ASX / Media Release

Santos

2 August 2021

Santos agrees proposed merger ratio with Oil Search

Santos and Oil Search have today reached agreement on the merger ratio under the proposed merger and the additional terms set out in this release ("Revised Merger Proposal").

Under the Revised Merger Proposal, Oil Search shareholders will receive 0.6275 new Santos shares for each Oil Search share held via a Scheme of Arrangement. Following approval of the Scheme, Oil Search shareholders will own approximately 38.5 per cent of the merged group and Santos shareholders will own approximately 61.5 per cent.

The Board of Oil Search has confirmed that, subject to the completion of confirmatory due diligence and the agreement of a binding Merger Implementation Agreement, their intention is to unanimously recommend the Revised Merger Proposal, in the absence of a superior proposal and subject to an independent expert concluding that the scheme of arrangement is in the best interests of Oil Search shareholders.

The Revised Merger Proposal implies a transaction price of A$4.29 per Oil Search share, based on the closing price of Santos and Oil Search shares on 19 July 2021 (being the day prior to disclosure of the first proposal). This represents a 16.8 per cent premium to the Oil Search closing price on 19 July and a 16.4 per cent premium to the one-month VWAP on that day. In addition, the proposal represents the opportunity to deliver compelling value accretion to both sets of shareholders.

The merger of Santos and Oil Search would create a regional champion of size and scale with the following features:

- Diversified portfolio of high quality, long-life, low-cost assets across Australia, Timor-Leste, Papua New Guinea and North America with significant growth optionality
- Pro-forma market capitalisation of A$21 billion which would position the merged entity in the top-20 ASX-listed companies and the 20 largest global oil and gas companies
- Combined 2021 production of approximately 116 million barrels of oil equivalent
- Combined 2P+2C resource base of 4,983 million barrels of oil equivalent
- Investment grade balance sheet with more than US$5.5 billion of liquidity to self-fund development projects, whilst maintaining further optionality and flexibility to optimise the portfolio
- Target gearing of less than 30 per cent
- Strong ESG credentials including maintaining Oil Search's social and community investment in Papua New Guinea and North America, including the Oil Search Foundation
- Substantial potential combination synergies. Santos has an excellent track record of integration and recently merged Quadrant Energy and ConocoPhillips' WA and NT business unit into Santos, delivering more than US$160 million in annual synergies

The combination would also create greater alignment in Papua New Guinea supporting the development of key projects including Papua LNG, deliver new jobs and help support the local economy.

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Oil Search shareholders would continue to participate in the merged entity and retain the opportunity to realise a premium for control as part of the merged entity.

Santos Managing Director and Chief Executive Officer Kevin Gallagher said the potential merger of Santos and Oil Search is consistent with Santos' disciplined strategy to grow around our core assets.

"It represents a compelling combination of two industry leaders to create an unrivalled regional champion of size and scale with a unique diversified portfolio of long-life, low-cost oil and gas assets.

"The merged company would have strong cash generation from a diverse range of assets which provides a strong platform for sustainable growth and continued shareholder returns.

"The merger also builds on our industry-leading approach to ESG through the combination of Santos' net-zero 2040 pathway, including its sector-leading CCS projects, and Oil Search's unique social programs in PNG, underpinned by a strong balance sheet to fund the transition to a lower carbon future.

"The Revised Merger Proposal represents an extremely attractive opportunity to deliver compelling value accretion to both Santos and Oil Search shareholders."

Santos and Oil Search have committed to conduct best endeavours due diligence subject to appropriate confidentiality arrangements over a period of approximately four weeks with the aim of entering into a Merger Implementation Agreement, which would contain conditions to completion of the merger such as regulatory approvals.

Each party will be free to declare ordinary dividends in accordance with existing dividend policy through to signing of the Merger Implementation Agreement. Should a party declare a dividend outside its existing dividend policy before the signing of the Merger Implementation Agreement, there would be an appropriate adjustment to the merger ratio.

Citigroup and JB North & Co are acting as financial advisers and Herbert Smith Freehills and Dentons are acting as legal advisers to Santos.

Ends.

This ASX announcement was approved and authorised for release by Kevin Gallagher, Managing Director and Chief Executive Officer.

