ASX/Media Release

Santos

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Santos lifts full-year net profit by 51% to $753 million

Underlying net profit up 20% to $453 million

Santos today announced a net profit of $753 million after tax for the year ended 31 December 2011, 51% higher than the previous year.

The 2011 headline result includes a $408 million profit after tax from asset sales, including a 15% interest in the GLNG project and Santos' entire interest in Evans Shoal, and asset impairments of $102 million after tax.

Underlying net profit of $453 million was 20% higher than 2010 primarily due to higher oil and gas prices, partially offset by a stronger Australian dollar and a higher effective tax rate.

Santos Chief Executive Officer David Knox said 2011 was highlighted by strong project delivery and good operational and financial results.

"We delivered four new projects in the base business on plan. These projects will drive our production growth in 2012."

"Our LNG projects are on track for first production from PNG LNG in 2014 and GLNG in 2015," Mr Knox said.

Full-year results highlights

- **Production 47.2 mmboe, down 5%**
- **Sales volumes 57.1 mmboe, down 4%**
- **Average A$ oil and gas prices up 32% and 9% respectively**
- **Sales revenue $2,530 million, up 14%**
- **EBITDAX $2,126 million, up 27%**
- **EBIT $1,191 million, up 52%**
- **Net profit after tax $753 million, up 51%**
- **Underlying net profit after tax $453 million, up 20%**
- **Operating cash flow $1,253 million, in line with 2010**
- **Strong balance sheet, $7.5 billion of funding capacity**
- **Final dividend of 15 cents per share fully franked with underwritten DRP**

Full-year results at a glance	2011 mmboe	2010 mmboe	variance
Production volume	47.2	49.9	(5)%
Sales volume	57.1	59.2	(4)%
	$million	$million	
Product sales	2,530	2,228	14%
EBITDAX	2,126	1,672	27%
Exploration and evaluation expensed	(167)	(129)	29%
Depreciation and depletion	(641)	(600)	7%
Net impairment loss	(127)	(157)	
EBIT	1,191	786	52%
Net finance income	91	7	
Profit before tax	1,282	793	62%
Taxation expense	(531)	(295)	80%
Net profit for the period	751	498	51%
Net profit attributable to non-controlling interest	(2)	(2)	
Net profit attributable to equity holders of Santos Limited	753	500	51%
Underlying net profit for the period	453	376	20%
Basic earnings per share (cents)	84.8	59.7	42%
Final dividend per share (cents)	15	15	-%

Reconciliation of net profit to underlying profit	2011 $ million	2010 $ million	variance
Net profit attributable to equity holders of Santos Limited	753	500	51%
Deduct/(add) the following:			
Net gains on asset sales	408	214	
Net impairment losses	(102)	(123)	
Other	(6)	33	
Underlying profit	453	376	20%

Production of 47.2 million barrels of oil equivalent (mmboe) was 5% lower than 2010. Key factors impacting production were Santos' lower share of GLNG production following the sale of interests to Total and KOGAS, a lower net entitlement to Maleo gas production in Indonesia following a favourable price review and lower Western Australian gas production primarily due to adverse weather and additional maintenance. Crude oil production was higher following the successful start-up of Chim Sao in Vietnam in October 2011, combined with higher Cooper Basin and Stag oil production.

Sales revenue of $2.5 billion was up 14% driven by higher oil and gas prices, offset by the stronger Australian dollar and lower sales volumes.

Production costs of $556 million were at the lower end of the company's guidance range and 4% higher than 2010. This was primarily due to one-off flood recovery costs in the Cooper Basin and the commencement of production from Chim Sao, partially offset by Santos' lower working interest in GLNG and the cessation of production from the Jabiru Challis and Legendre fields during 2011.

Corporate income tax expense (excluding royalty related taxes) was 34% of pre-tax profit in 2011. The effective tax rate was higher in 2011 primarily due to higher non-deductible expenses incurred in foreign operations. Including royalty related taxes, such as Petroleum Resource Rent Tax, the total effective tax rate was 41% in 2011.

Operating cash flow of $1.3 billion was in line with 2010 as the impact of higher commodity prices was offset by higher taxes paid. Santos had $3.3 billion of cash and cash equivalents on hand at the end of 2011.

Development Projects

Projects completed during 2011 and early 2012

Project	Santos interest	Product	Gross production capacity	First production
Spar Stage 1 Australia(1)	45%	Gas	50 terajoules (TJ) per day (Halyard well)	2 June 2011
Chim Sao Vietnam	31.875%	Oil	25,000 barrels/day	10 Oct 2011
Reindeer Australia	45%	Gas	220 TJ/day(2)	6 Dec 2011
Wortel Indonesia	45%	Gas	90 TJ/day (Oyong & Wortel fields combined)	31 Jan 2012

Sanctioned projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Fletcher Finucane Australia	48%	Oil	15,000 barrels/day average in first 12 months of production	2H 2013
Kipper Australia	35%	Gas	75 TJ/day	Note (3)
PNG LNG PNG	13.5%	LNG	6.6 mtpa	2014
GLNG Australia	30%	LNG	7.8 mtpa	2015

(1) Stage 2 of the Spar project involves the tie-in of the Spar-2 well.
(2) Gross processing capacity of the Devil Creek gas plant which is initially planned to operate at 110-120 TJ/day sales.
(3) ExxonMobil, the Kipper project operator, has informed the joint venture that first gas will be deferred beyond the previous expectation of the first half of 2012, due to the need for the installation of mercury removal facilities. The current schedule provides for the operator to present proposed plans for these facilities in the first half of 2012.

