ASX/Media Release

Santos

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GLNG signs binding LNG off-take agreement with KOGAS for 3.5 mtpa

7mtpa of GLNG off-take now sold under binding agreements estimated to be worth over US$120 billion

Santos sells 7.5% interest in GLNG to KOGAS and 7.5% to Total

Santos announces fully underwritten institutional placement to raise approximately A$500 million to complete the equity funding of its GLNG capital commitments

Change to dividend policy to reflect the Santos growth program

GLNG final investment decision on 7.8 mtpa 2-train project scheduled for January 2011

Santos Limited (Santos, ASX:STO) today executed binding agreements with KOGAS and Total which pave the way for a final investment decision (FID) in January 2011 on the two train GLNG project. GLNG has an estimated gross capital cost of approximately US$16 billion from FID until the end of 2015, when the second train is expected to be ready for start-up.

The agreements signed today provide for:

- The sale by GLNG of 3.5 million tonnes per annum (mtpa) of LNG to KOGAS;
- The sale by Santos of an aggregate 15% interest in GLNG to Total and KOGAS for A$665 million; and
- An aligned GLNG joint venture comprising Santos, PETRONAS, Total and KOGAS.

Upon completion of the KOGAS and Total sale transactions, the ownership structure of GLNG will be: Santos 30%; PETRONAS 27.5%; Total 27.5%; KOGAS 15%.

The GLNG partners have satisfied KOGAS's 3.5 mtpa LNG off-take requirement by exercising their option over the 1.5 mtpa previously committed to Total.

With 7 mtpa of GLNG off-take contracted to KOGAS and PETRONAS, the GLNG partners will recommend to their respective Boards FID on the two train project by the end of January 2011.

Equity raising to fully fund GLNG

Santos today also announced a fully underwritten institutional placement to raise approximately A$500 million to complete the funding of its 30% equity contribution for the two-train GLNG project.

Santos will issue approximately 39.8 million ordinary shares at a placement price of A$12.55 per placement share, which represents a 2.4% discount to yesterday's volume weighted average price (VWAP) and a 1.2% discount to the 5-day VWAP. The placement shares will rank equally with existing shares on issue and will qualify for Santos' final dividend for the financial year ending 31 December 2010.

Santos shares are expected to recommence trading on 20 December 2010. Settlement of the Institutional Placement is scheduled to take place on 23 December 2010, with allotment and commencement of trading of placement shares expected to occur on 24 December 2010.

KOGAS binding Heads of Agreement for 3.5 mtpa of LNG

GLNG has today signed a binding heads of agreement for the sale of 3.5 mtpa of LNG to KOGAS, the world's largest buyer of LNG.

The agreement provides for 1.7 mtpa of the KOGAS contracted volumes to be delivered from GLNG train 1 and 1.8 mtpa from train 2 for a period of 20 years[1]. The agreement is binding and subject only to the GLNG project reaching FID.

KOGAS has received all necessary Korean Government approvals for the LNG off-take agreement.

In conjunction with the agreement with KOGAS, 1.8 mtpa of PETRONAS' 3.5 mtpa of committed off-take will be delivered from GLNG train 1 and 1.7 mtpa from train 2. The PETRONAS agreement will also remain in place for a 20-year term. The agreement is binding and subject only to the GLNG project reaching FID.

GLNG Contracted Off-take Volumes

	Buyer	Volume (mtpa)
Train 1	KOGAS	1.7
	PETRONAS	1.8
	Total	3.5
Train 2	KOGAS	1.8
	PETRONAS	1.7
	Total	3.5

In combination, the KOGAS and PETRONAS binding agreements now provide for the sale by GLNG of 7 mtpa of LNG in aggregate for 20 years[1], underpinning the development of a two-train project. The combined value of the GLNG off-take agreements is estimated to exceed US$120 billion at market consensus oil prices.

[1] The KOGAS agreement is binding for 15 years with GLNG having an option to extend the agreement for a further 5 year period.

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Santos Chief Executive Officer David Knox described the off-take agreement with KOGAS as a landmark agreement for the Australian LNG industry.

“We are pleased to welcome KOGAS, the world’s largest buyer of LNG, as a fully integrated joint venture partner into the GLNG project. Santos has brought together three of the world’s leading LNG operators to partner with us in GLNG.”

“Notably this agreement represents the first purchase of LNG from coal seam gas by KOGAS. It is another robust endorsement of the quality of the GLNG project. We look forward to continuing to develop our relationship with KOGAS both in its capacity as a customer of, and a partner in, GLNG.”

“With 7 mtpa of LNG off-take now secured by binding agreements, GLNG is well and truly ready to go and the partners are working through the logistics for a final investment decision to be taken before the end of January,” Mr Knox said.

The terms of the previously announced LNG off-take heads of agreement with Total provided GLNG with the option to terminate the agreement upon the signing of an off-take contract between GLNG and another LNG buyer. Accordingly, as a result of the sale of 3.5 mtpa to KOGAS announced today, the agreement for the sale of 1.5 mtpa of LNG off-take to Total will be cancelled.

