

22 August 2014

Santos reports \$258 million underlying first-half profit and 33% increase in interim dividend

First-half highlights

- PNG LNG start-up ahead of schedule in April with the project producing at full capacity by late-July. Santos received its first cash from the project in July.
- Peluang start-up ahead of schedule in March
- GLNG more than 85% complete and on track for first LNG in 2015, within budget
- Interim dividend up 33% to 20 cents per share fully franked
- Sales revenue up 25% to \$1.9 billion
- EBITDAX up 13% to \$950 million
- Net profit after tax of \$206 million includes previously advised \$67 million after tax impairment
- Underlying profit after tax up 3% to \$258 million
- Operating cash flow up 18% to \$744 million

Santos today announced a higher first half underlying profit after tax and a significant increase in the interim dividend following the successful start-up of the PNG LNG project, which commenced production ahead of schedule in April.

Santos Chairman, Ken Borda, said the start-up of PNG LNG and receipt of first cash from the project had enabled the company to substantially increase returns to shareholders through a 33% increase in the interim dividend to 20 cents per share fully franked.

The 2014 first half result reflects record sales revenue driven by higher crude oil and LNG sales volumes, and higher oil and gas prices, offset by the previously announced non-cash impairment of the company's Indonesian coal-seam gas assets, and higher cost of sales, exploration expense and net finance costs.

Excluding net impairments and other one-off items, underlying net profit was up 3% to \$258 million.

Managing Director and Chief Executive Officer, David Knox, said: "The first half of 2014 saw Santos achieve its highest oil production in six years, record sales revenue and strong operating cash flow."

"We have set the foundation for a stronger second half.

"PNG LNG is producing at full capacity, and GLNG is more than 85% complete and on track to start-up next year, within budget.

"We remain focussed on growing shareholder returns as the company's earnings and cash flows increase," Mr Knox said.

All guidance for 2014 is maintained.

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Results at a glance

Half-year ended 30 June	2014	2013	Change
Production volume (mmboe)	25.0	24.5	2%
Sales volume (mmboe)	28.9	27.4	5%
	\$million	\$million	
Product sales revenue – own product	1,382	1,237	12%
Product sales revenue – third party	505	273	85%
Product sales revenue – total	1,887	1,510	25%
Other revenue/income	37	33	12%
Production costs	(383)	(335)	14%
Other operating costs	(136)	(115)	18%
Third party product purchase costs	(387)	(263)	47%
Product stock movement	5	54	
Other expenses	(80)	(47)	
Share of profit of joint ventures	7	7	
EBITDAX ⁽¹⁾	950	844	13%
Exploration and evaluation expensed	(102)	(44)	132%
Depreciation and depletion	(429)	(366)	17%
Net impairments	(67)	25	
EBIT ⁽¹⁾	352	459	(23)%
Net finance (costs)/income	(46)	4	
Profit before tax	306	463	(34)%
Taxation expense	(100)	(192)	(48)%
Net profit for the period	206	271	(24)%
Underlying profit for the period ⁽¹⁾	258	251	3%
Basic earnings per share (cents)	21.1	28.1	(25)%
Interim dividend per share (cents)	20	15	33%

Reconciliation of half-year net profit to underlying profit⁽¹⁾

Half-year ended 30 June	2014 \$million	2013 \$million	Change
Net profit for the period	206	271	(24)%
Add/(deduct) the following:			
Net impairments	67	(8)	
Other	(15)	(12)	
Underlying profit ⁽¹⁾	258	251	3%

(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.

Revenue and EBITDAX⁽¹⁾ by business unit

Half-year ended 30 June	2014 Revenue \$million	2013 Revenue \$million	Change	2014 EBITDAX \$million	2013 EBITDAX \$million	Change
Eastern Australia	1,008	715	41%	321	256	25%
Western Australia & Northern Territory	571	541	6%	385	392	(2)%
Asia Pacific	315	246	28%	224	171	31%
GLNG	30	33	(9)%	14	7	100%
Corporate, exploration and inter-segment eliminations	(4)	(4)	0%	6	18	(67)%
Total	1,920	1,531	25%	950	844	13%

(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.

Sales revenue grew by 25% to a first half record of \$1.9 billion, primarily due to higher production, higher oil and gas prices, and higher third party crude oil sales. The average realised oil price for the half-year of A\$125 per barrel and the average realised domestic sales gas and ethane price of A\$4.91 per gigajoule were 12% and 2% higher respectively than the first half of 2013. While the average LNG selling price of A\$777 per tonne was in-line with the prior half-year, LNG sales revenue was up strongly following the start-up of PNG LNG and strong performance from Darwin LNG.

Sales revenue for the half-year includes \$505 million from third party product sales. The cost of third party product purchases was \$387 million.

Following production of 25 million barrels of oil equivalent (mmboe) in the first half, Santos maintains 2014 production guidance of 52 to 57 mmboe. The PNG LNG project reached full production capacity in late-July and is expected to contribute to a stronger production performance in the second half of 2014.

Production costs were higher than the prior half-year primarily due to the costs of new production from Fletcher Finucane and PNG LNG, combined with higher planned maintenance in the Cooper Basin as the plant is prepared for higher demand levels from 2015.

