ASX/Media Release

Santos

Media enquiries
Chandran Vigneswaran
+61 8 8116 5856 / +61 (0) 467 775 055
chandran.vigneswaran@santos.com

Investor enquiries
Andrew Nairn
+61 8 8116 5314 / +61 (0) 437 166 497
andrew.nairn@santos.com

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Santos reports $262 million net profit for the first half of 2012
Underlying net profit up 20% to $283 million
Commercial success with shale gas well in the Cooper Basin

Santos today announced a net profit of $262 million after tax for the half-year ended 30 June 2012. The headline half-year result is lower than the corresponding period which included gains on asset sales of $246 million.

Underlying net profit of $283 million for the first half is up 20% primarily due to higher gas and liquids prices and sales volumes, partially offset by higher cost of sales and exploration expense.

Chief Executive Officer David Knox said that Santos had lifted production by 11% in the first half, driven by on-time project start-ups, record Western Australian gas production and progress in recovery of production constrained during 2011 by flooding in the Cooper Basin.

“First half production was the highest in three years which combined with higher oil and gas prices has produced a strong first half result. The base business is performing well and we expect production in the second half of the year will be stronger than the first.”

“We also announce today success in our Cooper Basin shale gas program with the Moomba-191 well having flowed dry gas at a stabilised rate of 2.6 mmscf/d. The well is located within 350 metres of the existing gas gathering infrastructure, and connection activities have commenced to provide Australia’s first commercial production of gas from a shale well.”

“Our LNG projects remain on schedule with PNG LNG on track for first LNG in 2014 and GLNG in 2015,” Mr Knox said.

First half highlights

- **Production up 11% to 25.4 mmboe**
- **Sales revenue up 27% to $1,493 million**
- **EBITDAX (excluding gains on asset sales) up 18% to $876 million**
- **Net profit after tax down 48% to $262 million**
- **Underlying net profit after tax up 20% to $283 million**
- **Capital cost estimate for the GLNG project increased to US$18.5 billion**
- **Moomba-191 shale well flowing gas at 2.6 mmscf/d**
- **Fletcher Finucane and Dua oil projects sanctioned**
- **Interim dividend of 15 cents per share fully franked**

Half-year results at a glance	2012 mmboe	2011 mmboe	Variance
Production volume	25.4	22.9	11%
Sales volume	28.9	28.2	2%
	$million	$million	
Product sales revenue	1,493	1,174	27%
Other revenue/income	30	68	
Net gains on asset sales	9	348	
Production costs	(335)	(260)	29%
Other operating costs	(84)	(75)	12%
Third party product purchase costs	(237)	(185)	28%
Product stock movement	62	46	
Other expenses	(53)	(27)	96%
EBITDAX[1]	885	1,089	(19)%
Exploration and evaluation expensed	(86)	(43)	100%
Depreciation and depletion	(377)	(289)	30%
Net impairments	(23)	9	
EBIT[1]	399	766	(48)%
Net finance income	46	34	35%
Profit before tax	445	800	(44)%
Taxation expense	(183)	(296)	(38)%
Net profit for the period	262	504	(48)%
Underlying net profit for the period[1]	283	236	20%
Basic earnings per share (cents)	27.6	57.4	(52)%
Final dividend per share (cents)	15.0	15.0	-%

Reconciliation of half-year net profit to underlying profit[1]	2012 $ million	2011 $ million	Variance
Net profit for the period	262	504	(48)%
Add/(deduct) the following:			
Net gains on asset sales	(6)	(246)	
Net impairments	22	(9)	
Other	5	(13)	
Underlying profit[1]	283	236	20%

(1) EBITDAX (earnings before interest, tax, depreciation, depletion, exploration and impairment), EBIT (earnings before interest and tax) and underlying profit are non-IFRS measures that are presented to provide an understanding of the performance of Santos' operations. Underlying profit excludes the impacts of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. The non-IFRS financial information is unaudited however the numbers have been extracted from the financial statements which have been subject to review by the company's auditors.

