Santos

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newsrelease

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Moomba incident affects Santos first half profit

Santos Limited's after-tax net profit was $86.5 million in the six months ended 30 June 2004 compared with $135.6 million in the previous corresponding period.

As expected, the profit downturn was due to the loss of production caused by the Moomba incident in January this year.

Net profit for the first half would have been around $62 million higher or approximately $149 million without loss of earnings from the incident. The estimated adverse impact of the incident on Santos' full-year 2004 after-tax profit, after insurance recoveries, remains $25-30 million, as previously advised.

The lower first half result does not include any recovery of losses expected from insurance polices covering business interruption or property damage caused by the Moomba incident.

The result also includes one-off after-tax restructuring costs of $14 million, which are on track to deliver significant profit improvements from 2005.

"Improvement expected" - Chairman

Directors have declared a steady fully franked interim dividend at 15 cents per ordinary share for the third successive year.

Santos' Chairman, Mr Stephen Gerlach, said the Board had decided to maintain the interim dividend in light of the significant production and profit improvements expected in the second half of 2004 and further in 2005.

The dividend will be paid on 30 September 2004 to shareholders registered in the books of the Company at the close of business on the record date of 2 September 2004.

Santos' Managing Director, Mr John Ellice-Flint, said that the Company's key projects, especially production from the Bayu-Undan liquids project and development of the Mutineer-Exeter oil field, would play a major role in the improved 2005 results.

Further projects, including development of the John Brookes and Casino gas fields, Bayu-Undan LNG project and Indonesian gas developments, would likely further supplement the production portfolio.

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The impact of the 1 January 2004 Moomba incident, combined with declining field performance from producing fields in Western Australia and Victoria, resulted in Santos achieving total production of 21.2 million barrels of oil equivalent (mmboe) in the latest June half year compared with 26.8 mmboe in the previous corresponding period. The Moomba incident resulted in the loss of 4.0 mmboe compared with the 2003 first half.

Sales volume for the six months fell by 4.5 mmboe from 26.5 mmboe to 22.0 mmboe, primarily reflecting lower gas volumes. Accordingly, revenue declined from $716.0 million to $590.5 million, partly offset by higher average oil and gas prices.

Earnings before interest and tax (EBIT) for the latest half year totalled $142.5 million compared with $237.7 million in the previous corresponding period.

Operating cash flow fell from $421.7 million to $192.6 million, due to the Moomba incident and the timing of payments and receipts.

Net debt increased from $898 million at 31 December 2003 to $1,239 million reflecting the lower operating cash flow, higher capital expenditure and the weakening of the Australian dollar. Gearing at 30 June was 29%, well within the Company's target gearing range.

Capital expenditure for the half year was a record $390 million ($344 million in the previous corresponding period), reflecting progress with major projects to expand and diversify Santos' portfolio, including the Bayu-Undan LNG development in the Timor Sea and the new Mutineer-Exeter oil field development off Western Australia. Spending on the rebuilding of the Liquids Recovery Plant at Moomba ($36 million Santos share), which is subject to insurance recoveries, is also included in expenditure for the latest first half.

Full year capital expenditure is expected to increase to around $925 million, reflecting new exploration and development projects and additional spending on projects with expected rapid pay-back from onshore Australian and the US in an environment of high oil prices and high US gas prices.

Progress on key projects

Mutineer-Exeter, Carnarvon Basin, offshore Western Australia

Further progress was made during the June half year on this new $480 million oil field development.

Santos is operator for the Mutineer-Exeter project which is more than 60% complete.

In the sub-surface, the structure and reservoir distribution is proving to be more complicated than originally anticipated.

Exeter 4AH has been drilled and completed, with an initial production capacity of 25,000 barrels of oil per day.

The north eastern Mutineer 5 development well has been drilled and confirmed. The pilot hole at Mutineer 8 was drilled recently and indicated that the Company needs to revise this development location. A further pilot hole, Mutineer 7, was unsuccessful in confirming the development location in the south west of the field.

