Santos

23 March 2020

Santos COVID-19 response and business update

Santos today provided an update on the measures it is taking in response to COVID-19 and the current lower oil price environment.

COVID-19 response

Santos Managing Director and Chief Executive Officer Kevin Gallagher said Santos is committed to supporting government and community efforts to limit the spread of the virus, and supporting business continuity.

“We have implemented a series of measures to protect the health and safety of our people, including restricting travel and meetings, implementing social distancing measures across all of our sites and making changes to field and office access arrangements.”

“We are confident in the business continuity and contingency plans that have been implemented and will continue to monitor and introduce additional measures in accordance with Australian Government health advice to protect our people and maintain operations. It is vitally important, in the current global and national crisis, that companies like Santos continue to provide secure energy supplies for our customers.”

Disciplined, low-cost, efficient operations

Santos today announced financial measures that are appropriate to the current environment and which will ensure the company continues as a low-cost, reliable and high performance business throughout the cycle:

- $550 million (38%) reduction in 2020 capital expenditure;
- $50 million reduction in 2020 cash production costs, and
- a target 2020 free cash flow breakeven oil price of $25 per barrel.

In 2016, Santos implemented a disciplined operating model that is focussed on maintaining a strong balance sheet and increasing operating cash flow through improvements in productivity and discipline around capital expenditure.

Today Santos continues to deliver low-cost, efficient and sustainable operations from a diverse portfolio of long life natural gas assets.

In the first two months of 2020, Santos generated $186 million in free cash flow.

Fixed-price gas sales contracts are expected to account for approximately 35% of sales volumes in 2020, including the commencement of a new 12-year domestic gas contract in Western Australia for an initial supply of 120 TJ/d from mid-year at favourable fixed price US$-denominated pricing.

In addition to these fixed price sales volumes, Santos has 6.2 million barrels of oil production hedged in 2020 at a floor price of US$54 per barrel.

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Forecast capital expenditure in the base business in 2020 has been reduced by $200 million whilst maintaining production and safe operations. Discretionary expenditure and exploration programs have been deferred where appropriate. The reductions in expenditure in the base business are not expected to impact 2020 production guidance.

Forecast major growth capital expenditure has been reduced by $350 million, reflecting re-phasing in expenditure for the Barossa and PNG LNG expansion projects.[1]

Balance sheet position

Santos' balance sheet remains strong. Free cash flow generation in the first two months of 2020 was $186 million, resulting in cash on hand of $1.2 billion at the end of February.

Net debt was $3.1 billion, including approximately $400 million in AASB16 lease liabilities.

Santos has liquidity of $3.1 billion, comprising $1.2 billion in cash and $1.9 billion in committed undrawn debt facilities with maturities predominantly ranging from two to five years.

Near-term drawn debt maturities are minimal with $60 million in corporate debt maturing in 2020 and $62 million in 2021 (excluding PNG LNG non-recourse project finance which is funded from project cash flows).

The ConocoPhillips acquisition is expected to complete in the first half of 2020, subject to third-party consents and regulatory approvals, and deliver Santos operatorship and control of a high quality portfolio of low-cost, long-life assets and strategic infrastructure. Santos' interest in Bayu-Undan and Darwin LNG will increase to 68.4% at completion and provide a significant boost to production and cash flows.

Santos will also benefit from the cash flows generated from the acquired business from the effective date of 1 January 2019 to completion with customary adjustments. The remaining net funding requirement for the acquisition before any sell-down of interests in the acquired assets is expected to be approximately $800 million and is fully funded from Santos' current cash of $1.2 billion and $750 million in committed two-year acquisition debt.[2]

Santos has already announced a conditional agreement to sell 25% interests in Bayu-Undan and Darwin LNG to SK E&S for $390 million and is in advanced discussions with a number of parties for equity in Barossa.

With the cost reductions and deferral of growth projects announced today, gearing is expected to be approximately 35% at completion of the ConocoPhillips acquisition and reduce by year-end based on the current oil price environment and including a dividend based on the free cash flow policy.

Including the ConocoPhillips acquisition and deferral of major growth projects, Santos' debt covenants have sufficient headroom and are not under threat at current oil prices for a number of years.

[1] Forecast assumes completion of the ConocoPhillips acquisition at which time Santos' interest in Barossa increases to 62.5%.
[2] Net funding requirement assuming completion occurs on 1 April 2020.

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Santos' diversified and balanced portfolio also provides flexibility to optimise asset equity levels and focus on unlocking value and increasing returns from our significant infrastructure assets.

Outlook and flexibility to pursue growth opportunities

Kevin Gallagher said: "The initiatives announced today demonstrate we are taking decisive action to ensure Santos is well-positioned in a lower oil price environment."

"Whilst the current oil price dynamic is challenging, the eventual recovery will create opportunities for companies positioned to act on them. Our strategy to leverage existing assets and infrastructure remains unchanged and we expect to pursue these exciting opportunities when conditions permit."

"However, given the uncertain economic impact of COVID-19 combined with the lower oil price, we expect to defer FID on Barossa until business conditions improve. Barossa remains an important project for Santos due to its brownfield nature and its low cost of supply."

"The current environment is a time for discipline. In the short term, we will remain focused on the health and safety of our people and delivering our production target for 2020, whilst not compromising on safety or asset integrity."

"Santos today is in control of our capital expenditure profile. All our major capital projects are yet to take final investment decisions, providing flexibility in commitment timing and our production levels from our current assets are relatively steady for the next four or five years without any new growth projects," Mr Gallagher said.

Ends.

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