23 April 2025

Santos Limited / STO.AX
Energy / Integrated Oil & Gas
Australia's Leading Carbon Management Pioneer
Current Price: $5.61 | Target: $8.95

STO: Dual Transformation Approaching Inflection Point

Q1 2025 Results Analysis

Executive Summary

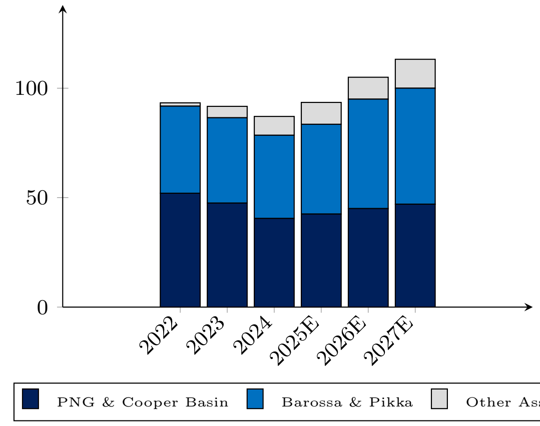
Santos Limited delivered a robust start to FY2025 with Q1 free cash flow from operations of $465 million (up 9% quarter-on-quarter) despite sales revenue of $1.3 billion (down 8% quarter-on-quarter) reflecting lower realized prices and reduced oil volumes. Production increased 2% quarter-on-quarter to 21.9 mmboe, driven primarily by stronger Western Australian performance following the successful Halyard-2 infill well. The company's strategic direction remains focused on a dual transformation: completing major growth projects in traditional hydrocarbons while advancing its carbon management portfolio, with Moomba CCS now operational and performing as predicted.

The company's major development projects continue to progress well, with Barossa LNG now 95.2% complete (up from 91% in the prior quarter), remaining on track for first gas in Q3 2025 within cost guidance. The Darwin Pipeline Duplication is complete, the majority of subsea infrastructure has been installed, and four wells have been drilled and completed. Similarly, the Pikka phase 1 project has advanced to 82.2% complete (up from 74%), with strong well performance (averaging 6,900 bbls/day) creating the potential for early startup ahead of the mid-2026 guidance. These projects underpin Santos' trajectory toward more than 30% production growth by 2027 compared to 2024 levels.

Santos' emerging leadership in carbon management represents a significant strategic differentiator. Moomba CCS has injected over 685,000 tonnes of CO2-equivalent in its first six months of operation, demonstrating Santos' first-mover advantage in this rapidly developing sector. The progress in Western Australia Reindeer CCS (advancing through early-stage FEED) and Bayu-Undan CCS (FEED 97% complete) positions Santos to build a commercial third-party carbon storage business, creating a potential new revenue stream while enhancing the resilience of its traditional operations through emissions reduction.

Despite a challenging market environment characterized by volatile commodity prices and equity markets, Santos has maintained its financial resilience with a free cash flow breakeven oil price below $35/bbl. The company's disciplined low-cost operating model and advantaged geographical position in regions with growing demand provide significant protection against market volatility. With gearing at 22.2% (excluding leases), and both Barossa and Pikka approaching completion, Santos is poised for a dramatic cash flow transformation in 2026-2028 as capital intensity decreases and production growth accelerates. This will support the company's commitment to return at least 60% of free cash flow to shareholders from 2026 onward, with potential for up to 100% returns when gearing falls below target range.

Production by Segment (MMboe)



Outlook

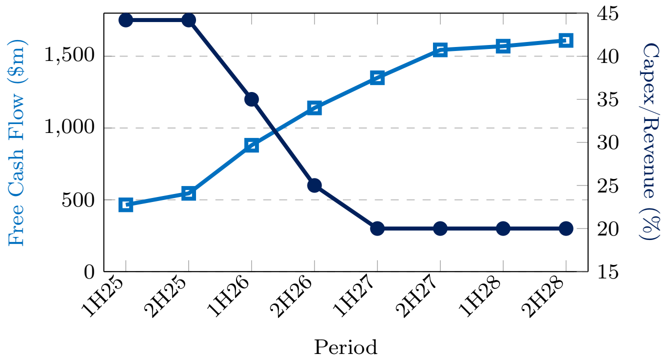
Santos is approaching a transformative inflection point as major projects near completion and new production comes online. The company's outlook features accelerating production growth, expanding margins, and enhanced free cash flow generation, underpinned by structural growth in LNG demand across Asia and emerging opportunities in carbon management services.

Production is expected to increase by more than 30% by 2027 compared to 2024 levels (87 mmboe), driven by two world-class projects: Barossa LNG (95.2% complete) and Pikka Phase 1 (82.2% complete). These projects represent significant growth catalysts, with Barossa targeting first gas in Q3 2025 and Pikka potentially starting up ahead of the mid-2026 guidance. The company maintains its 2025 production guidance of 90-97 mmboe despite typical quarter-to-quarter volatility, reflecting confidence in operational delivery through the remainder of the year.

Free cash flow is projected to transform dramatically from current levels to over $3 billion annually by 2028, driven by increased production, lower unit costs, and reduced capital expenditure as major projects move from development to production phase. Capital intensity is expected to decline from approximately 40-45% of revenue in 2024-2025 to around 20% by 2027, creating a step-change in cash generation capacity. This improved cash flow profile will support the company's commitment to return at least 60% of free cash flow to shareholders from 2026 onward, with the potential to increase to 100% when gearing falls below the target range.

