COMPANY SUMMARY

Company:	Santos Finance Ltd
Subsidiary of:	Santos Limited
Year end:	31 December 2019
Incorporated:	In New South Wales, on 6 July 1984
Origin of Company:	The Company was incorporated as a subsidiary on 6 July 1984

Current Activities:

The Company provides centralised finance activities for the Santos Limited Group

Current year highlights

Reporting & Audit Requirements

Company incorporated in Australia. The Company is classified as a Large Proprietary Company and is required under the *Corporations Act 2001* to prepare and lodge audited financial statements with ASIC. The Company is a non-disclosing public company by virtue of its issue of Regulation S bonds under the €10 billion EMTN Programme which are traded on the Australian Stock Exchange, therefore general purpose financial statements are prepared in accordance with the classification, measurement and disclosure requirements of all Australian Accounting Standards and Interpretations.

Change in Functional and Presentation Currency

From 1 January 2019, Santos Finance Limited changed its functional currency from Australian dollars ($A) to US dollars ($US). Effective the same date the Company elected to change its presentation currency to $US.

SANTOS FINANCE LTD

A.B.N. 81 002 799 537

(INCORPORATED IN NEW SOUTH WALES ON 6 JULY 1984)

GENERAL PURPOSE FINANCIAL REPORT

31 DECEMBER 2019

(THIS FINANCIAL REPORT IS PREPARED IN UNITED STATES DOLLARS)

SANTOS FINANCE LTD

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $000	(Restated) 2018 $000
Finance income		**579,704**	301,762
Finance costs		**(278,053)**	(185,671)
Net finance income	3	**301,651**	116,091
Other Revenue		**108**	-
Intercompany debt forgiveness expense		**(1,297)**	(5,198)
Impairment gain on receivables due from related entities		**188,427**	46,483
Foreign exchange (loss) / gain		**(8,989)**	236,474
Net loss on financial instruments at FVTPL	4	**(17,586)**	(53,058)
Profit before tax		**462,314**	340,792
Income tax (expense) / benefit	5	**(137,593)**	55,510
Profit for the period attributable to equity holders of Santos Finance Ltd		**324,721**	396,302

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

SANTOS FINANCE LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $000	(Restated) 2018 $000
Net profit for the period		**324,721**	396,302
Other comprehensive income / (loss), net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange loss arising on translation		**-**	(85,745)
Gain / (loss) on derivatives designated as cash flow hedges		**1,529**	(9,966)
Tax effect		**(459)**	3,004
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Fair value changes on financial liabilities designated at fair value due to own credit risk		**(5,317)**	704
Tax effect		**1,595**	(786)
Other comprehensive loss, net of tax	12	**(2,652)**	(92,789)
Total comprehensive income		**322,069**	303,513

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

SANTOS FINANCE LTD

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 $000	(Restated) 2018 $000	(Restated) 2017 $000
Current assets				
Cash and cash equivalents	6	**788,456**	947,099	909,560
Prepayments		**1,693**	1,692	4,294
Other financial assets	7	**496,419**	63,441	90,600
Tax receivable		**-**	-	159,308
Total current assets		**1,286,568**	1,012,232	1,163,762
Non-current assets				
Prepayments		**432**	1,968	3,049
Other financial assets	7	**6,904,522**	4,800,900	3,555,773
Deferred tax asset	11	**57,494**	161,946	89,764
Total non-current assets		**6,962,448**	4,964,814	3,648,586
Total assets		**8,249,016**	5,977,046	4,812,348
Current Liabilities				
Trade and other payables	8	**27,406**	19,165	20,067
Interest-bearing loans and borrowings	9	**59,943**	808,366	64,481
Current tax liabilities		**35,082**	26,744	-
Other financial liabilities	10	**122,994**	229,356	92,266
Total current liabilities		**245,425**	1,083,631	176,814
Non-current liabilities				
Interest-bearing loans and borrowings	9	**6,619,266**	3,831,159	3,910,496
Total non-current liabilities		**6,619,266**	3,831,159	3,910,496
Total liabilities		**6,864,691**	4,914,790	4,087,310
Net assets		**1,384,325**	1,062,256	725,038
Equity				
Issued capital	12	**1,951,510**	1,951,510	1,951,510
Reserves		**(154,703)**	(168,656)	(109,572)
Accumulated losses		**(412,482)**	(720,598)	(1,116,900)
Total equity attributable to equity holders of Santos Finance Ltd		**1,384,325**	1,062,256	725,038

