newsrelease

Santos

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Santos forecasts improved 2005 results

Santos Limited expects its annual results to improve significantly in 2005 following the previously forecast downturn in the current calendar year.

Addressing the Company's Annual General Meeting in Adelaide today, Santos Chairman, Mr Stephen Gerlach, outlined several factors that would contribute to strong growth in production, cash flow and earnings in 2005.

"Santos has entered 2004 – the year marking the Company's 50th anniversary – with six new company-building projects located in South East Asia, the Timor Gap and offshore Victoria and Western Australia," Mr Gerlach told shareholders.

"Like all shareholders, we look forward to Santos benefiting from the many positive developments that we currently have in train that will significantly increase our production in 2005, 2006 and 2007," he said.

Mr Gerlach repeated earlier advice that Santos expected lower production in 2004 ahead the expected 2005 improvement.

"Our current estimate is for 2004 production of around 47-to-48 million barrels of oil equivalent (boe) compared with our 49 million boe forecast made earlier this year," he said.

"This reflects reduced deliverability from the East Spar gas field off Western Australia and lower than previously forecast Cooper Basin oil production.

"However, Cooper Basin oil production is expected to be steady in the current year, arresting the continuous decline in output over the past 17 years.

"All of these forecasts are prior to any acquisitions."

Mr Gerlach said that, as previously advised, the Moomba incident was likely to have an adverse impact on Santos' net profit after tax of $25-30 million in the current year, after expected insurance recoveries.

"On the other side of the ledger, we have today announced details of a new business improvement program which will enhance future profits," he said.

Santos Managing Director, Mr John Ellice-Flint, told the meeting that the program, the most significant Santos reorganisation in 10 years, featured a new senior leadership team, a dramatic reduction in executive reporting structures, and a 16% reduction in staff and contractor numbers.

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“We expect to achieve increases in the Company’s after-tax earnings in the order of $22 million in 2005 and $30 million in 2006 from the program, prior to restructuring and implementation costs. There will be savings in operating expenditure of approximately $23 million in 2005 and $28 million in 2006 (Santos share) and savings in capital expenditure of around $57 million (Santos share) in each of those years, largely in the Cooper Basin.

“The program restructuring and implementation costs to be incurred in the current year to 31 December 2004, will be of the order of $20 million adverse impact on net profit after tax. Of this, around $14 million will be incurred in the current opening half to 30 June 2004. Costs in 2005 are expected to be around $4 million.”

Production to rebound to all-time record

Mr Gerlach said that while Santos’ results would be down in 2004, a significant improvement was expected in 2005.

“Production next year is expected to rebound to a record level of between 58 and 60 million barrels of oil equivalent (boe),” he said.

“Subject to oil prices and the currency, 2005 should also see further strong growth in cash flow on top of our 9 per cent rise in cash flow from operating activities to $897 million in 2003.

“On a comparable accounting basis, we also expect earnings to increase although the reporting of profits may be affected by the introduction of international accounting standards in 2005”.

Mr John Ellice-Flint, told the meeting that the Company was targeting further production improvement after the expected record 2005 output.

“We are targeting further increases in production of up to 70 million barrels of oil equivalent in 2006 and 2007,” Mr Ellice-Flint said.

“A key point is, that in addition to achieving production growth, the contribution from high margin oil and liquids is expected to expand to over 40 per cent of total production, peaking at in excess of 25 million barrels in 2006.

“This outlook is particularly sensitive to the timing and performance of Mutineer-Exeter but so far we are on track with our plans for a mid-2005 start up on that project.”

Mr Ellice-Flint said Moomba and the Cooper Basin remained very important to Santos, contributing around 60 per cent of the Company’s annual production.

“There are still some opportunities for upside in the Cooper Basin, as shown by our announcement yesterday of a gas swap agreement with Origin Energy,” he said.

“However, the basin is now a mature province. Production peaked in 2000 and has since been declining by around 4 per cent on average each year.

“To offset this, we are growing rapidly in other basins. The majority of our reserves – 60 per cent – are now located outside the Cooper Basin and by 2006 we expect that these fields will comprise around 60 per cent of our production.”

Encouraging 2004 exploration start

Mr Ellice-Flint said Santos had made an encouraging start to its 2004 exploration program, with three out of four exploration wells achieving encouraging results.

“The Jeruk (Indonesia) and Torres (USA) wells are being followed up to evaluate these results,” he said.

“To establish further growth options we are maintaining an active exploration program that aims to deliver material discoveries.”

Mr Ellice-Flint said one of the Company’s priorities over the past couple of years had been to add to and improve the quality of its exploration acreage.

“This has provided us with a portfolio of larger and higher quality opportunities, particularly in oil.

“This year we plan to drill a total of 23 wells. We have a well-balanced portfolio containing five high-risk wells that could deliver substantial discoveries.

“Altogether, this year’s program has a mean expected outcome of around 100 million boe, with an upside of 250 million boe.”

15 per cent shareholding limit not in shareholder interest

Mr Gerlach told the meeting that Santos continued to put its position on the Company’s 15 per cent shareholding limit to the South Australian Government.

“The duty of your Board of Directors is to serve the interests of shareholders and, as my predecessor, John Uhrig, pointed out at the 2000 AGM, this restriction is not in the long-term interest of Santos’ shareholders,” Mr Gerlach said.

“The previous State Government reviewed the restriction but decided to leave it in place.

“One of the justifications given for the restriction has been concerns regarding security of gas supply to South Australia. However, a second source of gas has recently become available to the South Australian market from Victoria.

“Ultimately, of course, removal of the restriction is a decision for the State Government and, in turn, Parliament.

“The Santos Board continues to discuss the shareholding cap with the Government”.

Return to shareholders

Mr Gerlach said the total return to shareholders in 2003 was 20 per cent, a significant increase from 2002 and above the Company's annual target of at least 14 per cent.

The payment of a steady 30 cents a share fully franked dividend represented a fully franked yield of nearly 5 per cent.

"This marks the twenty-seventh year in which your Company has paid a dividend. This is more than half the Company's life - a significant achievement for an oil and gas company," Mr Gerlach said.

"Our current strong cash flow and reduced gearing level provide us with confidence that, notwithstanding its heavy capital expenditure program and lower earnings forecast for this year, Santos will - at a minimum - be able to maintain its current level of dividend payments over the foreseeable future," he said.

"This is of course subject to matters outside of the Company's control, such as oil prices and exchange rates.

"I say that we expect to be able to maintain the current level of dividend payments but our priority of course is to increase total returns to shareholders, including through capital growth."

While returns in the current year had been disappointing and reflected the Moomba incident, Mr Gerlach emphasised that the prospects for 2005, 2006 and beyond were considerably brighter.

"As we deliver on new projects, we expect this to be reflected in increased cash flow and to be recognised by the market," he said.

"In all, what we have before us adds up to quite a significant change from just three years ago when the Santos development cupboard was virtually bare by comparison with our current outlook.

"The face of the Santos Group is certainly changing as it embarks on its next 50-year journey."

FOR FURTHER INFORMATION PLEASE CONTACT:

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