The LNG market fundamentals remain supportive despite near-term volatility, with Wood Mackenzie projecting 13% global gas demand growth to 2034, supported by 34% growth in Asia. Santos' LNG contract portfolio, which is largely oil-linked with high-quality counterparties into the 2030s, provides significant stability while retaining flexibility to capture emerging market opportunities. The recent MoU with Tamboran Resources for joint study on Beetaloo gas export options through Darwin demonstrates Santos' strategic positioning to leverage expansion capacity at Darwin LNG (up to 10 million tonnes per annum).

Free Cash Flow & Capex Intensity Projection



Valuations

Our primary valuation approach for Santos utilizes a Discounted Cash Flow (DCF) methodology, which most appropriately captures the company's approaching inflection point in production and free cash flow generation, as well as the potential long-term value of its emerging carbon management business. This approach is complemented by multiple-based analyses using EV/EBITDA, P/E, and precedent transactions to provide a comprehensive perspective on Santos' value.

Methodology	Implied Price Per Share
DCF - Base Case	$8.95
DCF - Bull Case	$11.75
DCF - Bear Case	$6.50
EV/EBITDA Multiple - NTM	$5.25
P/E Multiple - NTM	$5.10
EV/2P Reserves Multiple	$6.15
PEG Ratio (P/E to Growth)	$6.40
Implied Valuation Range	**$6.50 - $8.95**
Current Share Price	**$5.61**
Up/Downside to Base Case	**+59.5%**

Our DCF valuation yields a base case of $8.95 per share, representing 59.5% upside from the current price of $5.61. This reflects the market's discount of Santos' imminent production growth and cash flow inflection as major projects near completion. The Q1 2025 update strengthens our conviction, with Barossa LNG at 95.2% completion and Pikka phase 1 at 82.2%, both on or ahead of schedule. Our base case assumes 4.5% CAGR production growth through 2030, $75/bbl long-term oil prices (2024 real terms with 2.0% inflation), EBITDA margin expansion from 69% to 72%, and successful execution of the carbon management strategy.

Multiple-based valuations using EV/EBITDA (NTM) at $5.25 and P/E (NTM) at $5.10 align with the current market price, suggesting investors value Santos using traditional energy sector metrics despite its superior growth profile and carbon management business. The EV/2P reserves multiple of $6.15 acknowledges the company's long-life asset base (18-year 2P reserves life), while the PEG ratio approach yields $6.40, indicating moderate undervaluation. This disconnect between DCF-based valuation and market-based metrics suggests investors haven't fully recognized Santos' approaching cash flow transformation and carbon management potential.

Our DCF model uses a 10.1% WACC, incorporating a 4.2% risk-free rate, 5.5% equity risk premium, 1.15 levered beta, 0.5% size premium, and 1.0% company-specific premium for execution risk and energy transition uncertainty. For terminal value, we apply a conservative 2.1% perpetual growth rate to normalized terminal year free cash flow of $3.3 billion.

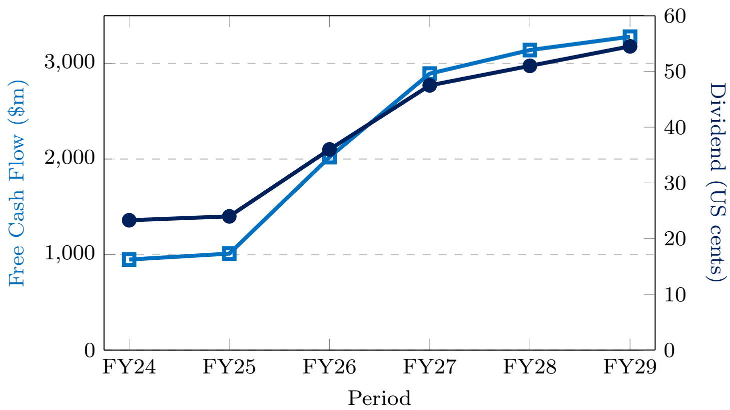
Sensitivity Factor	Change	Impact
Oil Price (Long-term)	±$5/bbl	±$1.95
LNG Price (Realized)	±10%	±$2.50
Production Growth (2027)	±5%	±$1.35
WACC	±50bps	±$1.20
Terminal Growth Rate	±50bps	±$1.15
Barossa Timing	±3 months	±$0.85
Carbon Storage Growth	±3 Mtpa by 2030	±$0.75

Our scenario analysis highlights significant valuation sensitivity to key variables. In the bull case ($11.75 per share), we assume accelerated production growth of 35% by 2027 (vs. 30% base case), higher commodity prices ($85/bbl oil), premium LNG pricing (15.5% Brent slope vs. 14.5%), expanded margins (74% vs. 72%), and more favorable carbon storage growth (10 Mtpa by 2030 vs. 6 Mtpa). This scenario represents successful execution across all growth initiatives with supportive market conditions, resulting in approximately 20% higher cash flows and 25% higher terminal value compared to the base case.

Conversely, the bear case ($6.50 per share) assumes more modest production growth of 22% by 2027, weaker pricing ($65/bbl oil, 13.5% Brent slope), stagnant margins (69%), limited carbon storage growth (3 Mtpa by 2030), and greater long-term growth constraints (1.8% terminal growth vs. 2.1%). This scenario reflects potential execution delays, commodity price weakness, and accelerated energy transition pressures, resulting in approximately 18% lower cash flows and 25% lower terminal value than our base case. Sensitivity analysis reveals that commodity prices have the most significant impact on valuation, followed by production growth achievement and carbon storage development.

We see the primary sources of upside for Santos' valuation as: 1) faster-than-expected production ramp-up from both Barossa and Pikka, with the potential for early Pikka startup now highlighted in the Q1 update, 2) greater-than-modeled LNG price realization from both oil-linked and JKM-linked contracts, 3) accelerated commercialization of carbon management services creating a new material revenue stream, and 4) higher-than-assumed shareholder returns as cash flow expands and gearing declines. The key downside risks include commodity price volatility (though mitigated by Santos' <$35/bbl breakeven and hedging program), potential delays in project completion (though significantly de-risked with advanced completion status), and challenges in scaling the carbon management business to commercial materiality.