Oil Search Merger Rationale

2 August 2021

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Strategic rationale for merger

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Merger would create a regional champion of scale and provide shareholders with an opportunity to participate in a new company that can optimally fund the development of a diverse portfolio of high-quality O&G assets

A **CREATES A REGIONAL CHAMPION OF SIZE AND SCALE**	✓ Positioned within S&P ASX-20 index and top 20 largest global O&G companies ✓ Operated footprint gives ability to control cost and deliver growth
B **DIVERSIFIED PORTFOLIO OF LONG-LIFE, LOW-COST ASSETS WITH GROWTH OPTIONS**	✓ Balanced portfolio of geographically and product differentiated assets ✓ Robust development pipeline with flexibility
C **STRONG BALANCE SHEET AND INVESTMENT GRADE FUNDING PLATFORM**	✓ >US$5.5bn of liquidity and an investment grade credit rating ✓ Sufficient capacity to self-fund development pipeline
D **UNLOCKS SYNERGIES AND LATENT SHAREHOLDER VALUE**	✓ Substantial potential combination synergies to the benefit of all shareholders
E **PORTFOLIO OPTIMISATION OPPORTUNITIES**	✓ Opportunities to align joint venture interests across PNG projects ✓ Optimise portfolio to further strengthen balance sheet and high grade portfolio

A Creates a regional champion of size and scale

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- ✓ **Positioned within S&P ASX-20 index and top 20 largest global O&G companies**
- ✓ **Greater equity market relevance with the size and liquidity to attract a wider pool of investors**
- ✓ **Creates one of the largest Asian LNG suppliers and potential to unlock portfolio optionality**
- ✓ **Operated footprint improves ability to control cost and deliver growth**

Creates a regional champion

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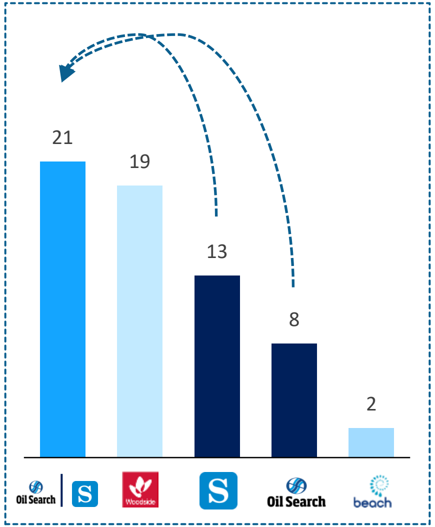
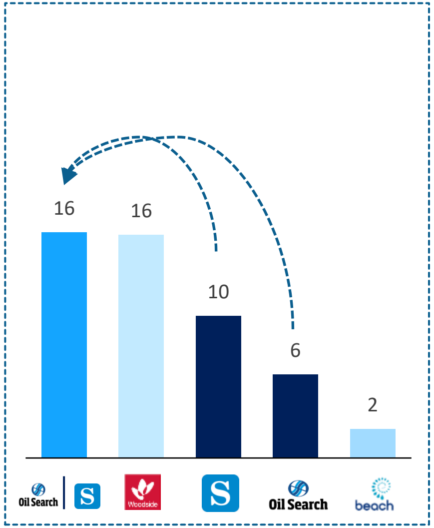
MergeCo would become the largest ASX-listed O&G company and can leverage its scale and operating capability across procurement, marketing and trading to be competitive against global peers

