

23 February 2005

Santos achieves 16% profit improvement in 2004

Financial highlights

- **16% increase in profit to \$380 million.**
- **A 21.5% jump in second half sales to \$910 million - a record for any half in the Company's history.**
- **Increase in basic earnings per share of 12.5% to 58.6 cents.**
- **Final dividend of 18 cents per share, fully franked, resulting in a total dividend for 2004 of 33 cents per share fully franked (30 cents in 2003).**

Santos Limited today announced higher sales revenue, profit and dividend for the year ended 31 December 2004.

Full year earnings before interest and tax (EBIT) improved by 23% to \$574 million compared with \$466 million in 2003.

Net profit rose by 16% to \$380 million from \$327 million on Group sales revenue that rose 2.5% to a record \$1,501 million.

Directors have increased the final dividend on ordinary shares from 15 cents to a fully franked 18 cents per share, taking the total 2004 dividend to a fully franked 33 cents per share, compared with 30 cents per share in each of the four previous years.

Gearing (net debt to total capital) increased only slightly from 22.5% to 24.4%, notwithstanding record 2004 total capital spending of \$930 million.

Higher dividend reflects confident outlook – Chairman

Santos Chairman, Mr Stephen Gerlach, said the Board's decision to increase the final dividend from 15 cents to a fully franked 18 cents per share had been made following the full year profit improvement and a positive 2005 outlook.

"This higher dividend is a strong signal to shareholders of the Board's confidence that Santos will to continue to grow earnings in the future," Mr Gerlach said.

The fully franked 18 cents per share final dividend will be paid on 31 March 2005 to shareholders registered in the books of the Company at the close of business on the record date 4 March 2005.

Shareholders will have the opportunity to reinvest their dividends through the recently reintroduced Dividend Reinvestment Plan.

Goals being realised – Managing Director

Santos' Managing Director, Mr John Ellice-Flint, said 2004 was a year in which more goals were achieved in line with the Company's strategy.

“One of the most notable achievements reflected in our improved 2004 result is the ability and commitment of the entire Santos team to achieve the Company's goals and successfully implement its initiatives, despite the challenges created by the 1 January 2004 Moomba incident,” he said.

“Despite that unforeseen incident – and other challenges – they have got on with the job of realising the targets of our five-year strategy which in 2004 continued to reap further dividends in successfully reshaping and streamlining the Santos operations.”

“In particular, we were able to successfully implement a significant continuous improvement and productivity enhancement program, which has reduced the Company workforce by 16%, halved the number of senior executives and is on track to contribute \$23 million towards profit in 2005, together with achieving significant capital savings.”

Higher prices – lower sales volumes

The Company's record \$1,501 million full year sales revenue for 2004 reflected a 21.5% jump in second half sales to \$910 million – a record for any half in the Company's history.

The record sales for the year reflected higher average prices across most products and was achieved despite lower production and sales volumes for much of the year, largely related to the Moomba incident.

Other key points relating to the 2004 results included:

- While sales volumes declined by 9.9% over the 12 months from 55.4 mmbbl to 49.9 mmbbl, the average realised crude oil price was up by 18.9% to A\$51.83 per barrel.

- Full year production of 47.1 mmbœ was ahead of previous guidance to the market by the Company of 45-46 mmbœ.
- The Bayu-Undan liquids project offshore Darwin started production in April and over the year was ramped up to meet an increased design throughput of 1.1 billion cubic feet per day of raw gas, resulting in liquids production of more than 100,000 barrels per day. This excellent performance resulted in gross production for the year of 19 million barrels which was 22% above expectation.
- Production also commenced from the Minerva gas field off Portland, Victoria in December 2004. Santos' share of production is 10% of the Minerva field which is expected to produce at 130 to 150 TJ per day. The project has greater significance for Santos in that it has enabled the commencement of new direct-to-customer marketing through Santos Direct.
- Return on average ordinary shareholders' equity increased from 12.3% to 13.1%.
- Return on average capital employed improved from 8.8% to 9.4%.
- Net cash provided by operating activities fell from \$897 million in 2003 to \$605 million in 2004, reflecting working capital movements and the impact of the Moomba incident on operating cash flow (insurance recoveries not yet received). Full year earnings before interest, tax, depreciation, depletion and amortisation (EBITDA) improved by 9% to \$1,158 million compared with \$1,061 million in 2003.
- Hydrocarbons were discovered in seven of the 16 wildcat wells drilled by the Company in 2004 – a success rate of 44%.

Outlook

Mr Ellice-Flint said Santos' production was expected to be up by some 15% to around 54 mmbœ in 2005 and was forecast to rise by more than 10% in 2006.

He said the production forecasts depended on performance of existing fields and timing and performance of new fields.

Mr Ellice-Flint said the Company's financial performance was subject to oil prices, exchange rates and interest rates. A US\$1 change in the oil price per barrel would lead to a A\$16 million change in net profit after tax in 2005. A one US cent movement in the AUD/USD exchange rate would lead to a change in

profit after tax of \$8 million. A 1% change in interest rates leads to a change in net profit after tax of \$9 million.

“The year ahead will see Santos continue to advance the growth strategy across multiple fronts, including a major, potentially company-changing exploration program,” said Mr Ellice-Flint.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Santos stock symbols: STO (Australian Stock Exchange), STOSY (NASDAQ ADR)

SANTOS 2004 FULL YEAR RESULTS

	Year ended 31/12/04	Year Ended 31/12/03	% Increase (Decrease)
FINANCIAL PERFORMANCE (\$million)			
Product sales	1,500.9	1,465.0	2.5
Other operating revenue	153.4	23.8	544.5
Operating expenses – before DD&A	(513.4)	(445.6)	15.2
- selling and corporate administration	(35.5)	(41.6)	(14.7)
Gain on sale of non-current assets	52.4	55.1	(4.9)
Gain on sale of controlled entities	-	4.5	N/a
Earnings before interest, tax, depreciation and amortisation	1,157.8	1,061.2	9.1
Write-down of non-current assets – exploration and development expenditure	(22.1)	(59.7)	(63.0)
- listed investment	-	(4.4)	N/a
Depreciation, depletion and amortisation	(539.7)	(531.6)	1.5
Restructure costs	(21.6)	-	N/a
Earnings before interest and tax	574.4	465.5	23.4
Borrowing costs	(33.6)	(34.6)	(2.9)
Profit from ordinary activities before income tax expense	540.8	430.9	25.5
Income tax expense relating to ordinary activities	(160.9)	(103.9)	54.9
Net profit after income tax attributable to shareholders	379.9	327.0	16.2
Basic earnings per share (cents)	58.6	52.1	12.5
Ordinary dividend per share (cents, fully franked)	33.0	30.0	10.0
CASH FLOW (\$million)			
Net cash provided by operating activities	605.0	897.3	(32.6)
- per share (cents)	103.4	153.8	(32.8)
FINANCIAL POSITION (\$million)			
Total equity	3,498.3	3,087.9	13.3
Total assets	5,956.0	5,218.3	14.1
Net debt	1,131.4	897.6	26.0
CAPITAL EXPENDITURE (\$million)			
Exploration expenditure	125.6	136.4	(7.9)
Delineation expenditure	90.9	70.3	29.3
Development expenditure (includes construction and fixed assets)	713.0	543.6	31.2
Total	929.5	750.3	23.9
RATIOS			
Gearing (Net debt/Net debt plus equity) (%)	24.4	22.5	N/a
Net interest cover (times)	9.2	8.5	N/a
Return on average ordinary shareholders' equity (%)	13.1	12.3	N/a
Return on average capital employed (%)	9.4	8.8	N/a