These results led to increased uncertainty on the ultimate recoverable volumes in the area of the fields so far drilled.

The impact of these drilling results will be updated once the current drilling program has been completed.

A development location to the north is currently being drilled and up to three further development wells are planned during this phase of drilling.

Results to date indicate that the project should be able to meet the anticipated start up timing of mid 2005.

Bayu-Undan, Timor Sea

Santos, with a 10.6% interest, is the only Australian participant in the world-class Bayu-Undan gas and liquids project.

The first phase of this project, the Gas Recycle (Liquids) phase, is now complete and producing an average of 88,000 barrels of liquids per day (Santos share 9,000 barrels).

The full rate liquids production was achieved ahead of schedule and the wells drilled so far have generated better than expected productivity.

Phase two, the Liquefied Natural Gas (LNG) phase, is also progressing on schedule. The installation of the pipeline to Darwin and the construction of the LNG plant at Wickham Point are both approximately 50% complete.

More than 1.1 million hours have been worked without a lost time accident and the Bayu-Undan project has exceeded a total of 400 safe days worked.

Casino, Otway Basin, offshore Victoria

The development of the Casino gas field in the Otway Basin offshore Victoria is progressing towards sanction.

John Brookes, Carnarvon Basin, offshore Western Australia

Santos and its Joint Venturers earlier this month announced the go-ahead for this $220 million gas project being developed off Western Australia.

Project approval includes a signed contract with Newcrest Mining to supply 120 petajoules of gas over 15 years to the Telfer gold mine in WA.

The development of the John Brookes field has been accelerated, with first production expected to commence around mid 2005.

Progress on the John Brookes development has been rapid with construction of the platform jacket having already started.

Maleo, East Java Basin, offshore Indonesia

In January 2004, Santos signed a Heads of Agreement with PT Peruahaan Gas Negara (PGN) for the entire gas reserves of the Maleo field in East Java. Negotiations are proceeding towards the signing of a gas sales agreement, once satisfactory credit arrangements are established by PGN. Resolution of satisfactory credit arrangements will enhance the value of the project. Production is now likely to commence in 2006.

Production Outlook

In line with previous advice, Santos continues to expect total 2004 production of 45-46 mmboe.

Significantly higher production is forecast for 2005. The magnitude of the 2005 production increase will become clearer towards the end of 2004 when there is greater clarity on the year-end exit production of East Spar and Stag and the precise start-up timing of the Mutineer-Exeter and John Brookes projects.

The delay on Maleo will reduce the previous 2005 forecast production by around 2 mmboe. The previously announced difficulties in the Carnarvon Basin from reduced performance from the Stag and East Spar fields is expected to reduce production by around 2 mmboe for each field, a total possible impact of 6 mmboe.

Subject to satisfactory conclusion, the acquisition of Novus Petroleum’s Indonesian and Australian assets in the PT Medco–Novus takeover, could add around 2 mmboe to Santos’ 2005 production.

Other significant developments

Mr Ellice-Flint said that as well as progress on key projects such as Bayu-Undan, Mutineer-Exeter and John Brookes, the opening six months of 2004 included several other significant developments within Santos.

"Activity has continued in July and August, with the announcement of additional new projects and the commencement of drilling some of the Group's prime exploration prospects," he said.

Other 2004 Santos developments to date include:

- Being awarded a new exploration licence in the Sorell Basin, offshore Tasmania, giving Santos seven exploration blocks in the Sorell and nearby offshore Otway Basin.

- Divesting a non-core shareholding in Magellan Petroleum Australia Limited.

- Implementing a major restructure to improve the Company's key business processes and simplify the organisational structure. The restructure is expected to achieve improvements in one-off after-tax earnings in the order of $22 million in 2005 and $30 million in 2006.

- Farming out 16.67% equity in the exploration permit WA-264-P, containing the Corowa 1 discovery, to Beach Petroleum. Under the agreement, Santos retains 50% equity and operatorship of the permit.

