

Review by the Chairman
and Chief Executive Officer

Peter Coates and David Knox



L to R: David Knox and Peter Coates.

As we enter 2011, Santos will continue to follow a clear strategy, which is to drive performance in the base business, deliver our portfolio of liquefied natural gas (LNG) projects and pursue focused opportunities in Asia.

Santos made great strides in delivering its growth strategy over the past year, culminating with the final investment decision approving development of the GLNG project in January 2011.

Early in the year, central Australia experienced its worst flooding in 30 years. Our employees and contractors worked hard to overcome numerous challenges and maintain production in a safe and responsible way. In Queensland, our employees rallied to support their local communities during flooding at the beginning of 2010 and again in 2011.

FINANCIAL AND OPERATING PERFORMANCE

Santos is in a strong financial position. We delivered higher reported and underlying profit in 2010, while operating cash flow for the year was \$1.3 billion. We are in a strong position to fund growth, with \$7.8 billion of cash and available credit facilities at 31 December 2010.

Santos reported a net profit after tax of \$500 million in 2010, up 15% on the previous year. Underlying profit was \$376 million for the year, a 46% increase on 2009 due primarily to higher prices and lower exploration expenses.

The final dividend for 2010 was 15 cents per share and we expect an annual dividend of 30 cents per share for the year ended 31 December 2011.

POSITIONED FOR FUTURE GROWTH

Santos' base business projects will grow production in the short-term before our LNG ventures deliver a step-change in production and earnings from 2014.

Four new projects are scheduled to commence production in 2011: the Reindeer and Spar gas projects in Western Australia, the Chim São oil project in Vietnam and the Wortel gas project in Indonesia. The scope and schedule for the Kipper gas field development in Victoria is under review following advice from the operator, ExxonMobil.

In November 2010, Santos acquired additional acreage in Bangladesh. Santos now has a local workforce of 70 employees who joined in December.

Our LNG portfolio is unique for a company of our size, and has the potential to deliver a 20 million barrels of oil equivalent (mboe) increase in production by the end of 2016. Once these projects come on line, Santos will have 70% of total sales linked to the oil price, up from about 30% today.

During 2010, Santos and PETRONAS welcomed Total of France and KOGAS of South Korea as fully integrated GLNG joint venture partners. Santos' interest in GLNG is now 30%, appropriate in the context of our overall LNG portfolio. First exports are expected in 2015.

The PNG LNG project completed financing arrangements in March 2010 and is proceeding with full project execution. First exports are expected in 2014.

In the first half of 2010, Darwin LNG production capacity was upgraded to 3.6 million tonnes per annum (mtpa) during a planned shutdown. Bonaparte LNG gained momentum in 2010 and awarded pre-front end engineering and design contracts in January 2011.

MEETING AN ENERGY CHALLENGE

Santos is Australia's largest producer of gas for domestic consumption – 95% of our proved and probable reserves are gas and associated liquids.

Our company will deliver the benefits of natural gas to Australians and the energy-hungry markets of Asia. With the right policy settings in place, Australian natural gas will deliver environmental, economic and energy benefits for decades, if not centuries, to come.

As part of the transition to a lower carbon economy, Santos supports the introduction of a well designed carbon price that maintains the nation's competitiveness. Santos supports a level playing field for all energy options and the streamlining of climate change policies.

THE BOARD

Continuing our process of renewal, Ms Jane Hemstritch joined the Board in February 2010 and, through her broad experience in a number of sectors including oil and gas, continues to be a significant contributor.

On behalf of the Directors, we would like to thank all Santos employees for their hard work and dedication in continuing to deliver value for shareholders.

Operating and financial highlights

8%↓

PRODUCTION

49.9 mboe

2%↑

SALES REVENUE

\$2,228 million

5%↑

EBITDAX

\$1,672 million

15%↑

NET PROFIT AFTER TAX

\$500 million

46%↑

UNDERLYING NET PROFIT AFTER TAX

\$376 million

10%↑

OPERATING CASH FLOW

\$1,267 million

	2010	2009	% change
Sales (\$million)	2,228.0	2,181.0	2
Operating profit before tax (\$million)	793.0	717.0	11
Cash flow from operations (\$million)	1,267.0	1,155.0	10
Earnings per share (cents)	59.8	52.0	15
Dividends declared per ordinary share (cents)	37.0	42.0	(12)
Cash flow per share (cents)	151.6	148.0	2
Total shareholders' funds (\$million)	7,603.0	6,967.0	9
Return on average ordinary equity (%)	6.9	7.5	(8)
Return on average capital employed (%)	7.3	7.3	0

Santos
We have the energy.

This Shareholder update 2010 provides a snapshot of Santos' operational and financial highlights for 2010.