Sale of 7.5% interest in GLNG to KOGAS and 7.5% interest in GLNG to Total

Santos has today also entered into separate agreements for the sale of 7.5% interests in GLNG to each of KOGAS and Total, for aggregate proceeds of A$665 million.

In parallel, PETRONAS has also entered into an agreement to sell a 7.5% interest in GLNG to KOGAS.

The equity sale agreements are binding and subject only to Australian Foreign Investment Review Board approval and other customary consents and regulatory approvals.

Upon completion of the KOGAS and Total sale transactions, the ownership structure of GLNG will be: Santos 30%; PETRONAS 27.5%; Total 27.5%; KOGAS 15%.

GLNG project update

The GLNG project includes the development of coal seam gas resources (CSG) in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre gas transmission pipeline from the gas fields to Gladstone, and two LNG processing trains with a combined nameplate capacity of 7.8 million tonnes per annum (mtpa).

First LNG exports are expected to commence in 2015, generating about US$6 billion in average gross revenue per annum at a market consensus oil price for the 7 mtpa off-take.

Reserves

GLNG has internally estimated that its dedicated 2P CSG sales gas reserves will be 5,005 PJ as at December 2010. The project has continued its track record of reserves build in 2010, adding over 1,000 PJ of 2P reserves in the GLNG dedicated areas since December 2009.

Coal Seam Gas Reserves & Resources	GLNG Dedicated Areas			
PJ (as at Dec)	**2010E**	2009A	2008A	2007A
1P	**1,427**	1,232	1,167	545
2P	**5,005**	4,003	3,246	1,344
3P	**7,737**	5,954	5,999	4,000
2C	**3,732**	2,769	2,647	4,798

Table above excludes 750 PJ of GLNG dedicated Santos portfolio gas supply. Reserves and resources in the above table are based on internal company estimates and are approximate and subject to review and finalisation. Final data for the year ended 31 December 2010 will be published in Santos' 2010 Reserves Report. CSG sales gas reserves deduct the fuel, flare and vent necessary to produce and deliver sales gas to the LNG plant. The information in this reserves statement has been compiled by Mr Greg Horton, a full-time employee of the Company. Mr Horton is qualified in accordance with ASX Listing Rule 5.11 and has consented to the form and context in which this statement appears.

GLNG reserves and resources have been independently certified by Netherland, Sewell & Associates, Inc. (NSAI). NSAI as at 31 October 2010, estimates 2P reserves of 5,377 PJ (excluding dedicated Santos portfolio gas supply), which is 372 PJ higher than GLNG's internal estimate of 5,005 PJ. Additionally, NSAI estimates that the ultimate potential 2P reserves maturation in the GLNG dedicated areas is 9,848 PJ.

Capital expenditure

GLNG has an estimated gross capital cost of approximately US$16 billion from FID until the end of 2015, when the second train is expected to be ready for start-up. The US$16 billion capital expenditure estimate includes approximately US$2 billion in contingencies.

The capital expenditure estimate is underpinned by fixed lump sum turnkey EPC contracts from preferred contractors Bechtel for the two LNG trains and Saipem for the gas transmission pipeline, and an EPC contract for the upstream surface facilities with preferred contractor Fluor.

The predominantly fixed price EPC contracting strategy, world-class contractors and material project contingencies are intended to mitigate exposure to capital expenditure risk. Santos anticipates its overall internal rate of return from GLNG to be in the range of 11% to 14% (in US dollar terms) based on the current contracted off-take of 7 mtpa.[1]

Funding

Santos' 30% share of capital expenditure for GLNG is US$4.8 billion. To support the development of the GLNG project, Santos has strengthened its balance sheet and funding capacity ahead of the FID.

[1]Assumes estimated capital cost of US$16 billion and 7 mtpa off-take contracted to KOGAS and PETRONAS under the terms of their binding agreements with GLNG.

The equity raising announced today is the final step in fully funding the equity required for Santos to fund its share of GLNG while also providing for financial flexibility to deliver on other existing projects and maintain an investment grade credit rating during the construction of GLNG and PNG LNG. The equity raising is sized to maintain financial metrics consistent with a BBB+ credit rating.

The expected funding for Santos' share of the GLNG project will be sourced from:

- Existing cash – Santos has approximately A$3.9 billion in cash.
- Sale of an additional 15% stake in GLNG to KOGAS and Total for A$665 million announced today.
- The A$500 million fully underwritten institutional placement announced today.
- Operating cash flow from the base business which, at analyst consensus oil prices, is expected to materially exceed base business capital expenditure through the period to 2015.
- Undrawn bank facilities – Santos has approximately A$2 billion of undrawn bank lines which have an average maturity of five years (not including the committed PNG LNG project facility).
- Additional senior debt, potentially including bond and Export Credit Agency backed finance.