Cash Earnings & Dividend Projection



Free cash flow is projected to expand dramatically from approximately $1.0 billion in 2025 to $2.0 billion in 2026, reaching $2.9 billion in 2027 and exceeding $3.1 billion annually thereafter. This step-change improvement will be driven by three key factors: production growth of approximately 30% by 2027 compared to 2024 levels, declining unit production costs from over $7.80/boe to below $7.00/boe, and a significant reduction in capital expenditure from over 40% of revenue in 2024-2025 to approximately 20% by 2027.

The relationship between NOPAT and free cash flow undergoes a significant inflection, with FCF as a percentage of NOPAT improving from around 65% in 2025 to 106% in 2026 and 137% by 2027, demonstrating the company's transformation from cash consumer to cash generator. This enhanced cash flow profile will support Santos' commitment to return at least 60% of free cash flow to shareholders from 2026, with the potential to increase to 100% when gearing falls below the target range. Based on our projections, this could translate to a dividend yield approaching 7-9% on the current share price by 2027-2028, representing a compelling income opportunity alongside the substantial capital appreciation potential.

Santos' free cash flow resilience is underpinned by its low-cost operating model, with the company maintaining a free cash flow breakeven oil price below $35/bbl. The Q1 2025 update confirms that this breakeven level has been preserved despite inflationary pressures, demonstrating management's continued focus on cost discipline. The company's hedging program for H1 2025 (10 million barrels with a $70/bbl floor and average ceiling of $84.07/bbl) provides additional downside protection, while the contracted LNG portfolio provides stability through market fluctuations. This combination of operational efficiency, financial prudence, and contract security enhances the reliability of Santos' cash flow trajectory, even in volatile commodity markets.

About the Company

Santos Limited (ASX: STO) is a leading Australian energy company founded in 1954, with operations spanning Australia, Papua New Guinea, and Alaska. The company has evolved from a domestic gas producer in South Australia's Cooper Basin to an international energy company with a strategic focus on both traditional hydrocarbon production and decarbonization technologies. Santos operates across the full energy value chain, from exploration and production to processing and marketing, with a strategic focus on LNG, domestic gas, oil, and increasingly, carbon management services.

The company generates revenue primarily through four product streams: LNG (approximately 64% of Q1 2025 revenue), domestic gas (21%), crude oil (8%), and condensate (7%). Santos employs a disciplined capital allocation framework that balances investment in growth projects, debt management, and shareholder returns, targeting at least 60% of free cash flow returned to shareholders from 2026 onward.

Led by CEO Kevin Gallagher since 2016, Santos has implemented a disciplined low-cost operating model while pursuing a strategy of backfilling core assets and developing decarbonization capabilities. The company operates through five key segments: Papua New Guinea (contributing approximately 46% of Q1 2025 production), Western Australia (23%), Queensland NSW (16%), Cooper Basin (14%), and Northern Australia Timor-Leste (1%).

Key infrastructure assets include interests in three world-class LNG projects (PNG LNG, GLNG, and Darwin LNG with Barossa), domestic gas facilities, and the operational Moomba CCS project. Santos' customer base includes major Asian utilities and energy companies, with approximately 90% of its LNG portfolio contracted to high-quality counterparties through the 2030s. This balanced approach leverages technical expertise across both traditional and emerging energy segments.

Tailwinds

Major Project Delivery Excellence: Santos has demonstrated strong project execution capabilities, with Barossa now 95.2% complete and Pikka at 82.2% complete, both tracking on or ahead of schedule. The Q1 2025 update indicates Barossa remains on track for first gas in Q3 2025, while Pikka could potentially start up ahead of the mid-2026 guidance given strong well performance (averaging 6,900 bbls/day). This project execution excellence de-risks the company's growth trajectory and accelerates its cash flow transformation. Four of the six planned Barossa wells have been completed, with the fifth showing "reservoir properties at the higher end of pre-drill expectations," suggesting potential production outperformance. Similarly, the eleven Pikka development wells stimulated and flowed back are delivering results "comparing favourably with pre-drill expectations," with continuous improvement yielding estimated initial 30-day production rates up to 7,850 barrels per day per well.

LNG Demand Growth: Wood Mackenzie's latest forecast projects 13% global gas demand growth to 2034, supported by 34% growth in Asia, with global LNG demand expanding by 55%. This structural growth trend strongly favors Santos given its geographic proximity to Asian markets, high heating value LNG enabling premium pricing, and strong contract position. The company's LNG portfolio is largely contracted through the 2030s with high-quality counterparties, primarily through oil-linked pricing that provides revenue stability while retaining flexibility to capture spot opportunities. In Q1 2025, Santos shipped 54 LNG cargoes, including four PNG LNG spot cargoes, demonstrating its ability to optimize the portfolio across varying market conditions.

Carbon Management Leadership: Santos has emerged as a leader in carbon management services, with the operational Moomba CCS project having injected 231.5 ktCO2e in Q1 2025 and over 685,000 tonnes in its first six months. This first-mover advantage positions Santos to develop a commercial third-party carbon storage business as global decarbonization efforts accelerate. The company is advancing additional CCS hubs in Western Australia (early-stage FEED) and Bayu-Undan (FEED 97% complete), creating multiple pathways to scale this emerging business. In Q1 2025, Santos executed an MOU with a North Asian customer for carbon management services, initially targeting 2 Mtpa and scaling to 5 Mtpa, with a focus on cross-border transportation and storage.

