impact future periods. In addition, several other standard amendments and interpretations were applicable for the first time in 2017, but were not relevant to the Company and do not impact it's financial statements.

AASB 9 – *Financial Instruments*

The Company elected to early adopt AASB 9 Financial Instruments from 1 January 2017. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement, and generally simplifies the classification and measurement of financial instruments, introduces a new expected credit loss model for calculating impairment of financial assets, and aligns hedge accounting more closely with an entity's risk management practices.

The Company has applied the new hedge accounting requirement prospectively, while the remainder of the requirements of AASB 9 have been applied retrospectively in line with the requirements of the standard.

The adoption of AASB 9 results in the following key changes in the Company's accounting and reporting:

- For the Company's financial liabilities that are measured at Fair Value through Profit or Loss ("FVTPL"), the element of gains or losses attributable to changes in the Company's own credit risk will now be recognised in Other Comprehensive Income ("OCI") instead of profit or loss. During the year ended 31 December 2017 this amounted to a $28 million loss.
- Hedging effectiveness testing will now be performed on a prospective basis with no defined numerical range of effectiveness applied in this testing.

The table below shows changes in the classification and measurement categories of the Company's financial instruments on adoption of AASB 9:

AASB 139 (previous) classification of financial instrument	**Impact of AASB 9**	AASB 139 (previous) measurement category	**Impact of AASB 9**
Cash and cash equivalents	**No change**	Amortised cost	**No change**
Term deposits	**No change**	Amortised cost	**No change**
Trade and other receivables	**No change**	Amortised cost	**No change**
Hedging instruments	**No change**	FVTPL (fair value hedges) FVOCI (cash flow hedges)	**FVTPL*** **No change**
Commodity derivatives	**No change**	FVTPL	**No change**

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

AASB 9 – *Financial Instruments (continued)*

AASB 139 (previous) classification of financial instrument	Impact of AASB 9	AASB 139 (previous) measurement category	Impact of AASB 9
Trade and other payables	**No change**	Amortised cost	**No change**
Interest-bearing loans and borrowings	**No change**	Amortised cost FVTPL	**No change**

* Gains or losses attributable to changes in the Company's own credit risk are recognised in OCI instead of profit or loss.

No other changes arising from the adoption of AASB 9 have had a material effect on the financial reporting of the Company.

New standards and interpretaions not yet adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 31 December 2017. These are outlined in the following table:

Reference	Description	Application of standard	Impact on financial report
AASB 16 *Leases*	The key features of AASB 16 are as follows: *Lessee accounting* • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. *Lessor accounting* • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.	1 January 2019	Impact yet to be assessed.

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

Reference	Description	Application of standard	Impact on financial report
AASB 15 *Revenue from Contracts with Customers*	AASB 15 as issued replaces AASB 111, AASB 118 and related IFRIC Interpretations. The core principle of AASB 15 is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2018	Adoption will not impact the Company as it does not hold contracts in scope of the standard.

Several other amendments to standards and interpretations will apply on or after 1 January 2018, and have not yet been applied, however they are not expected to impact the Company's financial statements.

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial report. The accounting policies have been applied consistently by the Company.

(c) Foreign currency

Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the income statement.

(d) Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to changes in foreign exchange rates, commodity prices and interest rates arising in the normal course of business. The principal derivatives that may be used are forward foreign exchange contracts, foreign currency swaps, interest rate swaps and crude oil price swap and option contracts. Their use is subject to a comprehensive set of policies, procedures and limits approved by the Board of Directors. The Company does not trade in derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Where derivatives qualify for hedge accounting (refer note 1(e)), recognition of any resultant gain or loss depends on the nature of the item being hedged; otherwise the gain or loss on re-measurement to fair value is recognised immediately in the income statement.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. The fair value of commodity swap and option contracts is their quoted market price at the reporting date.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value recognised in the income statement. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead the hybrid financial instrument as a whole is assessed for classification.

1. Significant Accounting Policies (continued)

(e) Hedging

The Company early adopted AASB 9 Financial Instruments from 1 January 2017. Upon adoption of AASB 9, the component of fair value changes of qualifying instruments relating to the company's own credit risk is recognised in other comprehensive income ("OCI"). Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are reclassified to retained earnings when realised. The change to hedge accounting is undertaken prospectively, with instruments held by the Company prior to the change accounted for in accordance with the previous policy.

The change in accounting policy allows the Company to manage risk in an effective manner, without the accounting treatment of the instruments distorting the reported results.

The Company's accounting policy for fair value and cash flow hedges are as follows:

Types of hedges	**Fair value hedges**	**Cash flow hedges**
What is it?	A derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability.	A derivative or financial instrument to hedge the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or forecast transaction.
Recognition date	At the date the instrument is entered into.	At the date the instrument is entered into.
Measurement	Measured at fair value, being the estimated amount that the Company would receive or pay to terminate the contracts at the reporting date.	Measured at fair value, being the estimated amount that the Company would receive or pay to terminate the contracts at the reporting date.
Changes in fair value	The gains or losses on both the derivative or financial instrument and hedged asset or liability attributable to the hedged risk are recognised in the income statement immediately. The gain or loss relating to the effective portion of interest rate swaps hedging fixed-rate borrowings is recognised in the income statement within finance costs, together with loss or gain in the fair value of the hedged fixed-rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity using a recalculated effective interest rate.	Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in other comprehensive income and accumulated in equity in the hedging reserve to the extent that the hedge is highly effective. Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. In hedges of foreign currency purchases this may arise if the timing of the transaction changes from what was originally estimated. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement within other income or other expenses. Amounts accumulated in equity are transferred to the income statement or the balance sheet, for a non-financial asset, at the same time as the hedged item is recognised.

