

21 July 2020

Santos announces non-cash impairment

Santos today announced it expects to recognise a non-cash impairment charge in the range of US\$700-800 million before tax (US\$490-560 million after tax) in the 2020 half-year results to be released on 20 August 2020. The impairment charge is due to revised oil price assumptions resulting from the effects of the COVID-19 pandemic on energy market demand fundamentals.

As a result of these revised oil price assumptions (see table on page 2), Santos will recognise non-cash impairments of GLNG of US\$640-700 million before tax and exploration assets (primarily in the Cooper and Amadeus Basins) of US\$60-100 million before tax in the half-year results. There is no impact on any of Santos' reserves.

Santos sets its long-term oil price assumptions by referencing, as a guide, the average oil price assumptions of a number of independent energy analysts. Using this approach, Santos has reduced its long-term price assumption by over 10% while also forecasting a slower recovery in the short to medium term.

The impairment charge is forecast to increase Santos' gearing by approximately 1.5 per cent. Santos' debt covenants have sufficient headroom and are not under threat at current oil prices for a number of years.

Santos Managing Director and Chief Executive Office Kevin Gallagher said: "Since 2016, Santos has implemented a disciplined operating model that is focussed on generating free cash flow through the oil price cycle."

"In response to COVID-19 and the lower oil price environment, Santos announced in March financial measures including reductions in capital and operating expenditure, and a target 2020 free cash flow breakeven oil price of US\$25 per barrel."

"Our disciplined operating model combined with the proactive measures taken to reduce expenditure saw Santos generate more than US\$430 million in free cash flow in the first half of 2020 despite significantly lower oil prices."

"Santos is well positioned to leverage our growth opportunities when business conditions improve," Mr Gallagher said.

The impairment charge is a non-cash item with no impact on EBITDAX or cash flow, it will be excluded from underlying earnings and is subject to finalisation of the half-year accounts, auditor processes and Board approval.

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Oil prices used in the assessment of asset carrying values

Santos has revised its oil price assumptions since the last assessment of asset carrying values at 31 December 2019. There is a reduction over the near-term and a revised long-term Brent crude price assumption of US\$62.50 per barrel (2020 real) from 2024.

Brent US\$/bbl	2020	2021	2022	2023	2024	2025
Real (2020)	45	49	52	55	62.50	62.50
Nominal ¹	45	50	55	62.50	67.65 ¹	69 ¹

¹ Based on US\$62.50/bbl (2020 real) from 2024 escalated at 2% per annum.

Ends.

This ASX announcement was approved and authorised for release by Kevin Gallagher, Managing Director and Chief Executive Officer.

About Santos

A proudly Australian company, Santos is a leading supplier of natural gas, a fuel for the future providing clean energy to improve the lives of people in Australia and Asia. Santos is already Australia's biggest domestic gas supplier and aims to be a leading Asia-Pacific LNG supplier. For more than 65 years, Santos has been working in partnership with local communities, providing Australian jobs and business opportunities, safely and sustainably developing Australia's natural gas resources, and powering Australian industries and households. For more information visit www.santos.com