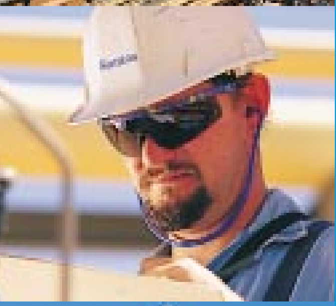


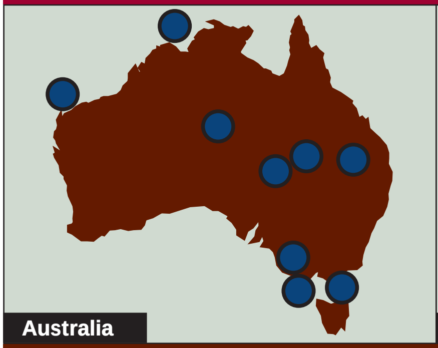


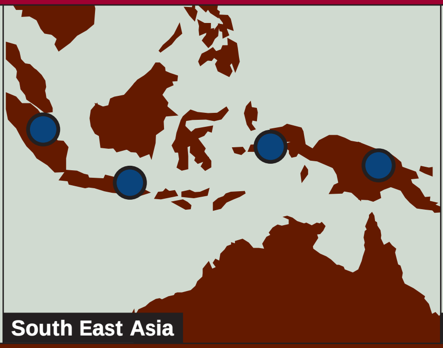

Santos

Annual Report 1998

Santos is Australia's largest onshore oil and gas producer. It is a world-scale specialist oil and gas company with assets of over $4 billion and annual production of over 45 million barrels of oil equivalent.

The core of Santos' business is a majority working interest in the Cooper/Eromanga Basins oil and gas fields located in central Australia. Santos produces gas, ethane, oil and gas liquids from the Basins and is the operator of production and exploration operations.





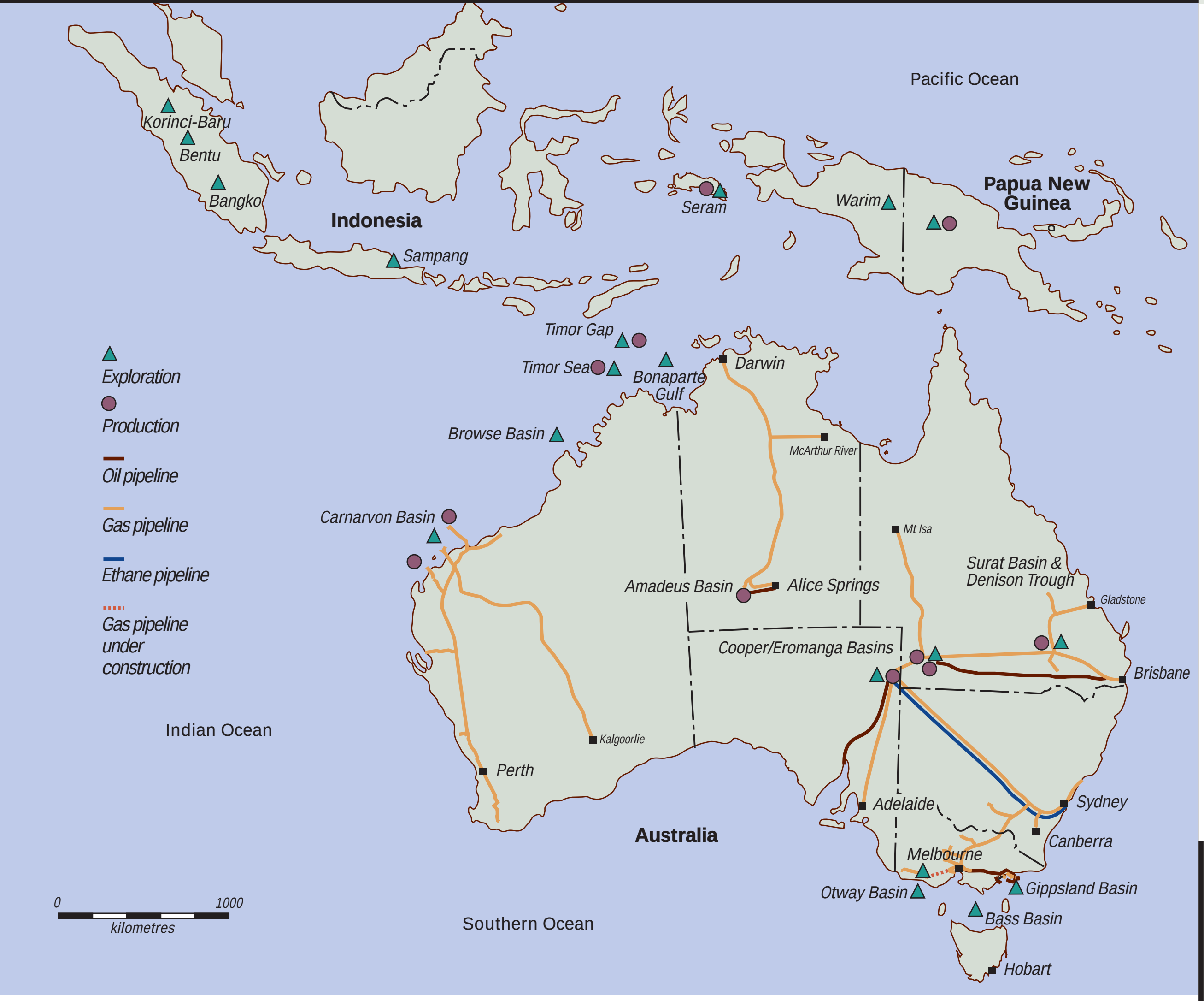
Santos Ltd ACN 007 550 923

Incorporated in Adelaide, South Australia on 18 March 1954. Quoted on the official list of the Australian Stock Exchange Ltd and also the New Zealand Exchange. Santos American Depository Receipts issued by Morgan Guaranty in the USA are sponsored and are quoted on the NASDAQ system in the USA.

Contents

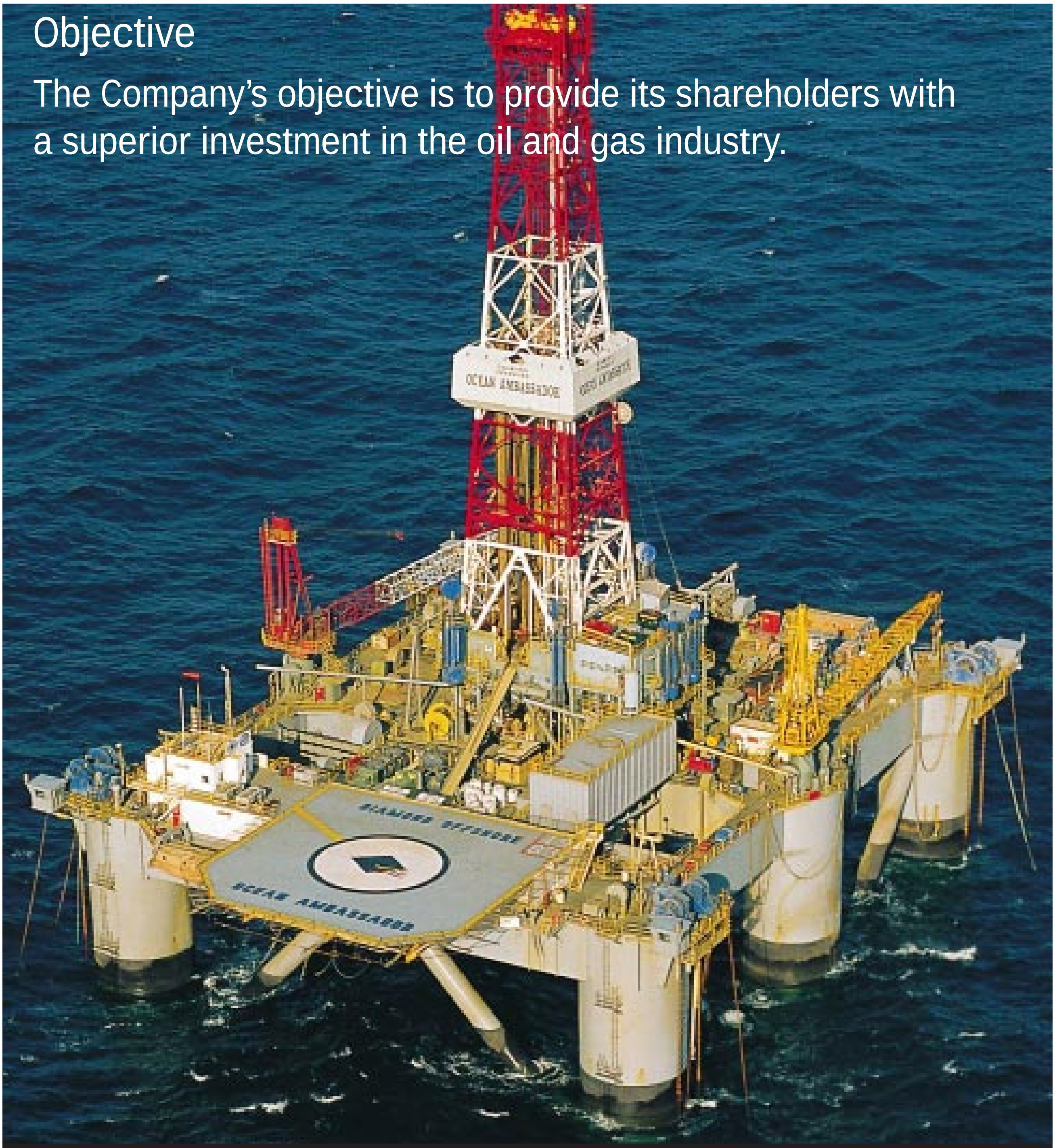
Although the majority of the Company's assets are located onshore Australia, business development in recent years has expanded Santos' portfolio of interests offshore Australia and in South East Asia and the United States.

Santos' Australian and South East Asian Interests



Objective

The Company's objective is to provide its shareholders with a superior investment in the oil and gas industry.