- Entering into a major agreement to swap 150 petajoules (PJ) Cooper Basin gas with Origin Energy - further cementing the Moomba Hub's role for eastern Australia gas needs.

- Agreeing to acquire some of Novus Petroleum's Indonesian and Australian assets in the PT Medco–Novus takeover, adding Indonesian exploration acreage, 2 mmboe of production in 2005 and 22 mmboe of 2P reserves. This is subject to negotiations and execution of formal detailed documentation.

- Significantly expanding and diversifying US acreage adding two new venture areas in the shallow waters of the Gulf of Mexico and onshore east Texas.

- Farming out 60% interest in the NT/P61 permit in the Timor Sea to ConocoPhillips, ahead of drilling the Caldita prospect, a major gas prospect in the Timor Sea. This is Santos' second venture with ConocoPhillips in the region. The companies are already in joint venture in the massive Bayu-Undan development.

- Divesting non-core onshore Otway assets for $25.8 million to Origin Energy Resources.

- Expanding into North Africa, with plans to invest approximately A$70 million in a joint eight-well exploration venture over three years in the Gulf of Suez, Egypt, with major US petroleum group, Devon Energy Corporation. Drilling of the first exploration well under this agreement commenced within a matter of days of the Santos-Devon JV announcement.

- Further expanding offshore Victorian gas interests with agreement to increase to 50% Santos' equity interests in both the Patricia Baleen and the Sole gas fields.

Exploration

Santos drilled four exploration wells in the first half, of which three were successful in discovering hydrocarbons: Jeruk 1, offshore East Java; Torres 1, onshore South Texas and Hebe 1, south west Queensland.

Mr Ellice-Flint said the second half of the current financial year would see Santos involved in one of the most active and intense periods of exploration in the Company's history.

A total of 17 wells are scheduled to be drilled at a total cost of around $90 million.

"Two of these high-potential wells – Khefren 1 and Jeruk 2 – are currently being drilled in Egypt and Indonesia respectively," he said.

FURTHER INFORMATION PLEASE CONTACT:

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Santos stock symbols: STO (Australian Stock Exchange), STOSY (NASDAQ ADR)

SANTOS 2004 HALF YEAR RESULTS

	Half Year Ended		
	30/06/04	**30/06/03**	**% Increase (Decrease)**
FINANCIAL PERFORMANCE *($million)*			
Product sales	590.5	716.0	(17.5)
Cash costs - cost of sales	(217.2)	(212.0)	2.4
- selling and corporate administration	(35.6)	(16.6)	114.5
Other revenue from ordinary activities	29.6	49.9	(40.7)
Book value of non-current assets sold	(11.7)	(33.9)	(65.5)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	355.6	503.4	(29.4)
Write-down of non-current assets – exploration expenditure	(3.6)	(30.4)	(88.2)
– listed investment	-	(4.4)	n/a
Depreciation, depletion and amortisation	(209.5)	(230.9)	(9.3)
Earnings before interest and tax	142.5	237.7	(40.0)
Borrowing costs	(13.9)	(20.5)	(32.2)
Profit from ordinary activities before income tax expense	128.6	217.2	(40.8)
Income tax expense relating to ordinary activities	(42.1)	(81.6)	(48.4)
Net profit after income tax attributable to shareholders	86.5	135.6	(36.2)
Basic earnings per share *(cents)*	12.8	21.3	(39.9)
Ordinary dividend per share *(cents, fully franked)*	15.0	15.0	-
CASH FLOW *($million)*			
Net cash provided by operating activities	192.6	421.7	(54.3)
- per share *(cents)*	32.9	72.3	(54.4)
FINANCIAL POSITION *($million)*			
Total equity	3,077.3	2,989.2	2.9
Total assets	5,524.3	5,263.5	5.0
Net debt	1,239.4	1,013.7	22.3
CAPITAL EXPENDITURE *($million)*			
Exploration expenditure	41.1	60.9	(32.5)
Delineation expenditure	44.2	16.1	174.5
Development expenditure (includes construction and fixed assets)	304.8	266.7	14.3
Total	390.1	343.7	13.5
RATIOS			
Leverage (Net debt/Net debt plus equity) *(%)*	28.7	25.3	
Net interest cover *(times)*	4.9	8.1	
Return on average ordinary shareholders' equity (%) *(annualised)*	6.4	10.7	
Return on average capital employed *(%) (annualised)*	4.9	7.5	

