HALF-YEAR REPORT INCORPORATING APPENDIX 4D

Santos Limited and its controlled entities

For the period ended 30 June 2012, under Listing Rule 4.2.

To be read in conjunction with the 2011 Annual Report

Santos

We have the energy.

ABN 80 007 550 923

Results for announcement to the market

Appendix 4D for the period ended 30 June 2012

$million				
Revenue from ordinary activities	Up	25%	to	1,522
Profit from ordinary activities after tax attributable to members	Down	48%	to	262
Net profit for the period attributable to members	Down	48%	to	262

Interim Dividends	Amount per security	Franked amount per security at 30% tax
Ordinary securities	15.0¢	15.0¢

Record date for determining entitlements to the dividend	28 August 2012
Comparison period ended is 30 June 2011	

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Half-year Report 30 June 2012

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 14% of the nation's gas needs.

Santos has also developed major oil and liquids businesses in Australia and operates in all mainland Australian states and the Northern Territory.

From this base, Santos is pursuing a transformational liquefied natural gas ("LNG") strategy with interests in four LNG projects.

These include the GLNG project in Queensland, which was sanctioned in January 2011. Also in Santos' LNG portfolio are the PNG LNG project, Bonaparte LNG, and Darwin LNG, which began production in 2006.

Santos has production in four Asian countries and is further developing its Asian business through development projects and exploration investment.

Santos has about 3,100 employees working across its operations in Australia and Asia.

Directors' Report

The Directors present their report together with the financial report of the consolidated entity, being Santos Limited ("Company" or "Santos") and its controlled entities (collectively, the "Group"), for the half-year ended 30 June 2012 and the auditor's review report thereon.

1. Strategy

Santos' vision is to be a leading energy company in Australia and Asia. We have a simple and robust strategy to achieve this: drive performance in the base business, deliver a suite of LNG projects and pursue focussed opportunities in Asia.

2. Review and Results of Operations

A review of the operations and of the results of those operations of the consolidated entity during the half-year is as follows:

Summary of results

	2012 MMboe	2011 MMboe	Variance %
Production volume	25.4	22.9	11
Sales volume	28.9	28.2	2
	$million	$million	
Product sales	1,493	1,174	27
EBITDAX[2]	885	1,089	(19)
Exploration and evaluation expensed	(86)	(43)	100
Depreciation and depletion	(377)	(289)	30
Net impairment (loss)/reversal	(23)	9	
EBIT[2]	399	766	(48)
Net finance income	46	34	35
Taxation expense	(183)	(296)	(38)
Net profit for the period[1]	262	504	(48)
Underlying profit for the period[2]	283	236	20

[1] *Net profit for the period of $262 million is $242 million lower than 2011, primarily due to lower gains on sale of non-current assets, higher impairment losses and higher cost of sales, offset by higher sales revenue. Please refer to page 4 for further details.*

[2] *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 underlying 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. Please refer to page 4 for the reconciliation from net profit to underlying profit for the period. 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.*

Base Business

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

Sales volumes of 28.9 MMboe were 2% higher than the first half of 2011 due to higher production combined with higher third party sales volumes.

The average realised oil price was A$118.42 per barrel in the first half of 2012, 3% higher than the first half of 2011, while the average gas price of A$5.01 per gigajoule was 14% higher. Product sales revenue was $1,493 million, 27% higher than in the first half of 2011.

LNG Projects

Santos is building a material LNG business with interests in four LNG projects.

> GLNG (Santos 30%, Operator)

Sanctioned in January 2011, GLNG includes the development of coal seam gas ("CSG") 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 million tonnes per annum ("mtpa") in aggregate. The project remains on schedule for first LNG in 2015.

In June 2012, the gross capital cost estimate for the project was increased from US$16 billion to US$18.5 billion for the period from the final investment decision until the end of 2015. The incremental capital, which has been brought forward from the post-2015 period, will fund additional upstream development projects in the GLNG acreage. The revised capital cost estimate is based on foreign exchange rates which are consistent with the assumptions used at sanction. In particular, this assumes a weighted average A$/US$ rate of 0.87 through to the end of 2015.

In the upstream gas fields, construction camps are well underway and are being progressively occupied. Site preparation has commenced at the three gas hub sites at Fairview and Roma, and more than 180 CSG wells have been drilled since project sanction. Almost all of the gas transmission pipeline has been manufactured and deliveries of pipe to site have commenced, ready for pipe-lay to start in the second half of 2012. On the Curtis Island site, construction of LNG train and tank foundations and supporting infrastructure is progressing well.

> PNG LNG (Santos 13.5%, ExxonMobil Operator)

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 the project remains on schedule for first LNG in 2014.

Construction continues to progress at the upstream locations and LNG plant locations. In the upstream, construction of the Hides gas conditioning plant and Komo airfield are 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.

