

21 February 2018

Santos 2017 full-year results

New strategy delivers 433% increase in underlying profit to US\$336 million

Full-year (US\$ million)	2017	2016	Change
Product sales	3,107	2,594	↑ 20%
EBITDAX ⁽¹⁾	1,428	1,199	↑ 19%
Underlying profit ⁽¹⁾	336	63	↑ 433%
Net loss after tax	(360)	(1,047)	↓ 66%
Operating cash flow	1,248	840	↑ 49%
Free cash flow ⁽¹⁾	618	206	↑ 200%
Net debt	2,731	3,492	↓ 22%

Santos Managing Director and Chief Executive Officer Kevin Gallagher said the company's full-year results demonstrated a significant turnaround in business performance ahead of plan.

"We have removed substantial costs, reported a material increase in underlying profit, generated significant free cash flow and reduced net debt.

"Strong operating performance across the core assets resulted in sales volumes above the upper end of guidance and production toward the top end of guidance.

"Santos is now a stronger, more resilient company with the capacity to execute and bring on-line growth opportunities across its core long-life natural gas assets," Mr Gallagher said.

Excluding the net impairment taken at half-year and other significant items, the company recorded an underlying profit of US\$336 million, up 433% on the corresponding period.

Operating cash flow was up 49% to US\$1.2 billion and free cash flow⁽¹⁾ up 200% to US\$618 million. Strong free cash flows reduced net debt to US\$2.7 billion at the end of 2017.

Consistent with the company's focus on debt reduction, the Board has determined not to pay a final dividend. In light of the substantial turnaround in the underlying business, should market conditions remain supportive and the company achieve its debt reduction target ahead of plan, the Board will consider capital management strategies to return value to shareholders.

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment), underlying profit and free cash flow (operating cash flows less investing cash flows net of acquisitions and disposals) 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 audited financial statements. A reconciliation between net loss after tax and underlying profit is provided in the Appendix of the 2017 full-year results presentation released to ASX on 21 February 2018.

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The 2017 full-year result includes the previously announced net impairment charge of US\$689 million after tax taken in the first half against the GLNG (US\$867 million) and AAL assets (US\$149 million), partially offset by a positive net write-back to the Cooper Basin of US\$336 million. Additional impairment charges of US\$14 million after tax were recorded against other assets in the second half.

Retired Santos Chairman Peter Coates AO said: "The announcement of the financial results for 2017 marks my hand-over to Keith Spence as Chairman of Santos.

"In my nine years as a Director and nearly seven years as Chairman, Santos has undergone an incredible degree of change and many challenges.

"The Board, working closely with Kevin Gallagher and his largely new senior executive team have made lasting changes to the way Santos works over the past two years, creating a materially lower cost structure for the entire business. The productivity improvements have opened up new opportunities for growth in the Cooper Basin, NSW and Queensland.

"We have also continued the process of board renewal with six new directors appointed over the past three years and our new Chairman identified. The final step in this corporate overhaul is my hand-over to Keith who has formally assumed the role of Santos Chairman.

"The Company is again in good shape and enjoys good prospects. I wish shareholders, Directors, the management team and all employees every success from here," Mr Coates said.

Outlook

Mr Gallagher said Santos' new operating model has set a disciplined framework to drive shareholder value.

"In 2018, we will increasingly focus on growth as we progress significant opportunities like Barossa backfill of Darwin LNG, appraisal drilling in PNG, seek new market opportunities around our WA gas assets, and ramp-up activity in the Cooper Basin and GLNG.

"Santos is also on track to supply about 70 petajoules of gas into the east coast domestic market this year, which is 11 per cent of the ACCC's expected demand for 2018.

"Santos has been a reliable and competitive domestic gas supplier on the east coast for nearly 50 years and will continue to be a significant market participant offering supply reliability and competitive prices and terms over the coming years," Mr Gallagher said.

All guidance for 2018 is maintained.

Ends.