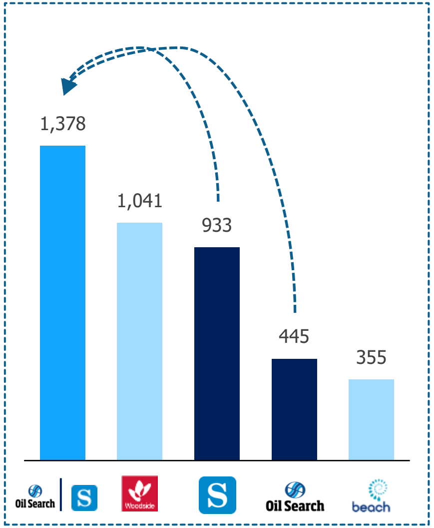
Enterprise value[1] *(US$bn)*



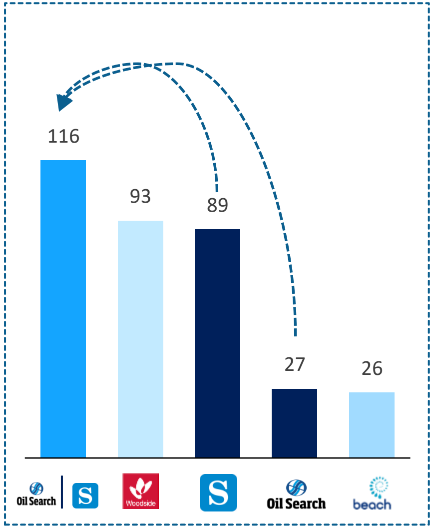
Market capitalisation *(US$bn)*



2P Reserves *(mmboe)*



CY21 Production[2] *(mmboe)*



MergeCo would become the largest ASX-listed O&G company

Sources: FactSet, IRESS, Company filings. Market Data as at 30 July 2021. Assumes AUDUSD = 0.75
Notes: (1) Enterprise value excludes lease liabilities and financial derivatives. Santos, Oil Search, and Beach net debt as at 30 June 2021. Woodside net debt as at 31 December 2020; (2) Mid-point of latest company guidance.

MergeCo would benchmark against global O&G large-caps and the S&P/ASX-20

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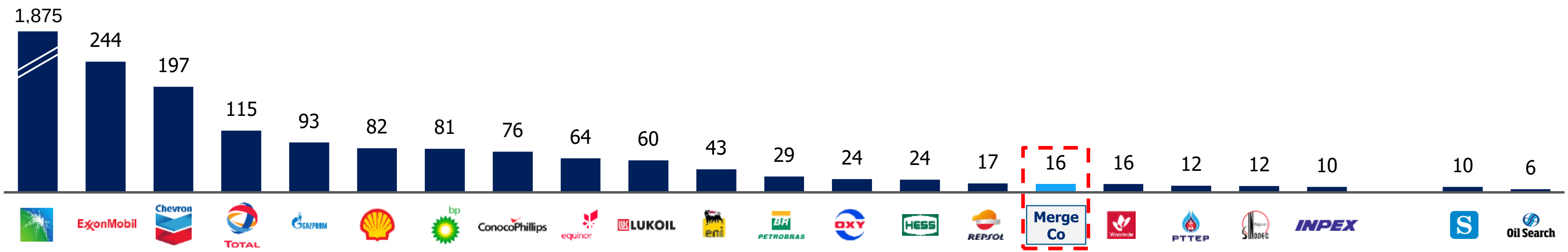
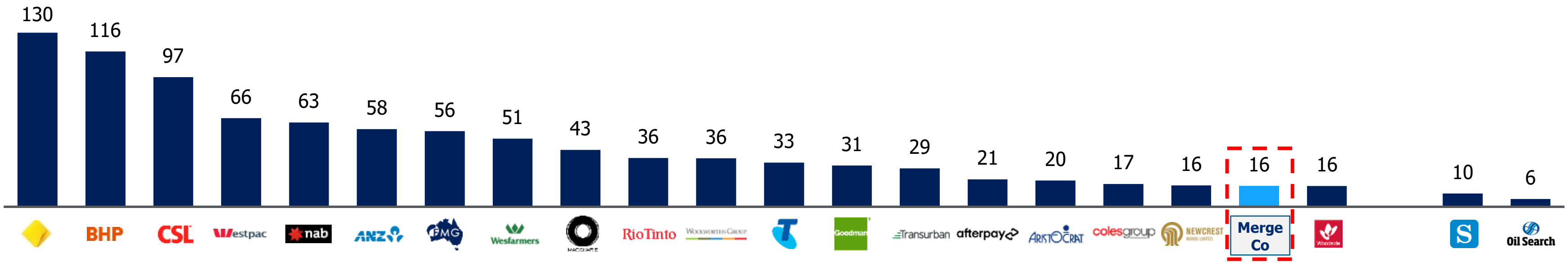
The combined group would be positioned within the S&P ASX-20 index and the top 20 largest global O&G companies

Top 20 largest global O&G players – Market Cap *(US$bn)*



Positioned within the S&P/ASX-20[1] – Market Cap *(US$bn)*



Source: FactSet, IRESS. Market data as at 30 July 2021
Notes: (1) ASX-20 Index ("XTL") as per IRESS at 30 July 2021.

