

17 February 2017

Santos 2016 Full-year results

Significant progress on the Santos turnaround: Record production and sales volumes, free cash flow breakeven US\$36.50 per barrel and net debt reduced to US\$3.5 billion.

Underlying profit US\$63 million. Net loss of US\$1,047 million including US\$1.1 billion GLNG after-tax impairment recorded at half-year.

Managing Director and Chief Executive Officer Kevin Gallagher said: "In 2016, the Santos leadership team took tough and decisive action to stabilise the business and build the foundations for future growth. We restructured the business, removed substantial costs, all while maintaining safety and delivering record production and sales volumes."

"As a result our turnaround strategy is starting to deliver. In 2016, Santos was free cash flow positive at US\$36.50 per barrel and generated US\$370 million in free cash flow over the last eight months of the year.⁽¹⁾ This is pleasing progress but there is still more to be done."

Santos recorded a net loss of US\$1,047 million, impacted significantly by the US\$1.1 billion after tax impairment charge on GLNG taken at the half-year results in August, and lower oil prices compared to the prior year.

Excluding impairments and other significant items, the company recorded an underlying profit of US\$63 million.

Mr Gallagher said: "Our aim is to transform Santos into a low cost, reliable and high performance business that delivers sustainable shareholder value."

"At the heart of our strategy is portfolio simplification and focussed growth across five core, long-life natural gas assets: Cooper Basin, GLNG, PNG, Northern Australia, and Western Australia Gas. Each asset has significant upside potential."

"We will continue to focus on the exploration, development, production and sale of natural gas, which has a significant role to play in securing Australia and Asia's energy future."

"The raising of A\$1.24 billion through the successful institutional placement and Share Purchase Plan has strengthened our balance sheet and provides Santos with the financial flexibility to refinance debt maturities and pursue growth opportunities aligned with our core business."

"In 2017, we will further refine our operating model to drive costs down, improve cash flow and reduce debt. We now have the strategy, assets, people and growth options to deliver on our future success and provide sustainable shareholder value." Mr Gallagher said.

Production and sales volume guidance remains unchanged at 55-60 mmboe and 73-80 mmboe respectively.

(1) Free cash flow breakeven is the average annual oil price in 2016 at which cash flows from operating activities equals cash flows from investing activities. Forecast methodology uses corporate assumptions. Excludes one-off restructuring and redundancy costs and asset divestitures.

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The company's dividend framework provides for the setting of dividends as a payout ratio of underlying earnings, subject to business conditions.

Consistent with the company's immediate focus to strengthen the balance sheet and reduce net debt, the Board has decided not to pay a final dividend. With the strong progress being made in reducing costs and improving free cash flow, the Board is confident in the company's ability to return to paying dividends and will next review this position at the 2017 half-year results.

Results summary

Year ended 31 December		2016	2015	Change
Average realised oil price	US\$/bbl	46.4	53.8	-14%
Production volumes	mmboe	61.6	57.7	+7%
Sales volumes	mmboe	84.1	64.3	+31%
Revenue	US\$m	2,627	2,478	+6%
EBITDAX ⁽¹⁾	US\$m	1,199	1,454	-18%
Net impairment loss	US\$m	(1,561)	(2,854)	
EBIT ⁽¹⁾	US\$m	(1,204)	(2,381)	
Net profit/(loss) for the period	US\$m	(1,047)	(1,953)	
+ Impairment losses	US\$m	1,101	2,014	
+ Net gains on asset sales	US\$m	(17)	(1)	
+ Other	US\$m	26	(11)	
Underlying profit for the period ⁽¹⁾	US\$m	63	49	+29%
Operating cash flow	US\$m	857	811	+6%
Capital expenditure ⁽²⁾	US\$m	625	1,288	-51%
Net debt	US\$m	3,492	4,749	-26%
Final dividend per share	Acents/share	-	5	NA

(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) Excluding capitalised interest.