The Ocean Ambassador which drilled Ewing Bank 994#1. (Photo courtesy of Diamond Offshore Drilling, Inc)

Aims

- Provide consistent growth in shareholder value
- Seek best practice standards in all facets of operations
- Perform at a level above that of its peers
- Pursue opportunities to grow the business

Values

- Safe working places
- Ethical behaviour
- Responsible environmental practices and management

Strategy

Santos aims to generate increasing value for its shareholders by:

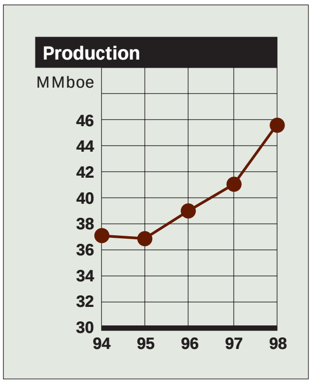
- **Maximising the value of the Company's core South Australian oil and gas business**
- **Continuing the growth of the Queensland, Northern Territory and Offshore Australia businesses**
- **Developing the existing business in the United States and South East Asia**

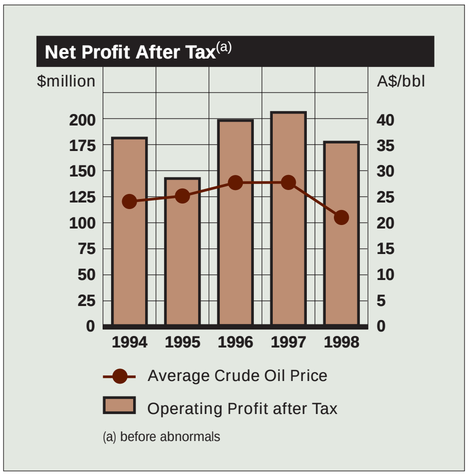
1998 Highlights

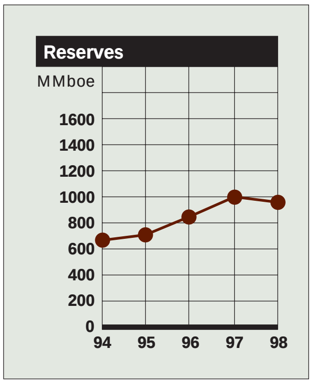
	Maximising the value of the Company's core South Australian oil and gas business	Continuing the growth of the Queensland, Northern Territory and Offshore Australia businesses	Developing the existing business in the United States and South East Asia
Exploration			
Drilled 81 exploration wells with a 54% success rate.	■	■	■
Discovery of Legendre South (oil), Mutineer (oil) and John Brookes (gas) fields. Extension of the Reindeer gas field confirmed by the Caribou-1 well.		■	
Discovery of Ewing Bank 994#1 oil field (Gulf of Mexico).			■
Discovery of 14 gas fields in the Cooper/Eromanga Basins and one gas field in the Denison Trough.	■	■	
Acquired interests in an additional six exploration blocks in the Gulf of Mexico.			■
Acquisitions/Divestments			
Successful divestment of Santos Europe Limited.			■
Acquired additional interests in south-west Queensland via the acquisition of Gulf Australian Hydrocarbons Limited.		■	
Acquisition of a 31% interest in PDL1 in Papua New Guinea which contains the majority of the Hides gas field. (Announced subsequent to 31 December 1998. Acquisition subject to Papua New Guinea Government approval.)			■
Development			
Stag (Carnarvon Basin), Elang/Kakatua/Kakatua North (Timor Gap) and SE Gobe (Papua New Guinea) oil field development projects completed and brought onto production.		■	■
Completion of the Ballera Gas Plant Phase 3 development project and the commencement of the Phase 4 expansion for increasing sales within Queensland.		■	
Eugene Island 335 oil and gas field development project commenced.			■
An active development program including 25 gas development wells undertaken onshore Australia focused on sustaining and increasing gas production to meet increasing customer demand.	■	■	
46 million boe reserves developed in onshore Australian fields to meet increasing gas demand and optimise oil production.	■	■	
Development studies to commercialise the Minerva (Offshore Otway Basin), Bentu (Indonesia), Reindeer (Carnarvon Basin) and John Brookes (Carnarvon Basin) gas fields, the Ewing Bank 994#1 (Gulf of Mexico) and Legendre (Carnarvon Basin) oil fields and the Bayu-Undan (Timor Gap) gas/condensate field.		■	■
Marketing			
Supplied first south-west Queensland gas to Mt Isa.		■	
Signed a further contract for East Spar Gas.		■	

Results Overview

Key Financial Results	1998	1997
Earnings before interest expense and tax	**$334.6 m**	$376.5 m
Profit attributable to shareholders after tax	**$176.3 m**	$206.2 m
Cash flow from operations	**$457.6 m**	$460.7 m
Exploration and development expenditure	**$504.5 m**	$575.2 m
Earnings per share	**29.1 cents**	35.3 cents
Dividends per share (fully franked)	**25.0 cents**	25.0 cents
Total shareholders' equity	**$1939.2 m**	$1919.0 m
Return on average shareholders' equity	**9.1%**	11.8%
Net debt/shareholders' equity	**66.0%**	58.1%
Net interest cover (times)	**4.4**	5.4

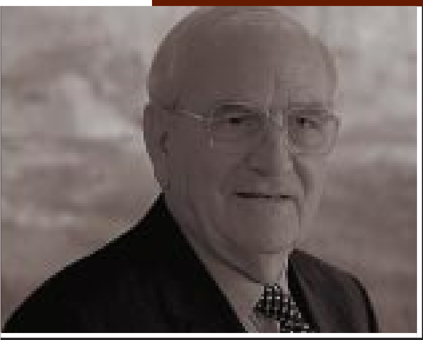






Outlook January 1998	**Outcome** December 1998
Production growth from committed new projects.	**Increase in production of 11.0%.**
Completion of three major oil development projects.	**Three major oil development projects brought onto production.**
Provision of gas to MIM Holdings Ltd (formerly Mt Isa Mines) at Mt Isa.	**Commenced gas delivery to Mt Isa.**
117 exploration wells to be drilled.	**81 exploration wells drilled (target revised downwards due to fall in world oil price).**
1998 operating profit to be similar to or exceed 1997, subject to oil and liquids prices remaining at around current levels.	**Reduction in operating profit of 14.5% reflecting fall in the average oil price realised by Santos of 23.6% in Australian dollar terms.**

Chairman's Overview 1998



J A Uhrig
Chairman

Santos made solid progress in 1998 despite the difficult external environment.

Record production was achieved for the third year in a row. In recent years the Company has invested substantial sums in acquisitions, exploration and development and the returns from these investments are reflected in the increasing volume of production.

Santos' growing production base and domestic gas business mitigated the impact of the fall in oil prices.

However, notwithstanding overall production growth of 11.0%, the fall in the oil price brought about a 14.5% reduction in earnings.

This is a disappointing outcome but one which has been experienced throughout the oil industry in 1998.

Looking forward, the Company's focus will be on internal cost reductions and reducing capital expenditure, while maintaining the investment necessary for continuing long-term growth.

The Board has confidence in the long-term outlook for the Company. A final dividend of 13 cents per share was declared by the Directors making a total dividend payment of 25 cents per share for the year. This is the same level as the 1997 dividend.

The final dividend will be paid on 30 April 1999 to those shareholders registered in the books of the Company on 8 April 1999 in respect of fully paid shares held at record date.

The dividend continues to be fully franked.

The Board's aim is to provide shareholders with a superior investment in the oil and gas industry. While 1998 was a disappointing year for investors in the oil and gas sector generally, the total return to Santos shareholders (capital appreciation plus dividends) during the year exceeded the Australian Stock Exchange Energy Accumulation Index by 11.0%. In addition, tax paying domestic investors have also benefited from the full franking of dividends.

Over the year the number of Santos shareholders increased from 65,459 to 81,300. The Board is delighted by the interest shown in the Company by so many new shareholders.

Responsible environmental management and workplace safety continue to be priorities for the Board. The Company's environmental policies and performance are governed by a Board Committee of which I am Chairman. The Company's comprehensive environmental management processes are detailed on pages 21 and 35 of this report. Occupational health and safety is also an important matter.
The provision of a safe working place is an issue which is governed closely by the Board.

In conclusion, Santos has made substantial progress in 1998. This progress positions the Company well for the future.

On behalf of the Board, I wish to record our appreciation and thanks to the Company's management and employees for their contribution throughout 1998. I also acknowledge the support of the Company's shareholders.

J A Uhrig
Chairman

15 March 1999

Managing Director's Review 1998

N R Adler
Managing Director

Santos achieved record production and sales of 45.6 million barrels of oil equivalent (boe) and 45.1 million boe respectively in 1998.

Earnings in 1998 were $176.3 million, a reduction of 14.5% on the record 1997 earnings. This resulted from the fall in the average oil price received of 23.6% in Australian dollar terms, which more than offset record production.

Operating cash flow was $457.6 million, close to the record achieved in 1997.

Low oil prices are providing Santos with opportunities to acquire additional interests on attractive terms.

Three such opportunities were realised by the Company in early 1999. In February, Santos announced that it had entered into an agreement for the acquisition of a 31% interest in Petroleum Development Licence 1 (PDL1) in Papua New Guinea, subject to Papua New Guinea Government approval. PDL1 contains the majority of the Hides gas field. The Hides field is a world-class resource which is estimated to contain proven and probable reserves in excess of five trillion cubic feet of gas. This acquisition is of strategic importance. Reserves from the Hides gas field are planned to be incorporated into the proposed Papua New Guinea to Queensland gas project.

The Company also acquired interests in PEP132 (40%) and PEP108 (50%) onshore in the Otway Basin. This transaction was finalised in early 1999 and provides the Company with opportunities to increase gas sales in Victoria.

In March 1999, Santos acquired an approximate 7.5% economic interest in Retention Lease Vic/RL2, which contains part of the Kipper gas field and is located in Bass Strait in the Gippsland Basin. Under the terms of the renewal of Retention Lease Vic/RL2, which was granted in December 1998, the participants will be undertaking a work program to evaluate the commercial viability of the Kipper field.

Production

1998 was a record year for Santos production, marked by growing production outside the company's traditional core areas.

This resulted from the completion of four major development projects during the year – the Stag oil field in the Carnarvon Basin, the Elang/Kakatua/Kakatua North oil fields in the Timor Gap, the SE Gobe oil field in Papua New Guinea and the infrastructure required to provide gas to Mt Isa. Total production reached 45.6 million barrels of oil equivalent (boe), an increase of 11.0% from the 1997 level.

Exploration

The Company also maintained an active exploration program in 1998, with a total success rate of 54%.

Total reserves fell slightly from 1,009 million boe at the end of 1997 to 966 million boe. This reflects the sale of Santos Europe and its associated reserves, record production, revisions and the fact that a number of the discoveries made during the year require further appraisal and development studies prior to reserve booking.

Business Unit Development

Santos aims to generate increasing value for its shareholders by:

- Maximising the value of its South Australian gas business.
- Continuing the growth of its Queensland/Northern Territory and Offshore Australia businesses.
- Building up its businesses in the US and South East Asia.

Additional progress was made during the year in creating further value in all of the regions in which the Company operates.

1998 was a record year for Santos production, marked by growing production outside the Company's traditional core areas.

South Australia

The South Australian Cooper Basin is becoming a mature producing area. Notwithstanding this, total production during the year increased by 3.8% to 24.4 million boe.

Total gas sales increased to customers in South Australia, New South Wales and the Australian Capital Territory and first gas was supplied to Victoria following the completion of the interconnecting pipeline between New South Wales and Victoria.

The long-term value of the South Australia Business Unit was also enhanced by a successful exploration program. The Accelerated Exploration Program, which commenced in 1996, has added over 430 petajoules (PJ) gross of gas reserves. The South Australian Cooper Basin exploration licences held by Santos – PELs 5&6 – expired in February 1999. However Santos holds, or has applied for, production licences covering all discoveries made in the area prior to the licence expiry. There remains scope for continued exploration and increasing reserves in these production licences.

