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Santos reports 3% lift in first half profit to \$271 million

Santos today announced a first half net profit of \$271 million after tax, 3% higher than the corresponding period.

The headline result reflects record sales revenue driven by higher crude oil sales volumes and gas prices, impairment reversals and lower production costs, partially offset by lower interest income. Excluding impairment reversals and other one-off items, underlying net profit was \$251 million, down 11%.

Chief Executive Officer David Knox said that Santos had continued to demonstrate its ability to deliver projects on time and on budget.

“In the first half of this year Santos delivered first oil from the Fletcher Finucane project ahead of schedule and under budget, a facility that will drive stronger production for the company in the second half. The Santos Asia business also continues to make good progress with Dua in Vietnam and Peluang in Indonesia progressing well to deliver first oil and first gas respectively in the first half of 2014.”

“We also continue to make strong progress on our two major growth projects PNG LNG and GLNG, both of which remain on schedule and whose capital cost estimates remain unchanged. These LNG projects are poised to deliver significant shareholder value and it is our intent to review capital management options as we approach PNG LNG production.”

Mr Knox also discussed Santos' exploration success in the first half saying that its exploration program had delivered pleasing results with discoveries offshore Western Australia at Bassett West, Bianchi and Winchester, and also at the Gaschnitz unconventional gas well in the Cooper Basin.

First half results highlights

- **Production down 4% to 24.5 mmboe**
- **Sales revenue a record \$1,510 million**
- **EBITDAX down 4% to \$844 million**
- **Net profit after tax up 3% to \$271 million**
- **Underlying profit after tax down 11% to \$251 million**
- **Strong balance sheet: \$4.8 billion of funding capacity**
- **Interim dividend of 15 cents per share fully franked**

Half-year results at a glance			
	2013	2012 ⁽²⁾	Variance
Production volume (mmbœ)	24.5	25.4	(4)%
Sales volume (mmbœ)	27.4	29.0	(6)%
	<u>\$million</u>	<u>\$million</u>	
Product sales revenue – own product	1,237	1,219	1%
Product sales revenue – third party	273	277	(1)%
Product sales revenue – total	1,510	1,496	1%
Other revenue/income	33	35	(6)%
Production costs	(335)	(351)	(5)%
Pipeline tariffs, tolls, royalties, excise and carbon costs	(115)	(84)	37%
Third party product purchase costs	(263)	(237)	11%
Increase in product stock	54	60	
Other expenses	(47)	(50)	(6)%
Share of profit of joint ventures	7	8	
EBITDAX ⁽¹⁾	844	877	(4)%
Exploration and evaluation expensed	(44)	(86)	(49)%
Depreciation and depletion	(366)	(372)	(2)%
Net impairment reversal/(loss)	25	(23)	
EBIT ⁽¹⁾	459	396	16%
Net finance income	4	46	
Profit before tax	463	442	5%
Taxation expense	(192)	(180)	7%
Net profit for the period	271	262	3%
Underlying profit for the period ⁽¹⁾	251	283	(11)%
Basic earnings per share (cents)	28.1	27.6	2%
Interim dividend per share (cents)	15	15	-%

Reconciliation of half-year net profit to underlying profit ⁽¹⁾			
	2013	2012	Variance
	<u>\$million</u>	<u>\$million</u>	
Net profit for the period	271	262	3%
Add/(deduct) the following:			
Net gains on asset sales	(6)	(6)	
Net impairment (reversal)/loss	(8)	22	
Other	(6)	5	
Underlying profit ⁽¹⁾	251	283	(11)%

(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) Certain amounts shown here do not correspond to the half-year consolidated financial statements at 30 June 2012 and reflect adjustments required from the implementation of new Accounting Standards applicable to the Group from 1 January 2013.

Production of 24.5 million barrels of oil equivalent (mboe) was 4% lower than the first half of 2012 primarily due to a higher level of planned maintenance activity in the Cooper Basin. Santos' total natural gas production was down 3% to 105 petajoules (18 mboe) primarily due to lower production in the Cooper Basin and Indonesia. Crude oil production of 4.4 million barrels was 2% lower primarily due to lower Mutineer-Exeter, Stag and Cooper Basin production, partially offset by higher production from Chim São in Vietnam and first oil from Fletcher Finucane in Western Australia.

Sales revenue of \$1.5 billion was a half-year record, driven by higher crude oil sales volumes and higher natural gas prices.

Cash production costs of \$335 million (\$13.70/boe) were 5% lower than the corresponding period primarily due to lower costs in the Cooper Basin, Varanus Island hub and Bayu Undan.

Total income tax expense, including the Petroleum Resource Rent Tax and other royalty related taxes, was 41% of pre-tax profit for the first half, in-line with the corresponding period.

Operating cashflow was down 13% to \$629 million for the half-year, primarily due to higher income tax payments, lower interest received and the first time payment of carbon costs.

Santos had \$4.8 billion of funding capacity at the end of June, including \$1.6 billion of cash and \$3.2 billion of undrawn committed corporate and project debt facilities. This strong liquidity position provides the capacity to fund the execution of the company's strategy.