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

SANTOS FINANCE LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $000	(Restated) 2018 $000
Cash flows from operating activities			
Interest received		**23,738**	26,539
Borrowing costs paid		**(133,445)**	(87,263)
Operating costs paid		**-**	-
Net cash used in operating activities	14	**(109,707)**	(60,724)
Cash flows from financing activities			
Drawdown of borrowings		**592,014**	1,207,941
Repayment of borrowings		**(1,309,311)**	(211,646)
Receipts from related entities		**1,120,786**	2,168,586
Payments to related entities		**(442,955)**	(3,075,967)
Net cash (used in) / from financing activities	14	**(39,466)**	88,914
Net (decrease) / increase in cash		**(149,173)**	28,190
Cash and cash equivalents at the beginning of the year		**947,099**	909,560
Effects of exchange rate fluctuation on cash held		**(9,470)**	9,349
Cash and cash equivalents at the end of the year	6	**788,456**	947,099

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

SANTOS FINANCE LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Issued capital $000	Translation reserve $000	Hedging and own credit risk reserve $000	Other reserves $000	Accumulated losses $000	Total equity $000
Balance at 1 January 2018	1,951,510	(20,205)	(21,562)	(67,805)	(1,116,900)	725,038
Profit for the period	-	-	-	-	396,302	396,302
Other comprehensive losses	-	(85,745)	(7,044)	-	-	(92,789)
Capital Contribution related to interest-free related party loans	-	-	-	33,705	-	33,705
Total comprehensive income for the period	-	(85,745)	(7,044)	33,705	396,302	337,218
Balance at 31 December 2018	1,951,510	(105,950)	(28,606)	(34,100)	(720,598)	1,062,256
Balance at 1 January 2019	1,951,510	(105,950)	(28,606)	(34,100)	(720,598)	1,062,256
Profit for the period	-	-	-	-	**324,721**	**324,721**
Other comprehensive income	-	-	**(2,652)**	-	-	**(2,652)**
Reclassification of own credit risk reserve	-	-	**16,605**	-	**(16,605)**	-
Total comprehensive income for the period	-	-	**13,953**	-	**308,116**	**322,069**
Balance at 31 December 2019	**1,951,510**	**(105,950)**	**(14,653)**	**(34,100)**	**(412,482)**	**1,384,325**

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

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 17 March 2020.

(a) Statement of compliance

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

(b) Basis of preparation

The financial report has been prepared:

- on a historical cost basis, except for derivative financial instruments and fixed rate notes that are hedged by an interest rate swap or a cross-currency swap, which are measured at fair value;
- using a presentation currency of United States dollars ("US$"); and
- rounded to the nearest thousand dollars, unless otherwise stated, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Report) Instrument 2016/91.

On 1 January 2019, the Company adopted US$ as its functional currency. The change in functional currency was driven by a reassessment of the primary and where necessary, secondary indicators of the economic environment that impacts the cash inflows and outflows of the Company. This corresponded with the change in the functional currency of Santos Limited and certain entities within the Santos Limited group to US$. As the provider of centralised finance activities for the Santos Limited Group, the US dollar was determined to be the currency that predominantly impacted the Company. A change to functional currency is applied prospectively.

With the change in functional currency, the Company elected to change its presentation currency to US$, effective 1 January 2019. The change to presentation currency was applied retrospectively and as a result, prior year comparative figures have been restated in US$. Prior to 1 January 2019, the presentation currency and functional currency of the Company was Australian dollars. Refer to note 1(c).

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.

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

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

Several new Australian accounting standards, amendments to standards and interpretations were applicable for the first time in 2019, but were not relevant to the Company and do not impact its 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 2020, 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:

Reference		Description	Application of standard	Impact on financial report
i.	AASB 2019-1 Amendments to References to Conceptual Framework in AASB Standards	The main changes to the Framework's principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements. Some of the concepts in the revised Framework are entirely new – such as the 'practical ability' approach to liabilities. There is some uncertainty with regards to challenges preparers of financial statements may face as a result.	1 January 2020	Management do not expect there to be an immediate impact on the Company's results as a result of the amendments to the Conceptual Framework.
ii.	AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	The amendments provide mandatory temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.	1 January 2020	Management do not expect that there will be a material impact to the Company as a result of this amendment to the standard.