> Darwin LNG (Santos 11.5%, ConocoPhillips Operator)

The Darwin LNG project, Santos' first producing LNG asset, commenced production in 2006. Following a planned full field shutdown in the first half of 2012, the LNG plant has been running at a high operating efficiency.

> Bonaparte LNG (Santos 40%, GDF Suez Operator)

Santos and GDF SUEZ have partnered to study the development of Bonaparte LNG, a proposed 2 mtpa floating LNG project located in the Timor Sea off the northern coast of Australia. GDF SUEZ will carry Santos' share of costs until a final investment decision, which is expected in 2014.

During the first half of 2012, the project completed the concept select phase of work which validated the floating LNG concept.

Asia

Santos has a focused Asian portfolio with operations in six countries. These businesses performed strongly in the first half of 2012, contributing almost 20% of Santos' total production. New assets in Vietnam ("Chim Sao") and Indonesia ("Wortel") commenced production in late 2011 and early 2012 respectively, providing a significant boost to Santos' production in the region.

Net Profit

The 2012 first half net profit of $262 million is $242 million lower than in 2011. This decrease is primarily due to a $348 million before tax ($246 million after tax) gain on sale of non-current assets during 2011, largely as a result of the sale of 15% of the GLNG project in 2011, combined with higher impairment losses and higher cost of sales, offset by higher sales revenue driven by higher liquids volumes and prices in the current period.

Net profit includes items after tax of $21 million (before tax of $20 million), referred to in the underlying profit table below.

Reconciliation of Net Profit to Underlying Profit[1]

	2012 $million			2011 $million		
	Gross	**Tax**	**Net**	Gross	Tax	Net
Net profit after tax attributable to equity holders of Santos Limited			**262**			504
Add/(deduct) the following:						
Net gains on sales of non-current assets	(9)	3	**(6)**	(348)	102	(246)
Impairment losses/(reversals)	23	(1)	**22**	(9)	–	(9)
Foreign currency gains	(3)	1	**(2)**	(13)	3	(10)
Fair value adjustments on embedded derivatives and hedges	1	–	**1**	(10)	3	(7)
Remediation costs for incidents, net of related insurance recoveries	8	(3)	**5**	–	–	–
Other (income)/expense items	–	–	–	(20)	7	(13)
Capital losses, investment allowance and other tax adjustments	–	1	**1**	–	17	17
	20	1	**21**	(400)	132	(268)
Underlying Profit[1]			**283**			236

1 Underlying profit is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Santos' operations. The measure 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 gross numbers presented above have been extracted from the financial statements which have been subject to review by the Company's auditors.

Equity Attributable to Equity Holders of Santos Limited / Dividends

Equity attributable to equity holders of Santos Limited at 30 June 2012 was $9,294 million.

On 17 August 2012, the Directors resolved that a fully franked interim dividend of 15 cents per fully paid ordinary share be paid on 28 September 2012 to shareholders registered in the books of the Company at the close of business on 28 August 2012.

The 2012 fully franked interim dividend of 15 cents per fully paid ordinary share is consistent with the 2011 interim dividend. Given the significant commitment to funding our key LNG growth projects over the next few years, the dividend has been set to strike an appropriate balance between funding growth and continuing to pay a meaningful dividend to shareholders. The Board anticipates that the current level of dividend will remain during our capital intensive growth phase between now and 2015.

The Dividend Reinvestment Plan ("DRP") will be operational for the 2012 interim dividend. 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 second business day after the dividend record date, less a 2.5% discount. The DRP will not be underwritten.

Cash Flow

The net cash inflow from operating activities of $728 million was 7% higher than the first half of 2011. This increase is principally attributable to increased receipts from customers and income taxes refunded, partially offset by increased payments to suppliers and employees. Net cash used in investing activities of $1,390 million was $72 million lower than the first half of 2011 primarily due to decreased oil and gas expenditure, partially offset by a decrease in proceeds from the disposal of non-current assets, net of income taxes paid. Cash flows from financing activities of $251 million were $178 million higher than the first half of 2011, mainly due to increased drawdown of borrowings and an increase in proceeds from the issue of ordinary shares.

Outlook

Santos maintains production guidance in the range of 51 to 55 MMboe for 2012.

Petroleum Resource Rent Tax

On 19 March 2012, legislation to extend the Petroleum Resource Rent Tax regime to all Australian offshore and onshore oil and gas projects from 1 July 2012 was substantively enacted through the Senate. The legislation provides for the Group to adopt a starting base for existing projects for tax purposes which is deductible in determining any future taxable profit. The Group has included future augmentation on expenditure categories including starting bases in the calculation of future taxable profit when assessing the extent to which a deferred tax asset should be recognised in the financial statements. As a result, no additional deferred tax asset has been recognised in the financial statements for the period ended 30 June 2012. If future augmentation had not been included in the forecast of future taxable profits, a deferred tax asset of $943 million would have been recognised in the financial statements at 30 June 2012.

