Santos Finance Ltd

ABN 81 002 799 537

Annual Report - 31 December 2021

Santos Finance Ltd
Directors' report
31 December 2021

The Directors present their report together with the financial report of Santos Finance Limited ("the Company") for the year ended 31 December 2021 and the auditor's report thereon.

Directors

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

Gallagher, Kevin Thomas
Cowan, Guy Michael
Spence, Keith William

Unless otherwise stated above, the Directors have held their office at all times since the beginning of the financial year. There were no other persons who acted as directors at any time during the financial year.

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.

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 profit for the financial year after providing for income tax was $8,211,000 (2020: $449,346,000 net loss).

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

State of Affairs
There were no significant changes in the state of affairs of the Company during the financial period.

Events Subsequent to Reporting Date
No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

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.

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.

Rounding
ASIC 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.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the 2021 financial year.

This report is made on 29 March 2022 in accordance with a resolution of the Directors.

K.T. G

Director

Ernst & Young
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Auditor's independence declaration to the directors of Santos Finance Ltd

As lead auditor for the audit of the financial report of Santos Finance Ltd for the financial year ended 31 December 2021, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Darryn Hall
Partner
29 March 2022

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Santos Finance Ltd
Statement of profit or loss
For the period ended 31 December 2021

	Note	2021 $'000	2020 $'000
Finance income	3	**514,446**	483,127
Finance costs	3	**(148,875)**	(158,269)
Net finance income		**365,571**	324,858
Net (loss)/gain on financial instruments at FVTPL	4	**(300,547)**	43,386
Impairment loss on receivables from related entities		**(15,847)**	(707,886)
Foreign exchange loss		**(3,701)**	(1,403)
Other expenses		**(1,200)**	(84)
Profit/(loss) before income tax expense		**44,276**	(341,129)
Income tax expense	5	**(36,065)**	(108,217)
Net profit/(loss) for the period attributable to the owners of Santos Finance Ltd		**8,211**	(449,346)

The above statement of profit or loss should be read in conjunction with the accompanying notes

Santos Finance Ltd
Statement of other comprehensive income
For the period ended 31 December 2021

	2021 $'000	2020 $'000
Net profit/(loss) for the period attributable to the owners of Santos Finance Ltd	**8,211**	(449,346)
Other comprehensive (loss)/income not to be reclassified to income statement in subsequent periods:		
Fair value changes on financial liabilities designated at fair value due to own credit risk	**(1,268)**	2,928
Tax effect	**(252)**	(878)
Other comprehensive (loss)/income for the period, net of tax	**(1,520)**	2,050
Total comprehensive income/(loss) for the period attributable to the owners of Santos Finance Ltd	**6,691**	(447,296)

The above statement of other comprehensive income should be read in conjunction with the accompanying notes

Santos Finance Ltd
Statement of financial position
As at 31 December 2021

	Note	2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	6	**1,901,144**	856,983
Prepayments		**1,654**	1,421
Trade and other receivables		**4,118**	226
Other financial assets	7	**160,899**	115,149
Total current assets		**2,067,815**	973,779
Non-current assets			
Prepayments		**407**	745
Other financial assets	7	**13,303,516**	13,220,531
Deferred tax asset	11	**78,636**	61,750
Total non-current assets		**13,382,559**	13,283,026
Total assets		**15,450,374**	14,256,805
Liabilities			
Current liabilities			
Trade and other payables	8	**32,739**	29,023
Interest-bearing loans and borrowings	9	**220,009**	62,397
Other financial liabilities	10	**952,609**	480,108
Total current liabilities		**1,205,357**	571,528
Non-current liabilities			
Interest-bearing loans and borrowings	9	**13,301,297**	12,748,248
Total non-current liabilities		**13,301,297**	12,748,248
Total liabilities		**14,506,654**	13,319,776
Net assets		**943,720**	937,029
Equity			
Issued capital	12	**1,951,510**	1,951,510
Reserves		**(154,173)**	(152,653)
Accumulated losses		**(853,617)**	(861,828)
Total equity		**943,720**	937,029

