Santos

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24 February 2004

Santos 2003 earnings $327 million after-tax

Financial Highlights

- **EBITDA of $1,061 million for the full year ($1,087 million in 2002).**
- **Full year operating profit (after tax) of $327 million ($322 million in 2002).**
- **Results reflect one-off $55 million tax consolidation benefit.**
- **Operating cash flow $897 million, up 9%.**
- **Leverage reduced to 22.5%.**
- **$188 million of capital and operating savings achieved since 2001. SCIP program introduced to boost productivity.**
- **Final dividend of 15 cps, total dividend of 30 cps.**

Santos Limited today reported net operating profit after-tax and exploration write-offs of $327.0 million, or 52.1 cents per share, for the 12 months to the end of December 2003, up from $322.1 million in 2002.

The result was achieved on steady sales revenue of $1,465.0 million.

Full year earnings before interest, tax, depreciation, depletion and amortisation (EBITDA) were $1,061.2 million ($1,086.7 million in 2002).

Cash flow up 9%

Cash flow from operating activities, after interest and tax, increased by 9.3% to $897.3 million. The higher cash flow is equivalent to 153.8 cents per share, previously 141.3 cents per share.

Over the last decade, Santos' operating cash flow has grown at an average rate of 12 per cent per annum.

Leverage (net debt to net debt plus equity) was reduced to 22.5% from 28.9% at the end of 2002.

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Steady 15 cent final dividend

Santos Chairman, Mr Stephen Gerlach, said Directors had declared a fully franked final dividend of 15 cents per share.

“This maintains our total 2003 dividend on ordinary shares at a fully franked 30 cents per share and provides investors with a healthy dividend yield,” he said.

The final dividend will be paid on 31 March 2004 to shareholders registered in the books of the Company at the close of business on the record date: 11 March 2004.

Lowest gearing since 1960’s

Notwithstanding a $750.3 million capital program, leverage (net debt to net debt plus equity) was reduced from 28.9 per cent to 22.5 per cent, the lowest gearing since the 1960’s. Net debt was reduced by $265.3 million to $897.6 million, the lowest level since the end of 2000.

“A year of achievement”- Managing Director

“This has been a year of achievement for Santos”, Managing Director, Mr John Ellice-Flint said today.

“Three years ago we set ourselves a number of challenging operational and financial targets to achieve by 2003. I am pleased to say that, while we have not hit them all in 2003, we have achieved many of them. Operationally we are close to target on finding and development costs and reserve replacement in 2003. Financially we have achieved good cash flow growth and total shareholder return of 20%, well ahead of our target of 14%.”

“As expected, earnings are similar to 2002. This is a reasonable result given that production was down and the Australian dollar appreciated by 32 per cent over the year”.

“Importantly 2003 was a year of achievement in cementing a number of important growth projects in place. Milestone projects like Bayu-Undan liquids and LNG, Mutineer-Exeter, Maleo/Oyong, Casino and John Brookes all advanced during the year. These will all translate into higher production over the next two years”.

“Notwithstanding all of the Company’s growth activity, I am pleased that we were also able to achieve the lowest level of gearing since the Company first began developing the Cooper Basin in the 1960s”.

Cost saving target exceeded by $138 million

Total savings in capital and operating expenditure reached $188 million. In 2001 the Company set a target of $50 million of savings to be achieved by the end of 2003. In February 2003 this target was increased to $100 million.

Field production costs fell by $6.2 million to $263.6 million largely due to a reduction in Cooper Basin production costs.

Total operating expenses increased from $404.8 million to $445.6 million largely driven by higher PRRT expenses and decrease in liquids inventories.

Santos Continuous Improvement Program

The next stage in increasing productivity, the Santos Continuous Improvement Program (SCIP) was launched late in 2003, with the aims of:

- Reviewing and improving key business processes,
- Simplifying the Santos organisation structure,
- Reducing the cost base, over and above ongoing efforts, and
- Changing the organisational culture.

Process improvements will be implemented over the course of 2004. A new organisation structure will take effect from May 2004.