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

1. Significant Accounting Policies (continued)

(c) Foreign currency

Functional and presentation currency
On 1 January 2019, the Company elected to present its financial statements in United States dollars ("US$"), to align presentation currency with the Company's functional currency.

Effective 1 January 2019, the Company changed its functional currency from Australian dollars ("A$") to US$ (refer note 1(b)). A change to functional currency is applied prospectively.

Prior to 1 January 2019, both the presentation currency and functional currency of the Company was A$. The change to presentation currency is a voluntary change and is applied retrospectively, as such the financial statements for the year ended 31 December 2018 (and the earliest reported comparative period, 31 December 2017) have been restated to US$ using the procedures outlined below:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average rate prevailing for the relevant period
Assets and liabilities	Period-end rate
Equity	Historical rate
Reserves	Historical and period-end rate
Statement of cash flows	Average rate prevailing for the relevant period

Foreign exchange differences resulting from translation to presentation currency are recognised in the foreign currency translation reserve. The period-end exchange rate used to restate 31 December 2018 is: A$/US$ 1:0.7044 (2017: A$/US$ 1:0.7809).

The foreign currency translation reserve represents the foreign exchange differences arising from translation of historical A$ functional amounts to US$ presentation currency financial statements, prior to 1 January 2019. From 1 January 2019 onwards, presentation currency and functional currency of the Company is US$, resulting in no requirement for translation and thus, no change to the foreign currency translation reserve.

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

(d) Derivative financial instruments

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

1. Significant Accounting Policies (continued)

(d) Derivative financial instruments (continued)

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

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price. The fair value of oil derivative contracts is determined by estimating the difference between the relevant market prices and the contract strike price, for the notional volumes of the derivative contracts.

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.

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

1. Significant Accounting Policies (continued)

(e) Hedging (continued)

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.

1. Significant Accounting Policies (continued)

(f) Receivables (continued)

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.

As at 31 December 2019, a credit loss allowance provision of $938,728,000 has been recorded (2018: $1,127,154,000) related to amounts owing from related parties.

(g) Cash and cash equivalents

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

(h) Impairment

The carrying amounts of the Company's 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.

1. Significant Accounting Policies (continued)

(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.

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).

1. Significant Accounting Policies (continued)

(o) Income tax (continued)

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

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

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

(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 Other Financial Assets.

2. Segment Information

The Company is a wholly-owned subsidiary of Santos Limited. The sole business of the Company is to raise debt to 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 $505,229,000 (2018: $275,222,000) 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.

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019 $000	(Restated) 2018 $000
3.	**Net Finance Income**		
	Interest income:		
	Related entities	**555,966**	275,222
	Other entities	**23,738**	26,540
	Finance income	**579,704**	301,762
	Interest expense:		
	Related entities	**(128,540)**	(85,766)
	Other entities	**(149,513)**	(99,905)
	Finance costs	**(278,053)**	(185,671)
	Net finance income	**301,651**	116,091

SANTOS FINANCE LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $000	(Restated) 2018 $000
4. Net loss on financial instruments at FVTPL		
Loss from changes in fair value of commodity derivatives	**17,586**	52,658
Other expenses	**-**	400
	17,586	53,058
5. Taxation Expense		
Recognised in the income statement:		
Income tax expense		
Current tax expense		
Current year	**35,082**	27,794
	35,082	27,794
Deferred tax expense / (benefit)		
Origination and reversal of temporary differences	**102,511**	(83,304)
	102,511	(83,304)
Total income tax expense / (benefit)	**137,593**	(55,510)
Deferred tax charged directly to OCI		
Loss on derivatives designated as cash flow hedges, to be reclassified to profit or loss in subsequent periods	**459**	(3,004)
Gain / (loss) on derivatives designated at fair value due to own credit risk, not to be reclassified to profit or loss in subsequent periods	**(1,595)**	786
	(1,136)	(2,218)
Numerical reconciliation between tax benefit and pre-tax net loss:		
Profit / (loss) before tax	**462,314**	340,792
Prima facie income tax at 30% (2018: 30%)	**138,694**	102,238
Increase/(decrease) in income tax benefit due to:		
Intercompany debt forgiveness	**389**	1,559
Impairment (write-down) / reversal of receivables due from related entities	**(56,528)**	(13,945)
Foreign exchange (gains) / losses and other translation adjustments	**70,484**	(150,610)
Under / (over) provided in prior years	**(15,446)**	5,248
Income tax (benefit) / expense	**137,593**	(55,510)