The above statement of financial position should be read in conjunction with the accompanying notes

Santos Finance Ltd
Statement of changes in equity
For the period ended 31 December 2021

	Issued capital $'000	Hedging and own credit risk reserve $'000	Translation reserve $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2020	1,951,510	(14,653)	(105,950)	(34,100)	(412,482)	1,384,325
Net loss for the period	–	–	–	–	(449,346)	(449,346)
Other comprehensive income for the period	–	2,050	–	–	–	2,050
Total comprehensive income/(loss) for the period	–	2,050	–	–	(449,346)	(447,296)
Balance at 31 December 2020	1,951,510	(12,603)	(105,950)	(34,100)	(861,828)	937,029
Balance at 1 January 2021	**1,951,510**	**(12,603)**	**(105,950)**	**(34,100)**	**(861,828)**	**937,029**
Profit for the period	–	–	–	–	**8,211**	**8,211**
Other comprehensive income for the period	–	**(1,520)**	–	–	–	**(1,520)**
Total comprehensive (loss)/income for the period	–	**(1,520)**	–	–	**8,211**	**6,691**
Balance at 31 December 2021	**1,951,510**	**(14,123)**	**(105,950)**	**(34,100)**	**(853,617)**	**943,720**

The above statement of changes in equity should be read in conjunction with the accompanying notes

Santos Finance Ltd
Statement of cash flows
For the period ended 31 December 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Interest received		**2,962**	11,717
Borrowing costs paid		**(140,717)**	(119,931)
Proceeds from foreign exchange contracts		**16,864**	–
(Payments for)/proceeds from commodity derivatives		**(230,629)**	53,694
Net cash used in operating activities	14	**(351,520)**	(54,520)
Cash flows from financing activities			
Drawdown of borrowings		**995,500**	1,491,957
Repayment of borrowings		**(683,058)**	(809,943)
Receipts from related entities		**1,331,121**	7,060,904
Payments to related entities		**(244,181)**	(7,618,468)
Net cash from financing activities	14	**1,399,382**	124,450
Net increase in cash and cash equivalents		**1,047,862**	69,930
Cash and cash equivalents at the beginning of the financial period		**856,983**	788,456
Effects of exchange rate changes on cash and cash equivalents		**(3,701)**	(1,403)
Cash and cash equivalents at the end of the financial period	6	**1,901,144**	856,983

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 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 29 March 2022.

(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* (Cth), 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;
- using a presentation currency of United States dollars ("US$"); and
- rounded to the nearest thousand dollars, unless otherwise stated, in accordance with the *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/91*.

Santos Limited and its wholly-owned subsidiaries ("the Santos Group" or "the 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.

Adoption of new accounting standards and interpretations

The Company applied the following amendment to accounting standards applicable for the first time for the financial year beginning 1 January 2021:

- AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform (Phase 2)

The amendments to AASB 4, AASB 7, AASB 9, AASB 16 and AASB 139 provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Note 1. Significant accounting policies (continued)

(b) Basis of Preparation (cont.)

The amendments include the following practical expedients:

- To require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments have not had a significant or immediate impact on the Company's annual financial statements.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning on or after 1 January 2022 and have not been applied in preparing these financial statements. The Company's assessment of the impact of these new standards, amendments to standards and interpretations is outlined in the following table:

i)	**Amendments to IAS 16 – *Property, Plant and Equipment: Proceeds before intended use***
Description	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
Impact on the Company's financial report	This amendment is not expected to have a material impact on the financial report.
Application of standard	1 January 2022 (Applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment).

ii)	**Amendments to IAS 37 – *Onerous Contracts – Costs of Fulfilling a contract***
Description	The amendments provide clarification on which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'.
Impact on the Company's financial report	This amendment is not expected to have a material impact on the financial report.
Application of standard	1 January 2022

Note 1. Significant accounting policies (continued)

(b) Basis of Preparation (cont.)

iii)	**Amendments to IAS 12 – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction***
Description	The amendments narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.
Impact on the Company's financial report	It is yet to be determined what the impact on the Company would be as a result of this amendment to the standard.
Application of standard	1 January 2023

The accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(c) Foreign currency

Functional currency
Both the functional and presentation currency of the Company is United States Dollars.