Portfolio management proceeds of $100 million

2003 was an active year in portfolio management. A number of non-core assets were divested: the Company's minority shareholding in Oil Company of Australia and its interests in the Bentu and Korinci-Baru PSCs in Indonesia and a number of small fields in the United States. A portion of the Company's interest in Bayu-Undan was also divested as part of arrangements to allow the LNG buyers to acquire a share in the project.

Proceeds of sale of non-current assets and controlled entities yielded cash proceeds of $130.4 million, with a total gain on sale of $59.6 million.

Increased interests were acquired in the Stag oil field and the John Brookes gas field, both offshore Western Australia ($30m).

Depreciation and depletion

The depreciation expense was $40.6 million higher at $172.0 million. The largest contributing factor was the accelerated depreciation of the Heytesbury facilities, due to the expected cessation of production during 2004, and the amortisation of additions made to plant and equipment in the Cooper Basin.

The depletion expense was $22.9 million higher at $333.8 million, reflecting revisions in Proven and Probable reserves in the Cooper Basin, East Spar and the United States. The depletion charge per boe was $6.16, compared with $5.43 in 2002, reflecting the adjustments to reserves.

$60m exploration write-offs

Following a review of prospectivity, the Company has written off $38 million of a remaining total of $39 million of historic expenditure associated with exploration in Papua New Guinea. Together with amounts written off in the first half, total exploration write-offs before tax were $59.7 million ($75.3 million in 2002).

Tax Consolidation

The 2003 income tax expense was $67.3 million lower than in 2002, reflecting lower tax on operating profit and a $55 million adjustment for tax consolidation.

Operational Highlights

- **Commercialisation of 510 petajoules (net) of natural gas in 2003, the largest since the 1970s.**
- **$690 million of growth projects approved during 2003 (Bayu-Undan LNG and Mutineer-Exeter, $435 million) or under advanced consideration (John Brooks, Casino and Maleo $255 million).**
- **22% of exploration acreage added during 2003.**

Largest gas commercialisation in 30 years

2003 was the Company's most successful year for gas commercialisation since the early 1970s, with 510 petajoules of gas net to Santos, either contracted or subject to heads of agreement. Highlights included:

- Approval of the Bayu-Undan LNG project (Timor Sea)
- Oyong gas sales agreement with PT Indonesian Power
- East Spar gas sales agreement with Alinta (Western Australia)
- Casino gas sales agreement with TXU (Victoria)
- Cooper Basin gas contracts with Pasminco and BHP Billiton
- Cooper Basin ethane contract extension with Quenos

Early in 2004 the John Brookes joint venture (Western Australia) and the Maleo joint venture (East Java) signed a Letter of Intent and a Heads Of Agreement respectively for substantial gas sales.

$690 million of growth projects approved or under consideration

Together with the approval of the Mutineer-Exeter oil project, the success in gas commercialisation led to the advanced consideration or approval of $690 million (Santos share) of new growth projects.

22% of exploration acreage added during 2003

During the year Santos implemented a material exploration program, appropriate for a Company producing 54 mmboe per annum. The program is based around a portfolio of prospects capable, if successful, of more than replacing 140% of production. This balanced exploration portfolio has some high risk/high reward and low risk/low reward targets.

A total of 19 exploration wells were spudded during 2003 for total expenditure of $136 million. No significant commercial discoveries were made during the year.

To further develop its exploration platform Santos is carrying out an active program of high-grading its exploration acreage to provide a basis for securing future growth projects. During 2003 the Company acquired 38,000 square kilometres of exploration acreage. At the end of the year total exploration acreage totalled 174,000 square kilometres (outside the United States).

2004 exploration

In 2004 Santos plans to undertake a high impact wildcat exploration program, drilling approximately 23 wells and acquiring or purchasing at least 9,700 kilometres of 2-dimensional seismic and 1,000 square kilometres of 3-dimensional seismic, for a total cost of approximately $134 million.

The program exposes investors to a mean risked resource of 106 mmboe, with an upside of over 250 mmboe.

Key wells in the first half of program are as follows: Agung, an oil prospect in the new North Bali PSC; Pohon, a deep water oil prospect in East Kalimantan; and Woodbine 1, a gas prospect in onshore Gulf of Mexico.

A detailed 2004 exploration program is attached.

