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TO: Company Announcements Office
ASX Limited

FROM: Company Secretary

DATE: 6 October 2010

SUBJECT: **2010 First Half Shareholder Update**

Please find attached the 2010 Santos First Half Shareholder Update.

David Lim
Company Secretary



We're not just an energy company.
We're a company with energy.



The energy to deliver.

FINANCIAL PERFORMANCE

Despite production of 24.2 million barrels of oil equivalent (mboe) being 9% lower than in the first half of 2009, gas from storage and gas purchases were used to meet customer demand. This resulted in sales volumes of 28.5 mboe being in line with the first half of 2009.

This, combined with improved product prices, enabled Santos to record a net profit of \$198 million for the half year ended 30 June 2010, up 94% on the previous half year. Higher product prices and lower exploration expenses were partly offset by asset impairments of \$25 million after tax.

Underlying net profit of \$210 million for the half year was up 121% on the 2009 first half.

The major floods in central Australia affected our Cooper Basin operations and production figures, but the impact was offset by stronger gas production in Western Australia and Indonesia.

Higher commodity prices across Santos' portfolio drove sales revenue to \$1.1 billion, 7% higher than the first half of 2009.

Santos successfully executed a \$2 billion bilateral bank facility in July 2010 to refinance the company's existing \$700 million in undrawn funds that mature between 2011 and 2013.

With this new facility, Santos will have \$6 billion of funding capacity, including cash and committed corporate and project debt facilities.

PROGRESS ON STRATEGY

Our LNG strategy has continued to move forward. GLNG received environmental approval from the Queensland Government in May and is now awaiting Federal Government approval. We are working towards a final investment decision on GLNG this year.

The PNG LNG project completed sales and purchase agreements and financing arrangements in March. Construction is well underway and progressing well.

Capacity at the Darwin LNG project was expanded during a planned shutdown in May, while our partner GDF SUEZ is ramping up project teams for Bonaparte LNG.

In Asia, the Chim Sáo oil project in Vietnam is making good progress and remains on track for first oil in the second half of 2011. Our Indonesian business continued its strong gas production.

Our base business overcame significant challenges to continue to provide a solid platform for Santos' LNG and Asian growth strategies. It is a reflection of the dedication of our employees to remain positive and work through that challenging period.

Pleasingly, our safety performance continues to improve with total recordable case frequency rate of 3.5 in the first half.

DIVIDEND

The Board maintained an interim dividend of 22 cents per share fully franked, unchanged from 2009.

As a company, we are at an exciting point in our history as we grow from our historically strong, domestically focused gas business into a leading Australian and Asian energy company. We will do this by keeping the base business strong and delivering on our growth projects, and are committed to achieving this safely and sustainably.



Peter Coates
Chairman



David Knox
Managing Director and CEO

LNG Projects



- GLNG® BECAME THE FIRST MAJOR COAL SEAM GAS TO LNG PROJECT TO RECEIVE ENVIRONMENTAL APPROVAL FROM THE QUEENSLAND GOVERNMENT.
- PNG LNG CONSTRUCTION UNDERWAY.
- DARWIN LNG CAPACITY UPGRADED TO 3.6 MTPA.
- BONAPARTE LNG PROJECT TEAM FORMED.

Santos continued to advance its transformational liquefied natural gas (LNG) growth strategy in the first half of 2010.

The GLNG project has made significant progress in 2010. Front-end engineering design is complete for the upstream, pipeline and downstream elements of the project.

GLNG received environmental approval from the Queensland Government in May, and is now awaiting approval at a federal level. In August, the project completed the largest set of cultural heritage, native title and indigenous land use agreements in Australia's resources history.

GLNG will be a two-train project with a capacity of 7.2 million tonnes per annum (mtpa) of LNG. The project is moving towards a final investment decision in 2010 and first LNG shipments in 2014.

The two-train, 6.6 mtpa PNG LNG project was approved in December 2009 and construction is now underway. Financial close was achieved in March 2010 and the project has signed binding LNG sale and purchase agreements with four Asian LNG buyers for the project's entire production capacity.

The single-train Darwin LNG project, producing since 2006, successfully completed a planned shutdown during which production capacity was upgraded to 3.6 mtpa.

Santos has partnered with GDF SUEZ to study the development of Bonaparte LNG, a proposed floating LNG project in the Timor Sea. GDF SUEZ will carry Santos' share of costs until a final investment decision. Project teams have been established in Perth to develop the upstream component and in Paris for the floating LNG facilities.

Australia



- SIGNIFICANT PROGRESS ON REINDEER; JOHN BROOKES GAS SUPPLY AGREEMENT SIGNED.
- KIPPER: DRILLING CONTINUING.
- CENTRAL AUSTRALIA FLOOD RECOVERY UNDERWAY.

Santos' Australian base business assets continue to provide a solid base for the company's growth strategy.

Offshore Western Australia, the Reindeer gas project remains on schedule for first gas in the second half of 2011. Gas plant works are progressing well, with all piperack and process equipment modules delivered to site from Thailand. The pipeline will be laid later this year. The project remains on schedule for first gas in the second half of 2011.

In April, Santos signed a gas sales agreement with Wesfarmers for the supply of 60 petajoules of John Brookes gas over five years beginning in the second half of 2010.