Low-Cost Operating Model: Santos' disciplined low-cost operating model has enabled the company to maintain a free cash flow breakeven oil price below $35/bbl despite inflationary pressures, providing significant resilience in volatile markets. This operational excellence is evident across the portfolio, with several assets delivering record performance in Q1 2025: Halyard-2 infill well achieving first gas at rates above pre-drill expectations, record daily GLNG upstream production from Scotia field (97.3 TJ per day), and continued high reliability (99.8%) from operated gas facilities. As new projects come online and capital intensity decreases, this low-cost model will translate into expanding margins and accelerating free cash flow generation.

Headwinds

Commodity Price Volatility: Santos faces ongoing exposure to oil and LNG price fluctuations, with the Q1 2025 update highlighting lower realized prices as a key factor in the 8% quarter-on-quarter revenue decline despite higher production. Oil-linked LNG sales pricing was lower in Q1, reflecting lagged JCC (averaging $78.31/bbl versus $85.99/bbl in

Q4 2024), though partially offset by stronger JKM-linked sales ($14.12/mmBtu versus $13.37/mmBtu). This price sensitivity remains a significant risk factor, with our valuation analysis indicating that a $5/bbl change in long-term oil price assumptions impacts share price by approximately $1.95. While Santos has protective measures through hedging (10 million barrels for H1 2025 with a $70/bbl floor) and contracted LNG sales, sustained price weakness would constrain cash flow and delay the company's financial transformation.

Regulatory and Policy Risk: Santos operates across multiple jurisdictions with evolving regulatory frameworks, particularly regarding carbon pricing, emissions reduction requirements, and project approvals. The company's Bayu-Undan CCS project, despite technical FEED being 97% complete, remains dependent on establishing "necessary regulatory and fiscal frameworks, approvals, government-to-government agreements (with Australia), and commercial agreements" to advance toward FID. Similarly, in Australia, the Narrabri gas project "is currently awaiting a Native Title Tribunal determination" despite receiving approval from the Independent Planning Commission in 2020. These regulatory uncertainties can delay project timelines, increase compliance costs, and create strategic complexity.

Portfolio Concentration Risk: Despite ongoing diversification efforts, Santos maintains significant concentration in key assets, particularly PNG LNG, which contributed approximately 46% of Q1 2025 production. This concentration creates vulnerability to operational disruptions, regional issues, or contract renegotiations that could impact a substantial portion of the company's earnings. While the successful progression of Barossa and Pikka will enhance diversification when they come online, the interim period involves elevated concentration risk. Additionally, the company's LNG portfolio creates product concentration that exposes Santos to sector-specific challenges in the evolving global gas market.

Energy Transition Timing: Santos operates at the intersection of traditional hydrocarbon production and emerging carbon management technologies, facing accelerating energy transition dynamics that create both opportunities and threats. While the company has positioned itself proactively with operational CCS capabilities and a clear decarbonization strategy, the pace and trajectory of the global energy transition remain highly uncertain. This creates challenges in capital allocation, with Santos needing to balance investment in traditional assets that generate near-term cash flow against emerging opportunities in lower-carbon solutions that may have longer payback periods but greater long-term sustainability.

Competitors

Competitor	Competitive Positioning
Woodside Energy	Australia's largest independent energy company with significant LNG portfolio; Greater scale but less diversified geography; Scarborough LNG project approaching completion; Less advanced in carbon management initiatives; Higher credit rating but also higher absolute debt level; Competing for similar Asian LNG markets
Origin Energy	Integrated energy company with retail exposure through APLNG stake; More exposed to Australian domestic market dynamics; Stronger focus on renewable electricity generation; Recent private equity takeover creating strategic uncertainty; Less international diversification and smaller upstream portfolio
ExxonMobil	Global super-major scale with presence in PNG as PNG LNG operator; Technical expertise and financial strength; Australian/PNG assets represent smaller portion of global portfolio; Less nimble decision-making; Later entrant to carbon management; Higher corporate overhead
TotalEnergies	Global portfolio diversification with strong LNG marketing capability; Leading energy transition strategy among majors; Papua LNG operator creating competitive dynamic in PNG; More diversified low-carbon portfolio beyond CCS; Multiple competing investment priorities globally

Santos occupies a distinctive competitive position among energy companies operating in the Asia-Pacific region, with its integrated portfolio spanning LNG, domestic gas, oil, and carbon management services. Compared to larger global players like ExxonMobil and TotalEnergies, Santos offers greater focus on the Asia-Pacific region and closer proximity to premium Asian LNG markets. Relative to its most direct Australian competitor, Woodside Energy, Santos has a more diversified geographical footprint (particularly in PNG and Alaska) and more advanced carbon management initiatives with its operational Moomba CCS project.

The company's competitive advantages include its low-cost operating model (maintaining free cash flow breakeven below $35/bbl), strong LNG contract position with approximately 90% of volumes contracted through the 2030s, and early leadership in carbon management services. Santos' proximity to Asian markets provides both cost advantages in shipping and the ability to provide high heating value LNG that commands premium pricing. The company's dual strategy of developing both traditional hydrocarbon projects and carbon management capabilities positions it distinctively in the energy transition, potentially creating new revenue streams that leverage existing technical expertise and infrastructure.

Santos' key competitive challenges include its smaller scale compared to global majors, which can impact capital costs and negotiating leverage with suppliers and customers. The company also faces more concentrated exposure to Asia-Pacific markets compared to globally diversified peers, creating potential vulnerability to regional economic downturns or policy shifts. Additionally, Santos competes for capital in a sector that faces increasing scrutiny from ESG-focused investors, though its carbon management initiatives help mitigate this challenge.

