ASX/Media Release

Santos

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Santos reports 94% lift in half year net profit to $198 million

Santos today announced a net profit of $198 million after tax for the half year ended 30 June 2010, up 94% on the previous half year.

Profit was up due to higher product prices and lower exploration expense, 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 previous half year.

First half production of 24.2 million barrels of oil equivalent (mmboe) was 9% lower compared to the first half of 2009, primarily due to wet weather and flood events in Central Australia impacting Cooper Basin operations, partially offset by stronger gas production in Western Australia and Indonesia.

Sales volumes for the first half of 28.5 mmboe were in line with the first half of 2009. Withdrawal of gas from storage supplemented by gas purchases were utilised to meet customer gas demand ex the Cooper Basin.

Higher commodity prices were evident across the Santos portfolio in the first half of 2010 and drove sales revenue to $1.1 billion, 7% higher than the first half of 2009.

Results Highlights

- **Average oil price A$86.99 per barrel, up 19%**
- **Production 24.2 mmboe, down 9%**
- **Sales 28.5 mmboe, down 2%**
- **Sales revenue $1,091 million, up 7%**
- **EBITDAX $655 million, up 1%**
- **Net profit after tax $198 million, up 94%**
- **Underlying net profit after tax $210 million, up 121%**
- **Operating cash flow $537 million, up 8%**
- **Strong balance sheet: $6.4 billion of available funding capacity**
- **Interim dividend 22 cents per share fully franked, unchanged from 2009**

Results at a glance	Half-year		Var
	2010	2009	
	mmboe	mmboe	%
Production volume	24.2	26.7	(9.4)
Sales volume	28.5	29.0	(1.7)
	A$m	A$m	
Product sales	1,091	1,024	6.5
EBITDAX	655	647	1.2
Exploration and evaluation expensed	(55)	(113)	(51.3)
Depreciation and depletion	(279)	(317)	(12.0)
Net impairment loss	(38)	(8)	
EBIT	283	209	35.4
Net finance income/(expense)	10	(12)	
Profit before tax	293	197	48.7
Taxation expense	(95)	(95)	-
Net profit for the period	198	102	94.1
Underlying net profit for the period	210	95	121.1
Interim dividend per share (cents fully franked)	22	22	-

Cash production costs of $276 million were 4% or $10 million higher than last year, primarily due to costs of the planned 35-day shutdown of Bayu Undan/Darwin LNG as forecast. Overall cost of sales were 2% higher due to higher production costs and third party gas purchase costs, offset by lower depreciation and depletion charges.

Operating cash flow of $537 million was 8% higher than last year primarily due to higher product prices and lower exploration and evaluation costs, partially offset by higher income and royalty related taxes paid.

Santos Chief Executive Officer David Knox said that the company had delivered a sound operating performance in the first half.

“Recovery from the flooding in Central Australia is underway but will continue to impact our operations for several months. Recent additional rains across the Cooper Basin have caused some further disruption to our drilling operations.”

“The GLNG project continues to make significant progress with a view to taking a final investment decision later in 2010,” Mr Knox said.

Continued delivery of LNG growth strategy

Strong progress continued on the company’s LNG growth strategy in the first half of 2010.

GLNG® (Santos 60%)

The two-train 7.2 mtpa capacity GLNG® project has made significant progress in 2010, including:

- GLNG® became Australia’s first major coal seam gas to LNG project to receive its environmental approval from the Queensland Government. The environmental approval process now continues with Federal Government consideration of the project.

- Fluor appointed as preferred EPC contractor for the upstream facilities component of the project.
- Front end engineering design (FEED) is complete for the upstream, pipeline and downstream elements of the project.
- All required Cultural Heritage agreements for the project are in place.

GLNG® is progressing towards a final investment decision later in 2010 and first LNG in 2014.

PNG LNG (Santos 13.5%)

The two-train 6.6 mtpa capacity PNG LNG project was approved in December 2009 and construction is 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 all of the project's production capacity.

Darwin LNG (Santos 11.5%)

The single train Darwin LNG project commenced production in 2006. During the first half of 2010, the asset successfully completed a planned shutdown during which the LNG production capacity was upgraded to 3.6 mtpa.

Bonaparte LNG (Santos 40%)

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

Portfolio Management

On 26 March 2010, Santos announced that it agreed to sell its entire working interest in Evans Shoal in the Bonaparte Basin to Magellan Petroleum Australia Limited for up to $200 million. The transaction is expected to complete in the second half of 2010.

Strong Balance Sheet

Santos successfully executed a $2 billion bilateral bank facility in July 2010. The new facility will be used to replace and extend Santos' existing $700 million in undrawn bilateral bank facilities that mature between 2011 and 2013.

With this new facility, Santos will have $6.4 billion of funding capacity, including cash and committed corporate and project debt facilities.

Dividend

An interim dividend of 22 cents per share (fully franked) was declared, unchanged from 2009. The interim dividend will be paid on 6 October 2010 to registered shareholders as at 7 September 2010, with an ex-dividend date of 1 September 2010.

The Dividend Reinvestment Plan (DRP) will be operational with respect to the interim 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.

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Impairment of Oil and Gas Assets

As a result of the company's regular impairment review of assets, the recoverable amount of some assets was assessed to be impaired and impairment losses of $38 million pre-tax ($25 million after tax) have been recognised in the 2010 half-year report. The impairments primarily relate to increased restoration estimates for the Jabiru/Challis and Legendre assets.

Outlook

Following first half production of 24.2 mmboe, Santos has maintained 2010 production guidance of between 49 and 52 mmboe. All other guidance for 2010 issued with the second quarter activities report is also unchanged.

"Looking forward, Santos is very well positioned. Our focus remains on advancing GLNG® to a final investment decision this year and delivering safe and profitable production from our base businesses in Australia and Asia," Mr Knox said.

Ends.