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 transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rate ruling at the reporting date. Foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(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.

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.

Note 1. Significant accounting policies (continued)

(e) Hedging

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 designated 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 designated as a hedging instrument.	At the date the instrument is designated as a hedging instrument.
Measurement	Measured at fair value.	Measured at fair value.
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 the 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. Movements in fair value of liabilities designated at FVTPL due to changes in the Company's own credit risk are recorded in the own credit reserve through OCI and do not get recycled to the income statement.	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 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 statement of financial position, for a non-financial asset, at the same time as the hedged item is recognised. 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.

Note 1. Significant accounting policies (continued)

(e) Hedging (cont.)

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 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) Receivables

Receivables are initially recognised at fair value. Subsequent measurement is determined through consideration of the business model for managing the receivable and its contractual cash flow characteristics. Receivables are subsequently measured at amortised cost if they are held within a business model where the objective is to collect contractual cashflows which are solely payments of principal and interest (SPPI).

Other financial assets, being intercompany receivables, are classified as amortised cost and 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.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either:

(i) over the following twelve months; or
(ii) over the expected life of a receivable depending on credit deterioration from inception.

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 impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a receivable, an amount equal to 12 months expected credit loss is recorded.

- Stage 2 – When a financial asset experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial asset.

- Stage 3 – Financial assets that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

(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.

Note 1. Significant accounting policies (continued)

(h) Impairment

The carrying amounts of the Company's non-financial 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)).

(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

Transaction 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.

Note 1. Significant accounting policies (continued)

(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.

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 liability 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.

Note 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 expected credit loss impairment using a model that reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a receivable depending on credit deterioration from inception. The carrying amount of the receivables from related entities is disclosed in note 7.

Note 2. Segment Information

The Company is a wholly-owned subsidiary of Santos Limited. The sole business of the Company is to raise debt to fund 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 $511,428,000 (2020: $471,184,000) 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.

Note 3. Net finance income

	2021 $'000	2020 $'000
Interest income:		
Related entities	**511,428**	471,184
Other entities	**3,018**	11,943
Finance income	**514,446**	483,127
Interest expense:		
Related entities	**(537)**	(30,433)
Other entities	**(148,338)**	(127,836)
Finance costs	**(148,875)**	(158,269)
Net finance income	**365,571**	324,858

Note 4. Net (loss)/gain on financial instruments at FVTPL

	2021 $'000	2020 $'000
(Loss)/gain from changes in fair value of commodity derivatives	**(276,565)**	18,311
(Loss)/gain from changes in fair value of foreign exchange contracts	**(26,090)**	26,810
Loss from changes in fair value of interest rate swap contracts	**(13,211)**	(1,819)
Gain from changes in fair value of borrowings held at FVTPL	**15,319**	84
Net (loss)/gain on financial instruments at FVTPL	**(300,547)**	43,386

Santos Finance Ltd
Notes to the financial statements
31 December 2021

Note 5. Taxation Expense

	2021 $'000	2020 $'000
Current tax expense		
Current year	**53,203**	113,351
Deferred tax benefit		
Origination and reversal of temporary differences	**(17,138)**	(5,134)
Income tax expense	**36,065**	108,217
Deferred tax charged directly to OCI		
(Gain)/loss on derivatives designated at fair value due to own credit risk, not to be reclassified to profit or loss in subsequent periods	**252**	878

