ASX/Media Release

Santos

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Santos lifts half-year net profit by 155% to $504 million

Underlying net profit up 12% to $236 million

Santos today announced a net profit of $504 million after tax for the half-year ended 30 June 2011, 155% higher than the previous first half.

The 2011 headline result includes a $246 million profit after tax from asset sales, including the sale of a 15% interest in the GLNG project to Total and KOGAS announced in December 2010 and completed in the current half-year.

Underlying net profit was up 12% to $236 million primarily due to lower production costs and exploration expense, and higher net finance income as interest associated with development projects was capitalised.

Production of 22.9 million barrels of oil equivalent (mmboe) was 5% lower than the 2010 first half. Key factors impacting production were Santos' share of GLNG reducing from 60% to 30% following the sale of interests to Total and KOGAS, combined with lower Western Australian gas production primarily due to adverse weather and additional maintenance.

First half sales revenue of $1.1 billion was in line with the corresponding period. The favourable impact of higher commodity prices in the first half was offset by the stronger Australian dollar and lower sales volumes.

Half-year results highlights

- **Production 22.9 mmboe, down 5%**
- **Sales volumes 27.6 mmboe, down 3%**
- **Average A$ oil and gas prices up 32% and 1% respectively**
- **Sales revenue $1,101 million, up 1%**
- **EBITDAX $1,089 million, up 66%**
- **Net profit after tax $504 million, up 155%**
- **Underlying net profit after tax $236 million, up 12%**
- **Operating cash flow $681 million, up 27%**
- **Strong balance sheet: $6.7 billion of funding capacity**
- **Interim dividend of 15 cents per share fully franked with underwritten DRP**

Half-year results at a glance	2011	2010	Variance
	mmboe	mmboe	
Production volume	22.9	24.2	(5)%
Sales volume	27.6	28.5	(3)%
	$million	$million	
Product sales	1,101	1,091	1%
EBITDAX	1,089	655	66%
Exploration and evaluation expensed	(43)	(55)	(22)%
Depreciation and depletion	(289)	(279)	4%
Net impairment loss	9	(38)	
EBIT	766	283	171%
Net finance income	34	10	
Profit before tax	800	293	173%
Taxation expense	(296)	(95)	
Net profit for the period	504	198	155%
Net profit attributable to non-controlling interest	-	-	
Net profit attributable to equity holders of Santos Limited	504	198	155%
Underlying net profit for the period	236	210	12%
Basic earnings per share (cents)	57.4	23.7	142%
Interim dividend per share (cents)	15.0	22.0	(32)%

Sales volumes of 27.6 mmboe were 3% lower than the first half of 2010. Gas and ethane sales volumes were in line with 2010. Liquids sales volumes were lower primarily due to timing of liftings while LNG sales volumes were higher in 2011 due to the Darwin LNG statutory shutdown in the corresponding period.

Cash production costs of $260 million ($11.37/boe) were 6% lower than the first half of 2010. This was primarily due to Santos' lower working interest in GLNG, cessation of production from the Jabiru Challis and Legendre assets, and lower Bayu Undan costs. Cooper Basin production costs were higher in 2011 due to one-off flood recovery costs.

First-half operating cash flow was up 27% to $681 million. Santos had $3.6 billion of cash and cash equivalents on hand at the end of June.

Santos Chief Executive Officer David Knox said while adverse weather in central and Western Australia had affected Santos' operations in the first half, the company had delivered a good operational and financial performance.

"The initial stage of the Halyard/Spar project came on line in the first half, and we have Chim Sao, Reindeer and Wortel in the pipeline for the second half."

"Our new LNG projects are on track for first production from PNG LNG in 2014 and GLNG in 2015."

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"These projects deliver the strategic vision to transform Santos into a significant producer of LNG," Mr Knox said.

Development Projects

Sanctioned development projects will drive growth in Santos' production from 2012.

Projects completed during the June 2011 half-year

Project	Santos interest	Product	Gross production capacity	First production
Halyard/Spar Stage 1 Australia	45%	Gas	50 TJ/day (Halyard well)	June 2011

Projects currently under development

Project	Santos interest	Product	Gross production capacity	First production
Chim Sao Vietnam	31.875%	Oil	25,000 barrels/day	Sept 2011
Reindeer Australia	45%	Gas	215 terajoules (TJ) per day(1)	4Q 2011
Wortel Indonesia	45%	Gas	90 TJ/day (Oyong & Wortel fields combined)	End 2011
Halyard/Spar Stage 2 Australia	45%	Gas	Incremental 50TJ/day (Spar well)	2013
Kipper Australia	35%	Gas	75 TJ/day	Note (2)
PNG LNG PNG	13.5%	LNG	6.6 mtpa	2014
GLNG Australia	30%	LNG	7.8 mtpa	2015

(1) Gross processing capacity of the Devil Creek gas plant which is initially planned to operate at 120 TJ/d sales.
(2) ExxonMobil, the Kipper project operator, has informed the joint venture that first gas will be deferred beyond the previous expectation of the first half of 2012. The scope and schedule for the works required to deliver Kipper gas, including the design and installation of mercury removal facilities, is under review by the operator.