1. Significant Accounting Policies (continued)

(e) Hedging (continued)

	When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the underlying forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method is to assess effectiveness.

Hedge of monetary assets and liabilities
When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

(f) Other financial assets and receivables

Receivables are initially recognised at fair value, which in practice is the equivalent of cost, less any impairment losses.

Long-term receivables are discounted and are stated at amortised cost, less impairment losses.

Other financial assets, being intercompany receivables are assessed for impairment at each reporting date using the expected credit loss model as prescribed by AASB 9. The Company initially assesses the receivables using the 12 month expected credit loss model, however when certain criteria are met, the Company assesses the receivables under the lifetime expected credit loss model. An impairment is recorded where the asset's carrying value exceeds the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. Changes in the allowance account are recognised in the income statement.

The Company's intercompany receivables have been assessed as being Stage 2 or Stage 3 within the scope of AASB 9 impairment requirements and therefore assessed for impairment using the lifetime expected credit loss model. All loans extended to Santos

1. Significant Accounting Policies (continued)

(f) Other financial assets and receivables (continued)

Group's subsidiaries have a term to maturity greater than 12 months and none are repayable on demand. The borrowing entities are not considered low credit risk since none hold external investment grade credit ratings, the benefit from credit enhancements and adverse changes in economic and business conditions in the longer term may reduce the ability of the borrower to fulfil their obligations. Management has considered the impact of factors such as commodity price, foreign exchange and interest rate fluctuations on the future cash flows of each entity and has determined that credit risk has increased since the origination of the loan.

As at 31 December 2017, a loss allowance provision of $1,500,681,000 has been recorded (2016: $1,295,733,000).

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and generally have an original maturity of three months or less.

(h) Impairment

The carrying amounts of the Company's assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's estimated future cash flows are 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. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(i) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Fixed rate notes that are hedged by an interest rate swap are recognised at fair value (refer note 1(e)).

1. Significant Accounting Policies (continued)

(j) Trade and other payables

Trade and other payables are recognised when the related goods or services are received, at the amount of cash or cash equivalent that will be required to discharge the obligation, gross of any settlement discount offered. Trade payables are non-interest bearing and are settled on normal terms and conditions.

(k) Share capital

Ordinary share capital
Ordinary share capital is classified as equity.

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

Transaction costs
Transactions costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(l) Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

(m) Finance costs

Finance costs comprise interest paid or payable on borrowings calculated using the effective interest rate method. Finance costs are recognised in the income statement in the period in which they are incurred.

(n) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (“ATO”). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

1. Significant Accounting Policies (continued)

(o) Income tax (continued)

Current tax is the amount of income tax payable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the appropriate tax bases. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither, accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Santos Limited is the head entity in the tax-consolidated group, under Australian taxation law, of which Santos Finance Ltd is a member. Current tax expense/income, deferred tax liabilities, and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated among the members of the tax-consolidated group using a “stand-alone taxpayer” approach in accordance with Interpretation 1052 *Tax Consolidation Accounting* and are recognised in the separate financial statements of each entity. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by Santos Limited (as head entity in the tax-consolidated group).

Santos Limited and the other entities in the tax-consolidated group have entered into a tax funding agreement. Tax contribution amounts payable under the tax funding agreement are recognised as payable or receivable from Santos Limited and each member of the tax-consolidated group. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period under the tax funding agreement is different to the aggregate of the current tax liabilty or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period assumed by Santos Limited, the difference is recognised as a contribution to (or distribution from) Santos Limited.

Santos Limited and the other entities in the tax-consolidated group have also entered into a tax sharing agreement pursuant to which the other entities may be required to contribute to the tax liabilities of Santos Limited in the event of default by Santos Limited or upon leaving the tax-consolidated group.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1. Significant Accounting Policies (continued)

(p) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions is reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

Impairment of receivables from related entities
The Company assesses whether receivables from related entities are impaired on an annual basis. This requires an estimation of the recoverable amount of the related entity's assets and liabilities and comparing it to the carrying value of the receivables from the related entity to determine whether or not the receivable is impaired.

The carrying amount of the receivables from related entities is disclosed in note 7 Other Financial Assets.

2. Segment Information

The Company is a wholly-owned subsidiary of Santos Limited. The sole business of the Company is to raise debt to be on-lent to Santos Limited and its consolidated entities ("the Santos Limited Group") to fund their investment programmes and to manage cash generated from the Santos Limited Group operations.

During the year interest income of $314,646,000 (2016: $354,910,000) was generated from one major related party customer, Santos Limited and its controlled entities.

The Company's interest revenue is generated solely from loans receivable and cash balances originated within Australia.