The competitive landscape is evolving rapidly as the energy transition accelerates, with traditional competitors increasingly diversifying beyond hydrocarbons while new entrants emerge in specific segments like carbon management. Santos' strategic positioning at this intersection provides a solid foundation for navigating this complex competitive environment while delivering value to shareholders through both the near-term cash flow transformation and longer-term transition positioning.

Results Summary

Santos delivered solid operational performance in Q1 2025, with production of 21.9 mmboe, up 2% from the prior quarter and 0.5% year-on-year. This production growth was primarily driven by Western Australia, where volumes increased by more than 18% quarter-on-quarter following the successful Halyard-2 infill well. Sales volumes were slightly lower at 23.3 mmboe (down 1% quarter-on-quarter), with higher LNG sales (+3%) offset by lower liquids sales due to the absence of crude lifting from Pyrenees and reduced third-party purchases.

Key Metrics	Q1 2025	Q4 2024	Change
Production (mmboe)	21.9	21.5	+2%
Sales volume (mmboe)	23.3	23.6	-1%
Sales revenue ($m)	1,294	1,401	-8%
Capital expenditure ($m)	613	696	-12%
Free cash flow from operations ($m)	465	427*	+9%
Moomba CCS injected volumes (ktCO2e)	231.5	224.4	+3%

*Estimated based on Q1 2025 statement of 9% quarter-on-quarter growth

Sales revenue declined 8% quarter-on-quarter to $1,294 million, primarily due to lower crude sales volumes and reduced realized prices for domestic gas and oil-linked LNG contracts. This was partially offset by higher domestic gas sales volumes and improved realized prices for crude and JKM-indexed LNG sales. LNG average realized prices decreased to $11.57/mmBtu (from $12.39/mmBtu in Q4 2024), with oil-indexed LNG at $11.04/mmBtu (down from $12.30/mmBtu) reflecting lower lagged JCC prices. However, JKM-indexed LNG sales achieved $14.12/mmBtu (up from $13.37/mmBtu), demonstrating the benefits of Santos' diversified pricing approach.

Capital expenditure declined 12% quarter-on-quarter to $613 million, reflecting FX benefits and activity phasing, with all guidance unchanged. The Q1 expenditure comprised $260 million of sustaining capital (including $60 million for decommissioning costs) and $353 million for major projects. The company maintains its 2025 capital expenditure guidance of $1.2-1.3 billion for sustaining activities and $1.2-1.3 billion for major projects, supporting the continued progression of Barossa and Pikka while maintaining the base business.

Free cash flow from operations increased approximately 9% quarter-on-quarter to $465 million, demonstrating the company's cash generation capabilities despite lower revenue. This resilience reflects Santos' disciplined low-cost operating model, with the company maintaining its free cash flow breakeven oil price below $35/bbl. The company's financial position remains strong, with gearing at 22.2% excluding operating leases (25.1% including leases), providing capacity to fund remaining growth projects while maintaining distribution policy.

The standout operational highlights included Western Australian production increasing by more than 18% on the prior quarter, driven by the Halyard-2 infill well achieving first gas at rates above pre-drill expectations; continued high reliability (99.8%) from operated gas facilities and strong throughput at PNG LNG resulting in full plant capacity in Q1; and record daily GLNG upstream production from Scotia field of 97.3 TJ per day, supporting an annualized run rate of 6.0 million tonnes of LNG for the quarter.

Segment	Production (mmboe)	QoQ Change	Sales Revenue ($m) [QoQ]	Key Developments
Western Australia	5.1	+18.6%	193 [-18.6%]	Halyard-2 infill well exceeding expectations; WA Reindeer CCS advancing through early FEED
Cooper Basin	3.1	-6.1%	132 [-9.0%]	31 wells drilled, 24 wells connected; Moomba CCS injected 231.5 ktCO2e in Q1
Queensland & NSW	3.5	-2.8%	302 [-20.3%]	Record GLNG production from Scotia; MOU with Tamboran for Beetaloo gas export options
PNG	10.0	-2.0%	672 [+4.3%]	Maintained full plant capacity; Record 97.2% operated CPF reliability
Northern Australia	0.2	+100%	9 [+800%]	Barossa 95.2% complete; Darwin Pipeline Duplication completed
Total	**21.9**	**+2.0%**	**1,294 [-8.0%]**	Progress across all major projects; Carbon management business advancing

Western Australia: Production volumes increased substantially by 18.6% quarter-on-quarter to 5.1 mmboe, driven by the Halyard-2 infill well achieving first gas at rates above pre-drill expectations. Combined with consistent reliability, this led to higher domestic gas production. Non-operated Macedon Gas Plant maintained consistent production. Ningaloo Vision operations were successfully extended into Q1 as planned, with approval granted for continued operations into Q2. The FPSO achieved higher-than-forecast reliability in March, effectively offsetting downtime from Tropical Cyclone Sean in January. Despite the strong production performance, sales revenue declined 18.6% to $193 million, primarily due to lower crude oil sales as no lifting was scheduled from Pyrenees in Q1. Meanwhile, Western Australia Reindeer CCS is advancing through early-stage FEED, in parallel with ongoing customer negotiations for carbon management services.