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		2019 $000	(Restated) 2018 $000
6.	**Cash and Cash Equivalents**		
	Cash at bank and in hand	**788,456**	947,099
	Cash and cash equivalents in the statement of cash flows	**788,456**	947,099
7.	**Other Financial Assets**		
	Current		
	Amounts owing from related entities	**493,354**	37,045
	Commodity derivatives	**2,335**	18,831
	Interest rate swap contracts	**730**	7,565
		496,419	63,441
	Non-current		
	Interest rate swap contracts	**25,667**	25,671
	Amounts owing from related entities	**6,878,855**	4,775,229
		6,904,522	4,800,900
8.	**Trade and Other Payables**		
	Other payables	**27,406**	19,165
		27,406	19,165

	2019 $000	(Restated) 2018 $000

9. Interest-bearing Loans and Borrowings

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

	2019 $000	(Restated) 2018 $000
Current		
Bank loans – unsecured	**59,943**	655,561
Long-term notes	**-**	152,805
	59,943	808,366
Non-current		
Loans payable to related entities	**4,006,180**	1,258,450
Bank loans – unsecured	**978,092**	1,535,178
Long-term notes	**1,634,994**	1,037,531
	6,619,266	3,831,159

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 4.97% as at 31 December 2019 (2018: 4.73%).

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

Details of major credit facilities

(a) Bank loans – unsecured

Term bank loans

Year of maturity	Currency	Effective interest rate 2019 %	Effective interest rate 2018 %	2019 $000	2018 $000
2024	USD	**4.08**	4.18	**695,035**	1,193,222
				695,035	1,193,222

Term bank loans bear interest at the relevant interbank reference rate plus a margin. The principal outstanding at 31 December 2019 is $700,000,000 (2018: $1,200,000,000).

	2019 $000	(Restated) 2018 $000

9. Interest-Bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(a) Bank loans – unsecured (continued)

Export Credit Agency supported loan facilities

As at 31 December 2019 the Company had fully drawn loan facilities of $343,001,000 (2018: $1,000,574,000) supported by various export credit agencies, which have maturity dates between 2020 and 2024.

Term bank loans

Year of maturity	Currency	Effective interest rate 2019 %	Effective interest rate 2018 %	2019 $000	2018 $000
2020 to 2024	USD	**3.75**	**3.02**	**343,001**	997,513
				343,001	997,513

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

Bilateral bank loan facility

As at 31 December 2019 the Company had available bilateral bank loan facilities of $1,870,000,000 (2018: $2,020,000,000) that mature between 2019 and 2023.

As at 31 December 2019 the Company had no principal outstanding (2018: 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:

Year of maturity	Currency	Effective interest rate 2019 %	Effective interest rate 2018 %	2019 $000	2018 $000
2022 to 2027	USD	**2.89**	1.58	**255,478**	404,909
				255,478	404,909

Long-term notes bear interest at 6.45% to 6.81% (2018: 6.30% to 6.81%) fixed rate interest, which has been swapped to floating interest rate commitments.

The principal outstanding at 31 December 2019 is $227,000,000 (2018: $377,000,000).

	2019	(Restated) 2018
	$000	$000

9. Interest-Bearing Loans and Borrowings (continued)

Details of major credit facilities (continued)

(b) Long-term notes (continued)

Regulation-S Bonds

The Company has the following notes on issue:

		Effective interest rate			
		2019	2018		
Year of maturity	**Currency**	**%**	%		
2027 and 2029	USD	**4.79**	4.40	**1,379,516**	785,425
				1,379,516	785,425

Both bonds bear a fixed interest rate.

The principal outstanding at 31 December 2019 is $1,400,000,000 (2018: $800,000,000).