	2017 $000	2016 $000
3. Net Finance Income		
Interest income:		
Related entities	**314,646**	354,910
Other entities	**26,178**	6,142
Finance income	**340,824**	361,052
Interest expense:		
Related entities	**(49,474)**	(86,683)
Other entities	**(199,982)**	(234,893)
Finance costs	**(249,456)**	(321,576)
Net finance income	**91,368**	39,476

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

		2017 $000	2016 $000
4.	**Other Expenses**		
	Loss from changes in fair value of commodity derivatives	**82,153**	19,658
	Other expenses	**4**	89
		82,157	19,747
5.	**Taxation Expense**		
	Recognised in the income statement:		
	Income tax (benefit) / expense		
	Current tax (benefit) / expense		
	Current year	**(204,006)**	33,546
		(204,006)	33,546
	Deferred tax expense / (benefit)		
	Origination and reversal of temporary differences	**278,547**	(45,581)
		278,547	(45,581)
	Total income tax expense / (benefit)	**74,541**	(12,035)
	Deferred tax charged directly to OCI		
	(Loss) / gain on derivatives designated as cash flow hedges, to be reclassified to profit or loss in subsequent periods	**(3,607)**	6,857
	Loss on derivatives designated as FVOCI, not to be reclassified to profit or loss in subsequent periods	**(13,256)**	-
		(16,863)	6,857
	Numerical reconciliation between tax benefit and pre-tax net loss:		
	(Loss) / profit before tax	**(380,599)**	117,645
	Prima facie income tax at 30% (2016: 30%)	**(114,180)**	35,294
	Increase/(decrease) in income tax benefit due to:		
	Intercompany debt forgiveness	**157**	1,126
	Impairment reversal / (write-down) of receivables due from related entities	**83,167**	(38,785)
	Foreign exchange losses / (gains) and other translation adjustments	**106,073**	(12,814)
	(Over) / under provided in prior years	**(676)**	3,144
	Income tax expense / (benefit)	**74,541**	(12,035)

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		2017 $000	2016 $000
6.	**Cash and Cash Equivalents**		
	Cash at bank and in hand	**1,164,759**	2,291,977
	Cash and cash equivalents in the statement of cash flows	**1,164,759**	2,291,977
7.	**Other Financial Assets**		
	Current		
	Amounts owing from related entities	**116,020**	127,747
	Interest rate swap contracts	**-**	7,632
		116,020	135,379
	Non-current		
	Interest rate swap contracts	**77,504**	107,616
	Amounts owing from related entities	**4,475,926**	4,600,238
		4,553,430	4,707,854
8.	**Trade and Other Payables**		
	Other payables	**25,697**	55,125
		25,697	55,125

	2017 $000	2016 $000

9. Interest-bearing Loans and Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 18.

	2017 $000	2016 $000
Current		
Bank loans – unsecured	**82,573**	112,373
Long-term notes	**-**	284,557
	82,573	396,930
Non-current		
Loans payable to related entities	**2,191,890**	771,099
Bank loans – unsecured	**1,270,054**	2,288,658
Long-term notes	**1,545,734**	572,467
Subordinated notes	**-**	1,450,405
	5,007,678	5,082,629

The Company has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.10% as at 31 December 2017 (2016: 4.69%).

All interest bearing loans and borrowings are unsecured and guaranteed by Santos Limited.

Details of major credit facilities

(a) Bank loans – unsecured

Term bank loans		**Effective interest rate**			
Year of maturity	**Currency**	**2017 %**	2016 %	**2017 $000**	2016 $000
2017	USD	**1.35**	0.87	**-**	23,104
				-	23,104

Term bank loans bear interest at the relevant interbank reference rate. The amount outstanding at 31 December 2017 is nil (2016: US$16,684,000 (A$23,104,000)).

9. Interest-Bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(a) Bank loans – unsecured (continued)

Export Credit Agency supported loan facilities

As at 31 December 2017 the Company had fully drawn loan facilities of US$1,065,055 (A$1,363,881) (2016: US$1,730,000,000 (A$2,395,790,057)) supported by various export credit agencies, which have maturity dates between 2018 and 2025.

Term bank loans

		Effective interest rate			
		2017	2016	**2017**	2016
Year of maturity	**Currency**	**%**	%	**$000**	$000
2018 to 2025	USD	**2.83**	2.64	**1,352,627**	2,377,927
				1,352,627	2,377,927

Export credit agency supported loans bear interest at the relevant interbank reference rate plus a margin.

Bilateral bank loan facility

As at 31 December 2017 the Company had bilateral bank loan facilities of US$2,020,000,000 (A$2,586,758,868) (2016: US$1,555,000,000 (A$2,153,441,000) and A$1,050,000,000) that mature between 2018 and 2023.

As at 31 December 2017 the Company had no principal outstanding (2016: Nil).

(b) Long-term notes

US Private Placement Notes

The Company has issued long-term notes in the US Private Placement market with varying maturities. The Company has the following notes on issue:

		Effective interest rate			
		2017	2016	**2017**	2016
Year of maturity	**Currency**	**%**	%	**$000**	$000
2018 to 2027	USD	**1.84**	1.41	**542,501**	857,024
				542,501	857,024

Long-term notes bear interest at 6.05% to 6.81% (2016: 6.05% to 6.81%) fixed rate interest, which has been swapped to floating interest rate commitments.

The principal outstanding at 31 December 2017 is US$377,000,000 (A$482,776,284) (2016: US$577,000,000 (A$799,058,000)).

9. Interest-Bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(b) Long-term notes (continued)

Regulation-S Bonds

The Company has the following notes on issue:

Year of maturity	Currency	Effective interest rate 2017 %	Effective interest rate 2016 %	2017 $000	2016 $000
2027	USD	**4.39**	-	**1,003,233**	-
				1,003,233	-

The bonds bear a fixed interest rate of 4.125%.

The principal outstanding at 31 December 2017 is US$800,000,000 (A$1,024,458,958) (2016: nil).

(c) Subordinated notes

The Company had issued €1,000,000,000 (2016: €1,000,000,000) in subordinated notes which were redeemed at the first call date on 22 September 2017.

Year of maturity	Currency	Effective interest rate 2017 %	Effective interest rate 2016 %	2017 $000	2016 $000
2070	EUR	**7.03**	6.60	**-**	1,450,405
				-	1,450,405

(d) Commercial paper

The Company has an A$800,000,000 uncommitted, revolving Australian dollar commercial paper programme. As at 31 December 2017 the Company had no drawings of commercial paper (2016: Nil).