Development projects

First oil from the Fletcher Finucane oil project offshore Western Australia was achieved in May 2013, ahead of schedule and under the sanctioned \$490 million capital budget.

Projects completed during the first half of 2013

Project	Santos interest	Product	Gross production capacity	First production
Fletcher Finucane Australia	44%	Oil	15,000 barrels/day average in first 12 months of production	20 May 2013

The Peluang gas project in Indonesia was sanctioned during the first half of 2013. Located in the Maleo gas field, offshore East Java, Peluang is being developed as a tie-back to the existing Santos-operated facilities at Maleo. First gas is expected in the first half of 2014.

Sanctioned projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Dua Vietnam	31.875%	Oil	8,000 barrels/day average in first 12 months of production	1H 2014
Peluang Indonesia	67.5%	Gas	25 mmscf/day	1H 2014
PNG LNG PNG	13.5%	LNG	6.9 mtpa	2014
GLNG Australia	30%	LNG	7.8 mtpa	2015

LNG Projects

PNG LNG (Santos 13.5%)

The PNG LNG project is 90% complete and remains on track for first LNG in 2014. Operated by ExxonMobil, the project involves gas production and processing facilities in the Southern Highlands of Papua New Guinea and pipeline infrastructure to an LNG plant located near Port Moresby with capacity of 6.9 million tonnes of LNG per year. The project has an estimated gross capital cost of US\$19 billion.

The Komo airfield has been in operation since early May and construction is progressing as planned at the Hides gas conditioning plant. Drilling continues at Hides with two drilling rigs in operation on four wells, two of which have been drilled to total depth and completed.

Over 600 kilometres of onshore and offshore pipeline have been completed and the LNG plant is scheduled to receive commissioning gas from Kutubu in the third quarter of 2013. Both LNG tanks have been pneumatically tested and the LNG load-out jetty is complete, as are the navigational aids for shipping.

GLNG (Santos 30%)

The GLNG project is more than 60% complete and remains on track for first LNG in 2015. GLNG includes 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 on Curtis Island with a combined nameplate capacity of 7.8 million tonnes of LNG per year. The project has an estimated gross capital cost of US\$18.5 billion from final investment decision to the end of 2015, based on foreign exchange rates consistent with the assumptions used at FID (A\$/US\$ 0.87 average over 2011-15).

119 coal seam gas wells were drilled in the first half of 2013, which included 103 development wells (41 at Fairview, 62 at Roma) and 16 appraisal wells. Construction progressed at the three upstream gas hub sites, with the Fairview Hub 5 associated water amendment facility (AWAF3) reaching the pre-commissioning stage.

Construction of the 420-kilometre gas transmission pipeline is well underway with 84% of the mainland pipeline right-of-way cleared and graded, 75% of pipe joints strung and 67% of the total pipeline length welded out. Tunnelling works on the marine crossing commenced in April and continue to progress ahead of schedule, with 2.1 kilometres of the 4.3 kilometre tunnel complete.

At the LNG plant site on Curtis Island, progress has continued to plan with the successful raising of the first LNG tank roof. Twenty-five of the 82 train 1 modules have been received on site from the module yard. All trestle bents for the LNG jetty have been completed and piling commenced on the mooring and berthing dolphins.

At the module yard in Batangas, 51 train 1 modules are under assembly and another six modules are in the final stages of completion. Assembly has commenced on 14 of the 29 train 2 modules.

Exploration success

The first half of 2013 was highlighted by a series of successful exploration wells which, subject to successful appraisal and development, have the potential to add to Santos' future production base.

Santos participated in three successful gas/condensate exploration discoveries offshore Western Australia with the Bassett West (Browse Basin), and Bianchi and Winchester (both Carnarvon Basin) wells. Drilling is currently underway on the Dufresne prospect, the next well in the Browse Basin campaign.

Santos also achieved further success in its Cooper Basin unconventional gas exploration program with the Gaschnitz-1 well confirming a continuous gas accumulation in the Nappamerri Trough. The Gaschnitz discovery was followed by the drilling of Van der Waals-1 which also confirmed gas outside of closure. A third well, Langmuir-1 is currently drilling to further appraise the extent of the Basin Centred Gas accumulation play.

Net impairment reversal

As a result of the company's regular review of asset carrying values, a net impairment reversal of \$25 million before tax (\$8 million after tax) has been recognised in the 2013 half-year accounts. Prior impairments of the Kipper and Oyong/Wortel assets have been reversed, while an impairment of the Tintaburra asset has been recognised in the half-year.

Interim dividend

An interim dividend of 15 cents per share fully franked has been declared, in line with the corresponding period. The interim dividend will be paid on 30 September 2013 to registered shareholders as at 28 August 2013.

The Dividend Reinvestment Plan (DRP) will be operational for the interim dividend. The DRP enables all existing Santos investors to increase their shareholdings at a 2.5% discount to market price and without brokerage.

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.

2013 Production guidance

Following first half production of 24.5 mmboe, Santos maintains 2013 production guidance of 52 to 55 mmboe.

Ends.