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Santos lifts full year net profit by 15% to \$500 million

Underlying net profit up 46% to \$376 million

Santos today announced a net profit of \$500 million after tax for the year ended 31 December 2010, 15% higher than the previous year.

Underlying net profit of \$376 million was up 46% on the previous year due to higher product prices and lower exploration expense.

The 2010 headline result includes a \$214 million profit after tax from asset sales, including the sale of a 15% interest in the GLNG project to Total announced in September 2010, and asset impairments of \$123 million after tax.

Production of 49.9 million barrels of oil equivalent (mmboe) was 8% lower primarily due to wet weather and flood events in Central Australia which reduced Cooper Basin production by 2.9 mmboe, partially offset by stronger gas production in Western Australia and Indonesia.

Higher commodity prices were evident across the Santos portfolio in 2010 and drove sales revenue to \$2.2 billion, 2% higher than 2009.

Results Highlights

- **Production 49.9mmboe, down 8%**
- **Sales 59.2 mmboe, down 1%**
- **Average oil and gas prices up 11% and 5% respectively**
- **Sales revenue \$2,228 million, up 2%**
- **EBITDAX \$1,672 million, up 5%**
- **Net profit after tax \$500 million, up 15%**
- **Underlying net profit after tax \$376 million, up 46%**
- **Operating cash flow \$1,267 million, up 10%**
- **Strong balance sheet to fund growth: \$7.8 billion of funding capacity**
- **Final dividend 15 cents per share fully franked**

Results at a glance	2010	2009	Variance
	mmboe	mmboe	
Production volume	49.9	54.4	(8)%
Sales volume	59.2	60.1	(1)%
	\$million	\$million	
Product sales	2,228	2,181	2%
EBITDAX	1,672	1,588	5%
Exploration and evaluation expensed	(129)	(202)	(36)%
Depreciation and depletion	(600)	(619)	(3)%
Net impairment loss	(157)	(37)	
EBIT	786	730	8%
Net finance income/(costs)	7	(13)	
Profit before tax	793	717	11%
Taxation expense	(295)	(283)	4%
Net profit for the period	498	434	15%
Net loss attributable to non-controlling interest	(2)	-	
Net profit attributable to equity holders of Santos Limited	500	434	15%
Underlying net profit for the period	376	257	46%
Basic earnings per share (cents)	60	52	15%
Final dividend per share (cents)	15	20	(25)%

Sales volumes of 59.2 mmboe were in line with the previous year. Withdrawal of gas from Cooper Basin storage supplemented by gas purchases were utilised to meet customer gas demand.

Cash production costs of \$537 million were in line with last year and the company's guidance range. Overall cost of sales was 3% higher, primarily due to higher third party gas purchase costs, offset by lower depletion charges.

Operating cash flow of \$1,267 million was 10% higher than last year primarily due to higher product prices and lower exploration and evaluation costs, partially offset by higher royalty related taxes paid.

Santos Chief Executive Officer David Knox said while wet weather in the Cooper Basin continued to affect the company's operations, the company had delivered a sound operational and financial performance in 2010.

"Project delivery in the base business has been pleasing and Santos is on track to deliver incremental production from four new projects in 2011."

"Approval of GLNG in January was a milestone in Santos' history and delivers on the strategic vision to transform Santos into a significant exporter of LNG," Mr Knox said.

All drilling in the GLNG coal seam gas fields has resumed following the extreme weather interruption and the project is on track for first LNG in 2015.

Base production growth

Four projects scheduled to commence production in 2011 will drive production growth in the base business.

Project	Santos interest	Product	Gross production capacity	First production
Reindeer WA	45%	Gas	215 terajoules (TJ) per day	2H 2011
Spar WA	45%	Gas	50 TJ/day (Halyard well)	Mid 2011
Chim Sao Vietnam	31.875%	Oil	25,000 barrels/day	2H 2011
Wortel Indonesia	45%	Gas	90 TJ/day (Oyong & Wortel fields combined)	End 2011

Santos has a 35% interest in the Kipper gas project located in Bass Strait offshore Victoria. ExxonMobil, the 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 is under review by the operator.

LNG growth

Delivery of the company's LNG growth strategy continued with the sanctioning of the GLNG project, PNG LNG construction ramping up, the award of pre-FEED contracts for Bonaparte LNG and Darwin LNG capacity upgraded.