Cooper Basin: Production declined 6.1% quarter-on-quarter to 3.1 mmboe due to maintenance and reliability issues in upstream facilities. Thirty-one wells were drilled (24, Gas, 6 Oil, and 1 Oil & Gas) and 24 wells were connected (18 Gas and 6 Oil) across the Cooper Basin during the quarter. Drilling was successfully completed on two Moomba South Granite Wash horizontal wells, achieving threshold lateral lengths with stimulation planned for Q2. Sales revenue decreased 9.0% to $132 million, reflecting the lower production volumes. Following the end of Q1, the Cooper Basin has been affected by a significant flood event, with some upstream facilities temporarily shut-in to protect equipment and certain activities rescheduled. On the carbon front, Moomba CCS continued to operate in line with expectations, injecting approximately 231.5 ktCO2e in Q1 (capturing 88.5% of available CO2) despite a planned 9-day outage for the 4000-hour service.

Queensland & NSW: Production decreased slightly by 2.8% quarter-on-quarter to 3.5 mmboe, though performance remained stable at key assets. Roma delivered similar results to the previous quarter, showing additional growth toward the end of the period, while Scotia achieved record daily production. Gross GLNG upstream gas production averaged 700 TJ/d in Q1, putting LNG production on track for approximately 6 Mtpa for the full year. Twenty-seven cargoes were delivered in the quarter. Sales revenue declined significantly by 20.3% to $302 million, primarily due to lower LNG volumes (474.7kt versus 559.3kt in Q4) and reduced realized prices. Development activity continued with 33 wells drilled and 23 wells connected across GLNG acreage. The Mahalo JV executed an agreement with Jemena for FEED on a new Mahalo Gas Hub Pipeline, while progress continues on the Narrabri gas project and Hunter Gas Pipeline, with approximately 30% of landholders having signed easement deeds.

PNG: Production decreased slightly by 2.0% quarter-on-quarter to 10.0 mmboe but increased 2.0% year-on-year. PNG LNG maintained steady production at full plant capacity, supported by strong Angore production since coming online in Q4

2024. Record operated Central Processing Facility reliability continued at 97.2% for the quarter, while preventative maintenance activities were completed as planned. Increased production from Kutubu offset natural decline in oil output from the Moran field. Despite the modest production decline, sales revenue increased 4.3% to $672 million, benefiting from higher LNG sales volumes (887.4kt versus 760.3kt in Q4) as the shipping schedule favored Q1. Development activity continued with Hides F2 reaching target depth, though no footwall fault was encountered. The well was plugged back and sidetracked to drill the hanging wall acceleration well, which was completed in early April. Papua LNG advanced with the Conservation and Environment Protection Authority approving the Downstream Environment Permit.

Northern Australia & Timor-Leste: Production doubled quarter-on-quarter to 0.2 mmboe but remained 33.3% below Q1 2024 levels. Bayu-Undan continued to produce into the Northern Territory domestic gas market, though the facility experienced an unplanned shutdown in early February before restarting late in the month. The segment's primary focus remains the development of Barossa LNG, which reached 95.2% completion by the end of Q1. The Gas Export Pipeline and Darwin Pipeline Duplication are complete, the majority of subsea infrastructure has been installed, and FPSO shipyard commissioning is over 90% complete. Four wells have been drilled and completed, with the fifth well suspended for later completion and drilling of the sixth well in progress. Notably, the fifth well (BR-N1-2) was successfully drilled and flow tested, with early results indicating "reservoir properties at the higher end of pre-drill expectations." The Darwin LNG Life Extension project is now 81.2% complete and being prepared for first gas in Q3 2025.

Balance Sheet & Financial Position

Santos maintains a strong financial position with gearing at 22.2% excluding operating leases (25.1% including leases), within the company's target range and providing capacity to fund remaining growth projects. While detailed balance sheet metrics were not provided in the Q1 2025 update, the company's financial strategy remains focused on maintaining disciplined capital allocation, with 2025 capital expenditure guidance unchanged at $1.2-1.3 billion for sustaining activities and $1.2-1.3 billion for major projects.

The company's cash flow generation improved in Q1 2025, with free cash flow from operations increasing approximately 9% quarter-on-quarter to $465 million despite lower revenue. This resilience reflects Santos' disciplined low-cost operating model, with the company maintaining its free cash flow breakeven oil price below $35/bbl in 2025, providing significant downside protection in volatile commodity markets. The Q1 update notes that "despite volatile capital markets and commodity prices, Santos stayed focused on operational and project execution excellence, and the company continued to perform well."

Santos continues to actively manage its risk exposures, executing $400 million of forward exchange contracts in Q1 to bring the total weighted average exchange rate to 0.6462 for the 2025 calendar year. The company also executed $600 million of forward exchange contracts for 2026, bringing the total weighted average exchange rate to 0.6258. These rates are "well below the long-term AUD averages, providing effective protection during a period of significant capital investment." Additionally, Santos executed 10 million barrels of zero-cost collars with a floor price of $70.00/bbl and an average ceiling price of $84.07/bbl for the first half of 2025, further enhancing downside protection while retaining upside potential.

The company's capital structure and liquidity position remains strong, providing financial flexibility through the remaining development phase of its major projects. As these projects transition from development to production over 2025-2026, Santos' financial profile is expected to transform dramatically, with declining capital intensity and increasing free cash flow generation supporting both deleveraging and enhanced shareholder returns. The company has reiterated its commitment to return at least 60% of free cash flow to shareholders from 2026, with potential for up to 100% when gearing falls below the target range.