Carbon Tax

On 1 July 2012 the Australian Government's Clean Energy legislation was introduced. This legislation will require Santos to surrender, to the Government, one carbon permit for each tonne of carbon dioxide equivalent ("CO2e") emitted from its affected facilities. The price set by the Government for the first compliance year of the scheme is $23 per tonne of CO2e.

The cost of carbon for Santos in the 12 months from 1 July 2012 is forecast to be in the range of $45-$65 million. Santos will seek to recoup carbon costs via cost pass through in domestic sales agreements and an allocation of free carbon permits that will be issued under the Jobs and Competitiveness program of the legislation for LNG operations.

Post Balance Date Events

On 17 August 2012 the Directors of Santos Limited declared an interim dividend on ordinary shares in respect of the 2012 half-year period as outlined above. The financial effect of these dividends has not been brought to account in the half-year financial report for the six months ended 30 June 2012.

3. Directors

The names of Directors of the Company in office during or since the end of the half year are:

Surname	Other Names
Borda	Kenneth Charles
Coates	Peter Roland (Chairman)
Dean	Kenneth Alfred
Franklin	Roy Alexander
Harding	Richard Michael
Hemstritch	Jane Sharman
Knox	David John Wissler (Managing Director)
Martin	Gregory John Walton

Each of the above named Directors held office during and since the end of the half year. There were no other persons who acted as Directors at any time during the half year and up to the date of this report.

4. Rounding

Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998, applies to the Company. Accordingly, amounts have been rounded off in accordance with that Class Order, unless otherwise indicated.

5. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this report.

This report is made out on 17 August 2012 in accordance with a resolution of the Directors.

Director

Director

17 August 2012

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
www.ey.com/au

Auditor's Independence Declaration to the Directors of Santos Limited

In relation to our review of the half-year financial report of Santos Limited for the half-year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

T S Hammond
Partner
Adelaide
17 August 2012

Liability limited by a scheme approved under
Professional Standards Legislation

Consolidated Income Statement
for the six months ended 30 June 2012

	Note	**30 June 2012 $million**	30 June 2011 $million
Product sales	4	1,493	1,174
Cost of sales	5	(968)	(760)
Gross profit		525	414
Other revenue	4	29	43
Other income	4	10	373
Other expenses	5	(165)	(63)
Finance income	6	81	100
Finance expenses	6	(35)	(66)
Share of net losses of an associate		–	(1)
Profit before tax		445	800
Income tax expense		(139)	(239)
Royalty-related taxation expense		(44)	(57)
Total taxation expense		(183)	(296)
Net profit for the period		262	504
Net profit attributable to:			
Owners of Santos Limited		262	504
Non-controlling interests		–	–
		262	504
Earnings per share attributable to the owners of Santos Limited (¢)			
Basic earnings per share		27.6	57.4
Diluted earnings per share		27.5	57.2
Dividends per ordinary share ($)			
Paid during the period	12	0.15	0.15
Declared in respect of the period	12	0.15	0.15

The consolidated income statement is to be read in conjunction with the notes to the half-year financial statements.

Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2012

	30 June 2012 $million	30 June 2011 $million
Net profit for the period	262	504
Other comprehensive income, net of tax:		
Exchange gain/(loss) on translation of foreign operations	57	(116)
(Loss)/gain on foreign currency loans designated as hedges of net investments in foreign operations	(29)	82
Tax effect	9	(25)
	(20)	57
Gain/(loss) on derivatives designated as cash flow hedges	25	(20)
Tax effect	(8)	6
	17	(14)
Actuarial loss on the defined benefit plan	(1)	(3)
Tax effect	–	1
	(1)	(2)
Other comprehensive income/(loss), net of tax	53	(75)
Total comprehensive income	315	429
Total comprehensive income attributable to:		
Owners of Santos Limited	315	429
Non-controlling interests	–	–
	315	429

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the half-year financial statements.

Consolidated Statement of Financial Position as at 30 June 2012

	Note	**30 June 2012 $million**	31 December 2011 $million
Current assets			
Cash and cash equivalents	7	2,915	3,332
Trade and other receivables		603	899
Prepayments		242	200
Inventories		348	283
Other financial assets		11	14
Tax receivable		4	24
Total current assets		4,123	4,752
Non-current assets			
Receivables		21	25
Prepayments		30	16
Other financial assets		196	184
Exploration and evaluation assets	8	1,441	1,386
Oil and gas assets	9	10,320	9,068
Other land, buildings, plant and equipment	10	239	241
Deferred tax assets		204	142
Total non-current assets		12,451	11,062
Total assets		16,574	15,814
Current liabilities			
Trade and other payables		886	1,005
Deferred income		54	60
Interest-bearing loans and borrowings		166	169
Current tax liabilities		113	109
Provisions		139	135
Other financial liabilities		4	2
Total current liabilities		1,362	1,480
Non-current liabilities			
Deferred income		46	47
Interest-bearing loans and borrowings		3,365	3,092
Deferred tax liabilities		1,024	977
Provisions		1,394	1,173
Other financial liabilities		93	82
Total non-current liabilities		5,922	5,371
Total liabilities		7,284	6,851
Net assets		9,290	8,963
Equity			
Issued capital	11	6,539	6,392
Reserves		(297)	(351)
Retained earnings		3,052	2,926
Equity attributable to owners of Santos Limited		9,294	8,967
Non-controlling interests		(4)	(4)
Total equity		9,290	8,963

The consolidated statement of financial position is to be read in conjunction with the notes to the half-year financial statements.