Production of 25.4 million barrels of oil equivalent (mmboe) was 11% higher than the 2011 first half, due to production from new assets and record Western Australian gas production, combined with higher output from the Cooper Basin. Crude oil production was up 50% following the successful commissioning of the Chim Sáo asset in Vietnam in late 2011. Natural gas production was up 5% driven by record Western Australian production partially offset by a lower net entitlement to Maleo gas production in Indonesia following a favourable gas price review.

Sales revenue of $1.5 billion was up 27% driven by higher crude oil sales volumes and higher oil and gas prices.

Production costs of $335 million were higher than the previous first half primarily due to the commencement of production from new assets (Chim Sáo, Reindeer, Spar and Wortel), costs of the planned shutdown of Bayu-Undan/Darwin LNG and higher maintenance costs.

Total income tax expense, including royalty related taxes such as the Petroleum Resource Rent Tax, was 41% of pre-tax profit in the first half.

Operating cash flow of $728 million was 7% higher than the previous first half as the favourable impact of higher sales volumes and commodity prices was offset by higher income taxes paid.

At the end of June 2012, Santos had $6.8 billion of funding capacity, including $2.9 billion cash and $3.9 billion undrawn committed corporate and project debt facilities. This strong liquidity position provides the capacity to fund the execution of the company's strategy while minimising refinancing risk.

Development projects

The Wortel gas project in Indonesia was successfully completed during the first half. Two new development projects were sanctioned: the Fletcher Finucane and Dua oil projects in Western Australia and Vietnam respectively.

Projects completed during the first half of 2012

Project	Santos interest	Product	Gross production capacity	First production
Wortel Indonesia	45%	Gas	90 TJ/day (Oyong and Wortel fields combined)	31 Jan 2012

Sanctioned projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Fletcher Finucane Australia	44%	Oil	15,000 barrels/day average in first 12 months of production	2H 2013
Dua Vietnam(1)	31.875%	Oil	8,000 to 10,000 barrels/day average in first 12 months of production	1H 2014
PNG LNG PNG	13.5%	LNG	6.6 mtpa	2014
GLNG Australia	30%	LNG	7.8 mtpa	2015
Kipper Australia	35%	Gas	75 TJ/day	1H 2016

(1) The Dua Field Development Plan received approval from the Vietnamese Government on 1 August 2012.

LNG Projects

GLNG (Santos 30%)

GLNG remains on schedule for first LNG in 2015. Construction continues to progress across the integrated project. In the upstream gas fields, construction camps are being progressively occupied and site preparation has commenced at the three gas hub sites at Fairview and Roma. The 420-kilometre gas transmission pipeline has been manufactured and deliveries of pipe to site have commenced, ready for pipe-lay to start later this year. On the Curtis Island LNG plant site, construction of LNG trains, tanks and supporting infrastructure is progressing well.

In June 2012, the gross capital cost estimate for the project was increased from US$16 billion to US$18.5 billion for the period from the final investment decision until the end of 2015. The incremental capital will fund additional upstream processing capacity and wells in the Fairview and Roma areas. The revised capital cost estimate is based on foreign exchange rates which are consistent with the assumptions used at sanction. In particular, this assumes a weighted average A$/US$ rate of 0.87 through to the end of 2015.

PNG LNG (Santos 13.5%)

PNG LNG remains on schedule for first LNG in 2014. Construction continues to progress at the upstream, pipeline and LNG plant locations. In the upstream, the first Hides development well was spudded in July and construction of the gas conditioning plant and Komo airfield is well underway. The offshore section of the gas transmission pipeline is complete and the onshore section is well advanced. At the LNG plant site, construction is progressing well on the LNG trains, tanks, jetty and supporting infrastructure.

Commercial success with shale gas well in the Cooper Basin

The Moomba-191 shale gas well in the Cooper Basin has flowed gas at a stabilised rate of 2.6 million standard cubic feet per day (mmscf/d) from the Roseneath, Epilson and Murteree (REM) shale targets for over two weeks. This result enables Santos to announce Australia's first commercial production of gas from a shale well.

