

24 August 2017

Santos 2017 Half-year results

Underlying profit increased to US\$156 million. Net loss of US\$506 million, including previously announced US\$689 million after-tax net impairment

Strong delivery of the Santos turnaround. Costs reduced, sales volume guidance upgraded, stronger cash flows, free cash flow breakeven reduced to US\$33 per barrel and net debt reduced to US\$2.9 billion

Managing Director and Chief Executive Officer Kevin Gallagher said the company's half-year results delivered strong progress on the Santos turnaround strategy.

"We have removed substantial costs, generated significant free cash flow and reduced net debt.

"Our forecast free cash flow breakeven for 2017 sits at US\$33 per barrel and we generated US\$302 million in free cash flow in the first half.⁽¹⁾ This is pleasing progress towards our goal of transforming Santos into a low-cost, reliable and high performance business with a strong portfolio that can generate significant free cash flow in a low oil price environment," Mr Gallagher said.

Excluding the previously announced net impairment and other significant items, the company recorded an underlying profit of US\$156 million, a substantial improvement on the underlying loss of US\$5 million in the corresponding period.

"Our focus on more efficient, lower cost operations has delivered significant improvements in earnings and cash flow. Santos' core asset portfolio of five long-life natural gas assets now provides stable base production for the next decade," Mr Gallagher said.

"Material reductions in drilling costs in the Cooper Basin and GLNG are unlocking more gas supply. In the coming months, Santos expects to announce further domestic supply contracts to support the Federal Government's efforts to deliver affordable and reliable energy to households and industry.

"2017 sales volume guidance is upgraded to 77 to 82 million barrels of oil equivalent, following strong volumes from the core assets in the first half and higher forecast domestic sales volumes.

"We are also focused on future growth, with exploration and appraisal activity growing as part of our disciplined operating model and delivering successful outcomes in the Cooper Basin, as well as Muruk in PNG and Barossa offshore Northern Australia.

"Santos is now positioned to deliver future success and provide sustainable shareholder value." Mr Gallagher said.

Consistent with the company's focus on debt reduction, the Board has determined not to pay an interim dividend. The Board will continue to review each dividend decision in light of the focus on debt reduction.

(1) Free cash flow breakeven is the average annual oil price in 2017 at which cash flows from operating activities (including hedging) equals cash flows from investing activities. Forecast methodology uses corporate assumptions. Excludes one-off restructuring and redundancy costs and asset divestitures.

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Results summary

Six months ended 30 June		2017	2016	Change
Average realised oil price	US\$/bbl	54.8	42.8	+28%
Production volumes	mmboe	29.5	31.1	-5%
Sales volumes	mmboe	40.1	40.9	-2%
Revenue	US\$m	1,496	1,205	+24%
EBITDAX ⁽¹⁾	US\$m	718	491	+46%
Net impairment loss	US\$m	(920)	(1,516)	
EBIT ⁽¹⁾	US\$m	(603)	(1,471)	
Net profit/(loss) for the period	US\$m	(506)	(1,104)	
+ Impairment losses	US\$m	689	1,061	
+ Net gains on asset sales	US\$m	(51)	4	
+ Other	US\$m	24	34	
Underlying profit/(loss) for the period ⁽¹⁾	US\$m	156	(5)	+3,220%
Operating cash flow	US\$m	662	291	+128%
Capital expenditure ⁽²⁾	US\$m	321	283	+13%
Net debt	US\$m	2,928	4,528	-35%
Interim dividend per share	Acents/share	-	-	-

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment), EBIT (earnings before interest and tax) and underlying profit are non-IFRS measures that are presented to provide an understanding of the performance of Santos' operations. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the company's auditor.

(2) Excluding capitalised interest.

Santos' portfolio is focused on five core, long-life natural gas assets: Cooper Basin, GLNG, PNG, Northern Australia and Western Australia Gas. Other assets (Asia, NSW and WA oil) have been packaged and run separately for value as a standalone business.