B Diversified portfolio of long-life, low-cost assets with growth options

Santos

- **Balanced portfolio of geographically and product differentiated assets**
- **Portfolio of core assets reduces asset-level risk and provides a strong platform for sustainable growth**
- **Increased development optionality with ability to optimise project phasing and funding**
- **CPI-linked domestic gas volumes provide secure cash flows and resilience to oil price shocks**

Ⓑ Diversified portfolio of long-life, low-cost assets

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MergeCo would have multiple independent sources of low-cost cash flows making it resilient throughout the oil price cycle. MergeCo's operated footprint across all major assets would allow it to control development timelines and maximise value.

Alaska

+ Large scale oil development with upside and low emissions intensity
+ Leveraging existing infrastructure

Offshore Northern Territory

+ Barossa provides low cost backfill of DLNG
+ Potential to re-purpose Bayu-Undan to CCS hub
+ Backfill and expansion opportunity

West Australia

+ Leading domestic gas supplier
+ High value liquids revenue
+ Major growth upside with Dorado and Bedout basin exploration
+ Exploring CCS opportunities

PNG

+ Tier 1 asset with backfill opportunities to maximise value
+ Growth through Papua LNG
+ Operated oil assets
+ Strong community relationships

Onshore Australia

+ Supplying LNG and domestic gas markets
+ Major growth potential in NT shale supports GLNG or DLNG backfill or DLNG expansion
+ Scalable Moomba CCS opportunity
+ Growth through Narrabri development
+ Liquids export via Port Bonython

High quality portfolio of long-life assets

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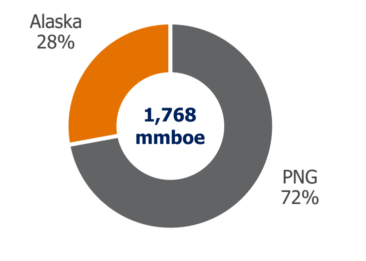
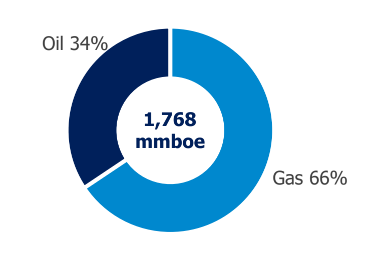
Diversified portfolio providing a platform for sustainable growth and shareholder returns

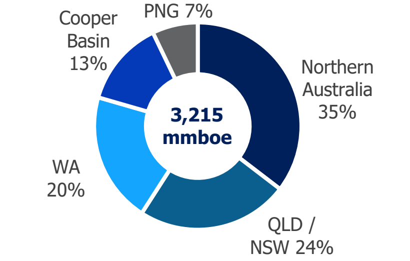
Reserves & Resources[1] *(mmboe)*

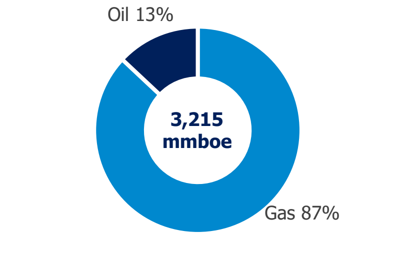
Oil Search Standalone 2P + 2C



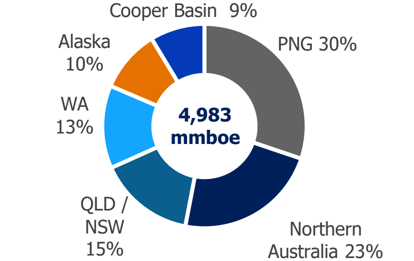


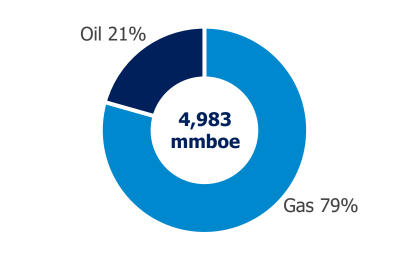
Santos Standalone 2P + 2C





MergeCo 2P + 2C





Key Messages

- ☑ MergeCo would benefit from a portfolio of core assets providing geographic and product diversification
- ☑ Reduced asset-level risk would provide a strong platform for sustainable growth and continued shareholder returns
- ☑ Would increase optionality for MergeCo with ability to optimise project phasing and funding

Sources: 2020 Santos and Oil Search Annual Reports
Notes: (1) Reserves & Resources as at 31 December 2020.