Numerical reconciliation between tax benefit and pre-tax net loss:		
Profit/(loss) before tax	**44,276**	(341,129)
Prima facie income tax at 30% (2020: 30%)	**13,283**	(102,339)
Increase/(decrease) in income tax benefit due to:		
Impairment reversal of receivables due from related entities	**4,754**	212,366
Foreign exchange losses and other translation adjustments	**–**	416
Under/(over) provided in prior years	**18,028**	(2,226)
Income tax expense	**36,065**	108,217

Note 6. Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank and in hand	**489,102**	215,350
Short-term deposits	**1,412,042**	641,633
	1,901,144	856,983

Note 7. Other financial assets

	2021 $'000	2020 $'000
Current		
Amounts owing from related entities	**153,795**	86,634
Foreign exchange contracts	**–**	28,515
Interest rate swap contracts	**7,104**	–
	160,899	115,149
Non-current		
Interest rate swap contracts	**3,533**	23,848
Amounts owing from related entities	**13,299,983**	13,196,683
	13,303,516	13,220,531

Note 8. Trade and other payables

	2021 $'000	2020 $'000
Other payables	**32,739**	29,023

Note 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.

	2021 $'000	2020 $'000
Current		
Bank loans - unsecured	**–**	62,397
Long-term notes	**220,009**	–
Non-current		
Loans payable to related entities	**9,859,852**	9,452,285
Bank loans - unsecured	**1,043,090**	1,661,589
Long-term notes	**2,398,355**	1,634,374
	13,301,297	12,748,248

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 4.02% as at 31 December 2021 (2020: 4.10%).

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

Details of major credit facilities

(a) Bank loans – unsecured

Syndicated and bilateral bank loans

Year of maturity	Currency	Effective Interest Rate 2021	Effective Interest Rate 2020	2021 $'000	2020 $'000
2024 and 2026	USD	**2.05%**	2.20%	**1,043,090**	1,440,928

Term bank loans bear interest at the relevant interbank reference rate plus a margin. The principal outstanding at 31 December 2021 is $1,050,000,000 (2020: $1,450,000,000). The facility limit is $1,250,000,000 (2020: $1,450,000,000).

Export Credit Agency supported loan facilities

Year of maturity	Currency	Effective Interest Rate 2021	Effective Interest Rate 2020	2021 $'000	2020 $'000
2021 to 2026	USD	–	2.78%	–	283,058

Export credit agency supported loans bear interest at the relevant interbank reference rate plus a margin. As at 31 December 2021 the Company had fully drawn loan facilities of $nil (2020: $283,058,000) supported by various export credit agencies.

Note 9. Interest-bearing loans and borrowings (continued)

Bilateral bank loan facility

As at 31 December 2021, the Company had available bilateral bank loan facilities of $1,865,000,000 (2020: $1,870,000,000) that mature between 2021 and 2026. As at 31 December 2021, the Company had no principal outstanding (2020: nil) under these facilities.

(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			
Year of maturity	Currency	**2021**	2020	**2021 $'000**	2020 $'000
2022 to 2027	USD	**1.05%**	1.84%	**238,414**	252,466

Long-term notes bear interest at 6.45% to 6.81% (2020: 6.45% to 6.81%) fixed rate interest, which has been swapped to floating interest rate commitments.

The principal outstanding and facility limit at 31 December 2021 is $227,000,000 (2020: $227,000,000).

Regulation-S Bonds

The Company has the following notes on issue:

		Effective Interest Rate			
Year of maturity	Currency	**2021**	2020	**2021 $'000**	2020 $'000
2027 and 2029	USD	**4.82%**	4.84%	**1,384,183**	1,381,908

Both bonds bear a fixed interest rate. The principal outstanding and facility limit at 31 December 2021 is $1,400,000,000 (2020: $1,400,000,000).