Queensland and Northern Territory

Santos' activities in Queensland and the Northern Territory have expanded greatly in recent years. They now make a significant contribution to the Company's results and have considerable further potential.

During the year Santos increased its interests in south-west Queensland through the acquisition of Gulf Australian Hydrocarbons Limited.

A milestone in Queensland was reached during 1998 with the first gas sales to MIM Holdings Ltd (formerly Mt Isa Mines) at Mt Isa. There were also increased gas sales in the Northern Territory.

Santos and its joint venturers are now the major gas producers in Queensland.

The Company also has significant undeveloped gas reserves in south-west Queensland which have the commercial advantage of being rich in natural gas liquids. There is potential to add to these reserves and they are well located not only for sales in Queensland, but also in New South Wales, Victoria and South Australia.

Development of these reserves is underway. The Challum field was successfully developed in 1998 and appraisal of the Barrolka field continued, with production anticipated to commence in 1999.

Key Achievements
Four major development projects were completed and brought onto production.
A record level of production was achieved.
Gas sales to MIM Holdings Ltd at Mt Isa commenced.
An active exploration program was undertaken for an overall success rate of 54%.

Offshore Australia

The Offshore Australia Business Unit developed further during the year with increased gas sales and the commencement of production from the Stag and Elang/Kakatua/Kakatua North oil fields.

The Stag oil field commenced production in May and marks Santos' first significant production in the Carnarvon Basin.

Unfortunately field production has fallen short of expectations. The operator, Apache Corporation, is proposing a number of initiatives to improve production.

The Elang/Kakatua/Kakatua North oil fields commenced production in July and during the year reached a peak of 42,475 barrels of oil per day, well ahead of expectations.

The East Spar gas/condensate project continued to perform well, with gas sales reaching 80 terajoules (TJ) per day.

A new gas contract was signed to supply the Kwinana Ammonia Project, commencing in mid-1999. This has necessitated construction of a second pipeline from Varanus Island to the Dampier Bunbury pipeline.

By early 2000 it is expected that East Spar will be supplying approximately 16% of the existing Western Australian domestic gas market.

The Business Unit's exploration program during the year focused on Northern Australia and the Carnarvon Basin. Results in Northern Australia were disappointing, with no discoveries. Results in the Carnarvon Basin, however, were more encouraging. Further details of the discoveries are provided on page 15.

Santos now has interests in three potential development projects in the Carnarvon Basin resulting from exploration in 1997 and 1998: Legendre (oil), Reindeer (gas) and John Brookes (gas). Development studies on these discoveries progressed.

Studies were undertaken on the proposal to develop the Bayu-Undan gas/condensate field as a liquids stripping gas re-injection project.

Work is also continuing on possible development of the Petrel-Tern and Minerva gas fields and other hydrocarbon resources in the Business Unit's portfolio.

Over the last three years production by the Offshore Australia Business Unit has grown to make a meaningful contribution to the Group.

South East Asia

Santos believes that Papua New Guinea provides long-term potential.

During 1998 the Group commenced its first production in Papua New Guinea through its interest in the SE Gobe oil project.

Production commenced in April and reached a maximum of 20,565 barrels of oil per day.

Santos' drilling program in Papua New Guinea commenced in early 1999 with the drilling of Stanley-1 in PPL 157. In February 1999 the Company announced the Hides acquisition referred to earlier.

United States

Santos USA also provides longer term potential.

During the year the Group sold its United Kingdom North Sea interests and increased its emphasis in the United States.

In particular, Santos USA is expanding its exploration portfolio in the shallow water Gulf of Mexico. The Group now has interests in 24 offshore blocks. During the year two wells were drilled which lead to one oil discovery (Ewing Bank 994#1). Development of the Eugene Island 335#1 oil and gas discovery also proceeded.

Over time it is expected that Santos USA will become an increasing contributor to Group results.

Investments

QCT Resources Limited

Santos has a significant interest in QCT Resources Limited ("QRL"). QRL has a 32.37% interest in the Central Queensland Coal Associates (CQCA) and Gregory Joint Ventures and 100% of the South Blackwater mines. During the year QRL purchased an additional 2.79% in the CQCA and Gregory Joint Ventures from AMP for $97.6 million.

The short-term outlook for seaborne traded coal is uncertain. In December 1998 agreement was reached with the Japanese Steel Mills to reduce the price of hard coking coals from the CQCA and Gregory Joint Venture mines for the Japanese financial year commencing 1 April 1999 by an average of US$9 per tonne, or approximately 18%. Agreements for the supply of coking coal from South Blackwater are being negotiated. Significant progress was made in 1998 in improving the competitiveness of CQCA and Gregory Joint Venture mines by reducing the total workforce by approximately 25% and implementing programs to improve the utilisation of equipment and coal deposits. The full benefit of these cost reductions should be realised in 1999.

In the longer term the company may also benefit from a lower Australian dollar/US dollar exchange rate once current currency hedges expire and a reduction in rail freight rates.

During the year Santos increased its shareholding in QRL from 34.9% to 36.4% through conversion of a portion of its holding of QRL convertible notes and

Santos' employees made a significant contribution to the results achieved in 1998.

participation in QRL's Dividend Reinvestment Plan. The remainder of Santos' holding of QRL convertible notes was sold during the year pursuant to an on-market buy-back undertaken by QRL. The sale realised $27.2 million.

An external expert's opinion has been obtained, confirming that the long-term strategic value of the investment in QCT Resources Ltd exceeds the Company's carrying value at year end 1998.

Other Investments

Santos has a 12.5% interest in Oil Company of Australia and an 18.3% interest in Magellan Petroleum Australia Limited. These companies have interests in oil and gas production, mainly in Queensland and the Northern Territory respectively.

Human Resources

There were a number of important senior management appointments during the year.

Dr John Armstrong, previously head of Santos' Americas and Europe Business Unit, was appointed General Manager of the Offshore Australia Business Unit.

He was succeeded as President of Santos USA Corporation by Mr Michael Baugh who joined Santos after a long and successful career in the oil and gas industry, both in the United States and Australia.

A third significant appointment was that of Dr Ashok Khurana as General Manager Petroleum Development and Planning. Dr Khurana, acknowledged as a world expert on gas deliverability from tight reservoirs, joins Santos after more than 30 years' international experience in the industry.

More generally, the progress achieved by Santos in 1998 reflects the significant contribution made by all employees.

Production and Earnings Outlook

With oil prices at 12 year lows, 1999 is expected to be another difficult year.

During the first two months of 1999 the price of West Texas Intermediate Crude averaged US$12.26 per barrel, 15% below the average price of US$14.43 in 1998. These prices are well below the five-year average price of US$18.50.

Key Appointments during 1998

Dr John Armstrong
General Manager, Offshore Australia Business Unit

Mr Michael Baugh
President, Santos USA

Dr Ashok Khurana
General Manager, Petroleum Development and Planning

The company is actively seeking to further mitigate the fall in world oil prices through increasing production, conserving capital, curtailing spending and enhancing productivity.

Production and sales volumes increased to record levels in 1998 and are likely to be higher again in 1999 with the full year effect of recent development projects. In 1998 operating costs per boe produced fell for the third year in a row and it is planned to reduce them further in 1999.

Spending on exploration and development is being reduced by approximately $170 million. This reflects the completion of a number of major development projects, the Company's substantial level of reserves – with an average life of over 20 years – and the impact of low oil prices.

Looking to the longer term, the Company's outlook is positive with a good suite of exploration and development opportunities.

N. R. Adler.

N R Adler
Managing Director

15 March 1999

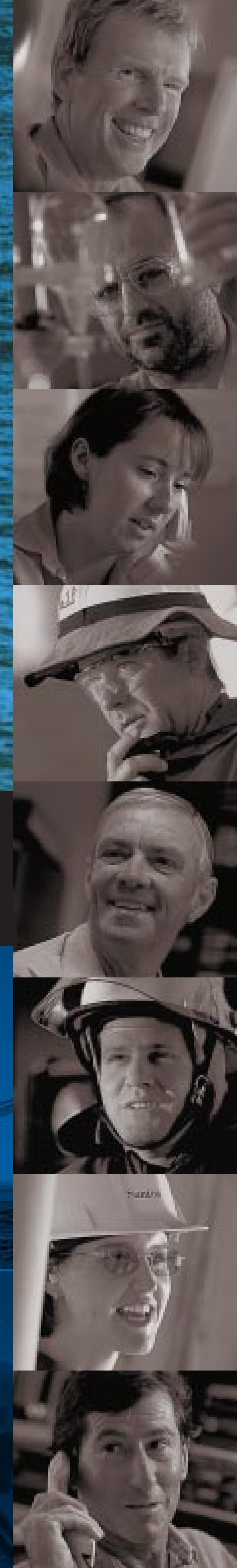
Modec Venture 1 floating production, storage and offloading facility (Elang/Kakatua/Kakatua North - Timor Gap)

In 1998 Santos production reached record levels.

In 1998 Santos began production from four

In 1998 Santos achieved an **exploration success** rate of 54%.

major **development projects.**



Record sales volumes were achieved in 1998. This growth largely offset the impact of the lower oil price, with the result being a marginal fall in sales revenue.

The volume of product sold in 1998 increased by 9.2% to a record 45.1 million boe.

Gas sales were 183.6 PJ, an increase of 7.1%, reflecting increased sales in Queensland, South Australia and Western Australia.

Sales of crude oil increased by 15.6% as a result of the new oil fields which came onto production during the year. There were also increases in sales of LPG and condensate.

Average prices received for sales gas remained stable. However, the prices received for crude oil fell by 35.2% in US dollar terms and 23.6% in Australian dollar terms. Prices received for ethane, condensate and LPG also fell.

As a result, notwithstanding the strong growth in sales volume, sales revenue fell by 1.2% to $769.4 million.

Operating Expenses

Average operating costs per boe produced fell to $4.49, the lowest in four years. However, total operating costs increased by 9.2% due to increased production.

Royalties paid decreased due to lower oil prices.

The depreciation and depletion expense increased by 9.0% to $225.9 million. Average depreciation and depletion per boe produced fell from $5.04 to $4.95.

There was a writedown in exploration expenditure of $4.9 million (nil in 1997) in respect of interests in the Browse Basin, Bula/Seram in Indonesia and New Zealand.

Earnings Before Interest Expense and Tax (EBIT)

Earnings before interest expense and tax fell by 11.1% to $334.6 million. Interest on higher borrowings associated with the funding of the Company's development program increased the net interest expense by $13.1 million to $67.3 million.

Operating profit before income tax fell by 17.1% to $267.3 million. Income tax on operating profit fell by $25.1 million to $91.0 million, primarily due to the fall in operating profit before tax.

In 1998, gas sales commenced for supply to the Mica Creek Power Station

Operating Profit After Tax

A net profit of $176.3 million was achieved in 1998, compared with a result of $206.2 million in 1997.

The sale of Santos Europe contributed $7.4 million to earnings reflecting sale proceeds of $137.0 million and book value of assets at time of sale of $129.6 million.

No abnormal items were recorded in either 1997 or 1998.