	2019 $000	(Restated) 2018 $000

10. Other Financial Liabilities

	2019 $000	(Restated) 2018 $000
Current		
Amounts owing to related entities	**122,994**	185,640
	122,994	185,640
Non-current		
Amounts owing to related entities	**-**	43,716
	-	43,716

11. Deferred Tax Assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2019 $000	(Restated) 2018 $000
Derivative financial instruments	**(6,583)**	(15,620)
Interest-bearing loans and borrowings	**64,077**	177,566
Deferred tax assets	**57,494**	161,946

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.

	2019	(Restated) 2018
12. Capital and Reserves		
Issued capital	1,951,510	1,951,510

2,334,470,555 (2018: 2,334,470,555) fully paid ordinary shares

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

	2019	2018	**2019**	2018
	Number of Shares		**$000**	$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 (2018: A$ nil).

Capital risk management

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

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

12. Capital and Reserves (continued)

Capital risk management (continued)

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 at fair value through profit or loss 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.

13. Dividends

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

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	2019 $000	(Restated) 2018 $000
14. Reconciliation of Cash Flows from Operating Activities		
(a) Profit / (Loss) after income tax	**324,721**	396,302
Add / (deduct) non-cash items:		
Intercompany debt forgiveness expense	**1,297**	5,198
Impairment (gain) / loss on receivables due from related entities	**(188,427)**	(46,483)
Foreign exchange (gains) / losses	**8,989**	(236,474)
Net borrowing income charged to related entities	**(427,426)**	(189,456)
Net losses on fair value derivatives	**17,586**	52,658
Cross-currency swaps revaluation	**-**	-
Amortisation of prepaid loan transaction costs	**8,574**	9,619
Net cash used in operating activities before change in assets or liabilities	**(254,686)**	(8,636)
Add / (deduct) change in operating assets or liabilities:		
Income tax payable / (refundable) allocated to Santos Limited under tax funding agreement	**32,286**	28,643
Decrease / (increase) in deferred tax asset	**104,452**	(84,149)
Increase / (decrease) in trade and other payables	**8,241**	3,418
Net cash used in operating activities	**(109,707)**	(60,724)
(b) Non-cash financing and investing activities		
Interest income charged and other non-cash items to related entities	**505,229**	275,222
Borrowing costs charged and other non-cash items by related entities	**(128,540)**	(85,766)
	376,689	189,456

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	Short term borrowings $000	Long term borrowings $000	Liabilities held to hedge borrowings $000	Assets held to hedge borrowings $000	Total $000
14. Reconciliation of Cash Flows from Operating Activities					
(c) Reconciliation of liabilities arising from financial activities					
Balance as at 1 January 2019	**994,006**	**3,874,875**	**-**	**(33,235)**	**4,835,646**
Financing cash flows[1]	(870,219)	2,796,028	-	-	1,925,809
Non-cash changes:					
Changes in fair values	(2,842)	4,502	-	7,568	9,228
Other changes[2]	61,992	(56,134)	-	-	5,858
Balance as at 31 December 2019	**182,937**	**6,619,271**	**-**	**(25,667)**	**6,776,541**

[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	2019 $000	(Restated) 2018 $000

15. Related Parties

The parent entity and ultimate parent entity is Santos Limited, which is incorporated in Australia. On 1 January 2019 all Australian dollar denominated related party loans were refinanced to US dollars.

On 1 January 2019, as part of a restructure of the intercompany loan arrangements across the Santos Group, all intercompany loans held by Santos Limited, except those where Santos Finance Limited was the counterparty, were transferred to the Company. The net book value of the intercompany loans receivable transferred was $2,151,708,223 (consisting of gross loans of $2,813,136,223 and a credit loss allowance provision of $661,428,000) and the intercompany loans payable transferred were $2,813,136,223. The Company determined that the fair value of the loans transferred on 1 January 2019 was approximately equal to their net book value. Subsequently, these loans receivable and payable from related entities were measured at amortised cost.

As at 31 December 2019, a credit loss allowance provision of $938,728,000 has been recorded (2018: $1,127,154,000) related to amounts owing from related parties. The changes to the provision during the year relate to impairment reversal ($188,427,000). The impairment reversal was due to improved operational performance of related parties, supporting the recoverability of the amounts owing from related parties.

