ASX/Media Release

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Santos reports 2013 full-year net profit of $516 million

Full-year highlights

- ☐ Sales revenue up 12% to a record $3.6 billion
- ☐ EBITDAX up 7% to $1,992 million
- ☐ Net profit after tax $516 million, in line with the previous year
- ☐ Underlying profit after tax down 17% to $504 million
- ☐ Operating cash flow $1,628 million, in line with the previous year
- ☐ Strong balance sheet: $3.4 billion of funding capacity
- ☐ Final dividend of 15 cents per share fully franked; full-year dividend unchanged at 30 cents per share
- ☐ PNG LNG more than 95% complete and GLNG 75% complete; capital cost estimates unchanged

Santos today announced a 2013 net profit of $516 million after tax, in line with the previous year.

Santos Chairman, Ken Borda, said consistent execution of the company's strategy had positioned Santos for a step change in earnings and cash flow as its transformational LNG projects were delivered.

"As the PNG LNG and GLNG projects commence production, Santos and its shareholders are poised to reap the rewards."

"Our operating cash flow will more than double over the next two years as the PNG LNG and GLNG projects come on-line. We are focussed on rewarding shareholders as we strike a balance between higher dividends, debt repayment and ongoing investment for growth."

"Santos will adopt a progressive dividend policy. As our production and earnings grow, we intend to initially increase the dividend per share to a level which is sustainable and then steadily increase or maintain our dividend each year," Mr Borda said.

The 2013 financial result reflects record sales revenue driven by higher crude oil sales volumes, and higher oil and gas prices, offset by lower interest income and higher DD&A, exploration and other expenses. The result includes non-cash net impairments of $28 million after tax. Excluding net impairments and other one-off items, underlying net profit was $504 million, down 17%.

Santos Managing Director and Chief Executive Officer, David Knox, said 2013 saw Santos make strong progress towards the completion of its two major growth projects PNG LNG and GLNG, both of which remain on schedule and whose capital cost estimates remain unchanged.

"PNG LNG construction is nearing completion, with the first LNG delivery now expected in the third quarter of this year."

"The GLNG project is also making good progress and is now 75% complete, with first LNG expected next year on schedule. The project recently celebrated a major milestone with the completion of tunnelling of the marine crossing."

"In 2013, Santos also achieved record sales revenue, the highest oil production in six years and strong operating cashflow, while adding to our future production potential through exploration discoveries in the Browse, Carnarvon and Cooper Basin unconventional," Mr Knox said.

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Full-year results at a glance

	2013	2012[2]	Variance
Production volume (mmboe)	**51.0**	52.1	(2)%
Sales volume (mmboe)	**58.5**	61.3	(5)%
	$million	$million	
Product sales revenue – own product	**2,772**	2,696	3%
Product sales revenue – third party	**830**	527	57%
Product sales revenue – total	**3,602**	3,223	12%
Other revenue/income	**73**	82	(11)%
Production costs	**(690)**	(688)	0%
Pipeline tariffs, tolls, royalties, excise and carbon costs	**(264)**	(231)	14%
Third party product purchase costs	**(745)**	(465)	60%
Product stock movement	**79**	35	
Other expenses	**(77)**	(107)	
Share of profit of joint ventures	**14**	12	
EBITDAX[1]	**1,992**	1,861	7%
Exploration and evaluation expensed	**(192)**	(165)	16%
Depreciation and depletion	**(888)**	(758)	17%
Net impairment loss	**(26)**	(106)	
EBIT[1]	**886**	832	6%
Net finance (costs)/income	**(17)**	79	
Profit before tax	**869**	911	(5)%
Taxation expense	**(353)**	(393)	(10)%
Net profit for the period	**516**	518	(0)%
Net loss attributable to non-controlling interest	**-**	(1)	
Net profit attributable to equity holders of Santos Limited	**516**	519	(1)%
Underlying profit for the period[1]	**504**	606	(17)%
Basic earnings per share (cents)	**53.3**	54.4	(2)%
Final dividend per share (cents)	**15**	15	-%

(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 audited financial statements.

(2) Certain amounts shown here do not correspond to the 2012 consolidated financial statements and reflect adjustments required from the implementation of new accounting standards, applicable to the Group from 1 January 2013.

Reconciliation of full-year net profit to underlying profit[1]

	2013 $million	2012 $million	Variance
Net profit attributable to equity holders of Santos Limited	**516**	519	(1)%
Add/(deduct) the following:			
Net gains on asset sales	**(10)**	(8)	
Net impairment loss	**28**	77	
Foreign currency (gains)/losses	**(17)**	1	
Other	**(13)**	17	
Underlying profit[1]	**504**	606	(17)%

(1) Underlying profit is a non-IFRS measure that is 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.

Production of 51 million barrels of oil equivalent (mmboe) in 2013 was 2% lower than the prior year. New production from the start-up of the Fletcher Finucane oil project offshore Western Australia and higher production from Darwin LNG were offset by natural field decline in mature assets and the cessation of production from the Sangu asset in Bangladesh.

Sales volumes were 5% lower at 58.5 mmboe, reflecting the lower production outcome partially offset by growth in overall third party product sales primarily due to higher third party Cooper Basin oil volumes.

Sales revenue grew by 12% to a record $3.6 billion, primarily due to higher oil and gas prices, and higher third party crude oil sales. The average realised oil price for the year of A$121 per barrel and the average realised gas price of A$5.64 per gigajoule were 6% and 10% respectively higher than 2012.