2004 FIRST HALF FINANCIAL PERFORMANCE

Sales Volumes

Sales volumes decreased by 4.5 million barrels of oil equivalent (mmboe) to 22.0 mmboe in the six months to 30 June 2004.

Product Sales

First half sales revenue of $590.5 million was $125.5 million (or 17.5%) below the 2003 first half, primarily due to the Moomba incident.

Cost of Sales

The cost of sales fell by $15.6 million to $426.0 million reflecting lower depletion charges.

Half Year 30 June 2004

	2004 $million	**2003 $million**	**Variance**
Cash Costs:			
Production costs	131.4	128.0	(3.4)
Gas purchase costs – third party	2.7	1.9	(0.8)
Pipeline tariffs	17.4	17.4	-
Royalties	39.2	45.6	6.4
PRRT	26.4	25.2	(1.2)
Movement in product stock	0.1	(6.1)	(6.2)
	217.2	212.0	(5.2)
Non-Cash Costs:			
Depreciation	64.5	68.3	3.8
Depletion	131.5	148.7	17.2
Amortisation	3.6	4.5	0.9
Restoration provision	9.2	8.1	(1.1)
	208.8	229.6	20.8
Total Cost of Sales	**426.0**	**441.6**	**15.6**

Production costs were $3.4 million higher, primarily due to the Moomba incident.

Cash costs were $217.2 million, or $5.2 million higher than the previous corresponding period due principally to inventory drawdowns as a result of the Moomba incident.

Non-cash cost of sales was $208.8 million, a reduction of $20.8 million, primarily due to lower depletion.

Write-downs

Total write-downs of non-current assets before tax were $3.6 million ($34.8 million in the 2003 first half).

Earnings Before Interest Expense, Tax, Depreciation and Amortisation (EBITDA)

Earnings before interest, tax, depreciation and amortisation and before write-downs of non current assets were $355.6 million compared with $503.4 million in the first half of 2003.

Earnings Before Interest Expense and Tax

Earnings before interest expense and tax (EBIT) were $142.5 million, down by $95.2 million. Net interest expense decreased by $6.6 million to $13.9 million as a result of higher capitalised interest on major development projects. Net interest cover was 4.9 times.

Net Profit After Income Tax Attributable To Shareholders

A net operating profit after tax of $86.5 million was achieved, with earnings per share of 12.8 cents.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities before interest and tax fell by $260.3 million to $288.2 million while cash flow from operating activities after interest and tax fell to $192.6 million ($421.7 million in 2003) largely due to the Moomba incident ($106 million) and timing of receipts and payments ($103 million). The 2003 first half included cash receipts of $60 million related to liquids sales in the last half of 2002 and the first half of 2004 includes $43 million (net) of additional cash outflows to third-party suppliers.

Operating cash flow per share was 32.9 cents per share compared with 72.3 cents in 2003.

Dividends paid to shareholders on ordinary and reset convertible preference shares totalled $99.2 million in the 2004 first half.

The net debt to net debt plus equity ratio (leverage) at the end of the 2004 first half was 28.7%, up from 22.5% at the end of December 2003 as a result of lower operating cash flow, heavy reinvestment and exchange rate changes.

CAPITAL EXPENDITURE OUTLOOK

Total capital expenditure for 2004 is expected to be approximately $925 million, prior to any recoveries for Moomba property damage. The increase also reflects pre-development spending on Casino and accelerated Cooper Basin development.

Total exploration spending will be approximately $150 million.