Outlook

Mr Ellice-Flint said that the milestones achieved by the Company in 2003 continued to strengthen Santos' growth outlook.

"Prior to the Moomba incident in January we said we expected production for 2004 to be around 53 mmboe. As a result of the Moomba incident we now expect production to be around 49 mmboe. However it is important to note that business interruption after 45 days is insured. Accordingly, as previously disclosed, the financial impact of the Moomba incident on 2003 earnings is expected to be between $25 and $30 million reduction in net profit after tax.

"Production in 2004 will also depend on the performance of the new Bayu-Undan gas recycling project, which is on-track for first commercial production in April this year.

"Other new projects are being fast tracked to contribute to production in 2005.

"In 2004 Santos plans to undertake a balanced wildcat exploration program, drilling approximately 23 wells."

Mr Ellice-Flint said the Company's performance remained subject to oil prices and exchange rates. A US$1 change in the oil price per barrel leads to a change of A$15 million in net profit after tax. A one US cent movement in the AUD/USD exchange rate leads to a change in profit after tax of A$5 million. A 1% change in interest rates will lead to a A$7 million change in after tax profit.

In the last three years Santos has continued to make significant strides towards meeting its long term strategic objectives of establishing a platform for growth. Santos spend approximately $783 million in 2004 on its capital program. Expenditure on exploration will total $134 million and delineation $82 million. A full suite of development projects like the Mutineer-Exeter and Bayu-Undan LNG projects will see $567 million spent on development in 2004.

SANTOS 2003 FULL YEAR RESULTS

	Year Ended 31/12/03	Year Ended 31/12/02	% Increase (Decrease)
FINANCIAL PERFORMANCE *($million)*			
Product sales	1,465.0	1,478.4	(0.9)
Other operating revenue	23.8	44.6	(46.6)
Operating expenses – before DD&A	(445.6)	(404.8)	10.1
- selling and corporate administration	(41.6)	(37.7)	10.3
Gain on sale of non-current assets	55.1	6.2	788.7
Gain on sale of controlled entities	4.5	-	N/a
Earnings before interest, tax, depreciation and amortisation	1,061.2	1,086.7	(2.3)
Write-down of non-current assets – exploration expenditure	(59.7)	(75.3)	(20.7)
– listed investment	(4.4)	(2.3)	91.3
Depreciation, depletion and amortisation	(531.6)	(469.1)	13.3
Earnings before interest and tax	465.5	540.0	(13.8)
Borrowing costs	(34.6)	(46.7)	(25.9)
Profit from ordinary activities before income tax expense	430.9	493.3	(12.7)
Income tax expense relating to ordinary activities	(103.9)	(171.2)	(39.3)
Net profit after income tax attributable to shareholders	327.0	322.1	1.5
Basic earnings per share *(cents)*	52.1	51.9	0.4
Ordinary dividend per share *(cents, fully franked)*	30.0	30.0	-
CASH FLOW *($million)*			
Net cash provided by operating activities	897.3	820.8	9.3
- per share *(cents)*	153.8	141.3	8.8
FINANCIAL POSITION *($million)*			
Total equity	3,087.9	2,863.9	7.8
Total assets	5,218.3	5,320.8	(1.9)
Net debt	897.6	1,162.9	(22.8)
CAPITAL EXPENDITURE *($million)*			
Exploration expenditure	136.4	133.1	2.4
Delineation expenditure	70.3	90.6	(22.4)
Development expenditure (includes construction and fixed assets)	543.6	537.2	1.2
Total	750.3	760.9	(1.4)
RATIOS			
Leverage (Net debt/Net debt plus equity) *(%)*	22.5	28.9	N/a
Net interest cover *(times)*	8.5	8.1	N/a
Return on average ordinary shareholders' equity (%)	12.3	13.1	N/a
Return on average capital employed *(%)*	8.8	9.0	N/a