Cash Flow

Cash flow from operations was $457.6 million, close to the record level achieved in 1997.

Operating cash flow was 75.6 cents per share.

Dividends of $151.4 million (1997 – $142.5 million) were paid to shareholders.

Balance Sheet

The level of net debt increased during 1998 to $1,280.0 million (1997 – $1,114.2 million) due to funding of capital expenditure together with the increase in the Australian dollar equivalent of US dollar dominated debt. The net debt to equity ratio at the end of the year was 66.0% (1997 – 58.1%).

After providing for the final dividend of 13 cents per share, shareholders' equity at the end of the year was $1,939.2 million.

Treasury Policies and Funding

The Company's borrowing facilities are summarised in Note 16 to the Financial Statements and the structure of its share capital is set out in Note 18. The approach to management of foreign exchange, interest rate and commodity price risk exposures are detailed in Note 33.

"Year 2000" Issue

Santos continues to progress its Year 2000 preparedness with the overall objective of minimising the potential for a material disruption to the Company's business due to the rollover of the century dates.

Information technology and process control systems, identified as critical to maintaining the Company's business, have been assessed for Year 2000 compliance and, where relevant, corrective action implemented. By the end of June 1999, remedial action for all identified critical process control systems and for all but five of the identified critical information technology systems is scheduled to have been completed and tested as compliant. The five information technology production reporting systems are scheduled to be replaced at year end 1999, with the replacement systems scheduled to be tested for Year 2000 compliance by the end of September 1999. The Company is reviewing and, where considered necessary, will be revising existing contingency plans or, based on a business risk analysis, creating additional contingency plans with a view to ensuring appropriateness to Year 2000 issues.

Santos is dependent upon a number of third parties having Year 2000 compliant systems, including suppliers, contractors, pipeline operators, major customers and operators of joint ventures in which the Company holds an interest. Santos continues to closely monitor progress with identified key third parties and to participate in oil and gas industry forums to promote awareness and to share industry knowledge of Year 2000 issues. However, an assurance that Year 2000 problems will not affect Santos' business cannot be given.

Santos has factored Year 2000 matters into its decisions on new systems investment. In June 1998, the Company reported that the estimated overall costs associated with Year 2000 issues over the four year period commencing 1996 was approximately $18 million, inclusive of the capital investment of $11.5 million to replace its legacy commercial systems. As at 31 December 1998, approximately 75% of these costs had been expended and current indications are that this estimate will not be exceeded.

Further information on the Company's response to the Year 2000 issue appears at page 35 of this Annual Report and in the releases to the Australian Stock Exchange Ltd made in June 1998 and March 1999.

Santos achieved some significant exploration successes in 1998.

1998 Exploration

A total of 67 wildcat and 14 appraisal wells were drilled in 1998 for a cost of $180.7 million. The program achieved an overall success rate of 54% (52% on wildcats, 64% on appraisals). At the end of the year 28 million boe of proved and probable reserves had been booked. This figure excluded some notable discoveries, namely John Brookes-1, Mutineer-1 and Ewing Bank 994#1. The Caribou-1 appraisal of the Reindeer gas field was also excluded. Further appraisal and development studies are required on these resources. The annual finding cost for the booked reserves was $6.52/boe. This figure excludes the potential reserves associated with the discoveries noted above, but includes the expenditure incurred in undertaking the respective drilling. Notwithstanding the 1998 result the five-year average finding cost is $1.75/boe.

1998 Exploration Results

	Wells Drilled		Successful Wells		Success
	Gas	Oil	Gas	Oil	Rate %
South Australia	32	2	20	0	59
Queensland	14	3	9	1	59
Offshore Australia	4	9	2	2	31
South East Asia	0	4	0	2	50
US	12	1	7	1	62
Total	**62**	**19**	**38**	**6**	**54**

Exploration Strategy

Santos has maintained a consistent exploration strategy over the last few years. Key aspects of the strategy include:

- Active exploration in established core areas.
- Focused exploration in new areas, concentrating in areas of known hydrocarbons.
- Aggressive and cost effective application of modern technology by skilled and motivated professional staff working to a defined process.
- Disciplined technical assessment of chance of success, potential resource size and economic outcome with a strong emphasis on review and audit.
- Active and rigorous management of the Company's exploration portfolio.

Testing John Brookes-1 in the Carnarvon Basin

1998 Exploration Highlights

- A successful appraisal of the Legendre oil field in the Carnarvon Basin through the drilling of Legendre South-1.
- An encouraging oil discovery in the Mutineer-1 well in the Carnarvon Basin. The well, drilled as a follow-up to Pitcairn-1, has further confirmed the potential of Santos-operated permit WA-191-P.
- A substantial gas discovery in good quality reservoirs in the WA-214-P well, John Brookes-1, in the Carnarvon Basin.
- A significant extension of the Reindeer gas field proven by the Caribou-1 well in Carnarvon Basin permit WA-209-P.
- The discovery of 11 new gas fields from the Accelerated Exploration Program in South Australia.
- The south-west Queensland gas program in ATP 259 which discovered three new gas fields.
- An encouraging discovery in the Warim PSC in Irian Jaya where Kau-2 encountered a non-commercial oil accumulation.
- Continued participation in the Gulf of Mexico lease sales with the award of six more permits as well as other acreage gained through farm-ins. A farm-in well, Ewing Bank 994#1, encountered 185 feet of net oil pay and was suspended as a new field discovery.

1999 Exploration Program

Following on from the strong reserve position built up over the last few years, the 1999 exploration program is reduced in scope and expenditure. Again, the risk reward characteristics of the portfolio of opportunities will be monitored, prioritised and activities adjusted. The focus is on a balance between those projects that, if successful, can lead to early cash flows, with some investment in higher risk, more long-term opportunities.

Features of the 1999 program include:

- 28 wells to be drilled onshore Australia.
- The program in Offshore Australia, which will concentrate on the Carnarvon Basin.
- Further drilling in Papua New Guinea.
- Drilling activity in the Gulf of Mexico in acreage acquired through lease sales and farm-ins.

1999 Indicative Exploration Program

	Wells	$million
Onshore Australia		
Cooper/Eromanga	16	33.8
Other	12	7.2
Offshore Australia	4	20.0
South East Asia	5	15.0
US	9	24.0
Total	**46**	**100.0**

Technology

Santos continues to implement appropriate technologies with a view to enhancing exploration performance.

3D Seismic

3D seismic, a higher effort acquisition and processing technique, provides enhanced definition of the subsurface. Using state-of-the-art software on modern geoscience work stations, geophysicists are better able to locate hydrocarbon bearing structures, to see more detail in the reservoir distribution and often differentiate between water and hydrocarbon bearing reservoirs.

High Resolution Stratigraphy

Since 1987 Santos has maintained an in-house palynology laboratory. This has allowed the detailed evaluation of the age and environmental deposition of the rocks in the Cooper Basin and in specific areas of offshore Australia. With this information, more specific interpretations as to the whereabouts of further reserves can be made.

Total development expenditure in 1998 was $324 million, reflecting major projects, development studies and the work program undertaken in existing producing fields. With the completion of major projects, overall 1999 development expenditure is expected to decrease to slightly above $200 million.

Development Activity

During 1998 three major oil development projects were completed – SE Gobe (Papua New Guinea), Stag (Carnarvon Basin) and Elang/Kakatua/Kakatua North (Timor Gap).

1998 Development Expenditure

	$ million
South Australia	99.5
Queensland/Northern Territory	110.5
Offshore Australia	73.9
South East Asia	9.4
US	13.6
Other	16.9
Total	**323.8**

Production from SE Gobe commenced in April 1998. At the end of 1998 production had reached 18,855 barrels of oil per day and was expected to increase.

The Stag oil field – operated by Apache Corporation – commenced production in May 1998. The field did not achieve full production capacity over the year. This was due to excess gas production from the larger than anticipated overlying gascap associated with the field and less than anticipated reservoir pressure support from the water injection wells. The operator, Apache Corporation, is proposing a number of initiatives to improve production.

Elang/Kakatua/Kakatua North commenced production in July 1998. The fields performed strongly, with production at times exceeding expected rates.

In addition to these major oil projects other development projects were undertaken.

Phase 3 of the Ballera Gas Plant development in south-west Queensland was completed to enable the supply of gas to MIM Holdings Ltd at Mt Isa. Following this, the Phase 4 expansion commenced which will increase Ballera's capacity to approximately 155 terajoules per day. This expansion was completed in early 1999. It is planned to provide gas to WMC (formerly Western Mining Corporation) at Mt Isa.

In the US, the Eugene Island 335 oil and gas development in the Gulf of Mexico was substantially completed for the commencement of production in early 1999.

Ballera Gas Plant

Further longer-term growth opportunities were pursued by way of initiation of a number of development studies. For Offshore Australia these included the Bayu-Undan gas/condensate field in the Timor Gap, the Reindeer and John Brookes gas fields and the Legendre oil field in the Carnarvon Basin and the Minerva gas field in the Victorian sector of the Otway Basin. In Indonesia, studies continued on the Bentu gas field. In the Gulf of Mexico, a detailed reserve and feasibility study was undertaken on the Ewing Bank 994 #1 oil field which was discovered during the year.

The 1998 work program also included development to optimise production from existing producing fields. Onshore Australia, an active gas program was undertaken which involved the drilling of 25 new development wells and the implementation of 41 development projects. The onshore oil program involved the drilling of 17 development wells and the completion of four other projects.

Work continued during the year on an appraisal and development plan for the Barrolka Complex. It is planned to connect five wells into the production system in 1999 to build on short-term production tests so far implemented. The longer-term production performance of these wells will be monitored and the results used to assess the effectiveness of well productivity improvement initiatives.

Low Deliverability Gas Commercialisation

The Cooper Basin has a large resource of gas, in excess of 10 trillion cubic feet, which will typically not flow to surface without assistance from advanced drilling and completion technologies. Much of this is located in the Nappamerri Trough Petroleum Production Licences in South Australia, granted to the South Australian Cooper Basin Joint Venture in 1997, conditional upon expenditure of $100 million over 15 years.

During 1998, tight sands were tested in several wells both within and outside the Nappamerri Trough. Fracture stimulations specifically designed for tight sands were carried out in six wells. Laboratory and field-testing was also carried out on technologies with potential for helping in the commercialisation of tight gas.

Results to date indicate that, in appropriate geological situations, application of enhanced drilling and stimulation technology can help in unlocking a substantial proportion of this resource to commercial production. Work is continuing to further improve these technologies and to identify the best areas for their application within the Nappamerri Trough and elsewhere in the Cooper Basin.

Technology

Santos strives to improve the performance of its producing interests through the use of cost effective technology.

Monobore Drilling

Monobores are now the preferred design for wells drilled in the Cooper Basin for certain reservoir situations. The design achieves a cost saving over a conventional well because a separate, internal production tubing is not required. Forty-six monobores were drilled in 1998 (some for exploration) and the majority of 1999 wells will comprise monobore configuration.