Dividend policy

Given the transformational nature of the company's LNG portfolio, including GLNG and PNG LNG, Santos expects to reduce its dividends in order to strike an appropriate balance between funding its suite of growth projects and continuing to pay a meaningful dividend to shareholders.

Consistent with this revised dividend policy, the final dividend for the year ended 31 December 2010 is expected to be 15 cents per share. The final dividend is expected to be considered and declared by the Santos Board in February 2011. New shares issued in the equity raising will qualify for the 2010 final dividend.

Santos also expects to reduce the annual dividend to 30 cents per share (on the expanded capital base following the equity raising) for the year ending 31 December 2011.

In parallel, Santos will introduce a 2.5% discount on the Dividend Reinvestment Plan (DRP).

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This release does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States, or to any person that is or is acting for the account or benefit of any U.S. person (as defined in Regulation S under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”)) (“U.S. Person”), or in any other jurisdiction. The securities in the proposed offering described in this release have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to or for the account or benefit of U.S. Persons except in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and applicable securities laws of any state or other jurisdiction of the United States.

Caution regarding forward-looking statements

This news release contains forward-looking statements, which can usually be identified by the use of words such as such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe", "continue", "objectives", "outlook", "guidance" or words of similar effect. Indications of, and guidance on, estimated reserves, estimated capital expenditure, future earnings and financial position and performance are also forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release. You should not place undue reliance on these forward-looking statements. These forward-looking statements are based on information available to us as of the date of this release. Except as required by law or regulation (including the ASX Listing Rules) we undertake no obligation to update these forward-looking statements.

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About GLNG
GLNG is an integrated development that includes coal seam gas production and processing facilities, onshore pipelines and LNG plant facilities. GLNG involves the production of LNG using coal seam gas sourced from the GLNG gas fields in the Bowen and Surat Basins in Queensland. The project includes a two-train LNG plant with a nameplate capacity of 7.8 mtpa.

About Santos
An Australian energy pioneer since 1954, Santos is one of the country's leading gas producers, supplying Australian and Asian customers. Santos has been providing Australia with natural gas for more than 40 years. The company today is the largest producer of natural gas to the Australian domestic market, supplying 17% of the nation's gas needs. Santos has also developed major oil and liquids businesses in Australia and operates in all mainland Australia states and the Northern Territory.   From this base, Santos is pursuing a transformational liquefied natural gas (LNG) strategy with interests in four LNG projects.   This strategy is led by the cornerstone GLNG project in Queensland – a leading project in converting coal seam gas into LNG. Also in Santos' LNG portfolio are the PNG LNG project, which was formally approved in December 2009, Bonaparte LNG, a proposed floating LNG project in the Timor Sea, and Darwin LNG, Santos' first LNG venture, which began production in 2006. Santos has built a strong and reliable production business in Indonesia and is further developing its Asian business through development projects and exploration investment. Santos has about 2,200 employees working across its operations in Australia and Asia.

About PETRONAS
PETRONAS, short for Petroliam Nasional Berhad, is a leading oil and gas multinational based in Kuala Lumpur, Malaysia. PETRONAS is a fully-integrated oil and gas corporation and is ranked among FORTUNE Global 500's largest corporations in the world. PETRONAS has projects and operations in more than 30 countries worldwide, including several strategic businesses in Australia. PETRONAS is the world's second largest exporter of LNG, and the largest in Asia.

About Total
The fifth largest publicly-traded integrated international oil and gas company and a world-class chemicals manufacturer, Total operates in more than 130 countries and has over 96,000 employees. Total is a leading player in the LNG sector, with solid and diversified positions. Total is active in almost all LNG producing regions and main LNG markets, and continues to develop LNG as a key component of its development strategy. The group produces LNG in Indonesia, Qatar, Yemen, the United Arab Emirates, Oman, Nigeria and Norway. Angola LNG which is currently under construction will complement this portfolio in 2012. For the future, new liquefaction projects are being studied, including Shtokman in Russia in partnership with Gazprom, as well as new projects in Nigeria. Total is a 24% owner of the Ichthys LNG Project, and operates four exploration permits in Australia. Total E&P Australia is also present in six other exploration permits. Total E&P Australia inaugurated its Perth office in 2008, consolidating its presence in Australia, and preparing for future increases in its exploration and development activities.

About KOGAS
KOGAS, an abbreviation for Korea Gas Corporation, was incorporated by the Korean Government in 1983. Since its founding, KOGAS has grown to become the world's largest LNG importer. KOGAS imports LNG from around the world and supplies it to power generation plants, gas-utility companies and city gas companies throughout the Republic of Korea. KOGAS currently operates three LNG import terminals in Korea and a nationwide pipeline network spanning over 2,700 kilometres. KOGAS purchases approximately 26 million tonnes of LNG annually. KOGAS had revenue of KRW 19,391 billion in 2009 and employs over 2,800 people worldwide. KOGAS' other interests in Australia include a 10% stake in Blue Energy Limited and farm-in agreements into two of Blue Energy's permits.

Ends

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