The Kipper gas project, in the Gippsland Basin offshore Victoria, is progressing. Drilling of the A2 and A4 wells were completed in June 2010.

In Gunnedah, the second phase of exploration and appraisal has begun, involving initial corehole drilling and the operation of pilot wells for testing purposes.

Major wet weather and flood waters moving down from Queensland significantly affected Santos' Cooper Basin activities in the first half of this year. All drilling activity across the basin was suspended and did not recommence until late in the second quarter.

Recovery is underway and all drilling rigs are now back in operation, however the floods have caused an estimated 2 mmbœ (net) of production to be deferred. 2010 gas sales revenue is not expected to be materially impacted by the deferred production.

Asia



- CHIM SÁO WELLHEAD PLATFORM INSTALLED, TARGETING FIRST OIL IN SECOND HALF 2011.
- STRONG GAS PRODUCTION IN INDONESIA.
- WORTEL PROJECT SANCTION EXPECTED IN SECOND HALF OF 2010.

Santos' focused growth strategy in Asia has continued to progress well, with development of the Chim Sáo oil project – Santos' first oil project in Vietnam – and record production in Indonesia.

At Chim Sáo, the wellhead platform has been positioned and pipeline installations have been completed, while the conversion of the floating production, storage and offtake vessel is proceeding as planned. The development drilling program began on schedule and is progressing well.

The Chim Sáo oil field was discovered in 2006 and is located in the Nam Con Son Basin, approximately 350 kilometres offshore southern Vietnam. Development of the field was sanctioned in 2009, and first oil remains on target for the second half of 2011.

Santos' Indonesian assets set a new production record in the first half of 2010. Santos operates two offshore assets, Maleo and Oyong, in East Java. Gas production from Oyong commenced in late 2009 to supplement the existing oil production from the field. The Wortel gas discovery is expected to be sanctioned in the second half of 2010 as a tie-back to the existing Oyong facilities.

Seismic surveys conducted over Santos' offshore acreage in the Bay of Bengal have identified opportunities for further drilling. Santos currently supplies gas to Bangladesh from the Sangu field in the Bay of Bengal.

Santos has established a leading acreage position in the Fergana Basin in the south of the Kyrgyz Republic. Santos holds interests in six prospecting licences covering approximately 2,700 square kilometres in the proven oil and gas province. 2D seismic work has been completed and shallow drilling occurred in 2009.

Santos acreage and offices



Detailed exploration maps are available on the Santos website www.santos.com

Photographs: **Front Cover** Belinda Wells, Operations Superintendent Eastern Queensland South. **LNG Projects** The PETRONAS LNG tanker Seri Amanah.

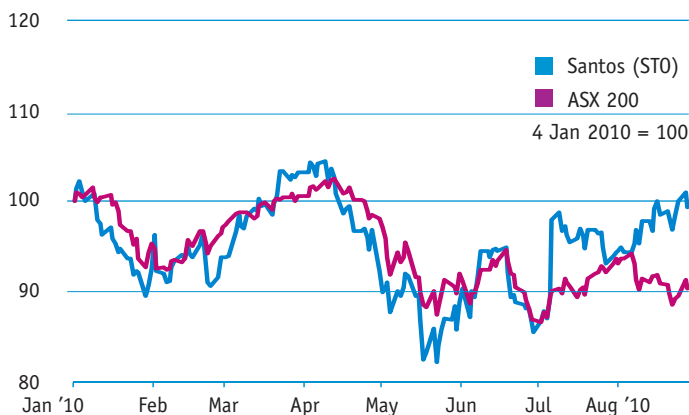
Australia Aerial view of the Moomba plant taken March 2010, following the major February rains. **Asia** The completion ceremony for the wellhead platform jacket at Vung Tau, Vietnam.

2010 first-half operating and financial highlights

- SALES REVENUE \$1,091 MILLION, UP 7%; PRODUCTION 24.2 MMBOE, DOWN 9%
- NET PROFIT AFTER TAX \$198 MILLION, UP 94%
- UNDERLYING NET PROFIT AFTER TAX \$210 MILLION, UP 121%
- INTERIM DIVIDEND 22 CENTS PER SHARE FULLY FRANKED, UNCHANGED FROM 2009
- OPERATING CASH FLOW \$537 MILLION, UP 8%; STRONG BALANCE SHEET: \$2.4 BILLION OF CASH

	Half year ended 30/6/2010	Half year ended 30/6/2009	% change
Sales (\$million)	1,091	1,024	7
Operating profit before tax (\$million)	293	197	49
Cash flow from operations (\$million)	537	499	8
Earnings per share (cents)	23.8	12.4	92
Interim dividend declared per ordinary share (cents)	22.0	22.0	0
Cash flow per share (cents)	64.5	73.8	(13)
Total shareholders' funds (\$million)	7,021	7,427	(5)
Return on average capital employed (%)	5.6	3.7	51

SANTOS VS ASX 200 INDEX RELATIVE PERFORMANCE



Santos

This 2010 First-Half Shareholder Update provides a snapshot of Santos' operational and financial highlights for the first six months of 2010 and is based on information lodged to the ASX on 26 August 2010 relating to Santos' 2010 Interim Results. This information is also available on the Santos website www.santos.com

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