Fracture Stimulation

Fracture stimulation continues to be a prime tool for well productivity improvement. Twenty-four projects were undertaken in 1998 and results continue to be encouraging. Flow rates on productive wells can be increased up to four-fold using this technique, and it is also a prime tool for obtaining or improving flow from low permeability reservoirs.

Horizontal Wells

The most significant new development technology is the use of horizontal wells. Such wells are drilled to deviate from the vertical, so they can run almost horizontally across the reservoir sand. This allows more contact of the reservoir with the wellbore, significantly enhancing productivity. Four horizontal wells were drilled in mature Cooper Basin fields in 1998, and have proved highly effective.

Santos has an average reserve life of 24 years for gas and 15 years for oil and liquids.

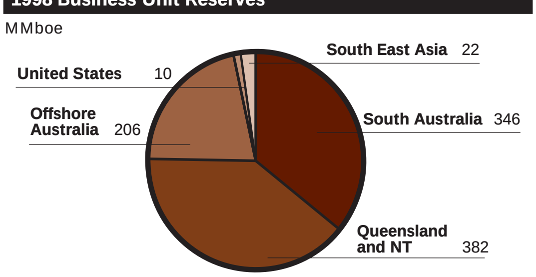
Reserves

Proved and probable reserves at the end of 1998 were 966 million boe, a decrease of 43 million boe from the record reserves in 1997. This figure does not include a number of exploration discoveries referred to on page 14. Further appraisal and development studies are required on these resources.

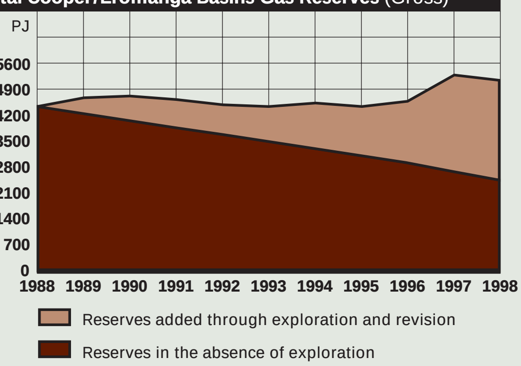
The reduction in reserves derives from production of 45.6 million boe, a net divestment of six million boe and re-evaluation of reserves of 19 million boe. This was partially offset by a gain of 28 million boe from booked exploration discoveries, mainly in the Cooper Basin.

The net divestment results from the sale of Santos Europe Limited (13 million boe reserves), partially offset by the acquisition of Gulf Australian Hydrocarbon's south-west Queensland interests.

1998 Business Unit Reserves



Total Cooper/Eromanga Basins Gas Reserves (Gross)



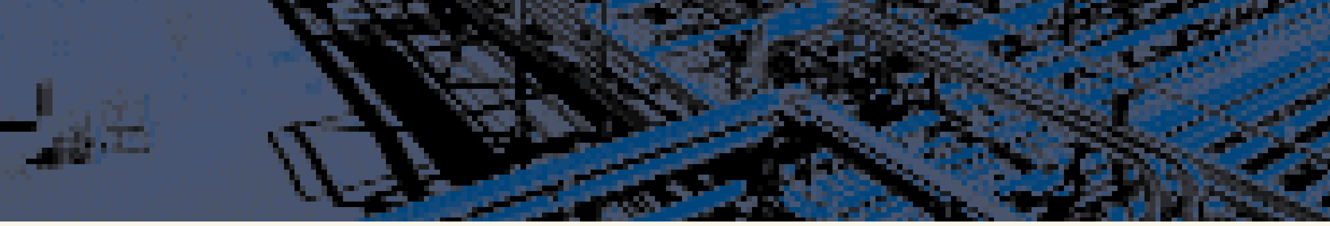
Resources

The year-end reserves figures exclude discovered oil and gas accumulations which currently fall outside the definition of proved and probable reserves. This may result from uncertainty about their extent or the ability to be economically recovered. Santos holds interests in a number of oil and gas accumulations which, pending further appraisal of the resource, fall into the "Resources" category.

Proved and Probable Hydrocarbon Reserves*

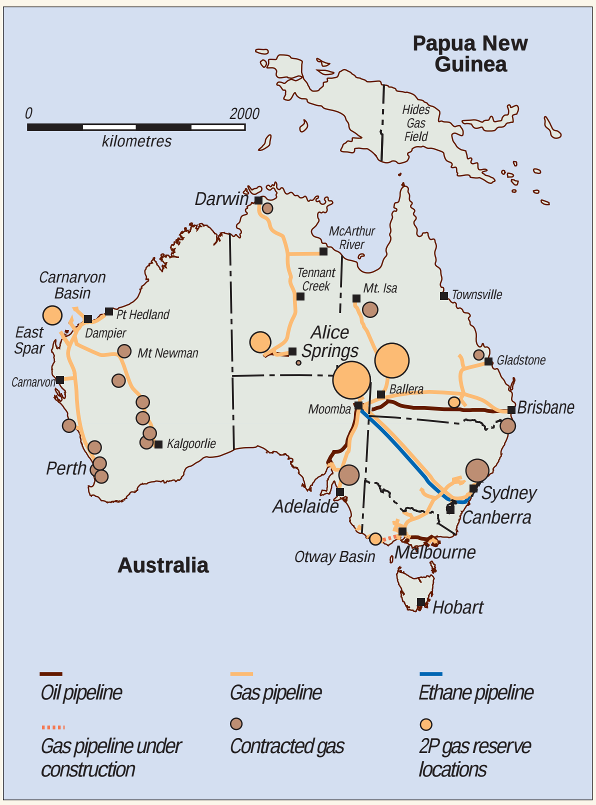
	Sales Gas (incl ethane) PJ	Crude Oil million barrels	Condensate million barrels	LPG '000 tonnes	Total million boe
Estimated reserves at 31 December 1997	4545	96	88	5789	1009
1998 Production	(185)	(9)	(3)	(286)	(46)
Additions from 1998 Exploration	125	2	2	244	28
Acquisitions/Divestments	(13)	(5)	1	22	(6)
Field revisions	(73)	(4)	1	(249)	(19)
Estimated reserves at 31 December 1998	4399	80	89	5520	966

* A definition of proved and probable reserves is provided in the Glossary on page 32.



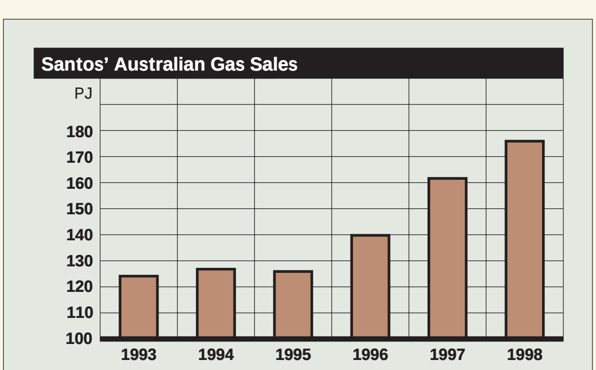
Santos' Australian Gas Business

Santos and its joint venturers produce most of the gas consumed in New South Wales, Queensland, South Australia, the Australian Capital Territory and the Northern Territory. The Company also supplies gas to Victoria and Western Australia.



Gas is generally sold under long-term take-or-pay contracts, with prices indexed to consumer prices.

The graph below shows Santos' Australian gas sales.



Sales volumes in 1998 reached a record 175.6 PJ.

Gas sales are increasing in each of the States in which the Company operates.

In Western Australia the first gas sales from East Spar started in late 1996 and sales continue to grow as further contracts commence.

In Queensland, gas sales to Brisbane from the Cooper Basin commenced in 1997 and in 1998 first sales to Mt Isa began.

In early 1999 the Company announced its intention to acquire a 25% interest in the Hides Gas Field in Papua New Guinea, subject to Papua New Guinea Government approval. This potential acquisition is of strategic importance to the Group as the field is a world-class gas resource which is estimated to contain proven and probable reserves in excess of five trillion cubic feet of gas. Reserves from this field are planned to be incorporated into the proposed Papua New Guinea to Queensland gas project, should this project proceed.

Santos recently began supplying small quantities of gas to Victoria. Gas from the South Australian Cooper Basin is being supplied by AGL through the interconnection recently completed between New South Wales and Victoria.

Gas produced by Santos is now consumed in all mainland States.

Santos also has large reserves which are all well placed for future contracts.

Santos' Interest in Uncontracted Gas Reserves[(a)] PJ as at Dec 1998[(b)]

	Total Gas Reserves in Santos' Acreage	Santos' Share of Gas Reserves	Uncontracted Gas in Santos' Acreage	Santos' Share of Uncontracted Gas
South Australia	2770	1650	1160	700
SW Queensland	2390	1400	1400	840
Surat/Bowen	225	125	150	90
Amadeus	600	365	315	200
East Spar	495	220	120	55
Total	**6480**	**3760**	**3145**	**1885**

(a) Includes ethane.
(b) Australian producing areas.

Santos' production grew by 11.0% in 1998 reflecting the commencement of production from new areas of interest, in the Carnarvon Basin, Timor Gap, Papua New Guinea and the supply of gas to Mt Isa.

Production increased by 4.5 million boe to a record 45.6 million boe in 1998.

This reflected completion of a number of major projects during the year, which are described on page 16 of this report. A full year's production from each of these projects will contribute to a further increase in production in 1999.

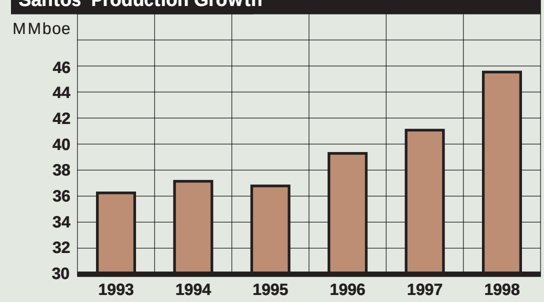
Group Production

	1998	1997
Sales Gas and Ethane (PJ)	**184.9**	172.2
Crude Oil (million barrels)	**8.5**	6.9
Condensate (million barrels)	**3.1**	2.5
LPG ('000 tonnes)	**285.7**	263.6
Total (million boe)	**45.6**	41.1

Just over half of this increase was associated with oil and liquids production (2.3 million boe increase). The remainder (2.2 million boe) reflected increased sales gas and ethane production. Production increased in all Business Units except for Santos USA. (A table detailing Group production is located on page 29).

Santos' production has increased from 36.3 million boe per annum in 1993 to 45.6 million boe during 1998.

Santos' Production Growth



Major Oil Projects Profile

Stag Development Project

Project: Oil field development. Floating storage and offloading facility.

Location: Carnarvon Basin

Santos interest: 54.17%

Production: Commenced May 1998

Elang/Kakatua/Kakatua North Development Project

Project: Oil field development. Floating production, storage and offloading facility.

Location: Timor Gap

Santos interest: 21.43%

Production: Commenced July 1998

SE Gobe Development Project

Project: Oil field development.

Location: Papua New Guinea

Santos interest: 6.975%

Production: Commenced April 1998

The Santos Australian Environmental Management System provides a comprehensive system of environmental management. This section of the report describes the Santos Australian Environmental Management System, which has been progressively developed over the past decade and a half.