Santos achieved record production and sales volumes in 2016. Production was up 7% to a record 61.6 mmboe, primarily due to the start-up of GLNG train 1 in September 2015 and train 2 in May 2016, and strong production from PNG LNG. Sales volumes were up 31% to a record 84.1 mmboe, driven by higher LNG (up 89%) and gas (up 26%) sales volumes.

Sales revenue increased by 6% to US\$2.6 billion. The positive impact of higher sales volumes was partially offset by lower oil and oil-linked LNG prices. The average realised oil price fell 14% to US\$46.43 per barrel while the average LNG price was 33% lower at US\$6.03/mmmbtu. Notwithstanding the lower LNG prices, LNG sales revenue was up 27% due to the start-up of GLNG and strong performance from PNG LNG.

Unit upstream production costs dropped by 18% to US\$8.45 per boe, primarily due to cost savings across the core assets. GLNG, PNG LNG and Cooper Basin unit production costs were 26%, 12% and 15% lower respectively.

Other operating costs, including LNG plant costs, increased due to higher pipeline capacity charges reflecting increased volumes of Santos portfolio gas supplied to GLNG, recognition of an onerous contract for pipeline capacity (US\$29 million) and higher LNG plant costs due to the start-up of GLNG trains 1 and 2.

EBITDAX fell by 18% to US\$1.2 billion primarily due to lower oil and oil-linked LNG prices, and higher other operating costs, partially offset by higher LNG sales volumes due to the start-up of GLNG and lower unit production costs.

Revenue and EBITDAX⁽¹⁾ by asset

During 2016, Santos' portfolio was simplified to focus on five core, long-life natural gas assets: Cooper Basin, GLNG, PNG, Northern Australia and Western Australia Gas. Other assets have been packaged and run separately for value as a standalone business.

Year ended 31 December	2016 Revenue US\$million	2015 Revenue US\$million	Change	2016 EBITDAX US\$million	2015 EBITDAX US\$million	Change
Cooper Basin	768	851	-10%	265	293	-10%
GLNG	540	123	+339%	183	31	+490%
PNG	444	566	-22%	350	443	-21%
Northern Australia	145	215	-33%	86	143	-40%
WA Gas	184	227	-19%	210	162	+30%
Other Assets	411	473	-13%	217	217	-
Corporate, exploration and inter-segment eliminations	135	23	NA	(112)	165	NA
Total	2,627	2,478	+6%	1,199	1,454	-18%

(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 audited financial statements.

Strengthening the balance sheet

Net debt reduced to US\$3.5 billion as at 31 December 2016, down from US\$4.7 billion at the start of the year. The company's gearing ratio was approximately 33% as at 31 December 2016, down from 39% at the prior year end.

Net debt was reduced through a combination of asset sales, free cash flow generated by the business and successful completion of the A\$1,040 million institutional placement in December. The placement was conducted to strengthen the company's balance sheet and provide Santos with the financial flexibility to take advantage of growth opportunities that are aligned with its core business and strategic plan. A Share Purchase Plan Offer which closed on 31 January 2017 raised an additional A\$201 million.

On 15 December 2016, S&P Global Ratings revised the outlook on Santos' BBB- credit rating to stable from negative.

Impairment of assets

As previously announced, the 2016 result includes an impairment charge for GLNG of US\$1,050 million after tax (US\$1,500 million before tax) taken in the half-year results. No further impairment of GLNG occurred in the second half. Additional net impairment charges of US\$51 million after tax (US\$61 million before tax) were recorded against other assets in 2016.

2017 Guidance

Production and sales volume guidance for 2017 is maintained at 55-60 mmboe and 73-80 mmboe respectively. All guidance is shown in the table below.

Item	2017 Guidance
Production	55-60 mmboe
Sales	73-80 mmboe
Upstream production costs (excluding LNG plant costs)	US\$8-8.50/boe produced
Depreciation, depletion & amortisation (DD&A) expense	US\$700-750 million
Capital expenditure (excluding capitalised interest)	US\$700-750 million

Annual General Meeting

The company's Annual General Meeting will be held on Thursday 4 May 2017 at 10 am (ACST) at the Adelaide Convention Centre.

Ends.