	2017 $000	2016 $000

10. Other Financial Liabilities

Current		
Amounts owing to related entities	**16,341**	27,434
Cross-currency swap contracts	**-**	483,858
Commodity option contracts	**101,813**	19,658
	118,154	530,950

11. Deferred Tax Assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

Derivative financial instruments	**7,293**	116,481
Interest-bearing loans and borrowings	**107,656**	260,687
Deferred tax assets	**114,949**	377,168

The calculation of the Company's tax charge involves a degree of estimation and judgement in respect of certain items for which the ultimate tax determination is uncertain.

The Company recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised within the tax consolidated group, based on the forecast of future taxable profits in the group. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

	2017 $000	2016 $000
12. Capital and Reserves		
Issued capital		
2,334,470,555 (2016: 2,334,470,555) fully paid ordinary shares	**2,334,471**	2,334,471

In accordance with changes to applicable Corporations legislation effective from 1 July 1998, the shares issued do not have a par value and there is no limit on the authorised share capital of the Company.

Movement in issued and fully paid ordinary shares	2017	2016	2017	2016
	Number of Shares		$000	$000
Balance at the beginning of the year	**2,334,470,555**	2,334,470,555	**2,334,471**	2,334,471
Shares issued	**-**	-	**-**	-
Balance at the end of the year	**2,334,470,555**	2,334,470,555	**2,334,471**	2,334,471

During the year no shares were issued to the Company's parent entity (2016: A$ nil).

Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern allowing returns to shareholders and benefits for other stakeholders to be maintained and to retain an efficient capital structure. In order to optimise the capital structure, the Company may adjust its dividend distribution policy, return capital to shareholders, issue new shares, draw or repay debt or undertake other corporate initiatives consistent with its strategic objectives.

In applying these objectives, the Company aims to minimise the weighted average cost of capital whilst retaining appropriate financial flexibility.

12. Capital and Reserves (continued)

Capital risk management (continued)

	Hedging reserves $000	Financial Liabilities at FVOCI $000	Other reserves $000	Total $000
Reserves				
Balance at 1 January 2016	776	-	(86,123)	(85,347)
Net gain on derivatives designated as cash flow hedges	16,000	-	-	16,000
Balance at 31 December 2016	16,776	-	(86,123)	(69,347)
Balance at 1 January 2017	**16,776**	**-**	**(86,123)**	**(69,347)**
Net loss on financial liabilities at FVTPL	**-**	**(28,312)**	**-**	**(28,312)**
Net loss on derivatives designated as cash flow hedges	**(8,482)**	**-**	**-**	**(8,482)**
Balance at 31 December 2017	**8,294**	**(28,312)**	**(86,123)**	**(106,141)**

Nature and purpose of reserves

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Financial liabilities at fair value through OCI ("FVOCI") reserve
The financial liabilities at FVOCI reserve includes the component of fair value movements in the Company's financial liabilities that result from changes in the Company's own credit risk. Such fair value movements were previously recorded in profit or loss however, due to adoption of AASB 9 effective from 1 January 2017, these movements are now required to be recorded through Other Comprehensive Income and accumulate in this reserve.

Other reserves
Other reserves represent capital distributions arising from the difference between the fair value of non-interest bearing intercompany loans with Santos Ltd Group subsidiaries and the principal amount of those loans.

13. Dividends

No dividends have been paid or declared during the financial year and no dividends have been proposed or declared by the Directors after the reporting date.

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	2017 $000	2016 $000
14. Reconciliation of Cash Flows from Operating Activities		
(a) (Loss) / profit after income tax	**(455,140)**	129,680
Add / (deduct) non-cash items:		
Intercompany debt forgiveness expense	**524**	3,752
Impairment loss / (gain) on receivables due from related entities	**277,224**	(129,284)
Foreign exchange losses	**163,538**	57,502
Net borrowing income charged to related entities	**(265,172)**	(268,227)
Net losses on fair value derivatives	**65,133**	73,373
Cross-currency swaps revaluation	**(34,456)**	(83,599)
Amortisation of prepaid loan transaction costs	**11,305**	11,733
Net cash used in operating activities before change in assets or liabilities	**(237,044)**	(205,070)
(Deduct) / add change in operating assets or liabilities:		
Income tax (refundable) / payable allocated to Santos Limited under tax funding agreement	**(187,678)**	26,688
(Decrease) / increase in deferred tax asset	**262,219**	(38,723)
(Decrease) / increase in trade and other payables	**(35,303)**	5,792
Net cash used in operating activities	**(197,806)**	(211,313)
(b) Non-cash financing and investing activities		
Income tax (refundable) / payable allocated to Santos Limited under tax funding agreement	**(187,678)**	26,688
Interest income charged and other non-cash items to related entities	**1,334,746**	520,006
Borrowing costs charged and other non-cash items by related entities	**(1,395,931)**	(167,932)
	(61,185)	352,074

14. Reconciliation of Cash Flows from Operating Activities

(c) Reconciliation of liabilities arising from financial activities

	Short term borrowings $000	Long term borrowings $000	Liabilites held to hedge borrowings $000	Assets held to hedge borrowings $000	Total $000
Balance as at 1 January 2017	**396,930**	**5,082,629**	**483,858**	**(115,248)**	**5,848,169**
Financing cash flows[1]	(357,723)	(104,179)	(273,773)	-	(735,675)
Non-cash changes:					
Effect of changes in exchange rates	(32,272)	(126,196)	(226,331)	8,678	(376,121)
Changes in fair values	(7,145)	13,216	16,246	29,065	51,382
Other changes[2]	82,783	142,209	-	-	224,992
Balance as at 31 December 2017	**82,573**	**5,007,678**	**-**	**(77,505)**	**5,012,747**

[1] The cash flows from long-term and short-term borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the Statement of Cash Flows.