(a) Loans to related parties

	2019 $000	2018 $000
Other financial assets		
Amounts owing from other related entities	**7,372,209**	4,812,275
	7,372,209	4,812,275
Amount owing from Santos Limited		
Opening balance	-	-
Loan repayments received	-	-
Closing balance	-	-

The US dollar denominated loans bear interest at LIBOR plus a margin of 3.50% payable annually. The AU dollar denominated loans bear interest at BBSW plus a margin of 1.00% payable annually.

	2019 $000	2018 $000
Amount owing from other related parties		
Opening balance	**4,812,275**	3,234,567
Loans advanced	**2,382,306**	2,025,971
Loan repayments received	**(9,502)**	(489,548)
Debt forgiven	**(1,297)**	(5,198)
Impairment reversal / (charge) of loan balance	**188,427**	46,483
Closing balance	**7,372,209**	4,812,275

The US dollar denominated loans bear interest at LIBOR plus a margin of 3.50% payable annually. The AU dollar denominated loans bear interest at BBSW plus a margin of 1.00% payable annually.

	Note	2019 $000	(Restated) 2018 $000

15. Related Parties (continued)

(b) Loans from related parties

	Note	2019 $000	(Restated) 2018 $000
Other liabilities			
Amounts owing to other related parties		**122,994**	229,356
	10	**122,994**	229,356
Interest bearing borrowings and loans			
Loans from Santos Limited		**1,638,294**	1,238,248
Loans from other related parties		**2,367,886**	20,202
	9	**4,006,180**	1,258,450
Loan from Santos Limited			
Opening balance		**1,238,246**	1,367,851
Loans advanced		**400,048**	-
Loan repayments received		**-**	(129,605)
Closing balance		**1,638,294**	1,238,246

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.

	Note	2019 $000	(Restated) 2018 $000
Loans from other related parties			
Opening balance		**249,557**	187,626
Loans advanced		**2,768,192**	252,590
Loan repayments paid		**(526,869)**	(190,659)
Closing balance		**2,490,880**	249,557

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

(c) Parent company guarantees

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

15. Related Parties (continued)

(d) Key management personnel compensation

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

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

Gallagher, Kevin Thomas
Cowan, Guy Michael
Keith Spence

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 2019 (2018: Nil).

16. Remuneration of Auditors

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

17. Contingent Liabilities

There are no contingent liabilities.

18. Financial Risk Management

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk, and liquidity risk arises in the normal course of the Company's and the Santos Limited Group's business. The Company's overall financial risk management strategy is to seek to ensure that the Company is able to fund 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.

18. Financial Risk Management (continued)

(a) Foreign currency risk (continued)

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

All external borrowings are denominated in US dollars.

On 1 January 2019, the company adopted US dollars as its functional currency. As a result, there were no net foreign currency gains or losses arising from translation of US dollar denominated borrowings recognised in the income statement in 2019.

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically restated to US dollar equivalents, and the associated gain or loss is taken to the income statement.

Sensitivity to foreign currency movement

Based on the Company's net financial assets and liabilities at 31 December 2019, the estimated impact of a ±15 cent movement in the Australian dollar exchange rate (2018: ±15 cent) combined with a ±10 cent movement in the Euro exchange rate (2018: ±10 cent), each against the US dollar, with all other variables held constant is $5,250,000 (2018: $657,596,000) on post-tax profit.

(b) Market risk

Interest rate risk

The Company's interest rate risk arises from its loans and borrowings. 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. Losses of $9,173,000 (2018: $12,950,000) relating to the hedging instruments and gains of $5,068,000 (2018: $14,037,000) relating to the hedged item attributable to the hedged risk were recorded in the income statement.

At 31 December 2019, the Company had interest rate swaps with a notional contract amount of $277,000,000 (2018: $1,577,000) and a net fair value of $25,667,000 (2018: $33,235,000). The net fair value amounts were recognised as fair value derivatives.

18. Financial Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

Sensitivity to interest rate movement

Based on the net debt position as at 31 December 2019, 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% (2018: ±0.50%), Euro Interbank Offered Rate ("EURIBOR") changed by ±0.50% (2018: ±0.50%) and Australian Bank Bill Swap reference rate ("BBSW") changed by ±0.50% (2018: ±0.50%), with all other variables held constant, the impact on post tax profit is $3,561,000 (2018: $907,000).