Rule 144A/Regulation-S bond

The Company has the following notes on issue:

		Effective interest rate			
Year of maturity	Currency	**2021**	2020	**2021 $**	2020 $
2031	USD	**3.65%**	–	**995,766**	–

During 2021, Santos Finance Limited completed a US$1,000,000,000 Rule 144A/Regulation-S issuance maturing in 2031 and bearing a fixed interest rate. The principal outstanding at 31 December 2021 is $1,000,000,000 (2020: $nil).

Note 10. Other financial liabilities

	2021 $'000	2020 $'000
Current		
Amounts owing to related entities	**857,481**	445,355
Commodity derivatives	**78,984**	33,048
Foreign exchange contracts	**16,144**	1,705
	952,609	480,108

Note 11. Deferred tax assets

	2021 $'000	2020 $'000
Recognised deferred tax assets are attributable to the following:		
Derivative financial instruments	**32,032**	(8,139)
Interest-bearing loans and borrowings	**46,604**	69,889
Deferred tax assets	**78,636**	61,750

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.

Note 12. Issued capital

	2021 $'000	2020 $'000
Issued Capital	**1,951,510**	1,951,510

As at 31 December 2021, Santos Finance Limited had 2,334,470,555 fully paid ordinary shares on issue (2020: 2,334,470,555).

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	2021 Number of Shares	2020 Number of Shares	2021 $'000	2020 $'000
Balance at the beginning of the year	**2,334,470,555**	2,334,470,555	**1,951,510**	1,951,510
Shares issued	**–**	–	**–**	–
Balance at the end of the year	**2,334,470,555**	2,334,470,555	**1,951,510**	1,951,510

During the year no shares were issued to the Company's parent entity (2020: $ nil).

Note 12. Issued capital (continued)

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.

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.

Own credit risk reserve
The own credit risk revaluation reserve comprises the cumulative changes in the fair value of the financial liabilities designated as part of a fair value hedge relationship which is attributable to changes in the Company's own credit risk.

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.

Note 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.

Note 14. Reconciliation of net profit/(loss) after income tax to net cash from/(used in) operating activities

	2021 $'000	2020 $'000
Net profit/(loss) after income tax benefit/(expense) for the period	**8,211**	(449,346)
Add/(deduct) non-cash items:		
Impairment (gain) / loss on receivables due from related entities	**15,847**	707,886
Foreign exchange (gains) / losses	**3,701**	1,403
Net borrowing income charged to related entities	**(510,891)**	(440,751)
Net losses on fair value derivatives	**86,781**	10,308
Cross-currency swaps revaluation	**–**	6,288
Amortisation of prepaid loan transaction costs	**4,809**	84
Net cash used in operating activities before change in assets or liabilities	**(391,542)**	(164,128)
Add/(deduct) change in operating assets or liabilities:		
Increase in trade and other receivables	**(56)**	(226)
Income tax payable/(refundable) allocated to Santos Limited under tax funding agreement	**53,203**	113,351
Decrease/(increase) in deferred tax asset	**(17,138)**	(5,134)
Increase/(decrease) in trade and other payables	**4,013**	1,617
Net cash used in operating activities	**(351,520)**	(54,520)

Note 14. Reconciliation of net profit/(loss) after income tax to net cash from/(used in) operating activities (continued)

	2021 $'000	2020 $'000
Non-cash financing and investing activities		
Interest income charged and other non-cash items to related entities	**511,428**	471,184
Borrowing costs charged and other non-cash items by related entities	**(537)**	(30,433)
	510,891	440,751

$'000	Short-term borrowings	Long-term borrowings	Loan assets	Assets held to hedge borrowings	Total
Balance as at 1 January 2021	**507,752**	**12,748,248**	**(13,283,317)**	**(23,848)**	**(51,165)**
Financing cash flows[1]	**347,603**	**728,664**	**323,115**	**–**	**1,399,382**
Non-cash changes:					
Changes in fair values	**–**	**(14,052)**	**–**	**13,211**	**(841)**
Other changes[2]	**222,135**	**(161,563)**	**(493,576)**	**–**	**(433,004)**
Balance as at 31 December 2021	**1,077,490**	**13,301,297**	**(13,453,778)**	**(10,637)**	**914,372**

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. In the Statement of Cash Flows, cash flows from financing activities includes receipts and payments associated with amounts owing from related entities.