Consolidated Statement of Cash Flows
for the six months ended 30 June 2012

	Note	**30 June 2012 $million**	30 June 2011 $million
Cash flows from operating activities			
Receipts from customers		1,594	1,327
Interest received		87	86
Overriding royalties received		4	5
Insurance proceeds received		1	–
Pipeline tariffs and other receipts		28	33
Income taxes refunded		131	13
Payments to suppliers and employees		(811)	(579)
Exploration and evaluation – seismic and studies		(66)	(35)
Royalty and excise paid		(37)	(28)
Borrowing costs paid		(29)	(54)
Income taxes paid		(106)	(25)
Overriding royalty costs		(1)	–
Royalty-related taxation paid		(67)	(62)
Net cash provided by operating activities		728	681
Cash flows from investing activities			
Payments for:			
Exploration and evaluation assets		(69)	(81)
Oil and gas assets		(1,274)	(1,494)
Other land, buildings, plant and equipment		(25)	(22)
Acquisitions of oil and gas assets		(51)	(8)
Restoration		(22)	(20)
Proceeds from:			
Disposal of exploration and evaluation assets	4	53	213
Disposal of oil and gas assets	4	202	378
Disposal of controlled entities		2	–
Income taxes paid on disposal of non-current assets		(124)	(360)
Borrowing costs paid		(82)	(66)
Repayment of loan by related entity		–	1
Other investing activities		–	(3)
Net cash used in investing activities		(1,390)	(1,462)
Cash flows from financing activities			
Dividends paid		(78)	(79)
Drawdown of borrowings		269	158
Repayments of borrowings		(22)	(10)
Proceeds from issues of ordinary shares		82	4
Net cash provided by financing activities		251	73
Net decrease in cash and cash equivalents		(411)	(708)
Cash and cash equivalents at the beginning of the period		3,332	4,319
Effects of exchange rate changes on the balances of cash held in foreign currencies		(6)	(25)
Cash and cash equivalents at the end of the period	7	2,915	3,586

The consolidated statement of cash flows is to be read in conjunction with the notes to the half-year financial statements.

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2012

	Equity attributable to owners of Santos Limited							
	Issued capital $million	Translation reserve $million	Fair value reserve $million	Hedging reserve $million	Retained earnings $million	Total equity $million	Non-controlling interests $million	Total equity $million
Balance at 1 January 2011	5,514	(329)	(3)	2	2,421	7,605	(2)	7,603
Net profit for the period	–	–	–	–	504	504	–	504
Other comprehensive income/(loss) for the period	–	(59)	–	(14)	(2)	(75)	–	(75)
Total comprehensive income/(loss) for the period	–	(59)	–	(14)	502	429	–	429
Transactions with owners in their capacity as owners:								
Shares issued	57	–	–	–	–	57	–	57
Dividends to shareholders	–	–	–	–	(131)	(131)	–	(131)
Share-based payment transactions	–	–	–	–	5	5	–	5
Balance at 30 June 2011	5,571	(388)	(3)	(12)	2,797	7,965	(2)	7,963
Balance at 1 July 2011	5,571	(388)	(3)	(12)	2,797	7,965	(2)	7,963
Net profit for the period	–	–	–	–	249	249	(2)	247
Other comprehensive income/(loss) for the period	–	51	3	(2)	(8)	44	–	44
Total comprehensive income/(loss) for the period	–	51	3	(2)	241	293	(2)	291
Transactions with owners in their capacity as owners:								
Issue of shares related to acquisition	683	–	–	–	–	683	–	683
Shares issued	138	–	–	–	–	138	–	138
Dividends to shareholders	–	–	–	–	(132)	(132)	–	(132)
Share-based payment transactions	–	–	–	–	20	20	–	20
Balance at 31 December 2011	6,392	(337)	–	(14)	2,926	8,967	(4)	8,963
Balance at 1 January 2012	6,392	(337)	–	(14)	2,926	8,967	(4)	8,963
Net profit for the period	–	–	–	–	262	262	–	262
Other comprehensive income/(loss) for the period	–	37	–	17	(1)	53	–	53
Total comprehensive income for the period	–	37	–	17	261	315	–	315
Transactions with owners in their capacity as owners:								
Shares issued	147	–	–	–	–	147	–	147
Dividends to shareholders	–	–	–	–	(142)	(142)	–	(142)
Share-based payment transactions	–	–	–	–	7	7	–	7
Balance at 30 June 2012	6,539	(300)	–	3	3,052	9,294	(4)	9,290

The consolidated statement of changes in equity is to be read in conjunction with the notes to the half-year financial statements.