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 2019, the Group has 6.2 million barrels of open oil price swap and option contracts (2018: 4.9 million), covering 2020 exposures, which are designated in cash flow hedge relationships. The 3-way collar option structure utilised to hedge 2018 oil exposures did not qualify for hedge accounting, resulting in movement in fair value being recorded in the income statement during 2018.

(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.

18. Financial Risk Management (continued)

(c) Credit risk (continued)

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

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

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.

(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.

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18. Financial Risk Management (continued)

(d) Liquidity risk (continued)

The following table analyses the contractual maturities of the Company's financial liabilities, and financial assets held to manage liquidity risk. The relevant maturity groupings are based on the remaining period to the contractual maturity date, at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows comprising principal and interest repayments. Estimated variable interest expense is based upon appropriate yield curves as at 31 December 2019.

	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
2019				
Financial assets held to manage liquidity risk				
Cash	788,456	-	-	-
Amounts receivable from related entities	493,354	-	-	6,878,855
Derivative financial assets				
Interest rate swap contracts	12,722	14,880	16,856	2,950
Non-derivative financial liabilities				
Trade and other payables	(27,406)	-	-	-
Amounts payable to related entities	(122,994)	-	-	(6,619,266)
Bank loans	(73,234)	(67,362)	(909,958)	(18,205)
Long-term notes	(79,380)	(79,380)	(422,345)	(1,658,698)
	991,518	(131,862)	(1,315,447)	1,414,364

	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	More than 5 years $000
2018				
Financial assets held to manage liquidity risk				
Cash	947,099	-	-	-
Amounts receivable from related entities	37,045	-	-	4,775,229
Derivative financial assets				
Interest rate swap contracts	23,709	14,880	30,753	3,933
Non-derivative financial liabilities				
Trade and other payables	(19,165)	-	-	-
Amounts payable to related entities	(185,640)	-	-	(1,302,165)
Bank loans	(681,231)	(566,102)	(205,964)	(789,561)
Long-term notes	(207,330)	(47,879)	(341,742)	(950,930)
	(85,513)	(599,101)	(516,953)	1,736,506

18. Financial Risk Management (continued)

(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:

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:

	2019 %	2018 %
Derivatives	**1.5 – 2.1**	1.5 – 2.8
Loans and borrowings	**1.5 – 2.1**	1.5 – 2.8

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.

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18. Financial Risk Management (continued)

(e) Fair values (continued)

As at 31 December 2019, the Company held the following financial instruments measured at fair value:

	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Assets measured at fair value				
Interest rate swap contracts	25,667	-	25,667	-
Foreign exchange contracts	730	-	730	-
Commodity option contracts	2,335	-	2,335	-
Liabilities measured at fair value				
Long-term notes	(255,478)	-	(255,478)	-

As at 31 December 2018, the Company held the following financial instruments measured at fair value:

	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
Assets measured at fair value				
Interest rate swap contracts	33,236	-	33,236	-
Liabilities measured at fair value				
Commodity option contracts	18,831	-	18,831	-
Long-term notes	(404,909)	-	(404,909)	-

During the years ended 31 December 2019 and 31 December 2018, 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.

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

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.

The Company holds the following financial instruments:

Financial assets	**2019 $000**	(Restated) 2018 $000
Financial assets at amortised cost:		
Cash and cash equivalents	**788,456**	947,099
Amounts owing from related entities	**7,372,209**	4,812,274
Derivative financial instruments	**28,732**	52,067
	8,189,397	5,811,440

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

Financial liabilities	2019 $000	(Restated) 2018 $000
Financial liabilities at amortised cost:		
Trade and other payables	**27,406**	19,165
Borrowings at amortised cost	**2,417,551**	2,976,165
Amounts payable to related entities	**4,129,174**	1,487,805
Financial liabilities at FVTPL:		
Borrowings at FVTPL	**255,478**	404,909
Derivative financial instruments	**-**	-
	6,829,609	4,888,044

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

Financial liabilities	2019 $000	(Restated) 2018 $000
Interest on cash investments	**579,704**	301,762
Interest on debt held at FVTPL	**(20,418)**	(17,810)
Interest on debt held at amortised cost	**(250,345)**	(189,619)
Interest on derivative financial instruments	**(7,290)**	21,758
Amounts reclassified from other comprehensive income to profit or loss	**-**	-
Fair value gains on debt held at FVTPL	**5,068**	14,037
Fair value losses on derivative financial instruments	**(25,067)**	(12,950)
Net foreign exchange gains / (losses) recognised in profit before income tax for the period, included in other income and finance costs	**(8,989)**	236,474
	272,663	353,652