For a more comprehensive analysis of the company's performance, financial position and future prospects, please consult the full 2010 Annual Report. More information about Santos' sustainability programs and performance is available in the 2010 Sustainability Report.

These reports can be downloaded from the Santos website at www.santos.com or printed copies can be ordered from Santos' Share Registry by telephoning 1300 017 716. Shareholders can also elect to receive future Annual and Sustainability Reports by contacting the Share Registry.

This Shareholder update has been mailed to all shareholders who have not requested a Santos Annual Report.

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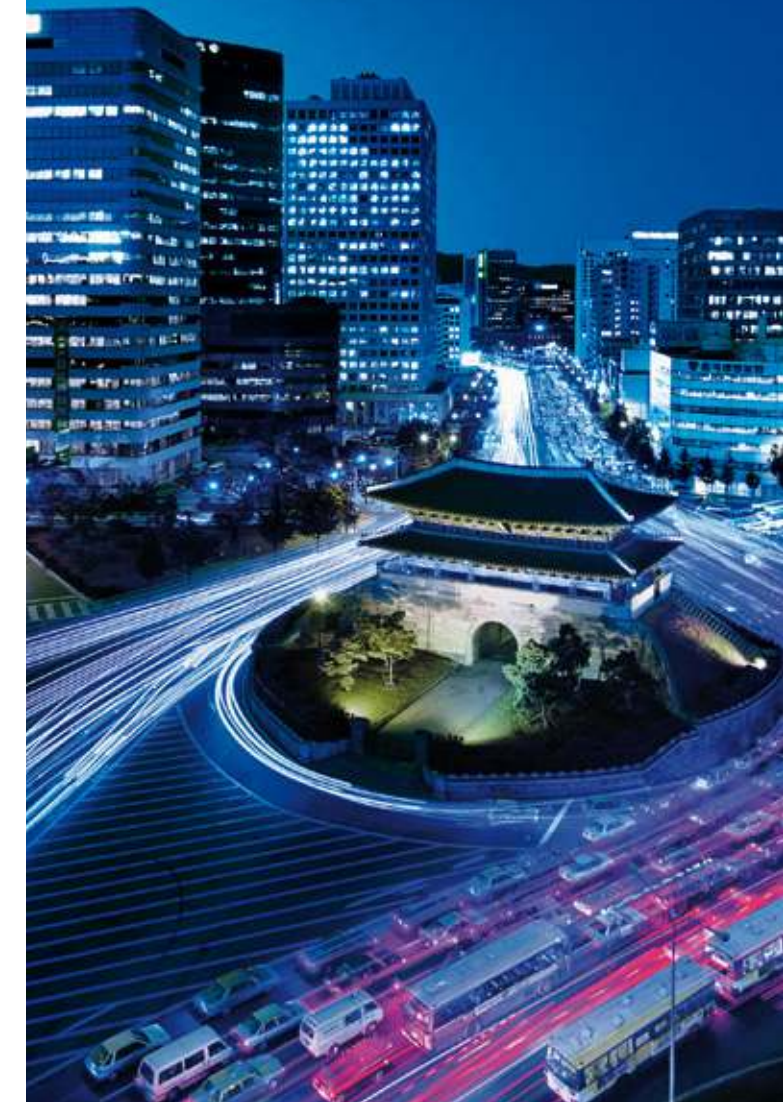


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Santos
We have the energy.

Focused on the new horizon

Shareholder update 2010



We're not just an energy company.
We're a company with energy.

The clean energy to fuel homes and industry throughout Australia and Asia and to power nations now and into the future ...

The energy to take bold initiatives to grow our own business ...

In short, we have the energy to make things happen.



Santos sites

Santos offices

Detailed exploration maps are available on the Santos website www.santos.com.

Photographs: **Cover** The South Gate, Seoul, South Korea. Seoul is home of Santos' GLNG partner KOGAS. **LNG projects** Darwin LNG plant, Wickham Point. **Australia** Wellhead platform, Reindeer project, Western Australia. **Asia** Irwan Setiawan, Grati processing plant, Indonesia.

LNG projects

- GLNG welcomes new partners Total and KOGAS. LNG sales agreements totalling seven mtpa. Project sanctioned January 2011.
- PNG LNG enters full project execution; first gas shipments in 2014.
- Pre-FEED upstream and midstream contractors appointed for Bonaparte LNG.

LNG demand in the Asia-Pacific region is forecast to substantially outstrip contracted supplies over the next 25 years, providing a window of opportunity for leading LNG proponents like Santos.

The GLNG project made excellent progress in 2010, culminating in formal sanction in January 2011. During 2010, GLNG introduced Total and KOGAS as new partners, secured offtake agreements to underpin two trains, and received environmental approvals. GLNG will involve piping coal seam gas (CSG) from GLNG's eastern Queensland fields to an LNG plant at Gladstone, where LNG will be loaded onto ships for sale to world markets.

