

3 April 2018

Receipt of unsolicited, non-binding, indicative and conditional proposal from Harbour Energy and granting of due diligence

Santos advises that on 29 March 2018 it received an unsolicited, non-binding, indicative and conditional proposal ("Harbour Proposal") from a special purpose entity of Harbour Energy Ltd ("Harbour") for it to acquire 100 per cent of Santos shares by way of a scheme of arrangement.

The indicative offer price is US\$4.98 per share, which in Australian dollars, is equivalent to A\$6.50¹ per share and represents a premium of:

- + 28 per cent to the last closing price of Santos of A\$5.07 per share on 29 March 2018; and
- + 30 per cent to the one month volume weighted average share price of Santos of A\$5.00 per share up to 29 March 2018.

The indicative offer price is comprised of the following components:

- + A cash offer price of US\$4.70 per share (equivalent to A\$6.13¹ per share); plus
- + A special dividend of US\$0.28 per share (equivalent to A\$0.37¹ per share) which is expected to be fully franked².

For those shareholders able to realise the full value of Santos' franking credits, the special dividend would represent additional value over and above the indicative offer price of up to A\$0.16¹ per share.

The Harbour Proposal also provides for a fixed Australian dollar offer price for the first 10,000 shares held by each individual shareholder.

Harbour has indicated this price would be fixed by reference to the prevailing exchange rate at the time binding transaction documentation is entered into.

Harbour has indicated that funding for the transaction is to be provided in the form of US\$7.75bn of debt that is to be underwritten by J.P. Morgan and Morgan Stanley (who have each provided commitment letters) and the balance in equity from Harbour, other EIG managed funds and Mercuria Global Energy (who have each provided equity commitment letters for their respective amounts).

The Harbour Proposal follows three prior unsolicited proposals from Harbour, being: (i) 14 August 2017 (indicative offer price: A\$4.55 per share); (ii) 22 March 2018 (indicative offer price: A\$6.25 per share); and (iii) 27 March 2018 (indicative offer price: A\$6.37 per share).

¹ Based on an AUD/USD exchange rate of 0.7662 as referenced in the Harbour Proposal

² Subject to receipt of a favourable tax ruling from the Australian Taxation Office

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A Santos Board committee comprising the Chairman, the Managing Director and the Chair of each of the Board standing committees has been formed to consider the approach from Harbour and to make recommendations to the Santos Board.

The Santos Board considers that, based on the indicative offer price of A\$6.50 per share, it is in the interests of shareholders to engage further with Harbour.

Accordingly, Harbour has entered into a confidentiality agreement with Santos to allow Harbour the opportunity to undertake confirmatory due diligence.

There is no certainty at this time that the Harbour Proposal will result in an offer for Santos that is capable of being considered by shareholders.

Directors therefore advise that Santos shareholders take no action in relation to the Harbour Proposal at this time.

Regardless of the outcome of engagement with Harbour, the Board and management remain focused on continuing to deliver shareholder value through the transformation of Santos into a low cost, reliable and high performance business with strong growth potential.

The Harbour Proposal is subject to a number of conditions, including:

- + A minimum of 15% (up to a maximum of 20%) of existing Santos shares outstanding rolling over into unlisted shares of a special purpose company ("Harbour RollCo") that will remain invested in Santos;
- + Entry into binding debt financing commitments;
- + Completion of confirmatory due diligence;
- + Regulatory approvals, including approval by the Foreign Investment Review Board;
- + Unanimous recommendation of the Harbour Proposal by the Santos Board (in the absence of a superior proposal); and
- + Entry into binding transaction documentation, including standard deal protection mechanisms.

Harbour has indicated in its proposal that, whilst it has not reached any agreement, arrangement or understanding with them, ENN and Hony Capital (together Santos' largest shareholder) may wish to rollover their existing Santos shares into Harbour RollCo.

Rothschild & Co., J.B. North & Co. and Deutsche Bank are acting as financial advisers to Santos and Herbert Smith Freehills is acting as legal adviser to Santos.

Ends.