ASX/Media Release

Santos

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Underlying profit up 42% to $572 million for 2008

PETRONAS partnership leads to record $1.7 billion net profit
Good progress on LNG growth strategy
Strong balance sheet: $1.6 billion of cash and 10% gearing

Santos today announced a strong uplift in underlying net profit of 42% to $572 million after tax for the year ended 31 December 2008.

The solid financial results in 2008 were built on the strong performance of Santos' base businesses in Australia and Indonesia. This has enabled Santos to continue to develop its LNG growth projects, strengthen its balance sheet and maintain the final dividend to shareholders, despite the impact of the global financial crisis.

The record net profit of $1.7 billion after tax included a $1.2 billion profit from the sale of a 40% interest in the Gladstone LNG project to Malaysian oil and gas major PETRONAS. The result also reflected higher oil and gas prices, offset by lower sales volumes and asset impairment charges.

Results Highlights

- **Sales revenue up 11% to a record $2.8 billion.**
- **Underlying net profit after tax up 42% to $572 million.**
- **Net profit after tax up 359% to a record $1.7 billion.**
- **Operating cash flow up 21% to $1.5 billion.**
- **Sale of a 40% interest in the integrated two-train Gladstone LNG (GLNG®) project to PETRONAS for US$2.5 billion.**
- **Strong balance sheet: $1.6 billion of cash and gearing of 10%.**
- **Asset impairment charges of $140 million after tax.**
- **Final dividend of 20 cents per share fully franked.**
- **2008 dividends declared of 42 cents per share, up 5% from last year.**

Sales revenue increased by 11% to a record $2.8 billion. Higher commodity prices were evident across the Santos portfolio, with average realised Australian dollar oil, condensate and natural gas prices increasing by 28%, 20% and 12% respectively. The weaker Australian dollar increased revenue by $64 million compared to last year.

Excluding the GLNG sale, earnings before interest, tax, depreciation, amortisation and exploration (EBITDAX) increased by 7% to $2.0 billion.

Production of 54.4 million barrels of oil equivalent was within the Company's guidance range. Production was 8% lower than last year, primarily due to higher downtime from producing assets in Western Australia, including the impact of the Varanus Island incident on John Brookes production. This was partially offset by new production in Asia and higher production of coal seam gas.

Production costs increased in line with company guidance primarily due to Cooper gas and oil costs, Mutineer-Exeter workover costs, and costs from new sources of production including Oyong and Sangu.

Operating cash flow increased by 21% to $1.5 billion, primarily reflecting higher operating results and lower tax payments.

LNG Projects Progress into FEED

Key milestones in the Company's LNG growth strategy were met in 2008, including:

- Sale of a 40% interest in the integrated two-train GLNG project to PETRONAS for US$2.5 billion.
- Award of GLNG downstream FEED contract to Bechtel. The FEED project team mobilised in early February.
- Signing of the Papua New Guinea LNG Joint Operating and Gas Agreements, and project entry into FEED.

Santos Chief Executive Officer David Knox said: "2008 was defined by delivery from the base business and Santos' progress on our LNG growth strategy. Both the GLNG and PNG LNG projects achieved significant milestones during the year. We look forward with confidence to working with our partners towards the sanction of both projects. We are very excited about how our LNG portfolio is evolving."

"On GLNG, we were pleased to enter a long term, fully aligned joint venture with PETRONAS. And in December, we announced the appointment of Bechtel as the FEED contractor for the downstream elements of the project. The combination of Santos, PETRONAS and Bechtel means our project is in safe, experienced and capable hands.

"In January, we announced a 142% upgrade in GLNG joint venture CSG 2P reserves to 3,246PJ. Importantly, 95% of these reserves are uncontracted, demonstrating that the reserves build for the two-train GLNG project is well on track.

We expect to reach a final investment decision on GLNG by the first half of 2010, with first LNG expected in 2014. In short, the two-train GLNG partnership is on schedule."

"The PNG LNG project also achieved major milestones with the signing of the Joint Operating and Gas Agreements, and project entry into FEED."