Production costs were held flat with the prior year as cost savings were captured in the Cooper Basin operations. This was offset by costs of new production from Fletcher Finucane and higher costs in Vietnam due to repairs on the Chim Sáo gas export pipeline and FPSO power systems.

Depreciation and depletion expense was higher than the prior year, primarily due to the commencement of production from Fletcher Finucane combined with downward revisions in reserves at Bayu-Undan and Barrow Island.

Total income tax expense, including royalty related taxes such as the Petroleum Resource Rent Tax, was 41% of pre-tax profit for the year (2012: 43%).

Operating cash flow of $1,628 million was in line with the prior year. The favourable impact of higher sales volumes and prices was offset by higher taxes paid.

At the end of December 2013, Santos had $3.4 billion of funding capacity, including $0.6 billion cash and $2.8 billion undrawn committed corporate and project debt facilities. This strong liquidity position provides the capacity to fund the execution of the company's strategy while minimising refinancing risk.

Development projects

Projects completed during 2013

Project	Santos interest	Product	Gross production capacity	First production
Fletcher Finucane Australia	44%	Oil	15,000 barrels of oil per day average for first 12 months of production	May 2013 Ahead of schedule and under budget

Sanctioned projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Peluang Indonesia	67.5%	Gas	25 million cubic feet of gas per day	1H 2014
Dua Vietnam	31.875%	Oil	8,000 barrels of oil per day	Mid-2014
PNG LNG Papua New Guinea	13.5%	LNG	6.9 million tonnes per annum of LNG	3Q 2014
GLNG Australia	30%	LNG	7.8 million tonnes per annum of LNG	2015

LNG Projects

PNG LNG (Santos 13.5%)

The PNG LNG project is more than 95% complete with the first LNG delivery now expected in the third quarter of this year. Operated by ExxonMobil, the project involves gas production and processing facilities in the Southern Highlands, Hela and Western Provinces 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.

Construction of the project is now nearing completion, with the focus shifting to commissioning key facilities and equipment. Drilling of four of the eight production wells is complete and commissioning of the upstream gas conditioning plant is underway. Construction of the onshore pipeline is well progressed and the offshore pipeline is complete. Commissioning is ramping-up at the LNG plant with gas circulating in train 1 and the refrigeration compressors being test run. All gas turbine generators are operable, and the LNG loading jetty and both LNG tanks are complete.

GLNG (Santos 30%)

The GLNG project is 75% complete and remains on track for first LNG next year. GLNG involves 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 with a combined nameplate capacity of 7.8 million tonnes per annum on Curtis Island. The project has an estimated gross capital cost of US$18.5 billion from final investment decision to the end of 2015 when the second train is expected to be ready for start-up, based on foreign exchange rates consistent with the assumptions used at FID (A$/US$ 0.87 average over 2011-15).

Strong construction progress was recorded across the GLNG project in 2013. Upstream drilling is ahead of schedule with over 230 wells drilled during 2013. Construction of the three upstream gas hubs continued to progress and the first of the new development wells at Fairview and Roma were commissioned.

Marine crossing tunnelling was completed in early February, and construction of the pipeline is progressing well and remains on track for completion in the second quarter of this year. On the Curtis Island LNG plant site, construction of LNG trains, tanks and supporting infrastructure is progressing well.

Reserves and resources

Santos today also announced that proved plus probable (2P) hydrocarbon reserves were 1,368 million barrels of oil equivalent (mmboe) as at the end of 2013. This represents an organic three-year 2P reserves replacement ratio of 102% and provides a reserves life of 27 years based on 2013 production of 51 mmboe.

While the company did not replace its produced reserves in 2013, strong reserves replacement over the past five years has enabled Santos to maintain 2P reserves at 1.4 billion barrels of oil equivalent, whilst producing over 250 million barrels of oil equivalent in the same period.

Further information is available in the company's annual reserves statement released to the ASX today.

Final dividend

The Board has resolved to pay a final dividend of 15 cents per share fully franked. The final dividend will be paid on 26 March 2014 to registered shareholders as at the record date of 5 March 2014.

The Dividend Reinvestment Plan (DRP) will be operational for the final dividend. The DRP enables all existing Santos investors to increase their shareholdings at a 2.5% discount to market price and without brokerage. The last date to elect to participate in the DRP is the record date of 5 March 2014.

DRP shares will be issued at the arithmetic average of the daily 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.

Impairment of assets

As a result of the company's regular review of asset carrying values, some assets were assessed to be impaired and net impairment losses of $26 million pre-tax ($28 million after tax) have been recognised in the 2013 full-year accounts.

The net impairment primarily relates to revisions to abandonment cost estimates for the Thevenard Island asset and an impairment of the Tintaburra asset, partially offset by the reversal of prior period impairments of the Kipper and Oyong/Wortel assets.

2014 Guidance

2014 production guidance is maintained at 52 to 57 mmboe and capital expenditure (excluding capitalised interest) guidance is maintained at approximately $3.5 billion. All guidance for 2014 is shown in the table below.

Item	**2014 Guidance**
Production	52-57 mmboe
Production costs	$820-880 million
DD&A expense	$18.50/boe
Royalty related taxation expense (after tax)	$60 million
Capital expenditure (excluding capitalised interest)	$3.5 billion

Ends.