LNG Projects

GLNG (Santos 30%)

Sanctioned in January 2011, the US$16 billion Santos GLNG project includes the development of coal seam gas resources in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre gas transmission pipeline to Gladstone, and two LNG trains with a combined nameplate capacity of 7.8 mtpa on Curtis Island. GLNG has binding LNG sales agreements with PETRONAS and KOGAS for seven mtpa in aggregate.

Construction of GLNG is progressing well. Clearing of the LNG plant site on Curtis Island is complete. Bulk earthworks are well advanced and the first concrete has been placed for the train-1 compressor foundations. Construction continues to progress on the material offloading facility, haul road and construction camp locations. Over 200 kilometres of the gas transmission pipeline has been fabricated and the first shipments of line-pipe arrived in Gladstone in January. Mobilisation in the upstream will ramp up during the first half of 2012.

First LNG is expected in 2015.

PNG LNG (Santos 13.5%)

Sanctioned in December 2009, the PNG LNG project will develop gas and condensate resources in the Hides, Angore and Juha fields and associated gas resources in the operating oil fields of Kutubu, Agogo, Gobe and Moran in the Southern Highlands and Western Provinces of Papua New Guinea. The gas will be transported by pipeline to a 6.6 mtpa gas liquefaction plant 25 kilometres north-west of Port Moresby. PNG LNG has binding LNG sales agreements with four Asian buyers and is on schedule for first LNG in 2014.

Construction continues to progress at the LNG plant and upstream locations. At the Hides gas conditioning plant, piling has commenced for the plant foundations. At Komo airfield, significant earthworks progress has been made and the first foundation for the terminal building has been laid. The onshore pipeline route has been fully surveyed and over 100 kilometres of pipeline has been welded. Over 130 kilometres of the offshore pipelay is complete. At the LNG plant site, LNG tank concrete foundations are complete and construction has commenced on the outer tank shells.

Santos was advised by the PNG LNG operator in December 2011, that due to the stronger than forecast Australian dollar, the US-dollar estimated capital cost of the project to date has increased by US$0.7 billion to US$15.7 billion. Santos' 13.5% share of the increased capital cost is approximately US$100 million.

Portfolio management

In July 2011, Santos announced the acquisition of 100% of the outstanding ordinary shares in Eastern Star Gas Limited (ESG) via a recommended Scheme of Arrangement together with the on-sale of a 20% working level interest in ESG's permits in the Gunnedah Basin to TRUenergy. The acquisition and sale of interests to TRUenergy was completed in November 2011. The acquisition gives Santos the largest natural gas reserve position in New South Wales.

As part of ongoing active portfolio management, Santos generated $1.1 billion in proceeds from asset sales during 2011, including sales of interests in GLNG, Evans Shoal and ESG's Gunnedah Basin permits.

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Final dividend and fully underwritten dividend reinvestment plan

A final dividend of 15 cents per share fully franked has been declared. The final dividend will be paid on 30 March 2012 to registered shareholders as at 1 March 2012, with an ex-dividend date of 23 February 2012.

The Dividend Reinvestment Plan (DRP) will be operational for the 2011 final dividend. The DRP enables all existing Santos investors to increase their shareholdings at a 2.5% discount to market price and without brokerage.

DRP shares will be issued at the arithmetic average of the daily weighted average market price (ASX-traded volumes only) over a period of seven business days commencing on the second business day after the dividend record date, less a 2.5% discount.

As previously announced, the DRP will be fully underwritten to provide funding for the Fletcher Finucane oil project, which was sanctioned in January 2012, and appraisal activity on the Zola gas discovery.

Strong balance sheet, $7.5 billion in funding capacity

At the end of 2011, Santos had $7.5 billion of funding capacity, including $3.3 billion cash and $4.2 billion undrawn committed corporate and project debt facilities.

In December 2011, Santos secured US$1.2 billion in Export Credit Agency (ECA) supported senior debt facilities. The new ECA facilities, with an average maturity of eight years, provide Santos with additional liquidity and a flexible drawdown profile during the construction period of the GLNG project. The ECA facilities are part of Santos' funding strategy announced in late 2010 and demonstrate the company's ability to raise capital from a diverse range of sources on attractive terms.

Santos' strong balance sheet and liquidity position provides the capacity to fund the execution of the company's strategy, while minimising refinancing risk.

The company continually assesses its funding plans in the context of project opportunities and the uncertain global economic outlook. Whilst dividend related decisions are made each half year, at present the company's intention is to maintain the DRP with a 2.5% discount, but not to underwrite the DRP for further periods.

Impairment of oil and gas assets

As a result of the company's regular review of asset carrying values, some assets were assessed to be impaired and net impairment losses of $127 million pre-tax ($102 million after tax) have been recognised in the 2011 full-year accounts. The pre-tax impairments primarily relate to the Sangu assets in Bangladesh ($66 million) and the Kipper project ($29 million).

2012 Guidance

Santos has maintained its 2012 production guidance in the range of 51 to 55 mmboe. The four new projects in the base business commissioned in recent months (Spar, Chim Sao, Reindeer and Wortel) will drive production growth in 2012.

Ends.

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