1. Corporate Information

Santos Limited ("the Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The condensed consolidated financial report of the Company for the six months ended 30 June 2012 ("the half-year financial report") comprises the Company and its controlled entities ("the Group"). Santos Limited is the ultimate parent entity in the Group.

The half-year financial report was authorised for issue in accordance with a resolution of the Directors on 17 August 2012.

2. Basis of Preparation and Significant Accounting Policies

Basis of preparation

This general purpose half-year financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual financial report.

It is recommended that the half-year financial report be read in conjunction with the annual financial report for the year ended 31 December 2011 and considered together with any public announcements made by the Company during the six months ended 30 June 2012, in accordance with the continuous disclosure obligations of the ASX listing rules.

Significant accounting policies

The accounting policies adopted in the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 31 December 2011.

During the half-year period, the Group reassessed its accounting treatment of certain Cooper Basin arrangements relating to crude oil purchases and sales that had previously been recorded as trading income. From 1 January 2012, these arrangements have been recorded as product sales and third party product purchases on a gross basis rather than as trading income which was previously disclosed on a net basis. Comparatives for June 2011 have been restated to reflect an increase in product sales revenue of $73 million, an increase in cost of sales of $67 million and a decrease in trading revenue of $6 million. There is no impact on net profit, net assets or earnings per share in the current or comparative period.

The following standards and interpretations and all consequential amendments, which became applicable from 1 January 2012, have been adopted by the Group. These standards and interpretations have not impacted on the accounting policies, financial position or performance of the Group, or on presentation or disclosure in the half-year financial report:

- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets;* and
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax Recovery of Underlying Assets.*

2. Basis of Preparation and Significant Accounting Policies

Significant accounting judgements, estimates and assumptions

The significant accounting judgments, estimates and assumptions adopted in the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 31 December 2011.

Carbon Tax

The Clean Energy Act introduces a carbon tax into the Australian economy from 1 July 2012 which will have an impact on the Group's future cash flows. The impact of the carbon tax on the Group's future cash flows has been included in the estimation of the recoverable amount of the Group's cash-generating units when assessing impairment of oil and gas assets and other land, buildings, plant and equipment at 30 June 2012 and 31 December 2011. The introduction of the carbon tax does not impact on the Group's operating results for the period ended 30 June 2012.

Royalty-related taxation expense

On 19 March 2012, legislation to extend the Petroleum Resource Rent Tax regime to all Australian offshore and onshore oil and gas projects from 1 July 2012 was substantively enacted through the Senate. The legislation provides for the Group to adopt a starting base for existing projects for tax purposes which is deductible in determining any future taxable profit. The Group included future augmentation on expenditure categories including starting bases in the calculation of future taxable profit when assessing the extent to which a deferred tax asset should be recognised in the financial statements. As a result, no additional deferred tax asset has been recognised in the financial statements for the period ended 30 June 2012. If future augmentation had not been included in the forecast of future taxable profits, a deferred tax asset of $943 million would have been recognised in the financial statements at 30 June 2012.

3. Segment Information

The Group has identified its operating segments to be the four business units of Eastern Australia; Western Australia and Northern Territory ("WA & NT"); Asia Pacific; and Gladstone LNG ("GLNG"), based on the different geographical regions and the similarity of assets within those regions. This is the basis on which internal reports are provided to the Chief Executive Officer for assessing performance and determining the allocation of resources within the Group.

The Asia Pacific operating segment includes operations in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh and the Kyrgyz Republic.

The Chief Executive Officer monitors the operating results of its business units separately for the purposes of making decisions about allocating resources and assessing performance. The basis of measurement of segment performance has changed from the most recent annual financial report. From 1 January 2012, royalty-related taxation is no longer included in the measurement of segment performance, consistent with a change in information provided to the chief operating decision maker. Segment performance for the six months ended 30 June 2012 is measured based on earnings before interest, tax, impairment, exploration and evaluation, and gains/losses on sale of non-current assets and controlled entities ("EBITX"). Corporate and exploration expenditure and inter-segment eliminations are included in the segment disclosure for reconciliation purposes.

The Group operates primarily in one business: the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived primarily from the sale of gas and liquid hydrocarbons and the transportation of crude oil.