LNG Projects

GLNG (Santos 30%)

Sanctioned in January 2011, GLNG includes the development of coal seam gas 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 mtpa in aggregate.

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Construction of GLNG is progressing to schedule and budget. Clearing of the LNG plant site on Curtis Island commenced during the first half and is 60% complete with bulk earthworks underway. The temporary offloading facility on Curtis Island is operational, on schedule, as is the GLNG logistics site at Fisherman's Landing on the mainland, and works continue at the RG Tanna and Port Central logistics sites.

The pipeline survey licence for the 420-kilometre gas transmission pipeline was approved by the Queensland Government during the first half and geotechnical activities are underway. Production of line-pipe has commenced and the marine crossing line-pipe is ready for coating at the yard in Indonesia. Work continues on the detailed engineering for the upstream surface facilities.

The project is on schedule for first LNG in 2015.

PNG LNG (Santos 13.5%)

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.

Several project milestones were achieved in the first half of 2011, including the commencement of LNG process train foundations and structural steel, LNG tank foundations, the first weld on the onshore pipeline and piling for the LNG plant offloading jetty. Design work for the major EPC contracts is nearing completion and procurement is well underway. Construction continues for supporting infrastructure at the LNG plant and upstream locations, including the Komo airfield where engagement with local communities and downtime is being managed by the operator. Survey work for the onshore and offshore pipelines continues, and delivery of the line-pipe is nearing completion.

First LNG is expected in 2014.

Darwin LNG (Santos 11.5%)

Santos' share of Darwin LNG production increased by 30% in the first half of 2011, primarily due to resumption of full production following the planned shutdown of the facility in the corresponding period.

Bonaparte LNG (Santos 40%)

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.

Pre-front end engineering and design studies on the upstream and midstream elements of the project are progressing on schedule. Drilling has commenced on an appraisal well at the Petrel gas field. Results from the well will assist in the conceptual design and development of the floating liquefaction project.

Acquisition of Eastern Star Gas

On 18 July 2011 Santos announced the proposed acquisition of 100% of the outstanding ordinary shares in Eastern Star Gas Limited (ESG) via a recommended Scheme of Arrangement together with the on-sale of a 20% working level interest in ESG's permits in the Gunnedah Basin to TRUenergy for $284 million.

"The acquisition of ESG is a unique opportunity to consolidate our Gunnedah Basin interests and consolidate our leading position in Australia's next major natural gas province. TRUenergy, one of Australia's leading integrated energy companies, is an ideal partner to develop ESG's permits with Santos," Mr Knox said.

Subject to ESG shareholder and Court approval of the Scheme of Arrangement, completion of the acquisition and sale of interests to TRUenergy is expected by late October 2011.

Exploration success

Santos participated in two conventional exploration wells in the first half, both of which were successful.

Zola-1, located in the Carnarvon Basin offshore Western Australia, intersected over 100 metres of net gas pay sands over a 400 metre gross interval in the primary target formation. A high resolution 3D seismic survey was subsequently recorded over the field so that the appraisal of the discovery can be optimised.

Finucane South-1, also located in the Carnarvon Basin, intersected a net oil column of 18 metres in excellent quality reservoir sands in the target Angel formation. The discovery is located near to the Fletcher oil field discovered in 2009 and existing Santos-operated oil production facilities at Mutineer-Exeter. Engineering studies for a dual-field development of the Finucane South and Fletcher discoveries are well advanced with a final investment decision targeted for early 2012.

Interim dividend and fully underwritten dividend reinvestment plan

An interim dividend of 15 cents per share fully franked was declared, in line with guidance issued at the equity raising in December 2010. The interim dividend will be paid on 30 September 2011 to registered shareholders as at 30 August 2011, with an ex-dividend date of 24 August 2011.

The Dividend Reinvestment Plan (DRP) will be operational for the 2011 interim dividend. The DRP enables all existing Santos investors to increase their shareholdings at a 2.5% discount to market price and without brokerage.

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.

Following recent exploration success at Zola and Finucane South, appraisal and development activity is anticipated over the next two years. Initial funding for this activity will be provided by fully underwriting the DRP for the 2011 interim and final dividends to raise approximately $270 million.

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2011 Guidance

Following first half production of 22.9 mmboe, Santos has maintained 2011 production guidance of between 47 and 50 mmboe. All other guidance for 2011 issued with the second quarter activities report is also unchanged.

Ends.

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