Key Project Status

Project	Complete	Strategic Importance
Barossa LNG	95.2%	Critical growth project to backfill Darwin LNG; Gas Export Pipeline and Darwin Pipeline Duplication complete; Four of six wells drilled and completed capable of delivering full production; Expected to drive significant production and free cash flow growth
Pikka Phase 1	82.2%	Major Alaska oil development; Strong well performance (average 6,900 bbls/day) creating potential for early startup; 120-mile pipeline substantially complete; Enhances geographical diversification and product mix
Moomba CCS	100%	First operational CCS project; Injected 231.5 ktCO2e in Q1; Over 685,000 tonnes injected in first six months; Heat Recovery Steam Generator on track for Q2 commissioning; Demonstrates Santos' carbon management leadership
Western Australia Reindeer CCS	Early FEED	Advancing through early-stage FEED; Customer negotiations ongoing for carbon management services; Declaration of Storage Formation submitted to regulator; Expands carbon management capabilities to WA operations
Bayu-Undan CCS	FEED 97% complete	Technical engineering activities nearly complete; Working with Timor-Leste government on regulatory frameworks and approvals; MOU executed with North Asian customer for services targeting 2-5 Mtpa; Potential for cross-border carbon transport and storage
Narrabri Domestic Gas	Awaiting approvals	Could provide up to 200 TJ/day to domestic market; Approved by Independent Planning Commission in 2020; Awaiting Native Title Tribunal determination; Progress on Hunter Gas Pipeline with 30% of landholders having signed easement deeds

Santos is advancing a diverse portfolio of development projects across both traditional hydrocarbon production and carbon management initiatives, with several major growth projects nearing completion.

The Barossa LNG project to backfill Darwin LNG is now 95.2% complete and remains on target for first gas in Q3 2025 within current cost guidance. Significant milestones achieved in Q1 include completion of the Darwin Pipeline Duplication offshore section, continued FPSO integration and pre-commissioning activities in Singapore, successful drilling and flow testing of the fifth well with "reservoir properties at the higher end of pre-drill expectations," and substantial progress on subsea infrastructure installation with all risers pre-commissioned ready for hook-up to the FPSO. Notably, the four wells already drilled and completed are "capable of delivering full production rates at DLNG," providing confidence in the production ramp-up.

The Pikka Phase 1 project in Alaska has reached 82.2% completion and continues to demonstrate strong performance. While the official guidance remains first oil in mid-2026, the

Q1 update notes "the success of the recent winter season is encouraging as planning continues for a potential early start up for the project, subject to weather and logistics." The second winter season pipelay activities are substantially complete with all 120 miles of pipeline installed and only minor tie-in work remaining. The drilling program is progressing well, with 17 wells drilled and the eighteenth underway. Eleven development wells have been stimulated and flowed back, with results "comparing favourably with pre-drill expectations." The four production wells tested have demonstrated continuous improvement on hydraulic stimulation, with the highest estimated initial 30-day production rate of 7,850 barrels of oil per day, and an overall average rate of 6,900 barrels per day per well. The current drilling schedule provides a total of 27 wells by mid-2026, supporting an 80,000 bopd gross phase 1 oil rate.

The Moomba CCS facility continues to operate successfully, having injected 231.5 ktCO2e in Q1 2025 and over 685,000 tonnes in its first six months of operation. The facility captured 88.5% of available CO2 in Q1 despite a planned 9-day outage for the 4000-hour service, which included turbine inspections and post-commissioning checks. A monitoring and verification report was submitted to the South Australian Department of Energy and Mining in March, marking six months since initial injection. Pre-commissioning activities for the Moomba CCS Heat Recovery Steam Generator continued in Q1 and remain on track for commissioning in Q2 2025, which will allow re-use of hot exhaust gas from the CCS turbine to generate steam for the Moomba Plant and reduce fuel gas consumption. Moomba CCS phase 2 concept development is advancing, with an increased focus on engineering and approval activities.

Santos' carbon management portfolio continues to expand, with Western Australia Reindeer CCS advancing through early-stage FEED in parallel with customer negotiations. The company continues to progress through the approvals process following submission of the Declaration of Storage Formation to the National Offshore Petroleum Titles Administrator in November 2024. Similarly, Bayu-Undan CCS project FEED (technical engineering activities) is 97% complete, with efforts centered on working with the Timor-Leste government to establish the necessary regulatory and fiscal frameworks, approvals, and commercial agreements to advance the project toward FID readiness. In Q1, Santos executed an MOU with a North Asian customer for carbon management services, initially targeting 2 Mtpa and scaling to 5 Mtpa, with a focus on cross-border transportation and storage.

On the exploration front, the Sockeye-2 exploration well in Alaska was an oil discovery, providing "confirmation of the resource potential over the Lagniappe leasehold." Santos holds a 25% stake in this joint venture, with the exploration well cost carried by APA as part of a 2023 farm-in agreement. In Australia, the Clematis Creek 2D seismic program in Queensland is currently underway with expected completion in early Q2, while seismic processing of the McArthur 2D survey in the Northern Territory is expected to be completed in Q2, progressing Santos' assessment of the Beetaloo sub-basin.