3. Segment Information (continued)

	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
	2012 $million	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million
Revenue												
Sales to external customers	745	669	500	412	225	74	23	19	–	–	1,493	1,174
Inter-segment sales	–	–	–	–	–	–	31	32	(31)	(32)	–	–
Other revenue from external customers	16	36	2	2	5	–	–	2	6	3	29	43
Total segment revenue	761	705	502	414	230	74	54	53	(25)	(29)	1,522	1,217
Results												
Earnings before interest, tax, exploration, impairment and gains/(losses) on sale of non-current assets and controlled entities ("EBITX")	127	141	268	289	118	22	25	(9)	(39)	9	499	452
Depreciation and depletion	185	159	109	79	57	25	9	11	17	15	377	289
Gains/(losses) on sale of non-current assets and controlled entities	–	16	9	–	(1)	–	–	332	1	–	9	348
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX")	312	316	386	368	174	47	34	334	(21)	24	885	1,089
Depreciation and depletion	(185)	(159)	(109)	(79)	(57)	(25)	(9)	(11)	(17)	(15)	(377)	(289)
Exploration and evaluation expensed	–	–	–	–	–	–	–	–	(86)	(43)	(86)	(43)
Net impairment (loss)/reversal	–	–	(6)	–	(17)	–	–	–	–	9	(23)	9
Earnings before interest and tax ("EBIT")	127	157	271	289	100	22	25	323	(124)	(25)	399	766
Net finance income									46	34	46	34
Profit before tax											445	800
Income tax expense									(139)	(239)	(139)	(239)
Royalty-related taxation expense	–	2	(44)	(59)	–	–	–	–	–	–	(44)	(57)
Net profit for the period											262	504

3. Segment Information (continued)

	Eastern Australia		WA & NT		Asia Pacific		GLNG		Corporate, exploration and eliminations		Total	
	2012 $million	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million	**2012 $million**	2011 $million
Amounts included in profit before tax that are unusual because of their nature, size or incidence:												
Gain on sale of exploration and evaluation assets	–	–	–	–	–	–	–	28	–	–	–	28
Gain on sale of oil and gas assets	–	16	9	–	–	–	–	304	–	–	9	320
Gain on sale of controlled entities	–	–	–	–	–	–	–	–	1	–	1	–
Loss on sale of available-for-sale investment	–	–	–	–	(1)	–	–	–	–	–	(1)	–
Remediation costs for incidents, net of insurance recoveries	(8)	–	–	–	–	–	–	–	–	–	(8)	–
Non-refundable deposit received	–	–	–	15	–	–	–	–	–	–	–	15
Finalisation of redetermination	–	–	–	5	–	–	–	–	–	–	–	5

4. Revenue and Other Income	30 June 2012 $million	30 June 2011 $million
Product sales:		
Gas, ethane and liquefied gas	625	593
Crude oil	642	351
Condensate and naphtha	137	141
Liquefied petroleum gas	89	89
Total product sales*	1,493	1,174
Other revenue:		
Overriding royalties	4	4
Pipeline tariffs and processing tolls	10	30
Trading revenue	–	2
Other	15	7
Total other revenue	29	43
Total revenue	1,522	1,217

* *Total product sales include third party product sales of $267 million (2011: $216 million).*

Other income:		
Insurance recoveries	1	–
Net gain on sale of exploration and evaluation assets	–	28
Net gain on sale of oil and gas assets	9	320
Net gain on sale of controlled entities	1	–
Net loss on sale of available-for-sale investment	(1)	–
Other	–	25
Total other income	10	373
Net gain on sale of non-current assets		
Proceeds on disposals	16	793
Recoupment of current period exploration and evaluation expenditure	–	(3)
Proceeds after recoupment of current period exploration and evaluation expenditure	16	790
Book value of oil and gas assets disposed	(11)	(342)
Book value of working capital disposed	4	–
Recoupment of prior period exploration and evaluation expenditure	–	(97)
Transaction costs	–	(3)
Total net gain on sale of non-current assets	9	348
Comprising:		
Net gain on sale of exploration and evaluation assets	–	28
Net gain on sale of oil and gas assets	9	320
	9	348

4. Revenue and Other Income (continued)	**30 June 2012 $million**	30 June 2011 $million
Reconciliation to cash inflow from proceeds on disposal of non-current assets		
Proceeds after recoupment of current period exploration and evaluation expenditure	16	790
Foreign currency revaluation	–	(27)
Amounts to be received in the future	(16)	(180)
Amounts received from current period disposals	–	583
Amounts received from prior period disposals	255	8
Total proceeds on disposal of non-current assets	255	591
Comprising:		
Proceeds from disposal of exploration and evaluation assets	53	213
Proceeds from disposal of oil and gas assets	202	378
	255	591

5. Expenses		
Cost of sales:		
Cash cost of production:		
Production costs:		
Production expenses	295	236
Production facilities operating leases	40	24
Total production costs	335	260
Other operating costs:		
Pipeline tariffs, processing tolls and other	50	54
Royalty and excise	34	21
Total other operating costs	84	75
Total cash cost of production	419	335
Depreciation and depletion	374	286
Third party product purchases	237	185
Increase in product stock	(62)	(46)
Total cost of sales	968	760