[2] Other changes include transfers beween short and long term borrowings, amortisation of prepayments and non-cash movements of intercompany loans.

	Note	**2017 $000**	2016 $000

15. Related Parties

The parent entity and ultimate parent entity is Santos Limited, which is incorporated in Australia.

(a) Loans to related parties

	Note	**2017 $000**	2016 $000
Other financial assets			
Amounts owing from other related entities		**4,591,946**	4,727,985
	7	**4,591,946**	4,727,985
Amount owing from Santos Limited			
Opening balance		**-**	1,189,082
Loan repayments received		**-**	(1,189,082)
Closing balance		**-**	-

The US dollar denominated loans bear interest at LIBOR plus a margin of 5.20% payable annually. The AU dollar denominated loans bear interest at BBSW plus a margin of 1.00% payable annually. There is no provision for impairment related to the outstanding balance.

		2017 $000	2016 $000
Amount owing from other related parties			
Opening balance		**4,727,985**	4,844,826
Loans advanced		**754,892**	424,689
Loan repayments received		**(613,183)**	(667,061)
Debt forgiven		**(524)**	(3,752)
Impairment (charge) / reversal of loan balance		**(277,224)**	129,284
Closing balance		**4,591,946**	4,727,985

The US dollar denominated loans bear interest at LIBOR plus a margin of 5.20% payable annually. The AU dollar denominated loans bear interest at BBSW plus a margin of 1.00% payable annually.

(b) Loans from related parties

	Note	**2017 $000**	2016 $000
Other liabilities			
Amounts owing to other related parties		**16,341**	27,434
	10	**16,341**	27,434

	Note	**2017 $000**	2016 $000
15. Related Parties (continued)			
Interest bearing borrowings and loans			
Loans from Santos Limited		**1,941,867**	364,474
Loans from other related parties		**250,023**	406,625
	9	**2,191,890**	771,099
Loan from Santos Limited			
Opening balance		**364,474**	-
Loans advanced		**1,577,393**	364,474
Loan repayments received		**-**	-
Closing balance		**1,941,867**	364,474

The US dollar denominated loans bear interest at LIBOR less a margin of 0.1% payable annually. The AU dollar denominated loans bear interest at BBSW less a margin of 0.1% payable annually.

Loans from other related parties			
Opening balance		**434,058**	137,708
Loans advanced		**72,809**	308,629
Loan repayments paid		**(240,503)**	(12,279)
Closing balance		**266,364**	434,058

The US dollar denominated loans bear interest at LIBOR less a margin of 0.1% payable annually. The AU dollar denominated loans bear interest at BBSW less a margin of 0.1% payable annually.

(c) Parent company guarantees

All interest bearing borrowings and loans included in note 9, except for loans payable to related entities, are guaranteed by the Company's parent, Santos Limited.

15. Related Parties (continued)

(d) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Directors of the Company.

The names of the Directors in office at the date of this report are:

Gallagher, Kevin Thomas
Cowan, Guy Michael
Coates, Peter Roland (retired 19 February 2018)

Unless otherwise stated above, the Directors have held their office at all times since the beginning of the financial year. Keith Spence was appointed as a Director on 19 February 2018. There were no other persons who acted as directors at any time during the financial year. The Company employs no permanent staff. No remuneration was paid to key management personnel during 2017 (2016: Nil).

16. Remuneration of Auditors

Audit fees are borne by the ultimate parent entity, Santos Limited.

17. Contingent Liabilities

There are no contingent liabilities.

18. 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 Company's and the Santos Limited Group's business. The Company's overall financial risk management strategy is to seek to ensure that the Company is able to fund the business plans of the Santos Limited Group. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

The Company uses various methods to measure the types of financial risk to which it is exposed. These methods include Cash Flow at Risk analysis in the case of interest rate, foreign exchange 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 covers specific financial risks, such as foreign exchange risk, interest rate risk and credit risk, approved derivative and non-derivative financial instruments, and liquidity management.

(a) Foreign currency risk

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

18. Financial Risk Management (continued)

(a) Foreign currency risk (continued)

The Company is exposed to foreign currency risk principally through foreign currency borrowings. In order to economically hedge foreign currency risk, the Company from time to time enters into forward foreign exchange, foreign currency swap and foreign currency option contracts.

All foreign currency denominated borrowings are either designated as a hedge of US dollar denominated investments in foreign operations within the Santos Limited Group, swapped using cross-currency swaps to US dollars and designated as a hedge of US dollar denominated investments in foreign operations within the Santos Limited Group, or offset by US dollar denominated cash balances.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically restated to Australian dollar equivalents, 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 which are capitalised in oil and gas assets.

Sensitivity to foreign currency movement

Based on the Company's net financial assets and liabilities at 31 December 2017, the estimated impact of a ±15 cent movement in the Australian dollar exchange rate (2016: ±15 cent) combined with a ±10 cent movement in the Euro exchange rate (2016: ±10 cent), each against the US dollar, with all other variables held constant is A$405,696,000 (2016: A$523,598,000) on post-tax profit.

(b) Market risk

Cash flow and fair value interest rate risk

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

The Company 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 denominated in US dollars 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. Losses of A$22,973,000 (2016: A$51,123,000) relating to the hedging instruments and gains of A$39,994,000 (2016: A$22,249,000) relating to the hedged item attributable to the hedged risk were recorded in the income statement.