Financial Forecasts

Income Statement ($m)	2024A	2025E	2026E	2027E	2028E	2029E
Revenue	5,381	5,775	6,650	7,050	7,330	7,650
Growth (%)	-9%	+7%	+15%	+6%	+4%	+4%
EBITDA	3,706	3,984	4,722	5,076	5,278	5,507
EBITDA Margin (%)	68.9%	69.0%	71.0%	72.0%	72.0%	72.0%
Depreciation	1,764	1,850	2,080	2,150	2,200	2,250
EBIT	1,942	2,134	2,642	2,926	3,078	3,257
EBIT Margin (%)	36.1%	37.0%	39.7%	41.5%	42.0%	42.6%
Net Profit After Tax	1,264	1,445	1,883	2,137	2,293	2,441
Underlying NPAT	1,201	1,387	1,805	2,058	2,205	2,349
EPS (US cents)	37.1	42.8	55.7	63.5	68.0	72.5
Cash Flow & Balance Sheet						
NOPAT	1,375	1,536	1,902	2,106	2,216	2,345
D&A	1,764	1,850	2,080	2,150	2,200	2,250
Capex	2,453	2,550	2,000	1,410	1,470	1,535
Capex/Revenue (%)	45.6%	44.2%	30.1%	20.0%	20.1%	20.1%
Free Cash Flow	948	1,010	2,020	2,894	3,140	3,280
FCF/NOPAT (%)	68.9%	65.8%	106.2%	137.4%	141.7%	139.9%
Dividends (US cents)	23.3	24.0	36.0	47.5	51.0	54.5
Payout Ratio (%)	62.8%	56.1%	64.6%	74.8%	75.0%	75.2%
Net Debt	4,891	5,300	4,750	3,450	2,000	650
Gearing (%)	23.9%	25.0%	22.0%	16.0%	9.0%	3.0%
Operational KPIs						
Production (mmboe)	87.1	93.5	105.0	113.2	116.0	119.0
Production Growth (%)	-5.0%	+7.3%	+12.3%	+7.8%	+2.5%	+2.6%
Unit Production Cost ($/boe)	7.85	7.45	7.15	6.85	6.80	6.75
Average Realized Price ($/boe)	60.8	61.5	63.0	62.5	63.0	64.0
Carbon Storage (Mtpa)	0.6	1.2	2.0	3.5	5.0	6.0
ROIC (%)	4.9%	5.1%	5.7%	6.1%	6.4%	6.7%

2025 Guidance

Guidance Item	2025 Guidance
Production volumes*	90-97 mmboe
Sales volumes	92-99 mmboe
Capital expenditure – sustaining	~$1.2-$1.3 billion
Capital expenditure – major projects	~$1.2-$1.3 billion
Unit production costs*	$7.00-7.50 per boe

*excludes Bayu-Undan EOFL

Our financial forecasts reflect Santos' transformation journey, with significant improvements driven by major project deliveries and ongoing operational efficiency initiatives. The Q1 2025 results support our expectations for gradual production growth in 2025 before accelerating in 2026-2027 as Barossa and Pikka come fully online. The company's maintained guidance for 2025 production (90-97 mmboe) and capital expenditure ($2.4-2.6 billion) aligns with our projections, while the strength of free cash flow from operations in Q1 ($465 million, up 9% quarter-on-quarter) suggests potential upside to our full-year estimates if commodity prices remain supportive.

The most significant inflection points in our forecast include:

1. **Production Growth Acceleration:** Production is projected to increase from 87.1 mmboe in 2024 to 93.5 mmboe in 2025 (+7.3%) as Barossa contributes partial-year volumes in Q4. Growth accelerates to 12.3% in 2026 as Barossa reaches full production and Pikka comes online, followed by 7.8% growth in 2027 as Pikka ramps up to plateau. This trajectory aligns with management's guidance of "more than 30% production increase by 2027 compared to 2024," though the potential for early Pikka startup highlighted in the Q1 update could accelerate this timeline.

2. **Margin Expansion:** EBITDA margin is forecast to hold relatively stable at 69.0% in 2025 before expanding to 71.0% in 2026 and 72.0% by 2027 as lower-cost production from new projects and operational efficiency initiatives take effect. This margin profile is supported by projected unit production cost improvements from $7.85/boe in 2024 to $6.85/boe

by 2027, reflecting economies of scale and the company's continued focus on cost discipline.

3. **Capital Intensity Reduction:** Capital expenditure is projected to peak at $2,550 million in 2025 before declining significantly to $2,000 million in 2026 and reaching a sustainable level of approximately 20% of revenue from 2027 onwards. This transition from development to production phase drives the dramatic free cash flow expansion in our forecast, with capex/revenue declining from 44.2% in 2025 to 30.1% in 2026 and 20.0% in 2027.

4. **Free Cash Flow Transformation:** Free cash flow expands from $1,010 million in 2025 to $2,020 million in 2026 (+100%), reaching $2,894 million in 2027 (+43%) and exceeding $3 billion annually thereafter. This step-change improvement translates to FCF/NOPAT improving from 65.8% in 2025 to 106.2% in 2026 and 137.4% by 2027, demonstrating Santos' transformation from cash consumer to cash generator.

5. **Deleveraging & Shareholder Returns:** Net debt peaks at $5,300 million in 2025 before rapid deleveraging reduces gearing from 25.0% to 16.0% by 2027 and 3.0% by 2029. Meanwhile, dividends increase from 24.0 US cents in 2025 to 36.0 US cents in 2026 and 47.5 US cents by 2027, reflecting Santos' commitment to return at least 60% of free cash flow to shareholders. The payout ratio increases from 56.1% in 2025 to 64.6% in 2026 and 74.8% by 2027, approaching the upper end of management's target range as gearing declines.

6. **Carbon Storage Growth:** Carbon storage volumes are projected to expand from 0.6 Mtpa in 2024 to 1.2 Mtpa in 2025 as Moomba CCS operates for a full year, growing to 6.0 Mtpa by 2029 as additional CCS hubs in Western Australia and Bayu-Undan become operational. This growth trajectory is supported by the MOU with a North Asian customer executed in Q1 2025, targeting 2-5 Mtpa of carbon management services with a focus on cross-border transportation and storage.

These projections are subject to risks including commodity price volatility, potential project delays, and evolving regulatory frameworks, particularly for carbon management initiatives. However, the advanced completion status of major projects (Barossa at 95.2% and Pikka at 82.2%) significantly reduces execution risk compared to our previous analysis. The company's hedging program (10 million barrels for H1 2025 with a $70/bbl floor) and contracted LNG portfolio provide further downside protection, while maintaining upside exposure to favorable market conditions.

End of Report