5. Expenses (continued)	**30 June 2012 $million**	30 June 2011 $million
Other expenses:		
Selling	11	6
Corporate	44	43
Depreciation	3	3
Foreign exchange gains*	(3)	(13)
Losses/(gains) from change in fair value of derivative financial assets designated as at fair value through profit or loss	1	(11)
Fair value hedges, losses/(gains):		
On the hedging instrument	(28)	(7)
On the hedged item attributable to the hedged risk	28	8
Exploration and evaluation expensed	86	43
Net impairment loss on oil and gas assets	23	–
Net impairment reversal on receivables	–	(9)
Total other expenses	165	63

* *The foreign exchange gains for the six months ended 30 June 2012 include the following significant amounts in relation to foreign functional currency subsidiaries: $7 million loss (2011: nil) relating to the effects of foreign exchange on Australian dollar denominated tax bases and $7 million gain (2011: nil) on foreign functional currency intercompany loans.*

6. Net Finance Income		
Finance income:		
Interest income	81	100
Total finance income	81	100
Finance costs:		
Interest expense:		
Interest paid to third parties	(98)	(110)
Deduct borrowing costs capitalised	86	63
	(12)	(47)
Unwind of the effect of discounting on provisions	(23)	(19)
Total finance costs	(35)	(66)
Net finance income	46	34

7. Cash and Cash Equivalents	Six months ended 30 June 2012 $million	31 December 2011 $million	30 June 2011 $million
Cash at bank and in hand	265	282	687
Short-term deposits	2,650	3,050	2,899
	2,915	3,332	3,586

8. Exploration and Evaluation Assets	30 June 2012 $million	31 December 2011 $million	30 June 2011 $million
Balance at the beginning of the period	1,386	803	962
Acquisition of controlled entities	–	905	–
Acquisitions of exploration and evaluation assets	1	7	7
Additions	93	134	73
Exploration and evaluation expensed	(19)	(51)	(7)
Disposals and recoupment	1	(368)	(88)
Net impairment losses	–	(13)	–
Transfer to oil and gas assets in development	–	(28)	(131)
Transfer to oil and gas assets in production	(21)	(3)	(13)
Balance at the end of the period	1,441	1,386	803
Comprising:			
Acquisition costs	1,141	1,034	470
Successful exploration wells	251	229	320
Exploration and evaluation assets pending determination of success	49	123	13
	1,441	1,386	803

	Six months ended		
	30 June 2012	31 December 2011	30 June 2011
9. Oil and Gas Assets	**$million**	$million	$million
Assets in development			
Balance at the beginning of the period	3,020	2,736	1,653
Acquisitions of oil and gas assets	22	–	–
Additions	1,022	1,162	1,077
Disposals	(11)	–	–
Transfer from exploration and evaluation assets	–	28	131
Transfer to oil and gas assets in production	–	(995)	(44)
Impairment losses	–	(29)	–
Exchange differences	45	118	(81)
Balance at the end of the period	4,098	3,020	2,736
Producing assets			
Balance at the beginning of the period	6,048	4,869	5,261
Acquisitions of oil and gas assets	2	42	1
Additions	511	509	245
Transfer from exploration and evaluation assets	21	3	13
Transfer from oil and gas assets in development	–	995	44
Recoupment of exploration and evaluation expenditure	–	9	(9)
Disposals	–	(13)	(358)
Depreciation and depletion expense	(357)	(336)	(272)
Net impairment losses	(23)	(89)	–
Exchange differences	20	59	(56)
Balance at the end of the period	6,222	6,048	4,869
Total oil and gas assets	10,320	9,068	7,605
Comprising:			
Exploration and evaluation expenditure pending commercialisation	55	35	32
Other capitalised expenditure	10,265	9,033	7,573
	10,320	9,068	7,605

10. Other Land, Buildings, Plant and Equipment			
Balance at the beginning of the period	241	201	201
Acquisition of controlled entities	–	26	–
Additions	20	34	17
Disposals	(3)	(3)	–
Impairment	–	(1)	–
Depreciation	(20)	(16)	(17)
Exchange differences	1	–	–
Balance at the end of the period	239	241	201