At 31 December 2017, the Company had interest rate swaps with a notional contract amount of A$2,019,464,720 (2016: A$2,460,877,995) and a net fair value of A$77,504,000 (2016: A$115,247,000). The net fair value amounts were recognised as fair value derivatives.

18. Financial Risk Management (continued)

(b) Market risk (continued)

Cash flow and fair value interest rate risk (continued)

Sensitivity to interest rate movement

Based on the net debt position as at 31 December 2017, taking into account interest rate swaps, it is estimated that if the US dollar London Interbank Offered Rate ("LIBOR") interest rates changed by ±0.50% (2016: ±0.50%), Euro Interbank Offered Rate ("EURIBOR") changed by ±0.50% (2016: ±0.50%) and Australian Bank Bill Swap reference rate ("BBSW") changed by ±0.50% (2016: ±0.50%), with all other variables held constant, the impact on post tax profit is A$5,042,000 (2016: A$366,000).

This assumes that the change in interest rates is effective from the beginning of the financial year and the net debt position and fixed/floating mix is constant over the year. However, interest rates and the debt profile of the Company are unlikely to remain constant and therefore the above sensitivity analysis will be subject to change.

Commodity price risk exposure

The Santos Limited Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil price linked contracts. The Company may enter into commodity crude oil price swap and option contracts to manage the Santos Limited Group's commodity price risk. At 31 December 2017, the Company has 12.5 million barrels of open oil price option contracts (2016: 10.95 million), covering 2018 exposures. The 3-way option structure utilised does not qualify for hedge accounting, with the movement in fair value recorded in the income statement.

Cash flow hedge accounting

At the first call date of 22 September 2017, the Company redeemed €1,000,000,000 subordinated notes which were issued with a fixed interest rate of 8.25%.

In order to reduce the variability of the cash flows arising from the Euro principal and interest payments to September 2017, the Company had entered into cross currency interest rate swap contracts in March 2011, under which it had a right to receive interest at fixed Euro rates and pay interest at floating US dollar interest rates. These contracts were in place to cover principal and interest payments on €950 million of the subordinated notes through to the first call date on 22 September 2017.

Subordinated notes totalling €50 million had been swapped to a fixed US dollar interest rate of 8.48% through to the first call date on 22 September 2017.

The cross currency interest rate swap contracts were recognised at fair value and all gains and losses attributable to the hedged risks were recognised in the hedge reserve and reclassified into the income statement when the interest expense was recognised.

The hedged items and hedging instruments do not all reside within Santos Finance Limited. Therefore the contracts are recognised at fair value with all movements in fair value being recorded in the income statement.

18. Financial Risk Management (continued)

(c) Credit risk

Credit risk arises from investments in cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management follows Board-approved credit policies and the exposure to credit risk is monitored on an ongoing basis.

The Company considers the probability of default upon initial recognition of the asset and whether there has been a significant depreciation in credit quality on an ongoing basis throughout each reporting period. A significant decrease in credit quality is defined as a debtor being greater than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorises a loan or receivable for write off when a debtor fails to make contractual repayments greater than 120 days past due. Where loans or receivables have been written off, the Comapny continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Company controls credit risk by setting minimum creditworthiness requirements for counterparties, which for banks and financial institutions are based upon their long-term credit rating.

Individual risk limits for banks and financial institutions are set based on external ratings in accordance with limits set by the Board.

18. Financial Risk Management (continued)

(c) Credit risk (continued)

At the reporting date there were no significant concentrations of credit risk within the Company and financial instruments are spread amongst a number of financial institutions to minimise the risk of counterparty default.

The maximum exposure to financial institution credit risk is represented by the sum of all cash deposits plus accrued interest, bank account balances and derivative mark-to-market gains.

The Company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. Under this method, determination of the loss allowance provision and expected loss rate incorporates past experience and forward looking information, including the outlook for market demand and forward looking interest rates. As the expected loss rate at 31 December 2017 is nil (2016: nil), no loss allowance provision has been recorded at 31 December 2017 (2016: nil).

(d) Liquidity risk

The Company adopts a prudent liquidity risk management strategy and seeks to maintain sufficient liquid assets and available committed credit facilities to meet short-term to medium-term liquidity requirements of the Santos Limited Group. The Company's objective is to maintain flexibility in funding to meet ongoing operational requirements, exploration and development expenditure, and other corporate initiatives of the Santos Limited Group.

The following table analyses the contractual maturities of the Company's financial liabilities, and financial assets held to manage liquidity risk. The relevant maturity groupings are based on the remaining period to the contractual maturity date, at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments. Estimated variable interest expense is based upon appropriate yield curves as 31 December 2017.

