ASX/Media Release

Santos

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Santos reports $102 million net profit for the first half of 2009

Continued delivery of LNG growth strategy

Profit impacted by lower international oil prices

Strong balance sheet to fund growth: $3.6 billion of cash

Santos today announced a net profit of $102 million after tax for the half year ended 30 June 2009, 66% lower than the previous half year.

Lower international crude oil, condensate and LPG prices had a significant impact on the first half result, reducing sales revenue by $450 million compared to last year.

Production of 26.6 million barrels of oil equivalent (mmboe) in the first half positions the company to meet its 2009 production guidance range of 53 to 56 mmboe. First half production was 4% lower than last year, primarily due to natural field decline and the sale of 40% of GLNG® to PETRONAS effective August 2008, partially offset by higher gas production in Western Australia and Indonesia.

Results Highlights

- **Average oil price down 39% to A$73.28 per barrel**
- **Average gas price up 5% to A$4.19 per gigajoule**
- **Production 26.6 mmboe, down 4%**
- **Sales revenue $1,024 million, down 26%**
- **EBITDAX $647 million, down 37%**
- **Underlying net profit after tax $102 million, down 64%**
- **Net profit after tax $102 million, down 66%**
- **Operating cash flow $499 million, down 20%**
- **Strong balance sheet: $3.6 billion of cash and funds on deposit**
- **Interim dividend of 22 cents per share fully franked, unchanged from 2008**

Sales revenue decreased by 26% to $1 billion primarily due to lower average realised oil, condensate and LPG prices, partially offset by higher natural gas prices and a weaker Australian dollar exchange rate.

Excluding exchange rate impacts, unit cash production costs were held flat with 2008 levels, despite the impact of lower production. Total cash production costs, including tariffs, tolls, royalties and excise, were 5% lower than last year.

Earnings before interest, tax, depreciation, amortisation and exploration (EBITDAX) decreased by 37% to $647 million, primarily due to the impact of lower prices.

Operating cash flow of $499 million was 20% lower primarily due to lower product prices partially offset by lower tax payments.

Continued delivery of LNG growth strategy

Key milestones in the Company's LNG growth strategy were achieved in the first half of 2009, including:

- GLNG® signed a binding Heads of Agreement to sell 2 million tonnes per annum (mtpa) of liquefied natural gas to PETRONAS with a sellers' option for an additional 1mtpa.
- GLNG® Environmental Impact Statement submitted to the Queensland Government and released for public comment.
- Award of GLNG® upstream FEED contracts to Fluor and Foster Wheeler.
- The PNG LNG Project reached alignment on commercial terms with three major LNG buyers in Asia for sales of 4.3mtpa of LNG. A fourth LNG buyer is awaiting Government approval of key commercial terms for a non-binding Heads of Agreement for the remaining 2mtpa of production capacity. These arrangements take the total LNG volumes covered by commercial terms to the full 6.3mtpa initial production capacity.
- Commencement of PNG LNG early works.

Santos Chief Executive Officer David Knox said: "Both the GLNG and PNG LNG projects achieved significant milestones during the half year. We look forward with confidence to working with our partners towards the sanction of both projects."

"On GLNG, we were delighted to sign a binding Heads of Agreement with our partner PETRONAS to sell 2mtpa of LNG with an option for a further 1mtpa. The agreement underpins the volumes on the first train and provides a strong foundation for a final investment decision on GLNG in the first half of 2010."

"The PNG LNG project also achieved major milestones with the full initial production capacity covered by commercial terms with four Asian buyers and the commencement of early works. The project remains on track for a final investment decision by the end of 2009," Mr Knox said.

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On 18 August Santos announced a strategic partnership with GDF SUEZ to develop Bonaparte LNG, a proposed 2mtpa floating LNG (FLNG) project utilising gas from the Petrel, Tern and Frigate gas fields in the Timor Sea. Santos sold a 60% interest in the fields to GDF SUEZ for US$200 million and a full carry of costs to FID on an FLNG project. Santos will receive an additional payment from GDF SUEZ of US$170 million upon FID of an FLNG project.

Based on the US$200 million initial payment, Santos will book a profit on sale of its 60% interests in Petrel, Tern and Frigate of approximately A$160 million after tax in the second half of 2009.

Portfolio Management

As part of ongoing active portfolio management, Santos has generated over $300 million in proceeds from asset sales executed in 2009 to date, including the initial payment for the sale of interests in Petrel, Tern and Frigate referred to above.

Santos has sold its interests in Petroleum Retention Licence 5 in Papua New Guinea, the Kakap Joint Venture in Indonesia, oil and gas assets in Egypt and the Churchie oil and gas assets in Queensland.

On 2 July Santos announced the acquisition of significant additional coal seam gas acreage in the Gunnedah Basin in northern New South Wales and investment in leading local CSG company Eastern Star Gas Limited for A$476 million. The acquisition combines the proven CSG experience of Santos and Eastern Star with the ability of Santos to deliver major projects and develop various channels to market.

Exploration success in the Browse Basin

On 13 August Santos announced that the Burnside-1ST1 exploration well in the Browse Basin offshore Western Australia had encountered a 65 metre gross gas column in the primary target. Further work will be done to determine the commercial significance of the discovery.

Strong Balance Sheet

Santos successfully issued new equity during the period to raise approximately $3 billion to fund future growth and redeem the FUELS hybrid security.

Cash and funds on deposit at 30 June were $3.6 billion. In addition Santos has committed but undrawn debt facilities of $700 million available.

Santos Executive Vice President & CFO Peter Wasow said: “We were delighted by the strong support that our institutional and retail shareholders demonstrated for Santos through the equity raising. Santos continues to maintain a strong balance sheet including the cash and funds on deposit. We are well positioned to execute our growth strategy.”

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Dividend

An interim dividend of 22 cents per share (fully franked) was declared, unchanged from 2008.

The interim dividend will be paid on 30 September 2009 to registered shareholders as at 1 September 2009, with an ex-dividend date of 26 August 2009.

The Dividend Reinvestment Plan (DRP) will be operational with respect to the interim 2009 dividend. The DRP is not underwritten.

DRP shares will be issued at the arithmetic average of the daily weighted average market price over a period of seven business days commencing on the business day after the dividend record date with no discount to apply.

FUELS Hybrid Securities

Santos will redeem the Franked Unsecured Equity Listed Securities (FUELS), at their face value of $100 per FUELS, on 30 September 2009. A notice informing FUELS holders of the redemption will be sent to holders by 1 September 2009.

Energy Policy

During the half Santos submitted its formal response to the Federal Government's Energy White Paper process. The submission highlights the significant potential of Australia's natural gas resources to underwrite the reliable and affordable transition of Australia's energy network to a lower carbon footprint while also supporting substantial growth in the export of natural gas to Asia.

Outlook

Following first half production of 26.6 mmboe, Santos has maintained 2009 production guidance of between 53 and 56 mmboe. Depreciation and depletion expense guidance for 2009 has been reduced to $12.20/boe from $12.80/boe. All other 2009 guidance, as detailed in the June 2009 quarter activities report, is maintained.

The company anticipates steady production levels in the near term future, ahead of a step change as the GLNG and PNG LNG projects come on-line in 2014.

"Our focus remains on delivering the base business and targeting significant growth through our LNG projects and focussed opportunities in Asia," Mr Knox said. "The outlook for natural gas in a carbon-constrained world is becoming increasingly recognised, both here in Australia, the United States and throughout Asia."

Ends.

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