Moomba-191 is a dedicated vertical shale gas well located in licence PPL 7 (Santos 66.6%), approximately eight kilometres north-east of the Santos-operated Moomba gas plant in South Australia. The well is located within 350 metres of existing gas gathering infrastructure. Connection activities have commenced and the well will be tied-in to Santos' existing gas gathering infrastructure this year.

The well is another milestone for Santos' Cooper Basin unconventional gas program, which commenced in 2004, and follows other Santos firsts including Australia's first shale fracture and coring program in 2006 and first independently certified shale and unconventional resource bookings in 2008.

Moomba-191 was drilled to a depth of 3,010 metres with the aim of appraising the gas potential of the REM unconventional gas targets in the Moomba North area. Thickness and properties, including gas content, of the REM were consistent with pre-drill expectations, reflecting the extensive technical understanding arising from Santos' long involvement and operation of conventional activities in these fields.

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
Telephone: +61 8 8116 5000 Facsimile: +61 8 8116 5131
www.santos.com

Each of the REM intervals was fracture stimulated and monitored via microseismic in an adjacent well. By only stimulating the shale zones of Moomba-191, Santos has gathered valuable data to assist in the design of future shale gas wells, including a dedicated horizontal shale gas well in the Moomba North area planned for early next year.

Following well stimulation, completion and clean-up activities, Moomba-191 has been producing dry gas at a stabilised rate of 2.6 mmscf/d and has reached 3 mmscf/d through a 52/64" choke. These flow rates are an excellent result considering Moomba-191 is a vertical shale well primarily designed for data gathering. Initial analysis of the gas composition indicates the CO_2 content is consistent with that historically produced in the Moomba North area of the Cooper Basin.

CEO David Knox said shale gas flows from Moomba-191 were a significant strategic milestone in Santos' program to unlock the vast unconventional gas potential of the Cooper Basin.

"The data we have gathered from the well will be critical in the design of both our first horizontal shale gas well, which we plan to drill early next year, and the ongoing vertical well appraisal program, of which Moomba-191 is a part," Mr Knox said.

Portfolio management

Santos signed an agreement in June with ConocoPhillips and SK E&S, an affiliate of South Korean conglomerate SK Group, to progress the development of the Caldita and Barossa gas discoveries located in the Timor Sea. Prior to the agreement, Santos held a 40% interest in both discoveries with ConocoPhillips (operator) holding the remaining 60%. Under the agreement, SK E&S will fund up to US$520 million in carry obligations, including three appraisal wells and contingent milestone payments.

Various development concepts for Caldita Barossa will be assessed including floating LNG or a tie-back to the existing LNG plant at Darwin, which is part-owned by Santos and ConocoPhillips.

David Knox said the transaction was another demonstration of the value inherent in Santos' portfolio and is consistent with the company's strategy of building strategic partnerships to commercialise assets.

Interim dividend

An interim dividend of 15 cents per share fully franked has been declared. The interim dividend will be paid on 28 September 2012 to registered shareholders as at 28 August 2012.

The Dividend Reinvestment Plan (DRP) will be operational for the interim 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 announced at the full-year results in February, the DRP will not be underwritten.

Santos Limited ABN 80 007 550 923
GPO Box 2455, Adelaide SA 5001
Telephone: +61 8 8116 5000 Facsimile: +61 8 8116 5131
www.santos.com

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 $23 million pre-tax ($22 million after tax) have been recognised in the 2012 half-year accounts. The pre-tax impairments primarily relate to the Sangu assets in Bangladesh and revisions to abandonment cost estimates for mature non-operated offshore oil assets.

2012 Guidance

Following first half production of 25.4 mmboe, Santos has maintained 2012 production guidance of 51 to 55 mmboe. All other guidance for 2012 issued with the second quarter activities report is also unchanged.

Ends.