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

Note 15. Related Parties

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

As at 31 December 2021, a credit loss allowance provision of $2,323,889,000 has been recorded (2020: $2,308,041,000) related to amounts owing from related parties. The changes to the provision during the year resulted in an impairment expense of $15,847,000.

(a) Loans to related parties

Other financial assets	2021 $'000	2020 $'000
Amounts owing from other related entities	**13,453,778**	13,283,317

Note 15. Related Parties (continued)

Amount owing from other related parties	2021 $'000	2020 $'000
Opening balance	**13,283,317**	7,372,209
Loans advanced	**186,308**	6,618,994
Impairment charge of loan balance	**(15,847)**	(707,886)
Closing balance	**13,453,778**	13,283,317

The US dollar denominated loans bear interest at LIBOR plus a margin of 3.50% payable annually.

(b) Loans from related parties

	2021 $'000	2020 $'000
Other financial liabilities		
Amounts owing to other related parties	**857,481**	445,355
Interest-bearing loans and borrowings		
Loan from Santos Limited	**3,127,486**	3,523,006
Loans from other related parties	**6,732,366**	5,929,279
	9,859,852	9,452,285
	10,717,333	9,897,640

Loan from Santos Limited	2021 $'000	2020 $'000
Opening balance	**3,523,006**	1,638,294
Loans (repaid)/advanced	**(395,520)**	1,884,712
	3,127,486	3,523,006

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

Loans from other related parties	2021 $'000	2020 $'000
Opening balance	**6,374,634**	2,490,880
Loans advanced	**1,215,213**	3,883,754
Closing balance	**7,589,847**	6,374,634

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.

Note 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
Spence, Keith William

Unless otherwise stated above, the Directors have held their office at all times since the beginning of the financial year. 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 2021 (2020: nil).

Note 16. Remuneration of Auditors

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

Note 17. Contingent Liabilities

There are no contingent liabilities as at 31 December 2021.

Note 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 its corporate objectives and meet its obligations to stakeholders. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

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

Financial risk management is carried out by a central treasury department ("Treasury") which operates under Board-approved policies. The policies govern the framework and principles for overall risk management and 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.

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 may enter into forward foreign exchange, foreign currency swap and foreign currency option contracts.

Sensitivity to foreign currency movement

Based on the Company's net financial assets and liabilities at 31 December 2021, the estimated impact of a ±15 cent movement in the Australian dollar exchange rate (2020: ±15 cent) against the US dollar, with all other variables held constant is \$63,000,000 (2020: \$34,650,000) on post-tax profit.

Note 18. Financial Risk Management (continued)

(b) Market risk

Interest rate risk

The Company's interest rate risk arises from its loans and borrowings and cash held. Loans and borrowings issued at variable rates expose the Company to cash flow interest rate risk. Loans and 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 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.

At 31 December 2021, the Company had interest rate swaps with a notional contract amount of $227,000,000 (2020: $227,000,000) and a net fair value of $10,637,000 (2020: $23,848,000). The net fair value amounts were recognised as fair value derivatives.

Sensitivity to interest rate movement

Based on the net debt position as at 31 December 2021, 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% (2020: ±0.50%) and Australian Bank Bill Swap reference rate ("BBSW") changed by ±0.50% (2020: ±0.50%), with all other variables held constant, the impact on post tax profit is $2,185,000 (2020: $3,732,000).

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 Group is exposed to commodity price fluctuations through the sale of petroleum products and other oil price linked contracts. The Group may enter into crude oil price swap and option contracts to manage its commodity price risk. At 31 December 2021, the Group has 6.0 million barrels of open oil price swap and option contracts (2020: 11.0 million), covering 2022 exposures.

