ASX/Media Release

Santos

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18 February 2010

Santos reports $434 million net profit for 2009

Delivery on transformational LNG growth strategy

Robust operating performance: production in line with guidance & costs lower

Strong balance sheet to fund growth: $5 billion of funding capacity

Santos today announced a net profit of $434 million after tax for the year ended 31 December 2009. This compares to the $1.7 billion result reported for 2008 which was boosted by a $1.2 billion profit from the sale of a 40% interest in the GLNG® project to PETRONAS.

The 2009 result includes a $180 million net profit after tax from asset sales. This includes the sale of 60% of the Petrel, Tern and Frigate fields to GDF SUEZ announced in August 2009.

Underlying net profit in 2009 of $257 million compares to $548 million in the prior year. Lower product prices impacted the 2009 result, reducing sales revenue by $600 million compared to the previous year.

Results Highlights

- **Average oil price down 33% to A$78.83 per barrel**
- **Production 54.4 mmboe, same as 2008**
- **Sales 60.1mmboe, up 8%**
- **Sales revenue $2,181 million, down 21%**
- **Operating cash flow $1,155 million, down 17%**
- **Underlying net profit after tax $257 million, compared to $548 million in 2008**
- **Net profit after tax $434 million**
- **Earnings per share 52.1 cents**
- **Strong balance sheet: $2.2 billion of cash**
- **Final dividend of 20 cents per share fully franked, unchanged from 2008**
- **2009 dividends declared of 42 cents per share, unchanged from 2008**

Production of 54.4 million barrels of oil equivalent (mmboe) was the same as the previous year and in the middle of the company's guidance range. Strong gas production in Western Australia and Indonesia, combined with new production from Oyong Phase II in Indonesia, offset natural field decline in mature assets.

Sales revenue decreased by 21% to $2.2 billion despite higher sales volumes. Revenue was lower primarily due to lower product prices across the portfolio, partially offset by a lower AUD/USD exchange rate and higher sales volumes.

Cash production costs were $11 million ($0.21/boe) lower than last year. Overall cost of sales was flat year on year despite sales volumes being up 8%, with lower cash costs of production and depletion and depreciation charges offset by higher third party gas purchase costs.

Operating cash flow of $1,155 million was 17% lower than last year primarily due to lower product prices partially offset by lower cash costs and income taxes paid.

Santos Chief Executive Officer David Knox said: "2009 was defined by delivery from the base business and strong progress on our LNG growth strategy. We sanctioned PNG LNG, made significant progress on GLNG® and created our fourth LNG project in Bonaparte LNG."

Continued delivery of LNG growth strategy

Key milestones in the company's LNG growth strategy were delivered in 2009. Santos is building a material LNG business, with cornerstone interests in GLNG® and PNG LNG. Darwin LNG has been in production since 2006 and last year Santos added its fourth project with Bonaparte LNG.

<u>GLNG® (Santos 60%)</u>

The two-train 7.2 mtpa capacity GLNG® project made significant progress in 2009, including:

- The signing of 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 1 mtpa.
- GLNG® has exceeded the reserves requirement for the first train and continues to build reserves for the second train.
- The Environmental Impact Statement (EIS) and Supplemental EIS were submitted to the Queensland Government and released for public comment.
- The two-train downstream front end engineering design (FEED) conducted by Bechtel is 90% complete.
- Upstream dual-FEED conducted by Fluor and Foster Wheeler is 75% complete.
- Gas pipeline FEED conducted by GHD is 90% complete and tenders for the pipeline have been released.
- Orders have been issued for detailed engineering on long lead items such as the main LNG plant compressors and cold box.
- An LNG plant module fabrication yard has been reserved at Batangas in The Philippines.

GLNG® is progressing towards a final investment decision in the middle of this year 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, pending completion of sale and purchase agreements with LNG buyers and finalisation of financing arrangements with lenders. PNG LNG has signed binding LNG sale and purchase agreements (SPAs) with Tokyo Gas, Sinopec and Osaka Gas for a total of approximately 5.3 mtpa. The project is working with CPC to finalise an SPA for approximately 1.2 mtpa.

The project is operated by ExxonMobil and early construction activities have commenced. Santos' share of the estimated capital cost of the project is US$2 billion. Financial close is expected by the end of March.

Darwin LNG (Santos 11.5%)

The Darwin LNG project again performed well in 2009. Santos' share of LNG production was in line with last year. The company's interest in the Bayu-Undan fields and Darwin LNG has increased to 11.5%, subject to Government approval, following a reserves re-determination. LNG capacity will be upgraded to 3.6 mtpa during a planned shutdown in 2010.

Bonaparte LNG (Santos 40%)

In August 2009, Santos announced a strategic partnership with GDF SUEZ to develop Bonaparte LNG, a proposed 2mtpa floating LNG 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 carry of costs to FID on the project. Santos will receive an additional payment from GDF SUEZ of US$170 million upon FID.

The transaction with GDF SUEZ reached completion in January and the project team is being established in Perth. GDF SUEZ is targeting 2013 for the final investment decision.

Reserves Growth and Resource Conversion

Santos increased its proved and probable (2P) reserves by 427 mmboe in 2009, taking the company's total 2P reserves to a record 1.44 billion barrels of oil equivalent.

The significant growth in 2009 was a result of the consistent delivery of Santos' LNG growth strategy. 2P reserves dedicated to Santos' portfolio of LNG projects are now more than 700 mmboe or almost 50% of total 2P reserves.

The company also continued to deliver on its strategy to commercialise its significant contingent resource base in 2009. Key milestones were:

- The approval of the PNG LNG project in December 2009 which commercialised 218 mmboe of contingent resources to reserves.
- The sale in 2009 of 225 mmboe of contingent resources in Petrel/Tern/Frigate to GDF SUEZ for up to US$370 million plus a carry of costs to FID on a proposed floating LNG project.

Further details are available in Santos' 2009 Reserves Report released on 8 February.

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Portfolio Management

As part of ongoing active portfolio management, Santos generated over $300 million in proceeds from asset sales during 2009.

US$200 million was realised through the sale of 60% of the Petrel, Tern and Frigate fields to GDF SUEZ as part of the Bonaparte LNG transaction. Santos also 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.

In July 2009, 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 $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. Santos had 724 petajoules (PJ) of 2P reserves and 951 PJ of 2C contingent resources in Gunnedah at the end of 2009.

Strong Balance Sheet

Santos successfully issued new equity in 2009 to raise approximately $3 billion to fund PNG LNG, future growth and redeem the FUELS hybrid security.

Cash on deposit at the end of the year was $2.2 billion. Santos has committed but undrawn corporate debt facilities of $700 million. Additionally, the company has committed debt facilities of $2.1 billion via the PNG LNG project financing. Total funding capacity is $5 billion.

Santos Executive Vice President & Chief Financial Officer Peter Wasow said: “Santos continues to maintain a strong balance sheet reinforced by $2.2 billion of cash. We are well positioned to execute our transformational growth strategy.”

Dividend

A final dividend of 20 cents per share (fully franked) was declared, unchanged from 2008.

The final dividend will be paid on 31 March 2010 to registered shareholders as at 2 March 2010, with an ex-dividend date of 24 February 2010.

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

Outlook

After announcing 2009 production of 54.4 million barrels of oil equivalent in January, Santos confirmed 2010 production guidance of between 51 and 54 mmboe. Production growth will resume in 2011 as the company's pipeline of new projects, including Reindeer, Kipper and Chim Sao, come on stream.

All guidance for 2010 issued with the fourth quarter activities report is unchanged.

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

Ends.

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