Environmental management at Santos is conducted in accordance with a formal environmental management system, based originally on the British Standard for Environmental Management (BS 7750), and then on the International Standards ISO 14000 series. The System has been progressively refined since its inception in 1991 and is currently being utilised by the Company's Business Units to not only meet the specific legislative and regulatory requirements in which operations occur, but also to go beyond mere compliance wherever appropriate.

The foundation of the Santos Australian Environmental Management System (SAEMS) is the Company's environmental policy. The key element of the policy is that Santos is committed to conducting all its onshore and offshore exploration and production activities in an environmentally responsible manner. The policy also states that Santos has established and will maintain environmental standards consistent with developments in technology, industry codes of practice and all relevant statutory requirements.

To test the Company's compliance with its stated environmental objectives, Santos conducts regular environmental audits which are undertaken by its own environmental staff, as well as by specialist external environmental advisers. State and Territory regulatory authorities also conduct environmental audits and undertake field visits to the Company's operational sites. Further details are provided on pages 35 and 39.

The Company's Environmental Management System has been refined and tailored to suit the specific nature of the Company and the environments in which operations occur. Individual responsibility for the environment has been promoted by the Santos Board and the Company's senior management, with line management clearly charged with being the primary "champions" of responsible environmental behaviour.

In order to achieve the Company's environmental objectives in the field, particular emphasis has been placed on the process of environmental training and induction for both the Santos and contractor workforce.

The total process of environmental management within the Company is overseen by the Environmental Committee of the Santos Board (chaired by the Chairman of the Board) which was formed in 1994. The Company's Business Units present a detailed overview of their environmental management practices and procedures, together with performance, to the Committee.

Santos strives to attain a balance between achieving standards of environmental excellence and maintaining a cost efficient and integrated approach to safe, technically proficient exploration and production activities in the many areas of the Company's operations.

Coongie Lakes

Before seismic survey

3 months after seismic survey

12 months after seismic survey

These photographs provide visual documentation of the environmental management process as applied to the 1997 Western Prospects Seismic Survey at Coongie Lakes.

Board of Directors

John Allan Uhrig AO
DUniv, Hon. Decon, BSc, FAIM
Age 70. Director since 3 December 1991 and Chairman since 15 February 1994. Chairman of the Environmental Committee of the Board and also Chairman of Santos Finance Ltd. Chairman of Westpac Banking Corporation and The Australian Minerals and Energy Environment Foundation. Former Chairman of Rio Tinto Ltd and former Deputy Chairman of Rio Tinto PLC. Until 1985 was Managing Director of Simpson Holdings Ltd.

Stephen Gerlach
LLB
Age 53. Director since 5 September 1989. Chairman of the Audit Committee and member of the Environmental Committee of the Board. Chairman of Amdel Ltd, Equitorial Mining N.L. and Elders Australia Ltd. Director of Southcorp Holdings Ltd, Futuris Corporation Ltd, Beston Pacific Corporation Limited and Elders Rural Services Ltd. Former Managing Partner of the Adelaide legal firm, Finlaysons.

John Walter McArdle
FCPA
Age 52. Executive Director since 5 September 1995 and Executive General Manager – Commercial of Santos Ltd. Chairman of Australian National Railways Commission. Director of QCT Resources Ltd Group and Santos Ltd subsidiary companies. Former Managing Director of Delhi Petroleum Pty Ltd.

Norman Ross Adler AO
BCom, MBA
Age 54. Managing Director since 7 November 1984, member of the Audit and Environmental Committees of the Board and also Chairman of other Santos Ltd subsidiary companies. Director of the Commonwealth Bank of Australia, QCT Resources Ltd Group and Telstra Corporation Ltd. Member of the Corporations and Securities Panel and Business Council of Australia.

Peter Charles Barnett
FCPA
Age 58. Director since 31 October 1995 and member of the Audit Committee of the Board. Chairman of Norwich Union Financial Services Group. Deputy Chairman of Smorgon Steel Group Limited. Director of Mayne Nickless Ltd, Australian Media & Communications Investments Limited, Ericsson Australia Pty Ltd and the Institute of Public Affairs. Former Managing Director and Chief Executive Officer of Pasminco Ltd and Chief Executive Officer of EZ Industries Ltd.

Peter Barnett

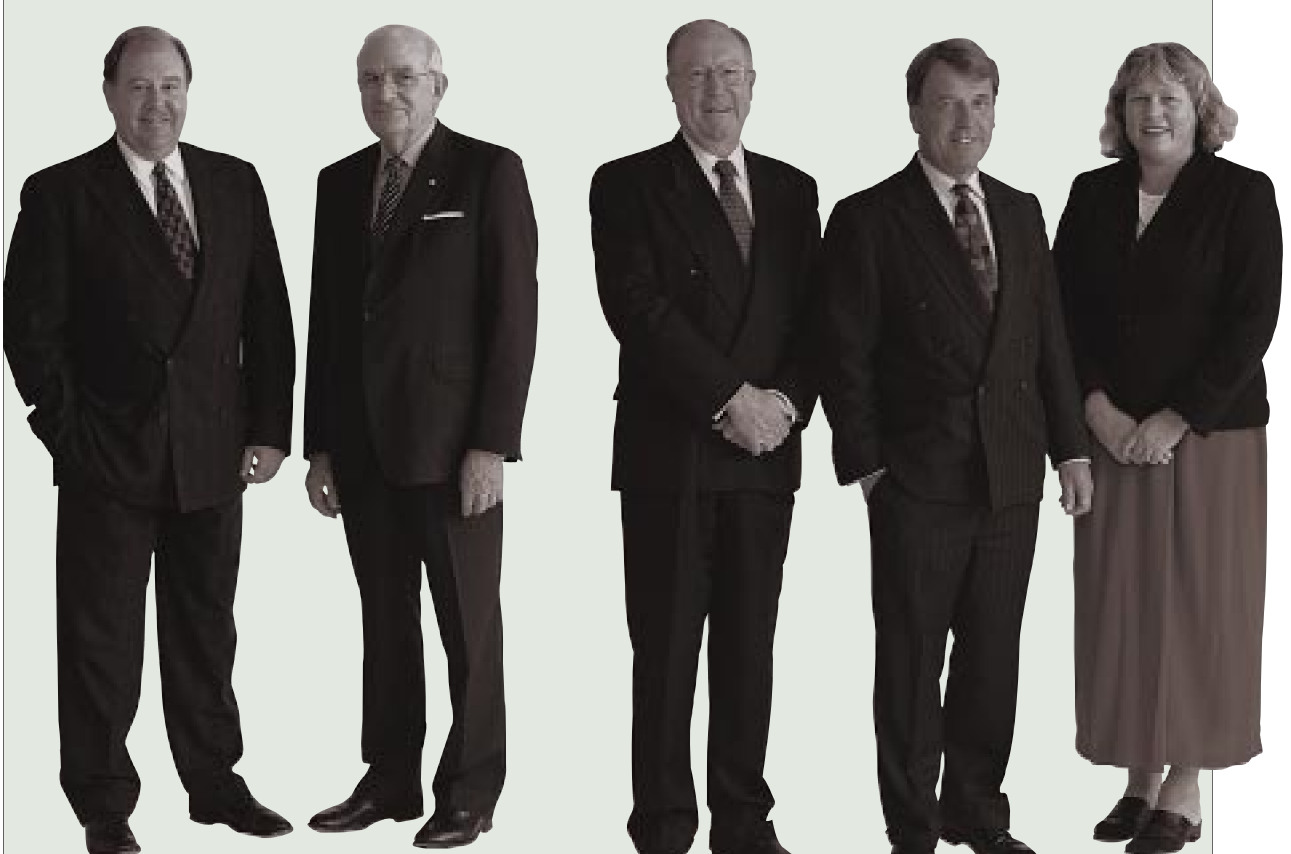
Ian Webber

John McArdle

Michael Anthony O'Leary
DipMinE, BSc, FAusIMM, FAIM
Age 63. Director since 15 October 1996 and member of the Environmental Committee of the Board. Deputy Chairman of Bank of Western Australia Ltd. Former Chairman of Hamersley Iron, Argyle Diamonds, Dampier Salt and former Director of Rio Tinto Ltd and Rio Tinto PLC.

Professor Judith Sloan
BA (Hons), MA, MSc
Age 44. Director since 5 September 1994. Professor of Labour Studies at the Flinders University of South Australia. Chairman of SGIC Holdings Ltd and Director of Mayne Nickless Ltd and SGIO Insurance Limited. Part-time Commissioner, Productivity Commission.

Ian Ernest Webber AO
BE, ATS, FCIT, FAIM
Age 63. Director since 16 February 1993 and member of the Audit Committee of the Board. Chairman of ASEA Brown Boveri Advisory Board and Director of Pacific Dunlop Ltd and WMC Ltd. Former Managing Director and Deputy Chairman of Chrysler Australia Ltd and Managing Director of Mitsubishi Motors Australia Ltd. Former Chairman of Mayne Nickless Ltd Group.

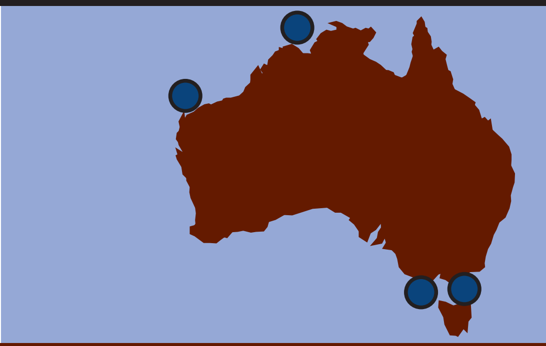


Ross Adler John Uhrig Michael O'Leary Stephen Gerlach Judith Sloan

Business Units Operations

	South Australia	Queensland and Northern Territory
		
Operational Profile	**Cooper/Eromanga Basins (South Australia)** ■ Exploration and Production ■ Average interest 59% **Port Bonython Liquids Processing Plant** ■ LPG extraction and liquids processing **Otway Basin** ■ Exploration acreage	**Cooper/Eromanga Basins (South-west Queensland)** ■ Exploration and Production ■ Average interest 61% **Surat/Bowen Basins** ■ Exploration and Production **Amadeus Basin** ■ Exploration and Production
Strategy	The South Australia Business Unit's strategy is focused on increasing the Business Unit's contribution to Group earnings through gas marketing and control of development and operating costs.	The strategy of the Queensland and Northern Territory Business Unit is to increase its contribution to Group earnings through commercialisation and cost-effective development of its substantial gas reserves, together with continuing exploration to increase reserves.
Operations 1998	**Production** 24.4 mmboe **Reserves** 346 mmboe	**Production** 14.1 mmboe **Reserves** 382 mmboe

Offshore Australia



Exploration Acreage

- Timor Sea, Timor Gap, Bonaparte Gulf, Browse Basin, Carnarvon Basin, Otway Basin, Bass Basin and Gippsland Basin

Production

- Crude oil: Stag and Chervil fields (Carnarvon Basin); Elang/Kakatua/ Kakatua North field (Timor Gap); Jabiru and Challis fields (Timor Sea)
- Sales gas and condensate: East Spar field (Carnarvon Basin)

The Offshore Australia Business Unit's strategy is to increase its contribution to Group earnings through exploration and development. Development is focused on existing undeveloped reserves and the opportunities which arise through exploration, emphasising opportunities near infrastructure.