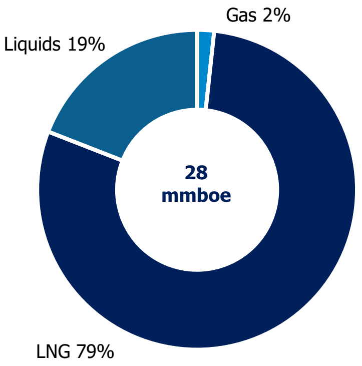
B Diversified across LNG, domestic gas and liquids

Santos

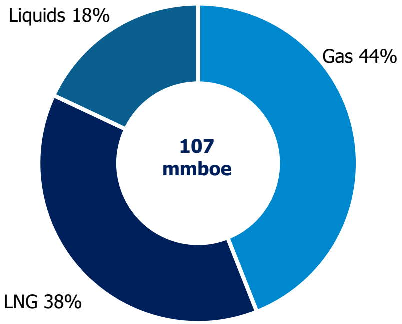
Multiple pricing benchmarks provide price diversification while fixed price CPI-linked sales contracts and tolling revenue would create a natural hedge that can provide sustained cash flows through the oil price cycle with uncapped upside

Sales Volumes[1] *(mmboe)*

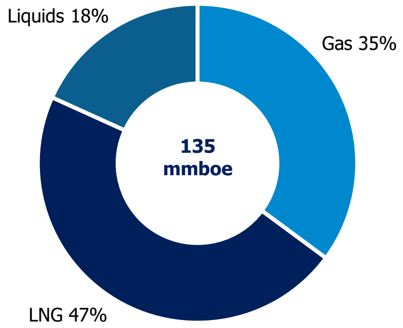
Oil Search Standalone[2]



Santos Standalone[3]



MergeCo



Key Messages

- ☑ MergeCo would be positioned to generate sustained cash flows through the oil price cycle
- ☑ CPI-linked domestic gas volumes would provide secure cash flows and resilience to oil price shocks
- ☑ LNG portfolio with a balance of attractive oil-linked contracts and spot exposure

Sources: Company Filings
Notes: (1) Sales volumes for CY2020; (2) as reported in Oil Search 2020 Annual Report; (3) as reported in Santos 2020 Annual Report.

C Strong balance sheet and investment grade funding platform

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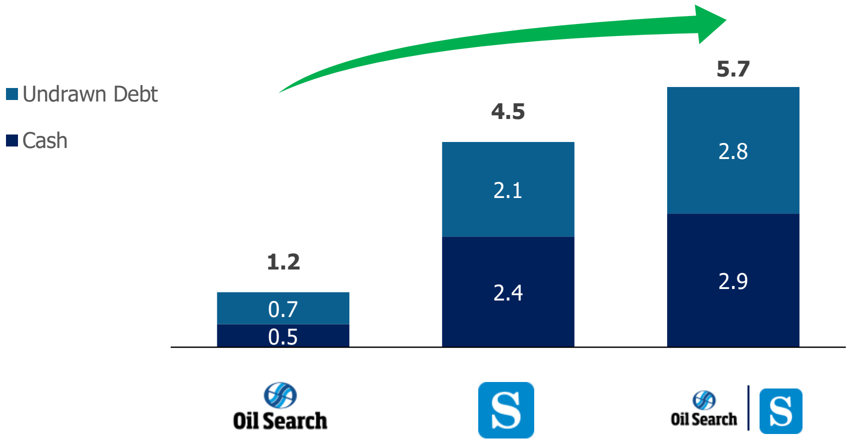
- ✓ **>US$5.5bn of liquidity and an investment grade credit rating**
- ✓ **Sufficient capacity to self-fund development pipeline – not reliant on sell-downs to fund growth**
- ✓ **MergeCo to target gearing of less than 30 per cent**
- ✓ **MergeCo can sell-down from a position of strength and is not a forced seller**

C MergeCo provides a strong balance sheet & funding platform

Santos

MergeCo's diverse asset portfolio, balanced commodity price exposure and investment grade credit rating make it resilient to commodity price shocks and interruptions at individual assets

Liquidity Position *(US$bn)*



Liquidity	1.2	4.5	5.7
Net Debt / EBITDAX[(1,2)]	1.9x	1.1x	1.3x

MergeCo Liquidity Highlights

- ☑ MergeCo is resilient to commodity price shocks and asset level interruptions
- ☑ Strong balance sheet with >US$5.5bn of liquidity to fund near term growth projects
- ☑ Investment grade credit rating and strong ESG performance facilitate lower cost of capital

Sources: Company filings. Oil Search and Santos balance sheet data as at 30 June 2021
Notes: (1) Net debt excludes lease liabilities and financial derivatives; (2) CY21 EBITDAX as per average FactSet broker consensus estimates.