2004 Exploration Program

Well	Basin	Interest	Target	Pre-drill Gross Resource Upside (mmboe)	Quarter
Hebe	Cooper	60%	Gas	7	Drilled
Corsair	Cooper	60%	Gas	3	Drilled
Pohon	Kutei	20%	Oil	219	First
Woodbine (1)	GOM	30%	Gas	54	Second
Agung	East Java	100%	Oil	551	Second
Prowler	GOM	35%	Gas	38	Third
Nuri (SMK9)	East Java	75%	Gas/Oil	315	Third
Yangtse	Cooper	60%	Gas	9	Third
Little Joe	Carnarvon	30%	Gas	13	Third
Hormer	Cooper	60%	Gas	29	Third
Ormuzd	Cooper	60%	Gas	10	Third
Stilton	Cooper	60%	Gas	9	Third
Cougar 1	GOM	55%	Gas	29	Fourth
Montegue	Cooper	60%	Gas	8	Fourth
Melville	Bonaparte	100%	Gas	615	Fourth
Callister	Otway	80%	Gas/Oil	62	Fourth
Woodbine (2)	GOM	30%	Gas	54	Fourth
Papalang	Kutei	20%	Oil	529	Fourth
Raksasa	Kutei	20%	Oil	359	Fourth
Amrit	Otway deep-water	33%	Oil/Gas	730	Fourth
Charlemagne	Carnarvon	34%	Oil	53	Fourth
Amur	Cooper	60%	Gas	12	Fourth
Plasma 60	Cooper	60%	Gas	8	Fourth

SANTOS LTD

Appendix 4E

Preliminary Final Report under ASX Listing Rule 4.3A

For the period ended 31 December 2003

ABN	Previous corresponding period
80 007 550 923	31 December 2002

Results for announcement to the market

				$A million
Revenue from ordinary activities	Up	5.0%	to	1,619.4
Profit from ordinary activities after tax attributable to members before write-down of non-current assets	Down	2.7%	to	386.7
Profit from ordinary activities after tax attributable to members	Up	1.5%	to	327.0
Net profit for the period attributable to members	Up	1.5%	to	327.0

Dividends	Amount per security	Franked amount per security at 30% tax
Interim Dividends		
Ordinary securities	15.0¢	15.0¢
Preference securities	$3.2940	$3.2940
Final Dividends		
Ordinary securities	15.0¢	15.0¢
Preference securities	$3.2940	$3.2940

Record date for determining entitlements to the dividends: 11 March 2004

Brief explanation of any of the figures disclosed above necessary to enable the figures to be understood:

Refer attached Commentary on Results and Media Release.

This report is based on financial statements which have been audited.

The 2003 Consolidated Financial Report, Commentary on Results and Media Release dated 24 February 2004 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).

The Santos Ltd Company and Controlled Entities
Financial Commentary – Financial Report for the Year ended 31 December 2003

1. Consolidated Statement of Financial Performance

Product Sales ($1,465.0 million down by $13.4 million -0.9%)
Total sales revenue for the 12 months to 31 December 2003 was virtually steady at $1,465.0 million, reflecting lower crude oil and naphtha sales volumes which were mostly offset by higher gas prices.

Sales of crude oil and naphtha decreased by $78.4 million primarily due to a 1.7 mmboe decrease in sales volumes arising from natural field decline in the Cooper Basin and offshore Western Australia. Liquefied petroleum gas (LPG) and gas revenues increased by $65.0 million as a result of 0.3 mmboe higher sales volumes and 9% higher gas prices. Gas prices in 2003 averaged $3.16 GJ up from $2.90/GJ in 2002 with gas price increases realised for USA and for Cooper Basin gas.

Other Revenue ($154.4 million up by $90.5 million +141.6%)
Proceeds from sales of non-current assets were $111.3 million higher than 2002 and include:

- partial sell-down of interest in the Bayu-Undan project,
- sale of shareholdings in Oil Company of Australia Limited (OCA),
- sale of the controlled entities having an interest in the Bentu/Korinci Baru PSCs, and
- sale of interests in the Papalote and Cuatro de Julio properties in the USA and other minor properties.

Other revenue is $20.8 million lower in 2003 reflecting higher foreign exchange losses on the translation of USD cash holdings resulting from the significant appreciation of the Australian dollar against the US dollar in 2003; lower dividend revenue following the sale of OCA shares; lower interest income as a result of lower interest rates in 2003; and higher insurance proceeds and other trading revenues in 2002.

