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Santos announces first half results

Net profit of $37 million, reflecting significantly lower global oil prices and higher exploration expense

Key points

- Realised oil price US$60 per barrel in first half 2015 compared to US$115 per barrel in the previous first half
- Production up 13% to 28.3 mmboe
- Unit production cost down 11%
- Capex down 55%
- EBITDAX down 5% to $900 million
- Exploration and evaluation expense of $194 million
- GLNG achieved key milestones and is on track for first LNG around the end of the third quarter, within budget
- Interim dividend of 15 cents per share fully franked

Santos today announced a half-year net profit of $37 million after tax, 82 per cent lower than the previous first half, reflecting significantly lower oil prices and a higher exploration expense.

The half-year results were also highlighted by improvements in production and significant cost reductions across the business.

Strong operational performance - particularly from PNG LNG and Darwin LNG – saw Santos record production growth of 13 per cent compared to last year. However, the lower realised oil prices resulted in sales revenue declining by 15 per cent.

The average realised oil price was US$60 per barrel for the period, compared to US$115 in the previous first half – a 47 per cent reduction.

Santos Managing Director and Chief Executive Officer David Knox said that the company had responded both effectively and quickly to the lower oil price environment, delivering significant reductions in costs across the business and improving its productivity.

"Capital expenditure for the first half was 55% below 2014 levels and we cut the production costs per barrel by 11% to A$13.70 per barrel of oil equivalent," Mr Knox said.

"We have been and continue to take appropriate steps to reduce costs further. We are also working closely with our suppliers and contractors towards that end. I am pleased to say we are on track to deliver our 2015 target of $180 million in gross supply chain savings."

"Tightly managing costs will continue to be a key focus as we work through the current oil price environment."

"We have again delivered strong operational performance including higher production and sales volumes thanks to good performance from our LNG assets and stronger Cooper Basin gas production."

Media enquiries
Rob Malinauskas
+61 8 8116 5918 / +61 (0) 438 862 132
robert.malinauskas@santos.com

Investor enquiries
Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
T: +61 8 8116 5000 / F: +61 8 8116 5131
www.santos.com

"However, the bottom line result reflects the impact of the severe decline in oil prices compared to the previous first half, along with a higher exploration expense."

The 2015 exploration program was weighted to the first half and resulted in exploration and evaluation expense of $194 million. The campaign of drilling in PNG and Malaysia produced the successful Bestari-1 oil discovery offshore Malaysia but did not result in other commercial finds.

Santos also reported that it had brought gas into its LNG Train 1 at GLNG, demonstrating the significant progress made on the project during the first half.

Other GLNG milestones achieved include bringing all major upstream processing facilities on line, completing commissioning of all LNG facility power generation and other utilities, unloading of the propane and ethylene refrigerant into storage and commissioning all six LNG Train 1 refrigeration compressors.

Over the coming weeks, the GLNG team will start up Train 1's "front end" pre-treatment units before chilling down the "cold end" refrigeration units to make LNG.

Mr Knox confirmed that the GLNG project remained on track to deliver first LNG around the end of the third quarter.

"This project is progressing extremely well. GLNG's upstream facilities are fully operational and we are in the final stages of commissioning on Curtis Island," Mr Knox said.

Santos retains a robust funding position with approximately $2.2 billion in cash and undrawn debt facilities available at the end of June.

The Board has resolved to pay an interim dividend of 15 cents per share fully franked. The dividend reinvestment plan (DRP) will be in effect for the interim dividend and will be fully underwritten. DRP shares will be issued at a 2.5% discount.

All guidance for 2015 is maintained.

Santos
We have the energy.

Results at a glance

Half-year ended 30 June	2015	2014	Change
Production volume (mmboe)	28.3	25.0	13%
Sales volume (mmboe)	30.9	28.9	7%
	$million	$million	
Product sales revenue – own product	1,348	1,382	(2)%
Product sales revenue – third party	263	505	(48)%
Product sales revenue – total	1,611	1,887	(15)%
Other revenue/income	24	37	(35)%
Production costs	(387)	(383)	1%
Other operating costs	(102)	(136)	(25)%
Third party product purchase costs	(240)	(387)	(38)%
Other expenses including product stock movement	(13)	(75)	(82)%
Share of profit of joint ventures	7	7	
EBITDAX(1)	900	950	(5)%
Exploration and evaluation expensed	(194)	(102)	90%
Depreciation and depletion	(480)	(429)	12%
Net impairments	-	(67)	
EBIT(1)	226	352	(36)%
Net finance costs	(125)	(46)	172%
Profit before tax	101	306	(67)%
Taxation expense	(64)	(100)	(36)%
Net profit for the period	37	206	(82)%
Underlying profit for the period(1)	32	258	(88)%
Basic earnings per share (cents)	3.7	21.1	(82)%
Interim dividend per share (cents)	15	20	(25)%

Reconciliation of half-year net profit to underlying profit(1)

Half-year ended 30 June	2015 $million	2014 $million	Change
Net profit for the period	37	206	(82)%
Add/(deduct) the following:			
Redundancy/restructuring costs	10	-	
Net impairments	-	67	
Other	(15)	(15)	
Underlying profit(1)	32	258	(88)%

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and 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 underlying 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.