(c) Credit risk

Credit risk represents the potential financial loss if counterparties fail to complete their obligations under financial instrument or customer contracts. The Company employs credit policies which include monitoring exposure to credit risk on an ongoing basis through management of concentration risk and ageing analysis. 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. The Group applies the general approach to providing for expected credit losses prescribed by AASB 9, as outlined in Note 1 (f).

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 Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the income statement.

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.

Note 18. Financial Risk Management (continued)

(c) Credit risk (continued)

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

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 in order 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 fair value of derivative assets. The Group's counterparty credit policy limits this exposure to commercial and investment banks, according to approved credit limits based on the counterparty's credit rating. The minimum credit rating is A- from Standard & Poor's.

All non-current loans extended to Santos 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.

The Company measures expected credit losses for Stage 2 and Stage 3 loans from related entities using projected cash flows within each entity. This assessment considers factors similar to the indicators of impairment for exploration and evaluation assets, and oil and gas assets, used by the Group as they impact the projected cash flows within each entity. These projected net cash flows are compared against the principal and interest payments owed to the Company by the related entity in order to estimate the credit loss allowance provision.

During the year ended 31 December 2021, a net impairment loss on of $15,847,000 was recognised (2020: $707,886,000 net gain) on receivables from related entities.

(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 activities 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.

Note 18. Financial Risk Management (continued)

	Less than 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	More than 5 years $'000
2021				
Financial assets held to manage liquidity risk				
Cash	**1,901,144**	**–**	**–**	**–**
Amounts receivable from related entities	**153,795**	**–**	**–**	**18,468,052**
	2,054,939	**–**	**–**	**18,468,052**
Derivative financial assets				
Interest rate swap contracts	**14,070**	**983**	**2,948**	**985**
Non-derivative financial liabilities				
Trade and other payables	**(32,739)**	**–**	**–**	**–**
Amounts payable to related entities	**(857,481)**	**–**	**–**	**(9,859,852)**
Bank loans	**(4,929)**	**–**	**(1,050,000)**	**–**
Long-term notes	**(327,870)**	**(101,973)**	**(305,918)**	**(2,691,938)**
	(1,223,019)	**(101,973)**	**(1,355,918)**	**(12,551,790)**
	845,990	**(100,990)**	**(1,352,970)**	**5,917,247**
2020				
Financial assets held to manage liquidity risk				
Cash	856,983	–	–	–
Amounts from related entities	86,634	–	–	19,414,725
	943,617	–	–	19,414,725
Derivative financial assets				
Interest rate swap contracts	13,632	14,891	2,948	1,968
Non-derivative financial liabilities				
Trade and other payables	(29,023)	–	–	–
Amounts payable to related entities	(445,355)	–	–	(9,504,177)
Bank loans	(74,943)	(68,614)	(859,549)	(750,000)
Long-term notes	(79,380)	(291,380)	(196,448)	(1,593,215)
	(628,701)	(359,994)	(1,055,997)	(11,847,392)
	328,548	(345,103)	(1,053,049)	7,569,301

(e) Fair values

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

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

The financial assets and liabilities of the 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:

Note 18. Financial Risk Management (continued)

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 US dollars at the foreign exchange spot rate prevailing at reporting date.

Financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency the present value is converted to US dollars at the foreign exchange spot rate prevailing at 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 interest rates including credit spreads used to determine fair value were as follows:

	2021 %	2020 %
Derivatives	**0.1 - 1.8**	0.1 - 1.4
Loans and Borrowings	**0.1 - 1.8**	0.1 - 1.4

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, the Company held the following financial instruments measured at fair value:

2021	**Total $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Assets measured at fair value				
Interest rate swap contracts	**10,637**	–	**10,637**	–
Liabilities measured at fair value				
Commodity option contracts	**(78,984)**	–	**(78,984)**	–
Foreign exchange contracts	**(16,144)**	–	**(16,144)**	–
Long-term notes	**(238,414)**	–	**(238,414)**	–
	(333,542)	–	**(333,542)**	–