The project will create 5,000 jobs in construction plus 1,000 permanent jobs in production. In 2010, GLNG received environmental approval from the Queensland Government in May and the Federal Government in October.

Santos will supply GLNG with 750 petajoules of gas over 15 years from 2015. The gas will come from Santos' eastern Australian gas portfolio, with the Cooper Basin the primary source.

PNG LNG moved into full project execution in March. The project will produce 6.6 mtpa of LNG, and will cost an estimated US\$15 billion to construct. Santos' share of the estimated capital cost is US\$2 billion. First LNG shipments are scheduled for 2014. Santos has a 13.5% interest in PNG LNG.

At Darwin LNG, a successful turbine upgrade during a planned statutory shutdown in June 2010 increased the capacity of the plant to 3.6 mtpa.

Bonaparte LNG is a proposed floating LNG project in the Timor Sea. Bonaparte LNG will unlock 360 mboe of contingent gas resources and aim to produce two mtpa. Project teams have been established and the project has awarded contracts for pre-front end engineering and design. A final investment decision is expected in 2014, with production scheduled for 2018. Santos holds a 40% interest.

Australia

- Santos to supply 750 petajoules of gas over 15 years to GLNG, mostly from Cooper Basin.
- New sales contracts and projects in Western Australia; first gas from Henry and Netherby, Victoria.
- Cooper Basin plays pivotal role in domestic gas supply despite one-in-30-year floods.

Santos is positioned to supply growing Australian demand for natural gas as a fuel to reduce emissions and support the development of renewable energy technology.

In the Cooper Basin, approximately three million barrels of production was deferred because of ongoing and unseasonal wet weather. Santos met customer deliveries with existing production and gas from storage, preventing material impact on gas sales revenue. Uncontracted Cooper gas will be the primary source of a 15-year, 750 petajoule per annum supply agreement to GLNG from 2015. The Cooper retains significant development potential through vast amounts of unconventional shale gas and tight gas reservoirs.

In Western Australia, plant construction is on schedule at the Reindeer/Devil Creek gas project. Production is expected to begin in the second half of 2011; capacity will be 215 terajoules per day. At the developing Halyard and Spar fields, the first well will be tied back through existing Varanus Island facilities and is expected online mid-2011.

Santos began supplying a new gas contract with Wesfarmers Energy for up to 60 petajoules over more than five years, sourced solely from Santos' share of John Brookes production. Offshore northern Australia, Santos agreed to sell its interest in the Evans Shoal field to Magellan Petroleum Australia Limited for up to \$200 million.

In New South Wales, Santos began the second phase of its CSG exploration and appraisal program in the Gunnedah Basin, including drilling additional coreholes and establishing two pilot dewatering and production testing areas.

Offshore Victoria, first gas from the Henry and Netherby fields was achieved in the first quarter of 2010. Both have been tied back to existing Casino pipelines. At Kipper, the scope and schedule for the works is under review by the operator, which has advised that first gas will be deferred beyond the previous expectation of the first half of 2012.

Asia

- Formal sanction of Wortel gas project, Indonesia; Oyong tie-back will maximise value of both assets.
- Additional Bangladesh acreage acquired; Santos now operates Sangu field and facilities.
- Construction progress at Chim São, Santos' first Vietnam oil project.

Santos continued to progress its focused Asian strategy in 2010, maintaining strong production and developing new projects.

In Indonesia, Oyong production continued to rise due to the project's second phase, started in late 2009. Maleo also delivered higher production. The Wortel project was formally sanctioned in November 2010. It is in East Java and is part of the Sampang Production Sharing Contract. It will be tied back to Oyong, maximising the value of both assets. A sales agreement for Wortel gas has been signed and other sales negotiations are ongoing.

In November 2010, Santos agreed to purchase Cairn's entire interests in Bangladesh's Block 16, which includes the producing Sangu field and other exploration acreage in the Bay of Bengal. Santos has held interests in Block 16 since 2007.

Santos now holds a 100% interest in the Block 16 exploration acreage and a 75% interest in the Sangu field. The acquisition was consistent with Santos' Asian strategy of building material and sustainable businesses to meet growing domestic energy needs.

Santos' first oil project in Vietnam, Chim São, continued to progress in 2010 following sanction in 2009. Oil and associated gas and liquids will be produced via an unmanned, minimum facility located offshore southern Vietnam in the Nam Con Son Basin. Development drilling continues and the conversion of the floating production storage and offloading ship is progressing. First oil is expected in the second half of 2011.

Santos has maintained its interests in four prospecting licences in the Fergana Basin in the south of the Kyrgyz Republic, covering approximately 2,700 square kilometres. Options for development have been assessed and include production through existing pipelines and refineries to multiple export channels.