Revenue and EBITDAX[(1)] by business unit

Half-year ended 30 June	2015 Revenue $million	2014 Revenue $million	Change	2015 EBITDAX $million	2014 EBITDAX $million	Change
Eastern Australia	**666**	1,008	(34)%	**253**	321	(21)%
Western Australia & Northern Territory	**360**	571	(37)%	**193**	385	(50)%
Asia Pacific	**591**	315	88%	**440**	224	96%
GLNG	**18**	30	(40)%	**11**	14	(21)%
Corporate, exploration and inter-segment eliminations	**(4)**	(4)	0%	**3**	6	(50)%
Total	**1,631**	1,920	(15)%	**900**	950	(5)%

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration, evaluation and impairment) is a non-IFRS measure that is presented to provide an understanding of the performance of Santos' operations. 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.

Total sales revenue fell by 15% to $1.6 billion, primarily due to significantly lower global oil prices partially offset by higher LNG sales volumes due to a full period of production from PNG LNG. Despite the impact of the much lower realised oil price for the period, LNG sales revenue was up over 150% to $448 million due to strong production performance from both PNG LNG and Darwin LNG.

Sales revenue for the half year includes $263 million from third party product sales. The cost of third party product purchases was $240 million.

The 11 per cent reduction in production costs per barrel of oil equivalent achieved reflected good progress on cost reduction across the business and the higher production result.

Group EBITDAX fell 5% to $900 million, reflecting a sound operating performance across the base business including higher sales volumes and lower costs, offset by lower global oil prices.

Asia Pacific EBITDAX was up significantly reflecting a full half-year of production from PNG LNG. Both the Eastern Australia and WA & NT business units recorded lower EBITDAX, primarily due to lower crude oil sales volumes and prices. GLNG EBITDAX was lower due to lower domestic gas customer nominations.

Depreciation and depletion expense was higher than the prior half-year, primarily due to PNG LNG.

Net finance costs were higher in the current half, reflecting higher net debt levels and lower capitalised interest partially offset by lower effective interest rates on debt. Capitalised interest was lower due to the commissioning of major GLNG assets in the first half, including the three upstream gas hubs and the gas transmission pipeline.

The effective tax rate was 63% for the first half (2014 first half: 33%), significantly higher than both the statutory company tax rate and the corresponding period primarily due to higher non-deductable exploration expenditure as a proportion of the lower pre-tax profit result.

Operating cash flow was down 28% to $532 million, reflecting the lower operating result.

Funding

Santos had $2.2 billion in cash and undrawn debt facilities as at 30 June 2015.

Net debt at the end of the first half was $8.8 billion and the weighted average interest rate on debt was 4.05% (2014 half-year: 4.7%). The weakening in the AUD/USD exchange rate since the end of 2014 increased net debt by approximately $500 million in the first half.

GLNG

The GLNG project is on track for first LNG around the end of the third quarter of 2015, within budget.

During the first half, construction and commissioning of the initial upstream facilities and 420-kilometre gas transmission pipeline were successfully completed. Performance of Fairview wells continues to exceed expectations while Roma well capacity is growing in line with expectations. The next phase of upstream development was also approved with the sanction of the Roma West Phase 2B project in July. Phase 2B involves additional Roma wells plus 140 TJ/day of incremental compression capacity at the existing Roma Hub 2.

Commissioning of the LNG plant is well advanced with gas brought into LNG production Train 1 this week and all six refrigerant compressors run. Commissioning of all LNG facility power generation and other utilities is complete and the propane and ethylene refrigerant has been unloaded into storage.

Interim dividend and fully underwritten dividend reinvestment plan

The Board has resolved to pay an interim dividend of 15 cents per share fully franked. The interim dividend will be paid on 30 September 2015 to registered shareholders as at the record date of 28 August 2015.

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. The last date to elect to participate in the DRP is 31 August 2015.

DRP shares will be issued at the arithmetic average of the daily volume weighted average market price over a period of 10 business days commencing on the second business day after the dividend record date, less a 2.5% discount. The DRP will be fully underwritten.

2015 Guidance

All guidance for 2015 is maintained as shown in the table below.

Item	2015 Guidance
Production	57-64 mmboe
Production costs	$14.2-14.6/boe
DD&A expense	$17.5-18.0/boe
Capital expenditure (excluding capitalised interest)	$2 billion

Ends.