Group EBITDAX rose 13% to \$950 million, reflecting a sound operating performance across the base business combined with first production from new assets brought on-line during the half-year. Both the Eastern Australia and Asia Pacific business units achieved higher EBITDAX, primarily due to higher liquids production and prices. Asia Pacific also benefited through first production from the Peluang and PNG LNG projects. Western Australia & Northern Territory EBITDAX was slightly lower than the prior half-year, primarily due to lower gas customer nominations partially offset by higher crude oil sales and prices.

Depreciation and depletion expense was higher than the prior half-year, primarily due to higher production from Fletcher Finucane and first production from PNG LNG.

Total income tax expense, including royalty related taxes such as the Petroleum Resource Rent Tax, was 33% of pre-tax profit for the half-year (2013 first-half: 41%).

Operating cash flow was up 18% to a first half record \$744 million.

Santos has approximately \$2.7 billion of funding capacity, including \$0.4 billion cash and \$2.3 billion undrawn committed corporate and project debt facilities. This strong liquidity position provides the capacity to fund the execution of the company's strategy while minimising refinancing risk.

Development projects

Projects completed during the first half of 2014

Project	Santos interest	Product	Gross production capacity	First production
Peluang Indonesia	67.5%	Gas	25 million cubic feet of gas per day	24 March 2014 Ahead of schedule
PNG LNG Papua New Guinea	13.5%	LNG	6.9 million tonnes per annum of LNG	29 April 2014 Ahead of schedule

Sanctioned projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Dua Vietnam	31.875%	Oil	8,000 barrels of oil per day	11 July 2014 ⁽¹⁾
GLNG Australia	30%	LNG	7.8 million tonnes per annum of LNG	2015

(1) Date of first oil production from the first of the three Dua development wells.

LNG Projects

PNG LNG (Santos 13.5%)

Project construction began in 2010 and took 194 million work hours to complete. LNG production commenced ahead of schedule from the first LNG train in April and the second train in May. The project was producing at full capacity by late-July. The first LNG cargo left PNG in May and seven cargoes had been shipped by the end of June. Santos received first cash flow from the project in July.

Six Hides production wells are on-line. Drilling continues on the Hides G-pad wells and the produced water disposal well. The Hides Deep exploration well is expected to spud in the fourth quarter of 2014.

GLNG (Santos 30%)

The GLNG project is more than 85% complete and remains on track for first LNG in 2015. GLNG involves the development of CSG resources in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre underground gas transmission pipeline to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 million tonnes per annum on Curtis Island. The project has an estimated gross capital cost of US\$18.5 billion from final investment decision to the end of 2015 when the second train is expected to be ready for start-up, based on foreign exchange rates consistent with the assumptions used at FID (A\$/US\$ 0.87 average over 2011-15).

Strong construction progress continued across the GLNG project in the first half of 2014. Upstream drilling is ahead of schedule with almost 600 wells drilled since FID. The deliverability of Fairview wells continues to exceed expectations while the Roma field is performing in-line with expectations as de-watering continues. Two of the three upstream hubs have been handed over for commissioning and construction of the third is almost complete.

Commissioning of the 420-kilometre gas transmission pipeline is underway and first commissioning gas is expected to be delivered to the LNG plant in the fourth quarter of 2014.

On the Curtis Island LNG plant site, construction of LNG trains, tanks and supporting infrastructure is progressing well. All Train 1 modules have been set on their foundations and work continues on cable pulling and piping hook-up. Seventeen of the 29 Train 2 modules have also been set on foundations. In total, the module yard has shipped 109 of the 111 modules required for the project with the final Train 2 module expected on Curtis Island in September. Hydro-testing of the first LNG tank is complete and construction continues to progress well on the second tank and LNG loading jetty.

Interim dividend up 33%

Following the early start-up of PNG LNG and the receipt of first cash from the project, the Board has resolved to pay an interim dividend of 20 cents per share fully franked, 33% higher than the previous interim dividend. The interim dividend will be paid on 30 September 2014 to registered shareholders as at the record date of 29 August 2014.

The Dividend Reinvestment Plan (DRP) will be operational for the 2014 interim dividend. DRP shares will be issued at the arithmetic average of the daily volume weighted average market price (ASX-traded volumes only) over a period of seven business days commencing on the second business day after the dividend record date, less a 2.5% discount. The DRP will not be underwritten. The last date for the receipt of an election notice to participate in the DRP is the day after the record date of 29 August 2014.

Santos intends to maintain or increase each dividend as earnings and cash flow increase. It is expected that the level of dividend will next be reviewed around the time of GLNG start-up.

Impairment of assets

As previously advised, a non-cash impairment charge has been recognised in the 2014 half-year accounts associated with the company's Indonesian coal-seam gas assets. The impairment charge of A\$67 million (pre and post-tax) reflects Santos' decision to withdraw from South Sumatra CSG.

2014 Guidance

All guidance for 2014 is maintained, as shown in the table below.

Item	2014 Guidance
Production	52-57 mmbœ
Production costs	\$820-880 million
DD&A expense	\$18.50/bœ
Royalty related taxation expense (after tax)	\$60 million
Capital expenditure (excluding capitalised interest)	\$3.5 billion

Ends.