D MergeCo could realise substantial potential synergies

Santos

MergeCo is well positioned to benefit from operational and corporate synergies

- ✓ **Integration of procurement, contracting and development**
- ✓ **Sharing of corporate overheads, listing, audit and board costs**
- ✓ **Utilising centralised operations and maintenance capability across portfolio**
- ✓ **Maximising value in marketing and trading by leveraging scale and optionality**

Proven track record of delivering integration synergies

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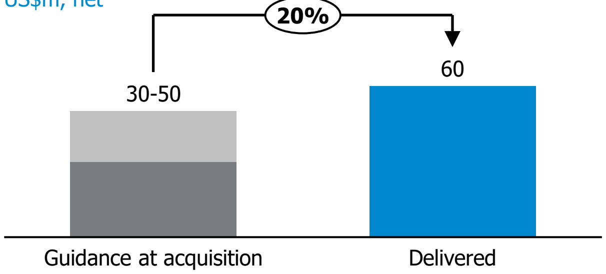
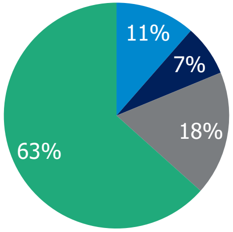
Delivered more than $160 million in synergies from the Quadrant and ConocoPhillips transactions. Substantial potential combination synergies expected from the Oil Search merger

Quadrant integration pre-tax synergies

US$m, net



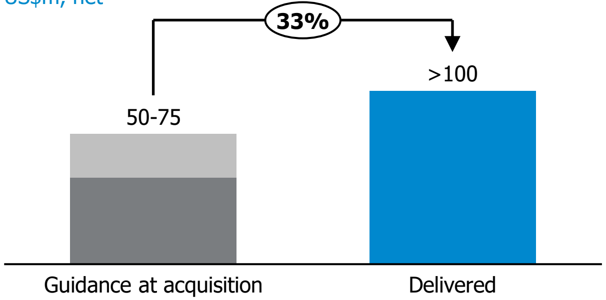


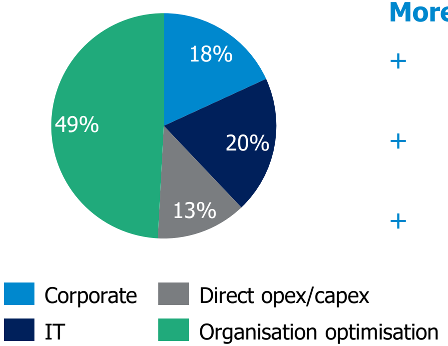
US$50-60m synergies delivered through:

- Gas marketing and operational efficiencies
- Removal of non-operated duplication for WA gas assets
- Reduced corporate costs by consolidating Perth offices, support functions, IT costs and insurance

ConocoPhillips AW integration pre-tax synergies

US$m, net





More than US$100m synergies delivered through:

- Significant reductions in corporate and IT costs from global parent and local office
- Optimisation of maintenance activities across operations
- Restructured to an integrated organisation

E MergeCo would provide flexibility for portfolio optimisation

Santos

MergeCo would have the opportunity to optimise portfolio balance and project timing through the lens of capital efficiency and risk allocation

- ✓ **Alignment of joint venture partners in PNG LNG and Papua LNG**
- ✓ **Continuation of existing sell-down processes**
- ✓ **Potential for additional value to be unlocked through midstream infrastructure optimisation**

Ⓔ Papua New Guinea opportunities

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MergeCo would hold an enhanced position in the world-class PNG LNG project and create better alignment between this foundation project and Papua LNG, supporting Papua FID, jobs growth and long term revenue for PNG and its people

