ASX/Media Release

Santos

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Santos completes €650 million hybrid with 100% equity credit from S&P

Santos today announced the issue of €650 million in Subordinated Notes (approximately A$900 million).

Standard & Poor's have confirmed that the hybrid will receive 100% equity credit. Standard & Poor's press release is attached to this release.

Santos Executive Vice President and Chief Financial Officer Peter Wasow said the hybrid issue demonstrates Santos' ability to source capital from a diverse range of sources on attractive terms.

"The strong support we received from offshore and domestic investors demonstrates the strength of the Santos credit."

"Given the 100% equity credit classification from S&P, this hybrid directly reduces the amount of any potential equity that may be required, on a dollar for dollar basis, to maintain Santos' BBB+ credit rating," Mr Wasow said.

The hybrid security is Euro denominated, has a subordinated ranking, matures after 60 years and can be redeemed by Santos after 7 years. The hybrid accrues fixed coupons at a rate of 8.25% per annum for the first 7 years, and thereafter on a floating rate basis including a 1% step-up. Coupon payments will be tax deductible. The hybrid terms do not include any rights to convert into Santos ordinary shares.

UBS was Structuring Advisor on the hybrid issue. Joint Lead Managers were Deutsche Bank and UBS.

GLNG funding strategy

As part of de-risking the GLNG project, Santos has proactively taken steps to strengthen its balance sheet in preparation for a final investment decision. The funding for Santos' share of the project will be sourced from:

- Existing cash and liquid facilities – following settlement of the hybrid and receipt of the GLNG equity sell down proceeds from Total, Santos will have approximately A$6 billion in cash and committed corporate facilities (not including the committed PNG LNG project facility).
- Proceeds from any further selldown of equity in GLNG.
- Operating cash flow from the base business which, at analyst consensus oil prices, is expected to materially exceed base business capital expenditure through the period to 2014.

- Additional senior debt consistent with the BBB+ credit rating, including Export Credit Agency finance.
- If required, an equity raising in a manner that rewards existing shareholders.

"Santos remains committed to maintaining an efficient capital structure that delivers the lowest overall cost of capital and maximises shareholder value," Mr Wasow said.

GLNG update

The two-train GLNG project is already underpinned by binding offtake agreements for five million tonnes per annum (mtpa) of LNG. Santos and its partners continue to progress the GLNG project on a number of fronts. Key milestones include:

- **Offtake volumes and pricing:** GLNG continues to progress discussions with a number of Asian LNG buyers and remains confident of securing additional offtake agreements. These agreements typically contain confidentiality clauses which prevent Santos from disclosing the LNG pricing terms. Santos can confirm that the LNG prices achieved to date for the 5 mtpa of binding offtake provide attractive returns to the GLNG partners. Santos currently anticipates that it will update the market with additional information on projected contract revenue prior to taking a final investment decision (FID).
- **Deliverability:** Santos remains confident that the GLNG project will demonstrate sufficient future gas deliverability to enable FID on the second train to be taken during 2011. The deliverability plan may include uncontracted gas from Santos' eastern Australia portfolio.
- **Capital expenditure:** The EPC contracts for each of the upstream, gas transmission pipeline and LNG plant components of the project are currently being finalised. The estimated project capital expenditure will be provided to the market ahead of FID.
- **EIS approval:** GLNG has received environmental approval from the Queensland Government. GLNG continues full engagement in accordance with the plan agreed with the Federal Government prior to the election.

Santos expects to reach a final investment decision on the first train by the end of 2010. The capital expenditure committed to at this time will include pre-investment for the second train, for which FID is expected to follow in 2011. The returns for train one remain robust including the cost of pre-investment in train two.

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Annexure A — Hybrid key terms and conditions

The below table provides an indicative summary of the key terms of the hybrid security. For a complete explanation of the security terms and conditions please refer to the Final Prospectus, expected to be lodged with ASX on or about 21 September 2010.

Issuer	Santos Finance Limited
Guarantor	Santos Limited
S&P Equity Credit	High (100% equity credit)
Denomination	EUR
Issue size	€650 million
Credit ratings	Santos: BBB+ (Stable) Hybrid security: BB (Stable)
Ranking	Subordinated
Settlement	22 September, subject to customary closing conditions.
Maturity	2070
Call date	Santos has the option to redeem the hybrid securities on: (i) the 7th anniversary of the issue date and on each coupon payment date thereafter, or (ii) following certain defined events occurring.
Coupon	8.25% fixed rate until the 7th anniversary of the issue date. Floating rate thereafter at 3 month EURIBOR plus 5.851% plus a 1.00% step-up.
Coupon deferral	Coupons will be mandatorily deferred if Santos' credit rating becomes BB+ or lower. Any deferred coupons will accumulate on a compounding basis, and deferred amounts will become due and payable no later than 5 years after the date of the first such coupon deferral.
Change of control	Hybrid investors have a right to cause redemption of the security where a change of control event occurs and such event results in a downgrade of Santos' credit rating of one notch or more.
Replacement capital covenant	Santos will enter into a replacement capital covenant for the benefit of certain Santos senior debt investors. The terms of such covenant requires Santos to redeem the hybrid security with the net proceeds received from the issue of new qualifying securities during the 12 months period prior to such redemption. The replacement capital covenant does not apply when Santos meets certain credit criteria.
Listing	London Stock Exchange
Structuring Adviser	UBS
Joint Lead Managers	UBS and Deutsche Bank

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Press Release

Santos' Fixed-To-Floating-Rate Subordinated Notes Assigned 'BB' Rating

Melbourne, Sept. 17, 2010—Standard & Poor's Ratings Services today said that it had assigned its 'BB' long-term issue rating to Santos Finance Ltd.'s proposed subordinated notes issuance. The subordinated notes will be guaranteed by Santos Ltd. (BBB+/Stable/A-2). The notes have received a 'high' equity credit classification from Standard & Poor's; this means that we will treat the notes entirely as equity in our calculations.

Key features of the subordinated notes include a mandatory deferral of interest for up to five years if the long-term corporate credit rating on Santos falls to 'BB+' or below. Other features of the instrument include a 60-year term to maturity; a 100 basis point step-up at year seven; a legally binding replacement capital covenant, which requires that the issuer fund any redemption of the instrument with a similarly equity-like instrument; and a first call date from year five.

Proceeds of the issue are to be used for general corporate purposes and to fund the company's growth strategy, including the Gladstone Liquefied Natural Gas project.

About Standard & Poor's
Standard & Poor's, a subsidiary of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research and data. With offices in 23 countries and markets, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for 150 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit the Standard & Poor's website.

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