11. Issued Capital	**30 June 2012 Number of shares**	31 December 2011 Number of shares	30 June 2011 Number of shares	**30 June 2012 $million**	31 December 2011 $million	30 June 2011 $million
	Six months ended					
Movement in fully paid ordinary shares						
Balance at the beginning of the period	944,469,750	879,304,623	874,991,455	6,392	5,571	5,514
Shares issued in Eastern Star Gas Limited ("ESG") acquisition	–	51,200,158	–	–	673	–
Santos ESG Employee Incentive Plan	–	2,002,362	–	5	10	–
Santos Dividend Reinvestment Plan ("DRP")	4,689,506	4,962,955	3,666,293	64	56	52
DRP underwriting agreement	5,509,612	6,498,096	–	77	75	–
Santos Employee Share1000 Plan	6,400	89,550	82,200	–	1	1
Santos Employee ShareMatch Plan	46,566	332,019	307,401	1	5	4
Shares issued on exercise of options	–	63,100	2,568	–	1	–
Shares issued on vesting of Share Acquisition Rights	212,172	16,887	254,706	–	–	–
Balance at the end of the period	954,934,006	944,469,750	879,304,623	6,539	6,392	5,571

12. Dividends	Dividend per share $	Total $million	Franked/ unfranked	Payment date
Dividends paid during the period:				
2012				
2011 Final dividend per ordinary share	0.15	142	Franked	30 Mar 2012
2011				
2010 Final dividend per ordinary share	0.15	131	Franked	31 Mar 2011
Franked dividends paid during the period were franked at the tax rate of 30%.				
Dividends declared in respect of the current period:				
2012 Interim dividend per ordinary share	0.15	143	Franked	28 Sep 2012

After the reporting date, the interim 2012 ordinary dividend of $0.15 per share was proposed by the Directors. The financial effect of these dividends has not been brought to account in the half-year financial statements for the six months ended 30 June 2012 and will be recognised in subsequent financial reports.

13. Acquisition/Disposal of Controlled Entities

There were no acquisitions of controlled entities during the six months ended 30 June 2012.

The Group disposed of its wholly owned subsidiary Boston L.H.F. Pty Ltd on 8 February 2012.

Santos Belida Pty Ltd and Santos Baturaja Pty Ltd were incorporated in Australia on 20 March 2012.

Santos Netherlands B.V. was incorporated in The Netherlands on 3 May 2012.

Santos QLD Upstream Developments Pty Ltd was incorporated in Australia on 31 May 2012.

14. Capital Commitments

There has been no material change to the capital commitments disclosed in the most recent annual financial report.

15. Contingent Liabilities

There has been no material change to the contingent liabilities disclosed in the most recent annual financial report.

16. Events After the End of the Reporting Period

On 17 August 2012, the Directors of Santos Limited declared an interim dividend on ordinary shares in respect of the 2012 half-year period. The financial effect of these dividends has not been brought to account in the half-year financial statements for the six months ended 30 June 2012. Refer to note 12 above for details.

Directors' Declaration
for the six months ended 30 June 2012

In accordance with a resolution of the Directors of Santos Limited, we state that:

In the opinion of the Directors of Santos Limited:

1. The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001 (Cth)*, including:

    (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and

    (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* 2001 *(Cth)*; and

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 17th day of August 2012

On behalf of the Board:

Director

Director

Adelaide, South Australia

Ernst & Young Building
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
www.ey.com/au

To the members of Santos Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Santos Limited, which comprises the statement of financial position as at 30 June 2012, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes, and the Directors' Declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Santos Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the Directors of the Company a written Auditor's Independence Declaration, a copy of which is referred to in the Directors' Report.

Liability limited by a scheme approved under Professional Standards Legislation

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Santos Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

T S Hammond
Partner
Adelaide
17 August 2012

Appendix 4D

for the six months ended 30 June 2012

For '**Results for Announcement to the Market**' refer to page 1 of this Half-year Report

NTA backing

	30 June 2012	30 June 2011
Net tangible asset backing per ordinary security	N/A	N/A

Change in ownership of controlled entities

There were no acquisitions of controlled entities during the six months ended 30 June 2012.

The Group disposed of its wholly owned subsidiary Boston L.H.F. Pty Ltd on 8 February 2012.

Santos Belida Pty Ltd and Santos Baturaja Pty Ltd were incorporated in Australia on 20 March 2012.

Santos Netherlands B.V. was incorporated in The Netherlands on 3 May 2012.

Santos QLD Upstream Developments Pty Ltd was incorporated in Australia on 31 May 2012.

Dividend Reinvestment Plan

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the arithmetic average of the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the second business day after the Dividend Record Date. At this time, the Board has determined that a 2.5% discount will apply to the Dividend Reinvestment Plan. The last date for the receipt of an election notice to participate in the Dividend Reinvestment Plan is the record date, 28 August 2012.

Details of joint venture and associate entities

	Percent ownership interest held at the end of the period	
	30 June 2012 **%**	30 June 2011 %
Joint venture entities		
CJSC KNG Hydrocarbons	54.0	54.0
Darwin LNG Pty Ltd	11.5	11.5
Easternwell Drilling Services Holdings Pty Ltd	50.0	50.0
GLNG Operations Pty Ltd	30.0	30.0
GLNG Property Pty Ltd	30.0	-
Lohengrin Pty Ltd	50.0	50.0
Papua New Guinea Liquefied Natural Gas Global Company LDC	13.5	13.5