Production 5.1 mmboe
Reserves 206 mmboe

South East Asia

Papua New Guinea

- Exploration Acreage
- Oil production from SE Gobe field

Indonesia

- Exploration Acreage: Warim, Bentu, Bangko, Korinci-Baru, Seram and Sampang PSCs
- Operator of Bentu, Korinci-Baru and Sampang PSCs

New Zealand

- Exploration Acreage

The South East Asia Business Unit's strategy is focused on the successful commercial development of existing oil and gas resources and exploration targeting high value oil and gas prospects. The development and use of innovative technology is a core component of this strategy.

Production 0.5 mmboe
Reserves 22 mmboe

United States

Offshore exploration and production in the Gulf of Mexico.

Onshore exploration and production focused on the Texas/Louisiana Gulf Coast and the Arkoma Basin in Oklahoma.

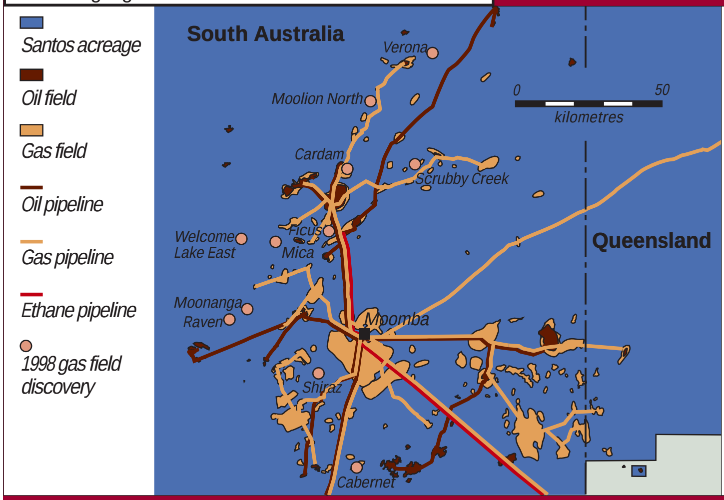
The USA Business Unit's strategy is focused on the optimisation of existing exploration and production interests through active exploitation initiatives and divestiture of non-core assets, expansion of its exploration portfolio and the pursuit of opportunistic acquisitions.

Production 1.5 mmboe*
Reserves 10 mmboe

* includes 0.5 mmboe attributed to Santos Europe Limited

South Australia Business Unit

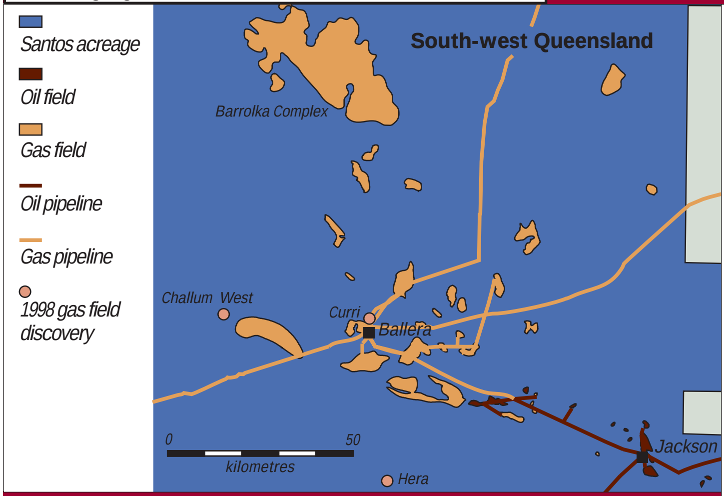
1998 Highlights



- Record total sales of natural gas and ethane.
- First delivery of Cooper Basin gas into Victoria through the new interconnection between New South Wales and Victoria.
- 20 gas discoveries (59% success rate) including several stratigraphic trap discoveries.
- 11 new gas field discoveries.
- Planning and technical studies commenced for the Nappamerri Trough.
- Record number of fracture stimulation projects and other development activity undertaken to optimise gas production.

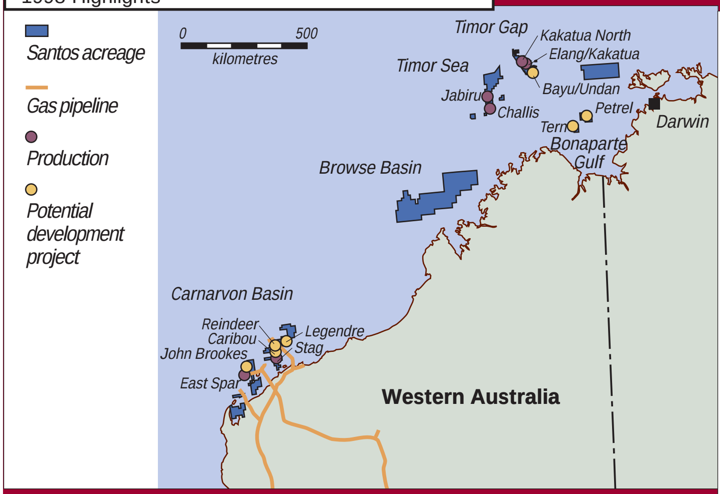
Queensland and Northern Territory Business Unit

1998 Highlights



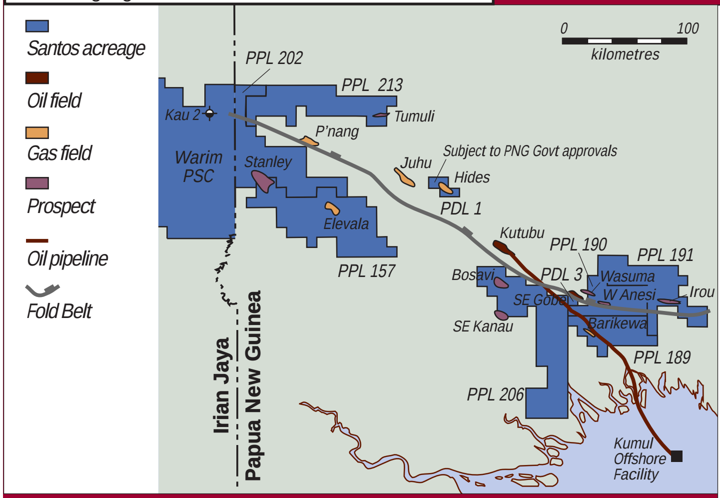
- First gas sales to MIM Holdings Ltd at Mt Isa.
- Completion of the Chookoo underground gas storage facility.
- Nine gas discoveries and one oil discovery (59% success rate).
- Three new gas field discoveries in South-west Queensland.
- Discovery of Yandina-2 gas field in the Denison Trough.
- Completion of Ballera Gas Plant Phase 3 development. Phase 4 expansion commenced and was completed in early 1999.
- Significant development activity undertaken, including the connection of two major gas fields – Karmona and Challum.
- Acquisition of Gulf Australian Hydrocarbons Limited from Gulf Australia Resources Limited.
- Expansion of Mereenie Gas Plant nearing completion.

Offshore Australia Business Unit
1998 Highlights



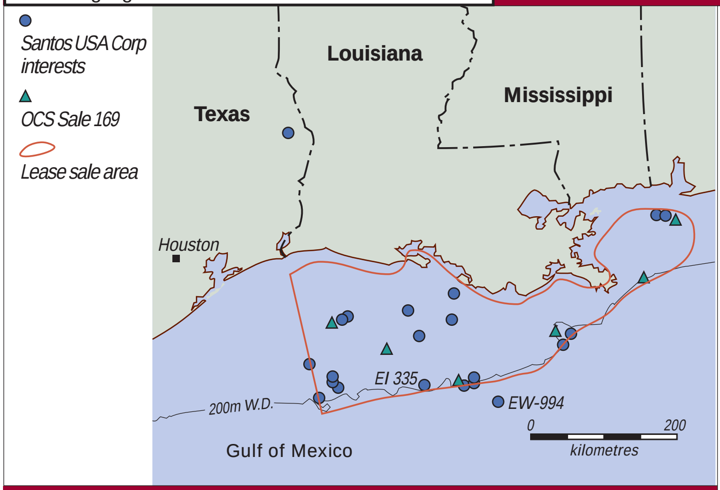
- The Stag (Carnarvon Basin) and Elang/Kakatua/Kakatua North (Timor Gap) oil fields brought onto production.
- Contract signed for the supply of East Spar gas to Wesfarmers CSBP Limited. Gas to be transported via a second Varanus Island pipeline.
- Two gas and two oil discoveries (31% success rate): Legendre South (oil), Mutineer (oil) and John Brookes (gas). Extension of the Reindeer gas field confirmed by the Caribou-1 well.
- Studies undertaken for the possible development of the Bayu-Undan (liquids), Petrel/Tern (gas), Legendre (oil), Reindeer (gas), John Brookes (gas) and Minerva (gas) fields.

South East Asia Business Unit
1998 Highlights



- Commencement of oil production from SE Gobe (Papua New Guinea).
- Kau-2 appraisal well (Warim PSC) made a non-commercial oil discovery which demonstrated the potential of this region and resulted in several large prospects being upgraded.
- More cost effective methods for acquiring improved quality seismic data in the Papuan foldbelt developed. Acquired five surveys using these techniques over difficult terrain.
- Marine seismic survey conducted in the Sampang PSC.
- Agreement for divestment of interests in Seram PSC and Bula oil field. (Subsequent to 31 December 1998.)

USA Business Unit
1998 Highlights



- Seven gas and one oil discovery (62% success rate) including the Ewing Bank 994#1 oil discovery.
- Successful participation in the Gulf of Mexico lease sale No. 169 (acquired interests in six leases). Farmed-in to two other prospects (EW994 and HIA500).
- Development commenced on the Eugene Island 335 oil and gas field. Production commenced in early 1999.
- Entered into arrangements for the acquisition of additional onshore and offshore leases with two new local operators.
- Sold a number of non-core properties.
- Successful divestment of Santos Europe Limited.