18. Financial Risk Management (continued)

(f) Financial instruments (continued)

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

Fair value hedge ***Derivative financial instruments – interest rate swap contracts***	**2019** **$000**	(Restated) 2018 $000
Carrying amount	**25,667**	33,235
Notional amount	**227,000**	1,577,000
Maturity date	**2022-2027**	2019-2027
Hedge ratio*	**1:1**	1:1
Change in value of outstanding hedging instruments since 1 January	**(8,012)**	(21,384)
Change in value of hedged item used to determine hedge effectiveness	**8,012**	21,384
Weighted average hedged rate	**1.75%**	1.1%

Reserves – cash flow hedge reserve	**2019** **$000**	(Restated) 2018 $000
Opening balance	**(1,070)**	5,891
Add: Change in fair value of hedging instrument recognised in OCI for the year (effective portion)		(9,966)
Less: Reclassification to the income statement	**1,529**	
Deferred tax	**(459)**	3,005
Closing balance	**-**	(1,070)

Reserves – Own credit revaluation reserve	**2019** **$000**	(Restated) 2018 $000
Opening balance	**(27,536)**	(27,454)
Add: Fair value changes on financial liabilities designated at fair value due to own credit risk	**(5,317)**	704
Less: Deferred tax	**1,595**	(786)
Less: Reclassified to retained earnings	**16,605**	-
Closing balance	**(14,653)**	(27,536)

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

19. Events Subsequent to Reporting Date

Subsequent to the Reporting Date, in March 2020 there was a downturn in the markets and fall in oil prices. At the date of finalisation of this report, the duration and extent of the downturn remains uncertain. In future periods, the impact on the credit risk associated with related parties will depend on the extent they are impacted by mid to longer term forecasts of commodity prices, foreign exchange rates and other macroeconomic assumptions.

SANTOS FINANCE LTD

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2019

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

1. In the opinion of the Directors:

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

      (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the year ended on that date; and

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

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

   (c) there are reasonable grounds to believe that the Company wil be able to pay its debts as and when they become due and payable.

Dated 17 March 2020

K. T. Galbally

Director

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

Opinion

We have audited the financial report of Santos Finance Ltd (the Company), which comprises the statement of financial position as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

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

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

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

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

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

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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.

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

Ernst & Young

Ernst & Young

L A Carr

L A Carr
Partner
Adelaide
17 March 2020

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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 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

Ernst & Young

Ernst & Young

L A Carr

L A Carr
Partner
Adelaide
17 March 2020

SANTOS FINANCE LTD

A.B.N. 81 002 799 537

DIRECTORS' REPORT

The Directors present their report together with the financial report of the Company for the year ended 31 December 2018 and the auditor's report thereon.

1. Directors

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

Gallagher, Kevin Thomas
Cowan, Guy Michael
Spence, Keith

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.

2. Principal Activities

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

3. Review and Results of Operations

During the year, the Company continued to manage external borrowings for the Santos Limited Group and provide funding for the parent entity and its controlled entities. The net profit for the financial year after providing for income tax was $324,721,000 (2018: $396,302,000 profit).

4. Dividends

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

5. State of Affairs

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

6. Events Subsequent to Reporting Date

Subsequent to the Reporting Date, in March 2020 there was a downturn in the markets and fall in oil prices. At the date of finalisation of this report, the duration and extent of the downturn remains uncertain. In future periods, the impact on the credit risk associated with related parties will depend on the extent they are impacted by mid to longer term forecasts of commodity prices, foreign exchange rates and other macroeconomic assumptions.

7. Likely Developments

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

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

SANTOS FINANCE LTD

A.B.N. 81 002 799 537

DIRECTORS' REPORT

8. Indemnification

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

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

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

9. Rounding

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

10. Auditor's Independence Declaration

The auditor's independence declaration is set out on page 43 and forms part of the Directors' report for the 2019 financial year.

This report is made on 17 March 2020 in accordance with a resolution of the Directors.

K. T. Gallagher

....
Director