Note 18. Financial Risk Management (continued)

2020	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Assets measured at fair value				
Interest rate swap contracts	23,848	–	23,848	–
Foreign exchange contracts	28,515	–	28,515	–
	52,363		52,363	
Liabilities measured at fair value		–		–
Commodity option contracts	(33,048)	–	(33,048)	–
Foreign exchange contracts	(1,705)	–	(1,705)	–
Long-term notes	(252,466)	–	(252,466)	–
	(287,219)	–	(287,219)	–

During the years ended 31 December 2021 and 31 December 2020, 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 Amounts owing from related entities 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.

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, Amounts owing to related entities, interest-bearing loans and borrowings and other payables 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.

Note 18. Financial Risk Management (continued)

The Company holds the following financial instruments:

Financial assets	2021 $'000	2020 $'000
Financial assets at amortised cost:		
Cash and cash equivalents	**1,901,144**	856,983
Trade and other receivables	**4,118**	226
Amounts owing from related entities	**13,453,778**	13,283,317
	15,359,040	14,140,526
Financial assets at FVTPL:		
Derivative financial instruments	**10,637**	52,363
	15,369,677	14,192,889

Financial liabilities	2021 $'000	2020 $'000
Financial liabilities at amortised cost:		
Trade and other payables	**32,739**	29,023
Borrowings at amortised cost	**3,423,040**	3,105,894
Amounts payable to related entities	**10,717,333**	9,897,640
	14,173,112	13,032,557
Financial liabilities at FVTPL:		
Derivative financial instruments	**95,128**	34,753
Borrowings at FVTPL	**238,414**	252,466
	333,542	287,219
	14,506,654	13,319,776

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

	2021 $'000	2020 $'000
Interest on cash and cash equivalents	**3,018**	11,943
Interest on amounts owing from related entities	**511,428**	471,184
Interest on debt held at FVTPL	**(14,880)**	(14,880)
Interest on debt held at amortised cost	**(146,454)**	(154,101)
Interest on derivative financial instruments	**12,459**	10,712
Fair value (loss)/gain on debt held at FVTPL	**15,319**	84
Fair value gain/(loss) on derivative financial instruments	**(315,866)**	43,302
Net impairment (loss)/gain on receivables from related entities	**(15,847)**	(707,886)
Net foreign exchange gain/(loss)	**(3,701)**	(1,403)
	45,476	(341,045)

Note 18. Financial Risk Management (continued)

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

Fair value hedge: Derivative financial instruments – interest rate swap contracts	**2021 $'000**	2020 $'000
Carrying amount	**10,637**	23,848
Notional amount	**227,000**	227,000
Maturity date	**2022-2027**	2022-2027
Hedge ratio[1]	**1:1**	1:1
Change in value of outstanding hedging instruments since 1 January	**(13,211)**	(1,819)
Change in value of hedged item used to determine hedge effectiveness	**13,211**	1,819
Weighted averaged hedge rate	**1.05%**	1.84%

1. 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.

Reserves - Own credit revaluation reserve	**2021 $'000**	2020 $'000
Opening balance	**(12,603)**	(14,653)
Add: Fair value changes on financial liabilities designated at fair value due to own credit risk	**(1,268)**	2,928
Less: Deferred tax	**(252)**	(878)
Closing balance	**(14,123)**	(12,603)

Note 19. Events Subsequent to Reporting Date

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

Santos Finance Ltd
Directors' declaration
31 December 2021

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

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

   (a) giving a true and fair view of the Company's financial position as at 31 December 2021 and of its performance for the year ended on that date; and

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

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

3. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 29th day of March 2022

On behalf of the Board:

Director

Ernst & Young
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

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Fax: +61 8 8417 1775
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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 Limited (the Company), which comprises the statement of financial position as at 31 December 2021, the 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 2021 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 (including Independence Standards)* (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

Darryn Hall
Partner
Adelaide
29 March 2022