Cost of Sales ($974.4 million up by $103.5 million +11.9%)

- **Production Costs**
  - Field production costs were $6.2 million lower than in 2002 primarily as a result of cost management improvement programmes implemented in the Cooper Basin. These savings have been partially offset by additional costs associated with new production facilities at the Scotia and Patricia Baleen fields, and additional costs resulting from the acquisition in mid 2003 of Globex Far East Pty Ltd (Globex) which holds an interest in the Stag oil field and a full year of Esenjay Exploration Inc (Esenjay) operations in USA.
  - Drawdowns of liquids and gas inventories primarily in the Cooper Basin and Offshore Western Australia totalled $11.9 million in 2003 (2002: build up of $9.1 million) resulting in a $21.0 million higher charge to cost of sales in 2003 as compared to 2002.

- **PRRT**
  Charges are $25.1 million higher as a result of the East Spar field paying PRRT for the first time for a full year in 2003 and lower offshore exploration deductions.

- **Depreciation, Depletion & Amortisation ($531.6 million up by $62.5 million +13.3%)**

  Depreciation
  Depreciation charges in 2003 were $40.6 million higher than in 2002. Approximately half of this increase or $19.7 million results from significant plant and equipment additions in the Cooper Basin and a full year depreciation charge for production facilities including Patricia Baleen, Scotia, and Esenjay as well as for the additional interest acquired in the Stag oil field. The 2003 depreciation was also impacted by a "once off" accelerated depreciation charge of $20.2 million for the onshore Otway pipelines and Heytesbury facility as a result of a shortened production life of the onshore Otway fields.

  Depletion and Amortisation
  Depletion charges for 2003 increased by $22.9 million following revisions in proved and probable reserves in the USA and Cooper Basin.

Write Down of Exploration Expenditure ($59.7 million down by $15.6 million -20.7%)

During the year $59.7 million of exploration expenditure was written down (2002: $75.3 million). The write downs principally relate to costs incurred in the Papuan Basin ($42.1 million) and the Bawean Basin in Indonesia ($10.6 million).

Borrowing Costs ($34.6 million down by $12.1 million -25.9%)

Interest expense has decreased due to a reduction in average borrowings maintained by the group during 2003 and lower interest rates. The weighted average interest rate for the group (allowing for interest rate swap contracts) as at 31 December 2003 was 4.72% (5.14% in 2002).

Income tax ($103.9 million down by $67.3 million -39.3%)

Income tax has decreased in 2003 primarily due to Santos Ltd electing to be assessed under the tax consolidation legislation from 1 January 2003. As a consequence the tax expense for 2003 has been reduced by $55.0 million reflecting a change in the tax basis of assets held by the Australian resident wholly-owned controlled entities within the consolidated group from 1 January 2003.

Profit attributable to shareholders ($327.0 million up by $4.9 million +1.5%)

Net profit after income tax attributable to Santos shareholders has increased by $4.9 million to $327.0 million over the previous year. Earnings per share has increased by 0.4% in 2003 to 52.1 cents.

The profit after tax for the year included the following significant items:

- $45.8 million gain on the sale of shareholding in Oil Company of Australia Limited Shares ($45.8 million after tax),
- $59.7 million write down of exploration expenditure ($57.3 million after tax),
- $20.2 million write down of the onshore Otway pipelines and Heytesbury facility ($14.1 million after tax), and
- $55.0 million reduction to income tax expense upon adopting tax consolidation.

Geographic Segment Results

Santos operates primarily in Australia but also has International operations in the United States, Papua New Guinea and Indonesia.

Approximately 92% of the Group's segment revenues are generated in and 88% of its segment assets are located in Australia.

Dividends

During the year Santos Ltd paid fully franked dividends of $175 million on ordinary shares and $23 million on reset convertible preference shares for a total of $198 million (2002: $193.2 million).

The Directors have declared a final dividend for 2003 of 15 cents per ordinary share, fully franked (15 cents fully franked 2002) and a preferential, non cumulative fully franked dividend of $3.2940 ($3.2760 fully franked 2002) per reset convertible preference share payable on 31 March 2004.