Production from the core assets increased by 2% to 25.3 mmboe in the first half, primarily due to the ramp-up of GLNG and stronger PNG LNG production. Core asset sales volumes were up 5% to 36.1 mmboe, driven by the ramp-up of GLNG and higher WA gas and PNG sales volumes, partially offset by lower Cooper Basin sales.

Production and sales volumes from other assets decreased to 4 mmboe due to the sale of the Victorian, Mereenie and Stag assets.

Total revenue increased by 24% to US\$1.5 billion due to higher LNG sales volumes reflecting the ramp-up of GLNG and strong performance from PNG LNG, combined with higher prices for all products. The average realised oil price was up 28% to US\$54.79 per barrel and the average LNG price was 26% higher at US\$7.21/mmmbtu. LNG sales revenue was up 44% due to the ramp-up of GLNG and strong performance from PNG LNG.

Sales volume guidance for 2017 is upgraded to 77 to 82 mmboe (previously 75 to 80 mmboe).

Revenue and EBITDAX⁽¹⁾ by asset

Six months ended 30 June	2017 Revenue US\$million	2016 Revenue US\$million	Change	2017 EBITDAX US\$million	2016 EBITDAX US\$million	Change
Cooper Basin	395	353	+12%	157	104	+51%
GLNG	358	224	+60%	156	65	+140%
PNG	250	210	+19%	203	165	+23%
Northern Australia	78	71	+10%	45	37	+22%
WA Gas	135	74	+82%	116	126	-8%
Other Assets	170	217	-22%	116	103	+13%
Corporate, exploration and inter-segment eliminations	110	56	+96%	(75)	(109)	-31%
Total	1,496	1,205	+24%	718	491	+46%

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment) is a non-IFRS measure that is presented to provide an understanding of the performance of Santos' operations. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the company's auditor.

Upstream production costs dropped by 12% to US\$239 million (US\$8.08 per boe), primarily due to cost savings and efficiency gains across the core assets and the sale of non-core assets.

Other operating costs increased by US\$19 million to US\$189 million, primarily due to higher LNG plant costs following the start-up of GLNG train 2 in May 2016, higher pipeline capacity charges, and higher royalty and excise cost due to higher average commodity prices.

Higher sales revenues and lower costs combined to deliver a near 50% boost in EBITDAX to US\$718 million for the first half. All core assets delivered higher EBITDAX, with the exception of WA Gas, which benefited from a settlement under a revised gas sales agreement in the corresponding period.

Strengthening the balance sheet

Net debt reduced to US\$2.9 billion as at 30 June 2017, down from US\$3.5 billion at the start of the year. The company's gearing ratio was 30%, down from 33% at the prior year end.

Net debt was reduced through a combination free cash flows generated by the business, asset sales and a share purchase plan during the first half.

In May 2017, S&P Global Ratings reaffirmed Santos' BBB- credit rating with stable outlook.

As previously announced, Santos is exercising its option to redeem its Euro 1 billion Subordinated Notes on the first call date in September 2017. Santos has ample cash and liquidity of US\$4.2 billion to fund the redemption. Debt markets remain buoyant and open for Santos, and the company expects to undertake suitable additional debt funding at significantly lower interest costs in the near-term.

Impairment of assets

As previously announced, the 2017 first-half result includes a net impairment charge of US\$689 million after tax, primarily due to lower oil prices. Impairment charges were recognised against the GLNG (US\$867 million) and AAL assets (US\$149 million), partially offset by a positive net write-back to the Cooper Basin of US\$336 million, where lower forecast development costs and higher production more than offset the impact of lower oil prices.

2017 Guidance

2017 sales volume guidance is upgraded to 77-82 mmboe, while recently upgraded production guidance is maintained at 57-60 mmboe. All guidance for 2017 is shown in the table below.

Item	2017 Guidance
Production	57-60 mmboe
Sales	77-82 mmboe
Upstream production costs (excluding LNG plant costs)	US\$8-8.25/boe produced
Depreciation, depletion & amortisation (DD&A) expense	US\$700-750 million
Capital expenditure (excluding capitalised interest)	US\$700-750 million

Ends.