Key benefits

- ☑ Would better align equity interests across PNG LNG and Papua LNG facilitating progress to FID
- ☑ Potential opportunity to further optimise ownership across PNG LNG and Papua LNG
- ☑ Supports alignment on backfill resources for PNG LNG enhancing value for all parties

Social license

- ☑ Both Santos and Oil Search have strong existing relationships with PNG government and Kumul Petroleum
- ☑ Opportunity to build on existing relationship for future collaboration
- ☑ Strong Australian-PNG government relationship
- ☑ Oil Search Foundation, Port Moresby Office

	PNG LNG	Papua LNG
Oil Search / Santos	**42.5%**	**17.7%**
ExxonMobil	33.2%	28.7%
Total	-	31.1%
Kumul Petroleum	19.6%	22.5%
JX	4.7%	-

Ⓔ Potential for additional value to be unlocked in midstream

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MergeCo would have a unique portfolio of midstream infrastructure assets with long term stable cash flows without commodity price risk

2020 Pro-forma EBITDA ~US$400m

Excluding GLNG and growth opportunities

SANTOS' EXISTING OPERATED MIDSTREAM INFRA ASSETS

Moomba

Port Bonython

DLNG

Varanus Island

Devil Creek

- ☑ Backdrop of unprecedented appetite for infrastructure assets
- ☑ Total Energies' recent GLNG infrastructure deal implies an ~US$820 million value for Santos' 30% interest
- ☑ MergeCo's diverse portfolio with long term, stable cash flows is expected to be attractive to infrastructure investors
- ☑ Opportunity to expand Midstream business with growth portfolio, non-operated assets and low carbon business
- ☑ Leverages proven track record as operator and investment grade credit rating

Disclaimer and important notice

Santos

The proposed merger of Santos and Oil Search outlined in this presentation (**Proposal**) is non-binding and indicative only and is subject to due diligence and the agreement of a binding Merger Implementation Agreement. There is no certainty that a binding transaction will result from the Proposal. In addition, any binding Merger Implementation Agreement entered into between the parties would be subject to a number of additional conditions to completion of the merger, such as regulatory approvals.

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

All references to dollars, cents or $ in this document are to United States currency, unless otherwise stated. The symbol "~" means approximately

Underlying profit, EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment) and free cash flow (operating cash flows, less investing cash flows net of acquisitions and disposals and major growth capex, less lease liability payments) are non-IFRS measures that are presented to provide an understanding of the performance of Santos' operations. The non-IFRS financial information is unaudited however the numbers have been extracted from the audited financial statements. Free cash flow breakeven is the average annual oil price at which cash flows from operating activities (before hedging) equals cash flows from investing activities. Forecast methodology uses corporate assumptions. Excludes one-off restructuring and redundancy costs, costs associated with asset divestitures and acquisitions, major growth capex and lease liability payments.

The information set out in this presentation does not take into account any person's individual financial objectives or circumstances.

Disclaimer and important notice

The estimates of petroleum reserves and contingent resources (other than pro-forma statements incorporating Oil Search reserves and contingent resources) contained in this presentation are as at 31 December 2020, as contained in the Santos 2020 Annual Report. Santos is not aware of any new information or data that materially affects the estimates of its reserves and contingent resources and the material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

Santos prepares its petroleum reserves and contingent resources estimates in accordance with the 2018 Petroleum Resources Management System (PRMS) sponsored by the Society of Petroleum Engineers (SPE). Unless otherwise stated, all references to petroleum reserves and contingent resources quantities in this presentation are Santos' net share. Reference points for Santos' petroleum reserves and production are defined points within Santos' operations where normal exploration and production business ceases, and quantities of produced product are measured under defined conditions prior to custody transfer. Fuel, flare and vent consumed to the reference points are excluded. Petroleum reserves are aggregated by arithmetic summation by category and as a result, proved reserves may be a very conservative estimate due to the portfolio effects of arithmetic summation. Petroleum reserves are typically prepared by deterministic methods with support from probabilistic methods. Petroleum reserves replacement ratio is the ratio of the change in petroleum reserves (excluding production) divided by production. Organic reserves replacement ratio excludes net acquisitions and divestments. Conversion factors: 1PJ of sales gas and ethane equals 171,937 boe; 1 tonne of LPG equals 8.458 boe; 1 barrel of condensate equals 0.935 boe; 1 barrel of crude oil equals 1 boe.