2. Consolidated Statement of Financial Position

Total Assets ($5,218.3 million lower by $102.5 million -1.9%)

Current assets were $115.5 million lower in 2003 as a result of timing of liftings of liquid products at year end 2003 as compared to year end 2002 and the collection of trade debtors and one off sundry debtors, the proceeds of which were used to pay down trade creditors and borrowings.

Non current assets increased a net $13.0 million. Capital expenditure in 2003 for exploration, delineation, development and construction amounted to $750.3 million. Acquisitions made during the year totalled $33.4 million.
These increases were offset in part by depreciation, depletion and amortisation charges of $531.6 million; write down of exploration expenditure of $59.7 million; and sales of non-current assets including shares in OCA totalling $71.0 million.

Net Debt ($897.6 million lower by $265.3 million -22.8%)

Net debt decreased as a result of repayments of borrowings of $20.2 million and the impact of translation of US dollar borrowings due to the appreciation of the Australian dollar against the US dollar over the course of the year. Correspondingly, the group's net debt /debt plus equity ratio has declined from 28.9 % in 2002 to 22.5% as a result of the lower borrowings and increase in equity.

Equity ($3,087.9 million higher by $224.0 million +7.8%)

Retained profits increased by $220.4 million to $1,203.6 million at year end. This increase primarily reflects the 2003 net profit after tax of $327.0 million less dividends paid during 2003 of $198.0 million. The increase also includes the adjustments to opening retained profits totalling $91.4 million upon applying the new accounting standards AASB 1028 "Employee Benefits" and AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 January 2003.

Share capital at year end 2003 was $1,893.1 million, an increase of $8.3 million. Share capital at 31 December 2003 comprises shares on issue of:

- 584.5 million fully paid ordinary shares (2002: 582.8 million),
- 0.2 million ordinary shares paid to 1 cent (2002: 0.3 million), and
- 3.5 million reset convertible preference shares (2002: 3.5 million).

3. Consolidated Statement of Cash Flows

Operating Cash Flows ($897.3 million inflow higher by $76.5 million +9.3%)

Operating cash flows were $897.3 million in 2003, an increase of 9.3% over the previous year. The increase largely reflects the timing of collections of debtors and payments of creditors and lower interest and income tax payments in 2003. This was partly offset by $25.1 million higher payments of PRRT in 2003.

As a result of these improved cash flows, operating cash flow per share has increased from 141.3 cents in 2002 to 153.8 cents in 2003.

Investing Cash Flows ($653.2 million outflow lower by $173.9 million –21.0%)

Net cash reinvested in 2003 totals $653.2 million, 21% lower than in the prior year.

Capital expenditure payments increased by $57.6 million from $693.1 million in 2002 to $750.7 million in 2003. This increase substantially reflects the increase in expenditures in the Bayu-Undan project including the commencement of the Darwin LNG facilities and pipelines.

Acquisitions of controlled entities in 2003 reflect the Globex (Stag oil field) acquisition as at 1 July 2003 of $22.2 million (2002: Esenjay acquisition $151.6 million).

In 2003 the group received proceeds from sale of non-current assets of $130.4 million (2002: $19.3 million) principally comprising the sales of OCA shares; partial sell-down of interests in Bayu-Undan; sale of interest in Bentu/Korinci-Baru PSCs; and minor property sales in USA and elsewhere.

Financing Activities Flows ($209.9 million outflow higher by $195.4 million)

The group paid $198.0 million of fully funded dividends during the year (2002: $193.2 million) and repaid borrowings of $20.2 million (2002: $158.1 million drawdown). Proceeds from issues of ordinary shares totalled $8.3 million (2002: $20.6 million).

4. International Financial Reporting Standards

The Australian Financial Reporting Council announced in July 2002 that Australia would adopt International Financial Reporting Standards (IFRS) from 1 January 2005. Santos will be required to first report under IFRS in its financial statements for the half-year ended 30 June 2005 and year ending 31 December 2005. To address this change, Santos has established a project team to assess the likely impact on its accounting policies and its future financial reporting.

The new IFRS that are expected to have the more significant impact on the Group are in the areas of accounting for exploration and evaluation expenditure, employee benefits, financial instruments, impairment of assets and provisions. It is too early to quantify these impacts with any degree of certainty at this stage as many of the standards have not yet been finalised and are still subject to change.