Strong Balance Sheet

Cash balances at 31 December 2008 were $1.6 billion. Net debt was $506 million and gearing was 10%. In addition Santos has committed but undrawn debt facilities of $700 million available.

Santos Executive Vice President & CFO Peter Wasow said "Santos enters 2009 with a strong balance sheet. It is reinforced by a cash balance of $1.6 billion, which positions us well to execute our growth strategy despite the current disruptions to global capital markets. We will manage our cash prudently, focussing every dollar to ensure our strategy is executed."

"The company has a long debt maturity profile which provides great flexibility: less than 15% of gross debt matures in the next two years and greater than 25% matures beyond 10 years."

Dividend

A final dividend of 20 cents per share (fully franked) was declared, unchanged from 2007.

The final dividend will be paid on 31 March 2009 to registered shareholders as at 3 March 2009, with an ex-dividend date of 25 February 2009.

Total dividends declared during 2008 were 42 cents per share (fully franked), 5% higher than 2007.

The Dividend Reinvestment Plan (DRP) will be operational with respect to the final 2008 dividend. The DRP will be fully underwritten with respect to the 2008 final dividend and the following dividend, as previously announced.

DRP shares will be issued at the arithmetic average of the daily weighted average market price over a period of 10 business days commencing on the business day after the dividend record date with no discount to apply.

Impairment of Oil and Gas Assets

As a result of the Company's regular impairment review of assets, the recoverable amount of several assets was assessed to be impaired and impairment losses totalling $216.6 million pre-tax ($139.7 million after tax) have been recognised in the 2008 Financial Report.

Pre-tax impairment charges have been taken against the Jeruk ($70.6 million) and Oyong ($57.8 million) assets in Indonesia, the Ballera Plant ($44.6 million) and Patricia Baleen ($22.1 million) assets in Australia, and the Sangu asset ($20.0 million) in Bangladesh.

Oyong continues to be a valuable asset and was the key contributor to a more than doubling of the company's oil production in Indonesia in 2008. The Oyong Phase 2 project is on track for first gas in the third quarter of 2009. The impairment charge against the Oyong asset reflects the impact of lower oil prices.

Reserves Growth

As previously announced to the market, Santos increased its proved and probable (2P) oil and gas reserves by 134 million barrels of oil equivalent (mmboe) in 2008, taking the Company's total 2P reserves past the 1 billion barrel mark.

The significant growth in 2008 was achieved despite Santos monetising over 90 mmboe of 2P reserves via the selldown of a 40% stake in the Gladstone LNG to PETRONAS.

Contingent resources increased by 254 million boe to 2.85 billion boe.

Further details are available in Santos' 2008 Reserves Report released on 28 January.

Brantas PSC transfer

Further to the announcement of 11 December 2008, the Jakarta High Court rejected an appeal by the Indonesian Forum for the Environment (WALHI) against an earlier decision of the South Jakarta District Court. The High Court dismissed claims against all defendants, including participants in the Brantas PSC, in relation to the Sidoarjo mud flow incident. That decision was not appealed during the requisite period and as such all appeal rights have now expired.

There are currently no legal proceedings against Santos Brantas regarding the mudflow incident.

Outlook

After announcing 2008 production of 54.4 million barrels of oil equivalent in January, Santos confirmed 2009 production guidance of between 53 and 56 mmboe.

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.

"Looking forward, Santos is well positioned despite the global financial crisis. Our focus remains on delivering the base business and executing our LNG and Asian growth strategies," Mr Knox said.

"In addition to growing international demand for LNG, the company is also confident that the introduction of a well-designed Carbon Pollution Reduction Scheme will further enhance the long-term appeal of and demand for natural gas in Australia's power generation mix.

"Assuming a sufficiently level playing field, natural gas has an enormous role to play in providing Australia with affordable energy security while supporting the economy's transition to a lower carbon footprint. Australia has a strategic advantage in its natural gas reserves – it is an abundant and reliable fuel source for low carbon intensity base load power generation."

Ends

Santos stock symbols: STO (Australian Securities Exchange), STOSY (NASDAQ ADR), Ref #82-34 (Securities Exchange Commission)

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