GLNG (Santos 30%)

Progress on the GLNG project was excellent in 2010 and culminated with the GLNG partners announcing the final investment decision (FID) on the US\$16 billion, 7.8 million tonnes per annum (mtpa) two-train project on 13 January 2011. Other key milestones included:

- The sale of a 15% interest in GLNG to Total announced in September (profit on sale included in the 2010 financial result).
- GLNG received its environmental approval from the Federal Government in October.
- The signing in December of a binding off-take agreement with KOGAS, the world's largest LNG buyer, for 3.5 mtpa of LNG and bringing total GLNG volumes under long-term contract to 7 mtpa.
- The sale of a further 7.5% interest to Total and 7.5% to KOGAS announced in December (profit on sale to be included in the 2011 financial result). All conditions precedent to the completion of these sale transactions have been satisfied, with closing expected to occur by the end of February 2011.
- At FID, the signing of predominantly fixed price engineering, procurement and construction contracts with world-class contractors:
 - o Fluor – upstream surface facilities;
 - o Saipem – 420-km gas transmission pipeline;
 - o Bechtel – 7.8 mtpa LNG plant on Curtis Island.

Construction activity will ramp up over 2011 with peak construction workforce employment expected in 2012-13. First LNG exports are expected in 2015.

PNG LNG (Santos 13.5%)

Sanctioned in December 2009, the PNG LNG project completed financing arrangements in March 2010 and is proceeding with full project execution of the foundation 6.6 mtpa capacity two-train project. All of the project's production capacity has been committed with four major LNG buyers in the Asia Pacific region.

Construction continues for supporting infrastructure (roads, wharfs, air field and communications) at the LNG Plant and at the upstream locations, including the Hides Gas Conditioning Plant. Survey work is underway for the onshore and offshore pipelines and the first delivery of line pipe has been received in country. Construction activity will continue to ramp up throughout 2011. First LNG exports are expected in 2014.

Darwin LNG (Santos 11.5%)

During the first half of 2010, Darwin LNG completed a planned shutdown during which LNG production capacity was upgraded to 3.6 mtpa.

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. Pre-front end engineering and design contracts for the project were awarded in January 2011.

Reserves growth and resource conversion

Santos increased its proved and probable (2P) reserves in 2010 to a record 1,445 mmboe. This was the company's seventh successive annual increase in its reserves. Successful exploration, appraisal and commercialisation activity, along with the sanctioning of new projects, added 165 mmboe of 2P reserves.

The increase in reserves was driven by strong growth in coal seam gas (CSG) reserves dedicated to the sanctioned GLNG project. Reserves also increased in the Cooper Basin and through the sanctioning of the Spar (Western Australia) and Wortel (Indonesia) gas projects.

After the sale of a 15% interest in GLNG to Total for \$650 million announced in September (approximately 110 mmboe) and 2010 production of 50 mmboe, year-end 2P reserves were 1,445 mmboe. More than half of 2P reserves are targeted at the higher margin LNG business through the GLNG, PNG LNG and Darwin LNG projects.

Contingent resources (2C) decreased by 236 mmboe to 2.3 billion boe, reflecting the GLNG sale to Total, conversions to reserves and reassessments, offset by additions to CSG resources through exploration and appraisal.

Further details are available in Santos' 2010 Reserves Report released on 8 February 2011.

Strong balance sheet to fund growth: \$7.8 billion of funding capacity

Santos successfully executed a comprehensive funding strategy in 2010. Key milestones included:

- a \$2 billion bilateral bank facility in July;
- a €1 billion hybrid issue with 100% equity credit from S&P in two tranches in September and October; and
- a \$500 million institutional placement in December to complete the equity funding for Santos' share of the GLNG project.

At the end of 2010, Santos had \$7.8 billion of funding capacity, including cash and undrawn committed corporate and project debt facilities. This does not include the proceeds from the sale of the 15% interest in the GLNG project to Total and KOGAS announced in December.

Dividend and introduction of 2.5% discount on Dividend Reinvestment Plan

A final dividend of 15 cents per share (fully franked) was declared, in line with guidance issued at the equity raising in December 2010 and 5 cents per share lower than the previous year. The final dividend will be paid on 31 March 2011 to registered shareholders as at 1 March 2011, with an ex-dividend date of 23 February 2011.

The Dividend Reinvestment Plan (DRP) will be operational with respect to the final 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, less a 2.5% discount.

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 \$157 million pre-tax (\$123 million after tax) have been recognised in the 2010 full-year accounts. The impairments primarily relate to Cooper Basin assets, and the Jabiru/Challis and Legendre assets in WA which ceased production in 2010.

2011 Guidance

Santos expects 2011 production to be in the range of 48 and 52 mmboe. Cooper Basin operations are expected to continue to be impacted through 2011 by wet weather.

Four new projects in the base business are scheduled to commence production this year (Spar, Reindeer, Chim Sao and Wortel) which will drive production growth from 2012.

Ends.