	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
2017				
Financial assets held to manage liquidity risk				
Cash	1,164,759	-	-	-
Amounts receivable from related entities	116,020	-	-	4,475,926
Derivative financial assets				
Interest rate swap contracts	20,708	25,734	57,179	6,294
Non-derivative financial liabilities				
Trade and other payables	(25,697)	-	-	-
Amounts payable to related entities	-	-	-	(2,208,231)
Bank loans	(100,516)	(851,389)	(258,776)	(204,314)
Long-term notes	(73,415)	(265,501)	(455,422)	(1,261,253)
	1,101,859	(1,091,156)	(657,019)	808,422

18. Financial Risk Management (continued)

(d) Liquidity risk (continued)

	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
2016				
Financial assets held to manage liquidity risk				
Cash	2,291,977	-	-	-
Amounts receivable from related entities	-	-	-	4,727,985
Derivative financial assets				
Interest rate swap contracts	42,501	34,617	49,191	14,797
Non-derivative financial liabilities				
Trade and other payables	(55,125)	-	-	-
Amounts payable to related entities	-	-	-	(798,532)
Bank loans	(184,020)	(133,403)	(1,988,303)	(342,340)
Long-term notes	(327,805)	(33,694)	(282,635)	(341,776)
Subordinated notes	(1,572,856)	-	-	-
Derivative financial liabilities				
Cross-currency swap contracts	(509,916)	-	-	-
	(315,244)	(132,480)	(2,221,747)	3,260,134

Amounts owing to controlled entities are shown at their carrying value as any interest charged on the loans is added to the loan balance. The loans are made in the ordinary course of business on normal market terms and conditions and are repayable by the Company to a controlled entity on demand by that controlled entity.

(e) Fair values

The financial assets and liabilities of the Company are all initially recognised in the statement of financial position at their fair value in accordance with the accounting policies in note 1. The receivables, payables, interest bearing liabilities and other financial assets and liabilities which are not subsequently measured at fair value, are carried at amortised costs which approximates their fair value.

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 and using market interest rates for a similar instrument at the reporting date. Where these cash flows are in a foreign currency the present value is converted to Australian dollars at the foreign exchange spot rate prevailing at reporting date.

18. Financial Risk Management (continued)

(e) Fair values (continued)

***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 Australian dollars at the foreign exchange spot rate prevailing at reporting date.

Interest rates* used *for determining fair value

The interest rates used to discount estimated future cash flows, where applicable, are based on the market yield curve at the reporting date. The dealt credit spread is assumed to be the same as the market rate for the credit as at reporting date as allowed under AASB 139 *Financial Instruments: Recognition and* Measurement. The interest rates including credit spreads used to determine fair value were as follows:

	2017	2016
	%	%
Derivatives	**1.4 – 2.5**	(0.3) – 3.9
Loans and borrowings	**1.4 – 2.5**	(0.3) – 3.9

The Company 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 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.

As at 31 December 2017, the Company held the following financial instruments measured at fair value:

	Total	**Level 1**	**Level 2**	**Level 3**
	$000	**$000**	**$000**	**$000**
Assets measured at fair value				
Interest rate swap contracts	77,504	-	77,504	-
Liabilities measured at fair value				
Commodity option contracts	(101,813)	-	(101,813)	-
Long-term notes	(542,501)	-	(542,501)	-

18. Financial Risk Management (continued)

(e) Fair values (continued)

As at 31 December 2016, the Company held the following financial instruments measured at fair value:

	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Assets measured at fair value				
Interest rate swap contracts	115,248	-	115,248	-
Liabilities measured at fair value				
Cross-currency swap contracts	(483,858)	-	(483,858)	-
Commodity option contracts	(19,658)	-	(19,658)	-
Long-term notes	(618,857)	-	(618,857)	-

During the years ended 31 December 2017 and 31 December 2016, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

(f) Financial instruments

The Company classifies its financial instruments in the following categories: financial assets at amortised cost, financial assets at fair value through profit or loss ("FVTPL"), financial assets at fair value through other comprehensive income ("FVOCI"), financial liabilities at amortised cost and derivative instruments. The classification depends on the purpose for which the financial assets were acquired, which is determined at initial recognition based upon the business model of the Company.

Financial assets at amortised cost
The Company classifies its financial assets at amortised cost if the asset is held with the objective of collecting contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. These include trade receivables and bank term deposits. Bank term deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are financial assets at amortised cost and are included in current assets, except for those with maturities greater than 12 months after the balance sheet date.

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

Financial liabilities

Interest bearing loans designated in fair value hedges are measured at fair value through profit and loss. For liabilities classified at fair value through profit or loss, the element of gains or losses attributable to changes in the Company's own credit risk are recognised in Other Comprehensive Income. On initial recognition, the Company measures a financial liability at its fair value minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, trade payables and interest-bearing loans and borrowings are stated at amortised cost. Fixed-rate notes that are hedged by an interest rate swap are recognised at fair value.

Derivative instruments

Derivative financial instruments entered into by the Company for the purpose of managing its exposures to changes in foreign exchange rates and interest rates arising in the normal course of business qualify for hedge accounting. The principal derivatives that may be used are forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps. Their use is subject to a set of policies, procedures and limits approved by the Board of Directors. The Company does not trade in derivative financial instruments for speculative purposes.

The Company holds the following financial instruments:

Financial assets	**2017 $000**	2016 $000
Financial assets at amortised cost:		
Cash and cash equivalents	**1,164,759**	2,291,977
Amounts owing from related entities	**4,591,946**	4,727,985
Derivative financial instruments	**77,504**	115,248
	5,834,209	7,135,210

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

Financial liabilities	**2017 $000**	2016 $000
Financial liabilities at amortised cost:		
Trade and other payables	**25,697**	55,125
Borrowings at amortised cost	**2,355,860**	3,851,436
Amounts payable to related entities	**2,191,890**	771,099
Financial liabilities at FVTPL:		
Borrowings at FVTPL	**542,501**	857,024
Derivative financial instruments	**101,813**	19,658
	5,217,761	5,554,342

The Company's financial instruments resulted in the following income, expenses, gains and losses recognised in the income statement:

Financial liabilities	**2017 $000**	2016 $000
Interest on cash investments	**(340,823)**	(361,910)
Interest on debt held at FVTPL	**36,024**	50,095
Interest on debt held at amortised cost	**287,060**	312,716
Interest on derivative financial instruments	**(73,628)**	(41,235)
Amounts reclassified from other comprehensive income to profit or loss	**8,628**	–
Fair value gains/(losses) on debt held at FVTPL	**39,994**	(22,249)
Fair value losses on derivative financial instruments	**(113,755)**	(51,123)
Net foreign exchange (losses)/gains recognised in profit before income tax for the period, included in other income and finance costs	**(129,082)**	26,099
	(285,582)	(87,608)

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

The effects of applying hedge accounting on the Company's financial position and performance are as follows:

Derivative financial instruments – interest rate swap contracts	**2017 $000**	2016 $000
Carrying amount	**77,540**	115,247
Notional amount	**2,019,465**	2,460,878
Maturity date	**2019-2027**	2017-2027
Hedge ratio*	**1:1**	1:1
Change in value of outstanding hedging instruments since 1 January	**(37,743)**	(10,040)
Change in value of hedged item used to determine hedge effectiveness	**37,743**	10,040
Weighted average hedged rate	**1.10%**	1.18%

Reserves – cash flow hedge reserve	**2017 $000**	2016 $000
Opening balance	**16,776**	776
Add: Change in fair value of hedging instrument recognised in OCI for the year (effective portion)	**(12,089)**	22,857
Less: Deferred tax	**3,607**	(6,857)
Closing balance	**8,294**	16,776

Reserves – FVOCI reserve	**2017 $000**	2016 $000
Opening balance	**–**	–
Add: Change in fair value of hedging instrument recognised in OCI for the year	**(41,568)**	–
Less: Deferred tax	**13,256**	–
Closing balance	**(28,312)**	–

* The value of the derivative contract is the same as the value of the underlying instrument that is being hedged. Therefore, the hedge ratio is 1:1.

19. Events Subsequent to Reporting Date

There are no events subsequent to Reporting Date that are material and unusual in nature to effect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

SANTOS FINANCE LTD

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

In accordance with a resolution of the Directors of Santos Finance Limited ("the Company"), we state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;

   (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1(a); and

   (c) 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 22 March 2018

………………………………
Director

Building a better working world

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Independent Auditor's Report to the Members of Santos Finance Ltd

Opinion

We have audited the financial report of Santos Finance Ltd (the Company), which comprises the statement of financial position as at 31 December 2017, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

L A Carr
Partner
Adelaide
22 March 2018

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Auditor's Independence Declaration to the Directors of Santos Finance Ltd

As lead auditor for the audit of Santos Finance Ltd for the financial year ended 31 December 2017, 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 audit; and

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

Ernst & Young

Ernst & Young

LCarr

L A Carr
Partner
Adelaide
22 March 2018

LC:RM:SANTOS:628

SANTOS FINANCE LTD

A.B.N. 81 002 799 537

DIRECTORS' REPORT

The Directors present their report together with the financial report of the Company for the year ended 31 December 2017 and the auditor's report thereon.

1. Directors

The names of the Directors in office at the date of this report are:

Gallagher, Kevin Thomas
Cowan, Guy Michael
Spence, Keith (appointed 19 February 2018)

Unless otherwise stated above, the Directors have held their office at all times since the beginning of the financial year. Peter Roland Coates acted as a Director through the year until his retirement on 19 February 2018. There were no other persons who acted as directors at any time during the financial year.

2. Principal Activities

The principal activity of the Company during the financial year was to provide centralised finance activities for the Santos Limited Group. No significant change in the nature of this activity has occurred during the year.

3. Review and Results of Operations

During the year, the Company continued to manage external borrowings for the Santos Limited Group and provide funding for the parent entity and its controlled entities. The net loss for the financial year after providing for income tax was $455,140,000 (2016 $129,680,000).

4. Dividends

No dividends have been paid or declared during the financial year and no dividends have been recommended by the Directors.

5. State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year.

6. Events Subsequent to Reporting Date

There were no events that occurred subsequent to 31 December 2017, which have not been brought to account in the financial statements for the year ended 31 December 2017.

7. Likely Developments

With respect to likely developments in the operations of the Company in future financial years, it is expected that the Company will continue its principal activity as set out above.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

8. Indemnification

Rule 12 of the Company's Constitution provides that the Company indemnifies each person who is or who has been an "officer" of the Company against any liability to another person (other than the Company or a related body corporate) arising from their position as such officer, unless the liability arises out of conduct involving a lack of good faith. Rule 12 also provides for an indemnity in favour of an officer or auditor (Ernst & Young) in relation to costs incurred in defending proceedings in which judgment is given in their favour or in which they are acquitted or the Court grants relief.

For the purpose of Rule 12, "officer" has the meaning given in Rule 12.1 but limited to such officers appointed from the date that the Company became a subsidiary of Santos Limited.

In addition, Santos Limited pays premiums in respect of Directors' and Officers' Liability and Legal Expenses insurance contracts on behalf of the Santos Limited Group. The insurance contracts insure against certain liability (subject to exclusions) persons who are or have been directors or officers of the Company. A condition of these contracts is that the nature of the liability indemnified and the premium payable not be disclosed.

9. Rounding

Australian Securities and Investments Commission Corporations (Rounding in Financial/Director's Report) Instrument 2016/191 applies to the Company. Accordingly, amounts have been rounded off in accordance with that Instrument, unless otherwise indicated.

10. Auditor's Independence Declaration

The auditor's independence declaration is set out on page 44 and forms part of the Directors' report for the 2017 financial year.

This report is made on 22 March 2018 in accordance with a resolution of the Directors.

............……………
Director