10 Year Summary

1989-1998										
As at 31 December	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Crude oil price (A$/bbl)	23.44	30.72	28.00	28.65	27.64	23.64	24.96	27.43	27.42	**20.95**
Profit and Loss ($million)										
Sales revenue	560.6	709.5	655.9	689.8	680.2	640.0	671.6	729.2	778.5	**769.4**
Total operating revenue	603.0	812.9	702.0	741.5	931.6	716.6	740.1	804.0	859.5	**1000.8**
Foreign currency gains/(losses)	22.5	(1.3)	(11.4)	(36.8)	(7.3)	66.3	(16.0)	25.0	3.6	**2.0**
Operating profit before abnormal items	123.0	254.8	223.5	245.1	289.2	295.9	241.0	331.9	322.3	**267.3**
Income tax on operating profit	52.6	112.0	106.8	104.9	104.8	116.2	101.1	136.0	116.1	**91.0**
Operating profit after tax before abnormal items	70.4	142.8	116.7	140.2	184.4	179.7	139.9	195.9	206.2	**176.3**
Abnormal items after tax	48.4	18.5	(224.9)	(27.5)	34.9	10.7	(29.3)	–	–	**–**
Operating profit/(loss) after tax and abnormal items	118.8	161.3	(108.2)	112.7	219.3	190.4	110.6	195.9	206.2	**176.3**
Outside equity interest in operating profit	1.7	5.3	2.7	–	–	–	–	–	–	**–**
Profit/(loss) attributable to shareholders	117.1	156.0	(110.9)	112.7	219.3	190.4	110.6	195.9	206.2	**176.3**
Balance Sheet ($million)										
Total assets	2,931.6	2,962.5	2,797.6	2,821.8	2,831.2	2,897.2	2,915.5	3,443.4	4,036.2	**4236.1**
Net debt	1,116.1	772.4	755.0	797.4	711.2	619.9	642.0	938.6	1,114.2	**1280.0**
Total shareholders' equity	1,123.8	1,380.2	1,215.1	1,231.7	1,380.6	1,532.2	1,519.3	1,586.3	1,919.0	**1939.2**
Exploration										
Wells drilled (number)	133	119	80	41	66	63	66	91	112	**81**
Expenditure ($million)	109.2	97.5	79.8	76.7	79.6	91.9	87.9	121.1	190.1	**180.7**
Reserves (MMboe)	671	646	623	670	675	663	703	860	1,009	**966**
Production (MMboe)	35.6	36.0	34.2	34.6	36.3	37.2	36.8	39.2	41.1	**45.6**
Capital Expenditure ($million)										
Field developments	54.9	88.9	51.9	33.2	40.0	52.2	53.9	105.8	179.7	**158.1**
Buildings, plant and equipment	59.7	60.9	69.1	75.6	80.6	30.5	40.1	150.3	205.4	**165.7**
Share Information										
Share issues	Executive Share Plan	1 for 10 rights/ Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan/ Executive Share Plan	–	–	1 for 8 rights issue/ Employee Share Plan	Employee Share Plan
Number of issued shares at year end (million)	404.3	450.4	473.0	498.6	517.9	539.6	539.6	539.6	607.3	**607.8**
Weighted average number of shares (million)*	427.5	438.0	477.5	495.7	518.8	539.2	553.3	553.4	583.7	**605.6**
Dividends per share										
– ordinary (¢)	19.0	19.0	19.0	21.0	22.0	22.0	23.0	24.0	25.0	**25.0**
– special (¢)	–	–	–	–	5.0	–	–	–	–	**–**
Dividends										
– ordinary ($million)	76.0	85.5	88.5	102.7	112.3	117.2	123.6	129.0	151.3	**151.4**
– special ($million)	–	–	–	–	25.8	–	–	–	–	**–**
Ratios and Statistics										
Earnings per share *										
– before abnormal items (¢)	16.1	31.4	23.9	28.3	35.5	33.3	25.3	35.4	35.3	**29.1**
– after abnormal items (¢)	27.4	35.6	(23.2)	22.7	42.3	35.3	20.0	35.4	35.3	**29.1**
Return on total operating revenue (%)	11.7	17.6	16.6	18.9	24.3	25.1	18.9	24.4	24.0	**17.6**
Return on shareholders' equity (%)	6.6	10.6	9.7	11.4	13.4	11.7	9.2	12.3	10.7	**9.1**
Net debt/equity (%)	99.3	56.0	62.1	64.7	51.5	40.5	42.3	59.2	58.1	**66.0**
Net interest cover (times)	1.9	3.2	4.1	5.9	7.0	8.3	5.8	6.2	5.4	**4.4**
General										
Number of employees	1,655	1,683	1,570	1,468	1,526	1,492	1,471	1,461	1,615	**1,650**
Number of shareholders	26,499	26,251	29,706	35,492	42,068	50,595	55,684	55,482	65,459	**81,286**
Market capitalisation ($million)	1,639.3	1,779.8	1,399.2	1,288.5	1,988.1	1,868.2	2,111.2	2,741.1	3,826.1	**2653.9**

* adjusted for bonus element of rights issues.
Prior year amounts have, where applicable, been adjusted to place them on a comparable basis with current year amounts.

Production Statistics

Field Units

	Sales Gas & Ethane PJ		Crude Oil '000 bbls		Condensate '000 bbls		LPG '000 tonnes	
	1998	1997	**1998**	1997	**1998**	1997	**1998**	1997
South Australia								
Cooper/Eromanga	**107.9**	105.0	**2422.9**	2505.8	**1664.1**	1374.3	**217.5**	196.9
Queensland & Northern Territory								
SW Queensland	**37.5**	27.7	**1886.6**	2317.6	**771.9**	603.4	**63.8**	57.5
Surat/Denison	**11.2**	11.6	**170.4**	191.8	**46.6**	69.0	**4.4**	9.2
Amadeus	**10.6**	10.8	**496.4**	569.7	**-**	-	**-**	-
Total	**59.3**	50.1	**2553.4**	3079.1	**818.5**	672.4	**68.2**	66.7
Offshore Australia								
Timor Sea	**-**	-	**432.7**	648.5	**-**	-	**-**	-
Timor Gap	**-**	-	**968.6**	-	**-**	-	**-**	-
Carnarvon	**9.7**	6.7	**1469.7**	170.7	**575.7**	423.8	**-**	-
Total	**9.7**	6.7	**2871.0**	819.2	**575.7**	423.8	**-**	-
South East Asia								
Seram	**-**	-	**261.2**	272.3	**-**	-	**-**	-
PNG	**-**	-	**248.1**	-	**-**	-	**-**	-
Total	**-**	-	**509.3**	272.3	**-**	-	**-**	-
US	**4.8**	5.9	**141.1**	187.1	**59.0**	62.0	**-**	-
UK	**3.2**	4.5	**-**	37.6	**3.7**	5.1	**-**	-
Total	**184.9**	172.2	**8497.7**	6901.1	**3121.0**	2537.6	**285.7**	263.6

Million Barrels of Oil Equivalent

	Sales Gas & Ethane		Crude Oil		Condensate		LPG		Total	
	1998	1997	**1998**	1997	**1998**	1997	**1998**	1997	**1998**	1997
South Australia										
Cooper/Eromanga	**18.55**	18.05	**2.42**	2.51	**1.56**	1.28	**1.84**	1.67	**24.37**	23.51
Queensland & Northern Territory										
SW Queensland	**6.45**	4.76	**1.89**	2.32	**0.72**	0.56	**0.54**	0.49	**9.60**	8.13
Surat/Denison	**1.93**	1.99	**0.17**	0.19	**0.04**	0.07	**0.04**	0.08	**2.18**	2.33
Amadeus	**1.82**	1.86	**0.50**	0.57	**-**	-	**-**	-	**2.32**	2.43
Total	**10.20**	8.61	**2.56**	3.08	**0.76**	0.63	**0.58**	0.57	**14.10**	12.89
Offshore Australia										
Timor Sea	**-**	-	**0.43**	0.65	**-**	-	**-**	-	**0.43**	0.65
Timor Gap	**-**	-	**0.97**	-	**-**	-	**-**	-	**0.97**	-
Carnarvon	**1.67**	1.15	**1.47**	0.17	**0.54**	0.40	**-**	-	**3.68**	1.72
Total	**1.67**	1.15	**2.87**	0.82	**0.54**	0.40	**-**	-	**5.08**	2.37
South East Asia										
Seram	**-**	-	**0.26**	0.27	**-**	-	**-**	-	**0.26**	0.27
PNG	**-**	-	**0.25**	-	**-**	-	**-**	-	**0.25**	-
Total	**-**	-	**0.51**	0.27	**-**	-	**-**	-	**0.51**	0.27
US	**0.82**	1.01	**0.14**	0.19	**0.06**	0.06	**-**	-	**1.02**	1.26
UK	**0.55**	0.77	**-**	0.04	**0.00**	0.00	**-**	-	**0.55**	0.81
Total	**31.79**	29.59	**8.50**	6.91	**2.92**	2.37	**2.42**	2.24	**45.63**	41.11

Santos Group Interests as at 5 March 1999

Licence Area	% Interest	Licence Area	% Interest
South Australia			
Cooper Basin Production Area		Patchawarra East (PPLs 26, 76, 77,	
(PPLs 6-20, 22-25, 27-61, 63-75, 78-117,		118, 121-123 & 125)	69.3522
119, 120, 124, 126-128, 132-134)	59.7500	SA Unit and Downstream	59.7500
Queensland			
South-West Queensland		**Roma Area**	
ATP 259P		ATP 336P (Roma) (PLs 3-13 & 93)	85.0000
Naccowlah (PLs 23-26, 35, 36, 62,		PL 5 (Mascotte)	42.5000
76-79, 82, 87, 105, 107 & 109)	55.5000	PL 5 (Drillsearch)	21.2500
Total 66 (PLs 34, 37, 63, 68, 75, 84, 88 & 110)	70.0000	PL 5 (Barcoo)	85.0000
Wareena	61.2000	ATP 336P (Waldegrave) (PLs 10-12, 28,	
Innamincka (PLs 58 & 80)	70.0000	69 & 89)	46.2500
Aquitaine A (PL 86)	52.5000	PL 11 (Snake Creek East)	25.0000
Aquitaine B (PLs 59-61, 81, 83, 85,		ATP 336P (Kalima)	76.5000
106, 108, 111, 113 & 114)	55.0000	PL 12 (Trinidad)	92.5000
Alkina	72.0000	ATP 378P (Burunga)	100.0000
Aquitaine C	47.8000	**Bowen Basin**	
50/40/10 (PL 55)	60.0000	ATP 337P (Denison Trough)	50.0000
SWQ Unit	60.0625	ATP 553P (Denison Trough)	50.0000
ATP 267P (Nockatunga) (PLs 33, 50 & 51)	59.0640	PLs 41-45, 54 and 67 (Denison Trough)	50.0000
ATP 269P (Bodalla)	5.8060	**Surat Basin**	
PLs 31, 32 and 47 (Bodalla)	5.2500	PLs 21, 22, 27 and 64 (Balonne)	12.5000
ATP 577P	7.0000	ATP 470P (Redcap) (PL 71)	10.0000
ATP 299P (Tintaburra) (PLs 29, 38,		ATP 212P (Major) (PLs 30, 56 & 74)	15.0000
39, 52 and 57)	89.0000	ATP 471P (Weribone)	5.9100
Southern Surat		ATP 471P (Wunger) (PL 15)	66.6700
PL 1 (Moonie)	100.0000	ATP 471P (Noona) (PLs 16, 48 & 66)	50.0000
PL 1 (2) (C) (Cabawin)	100.0000	ATP-471P (Rocky Creek East – Expl)	41.6700
PL 1 (2) (Cabawin Farm-out)	50.0000	ATP 471P (Myall)	69.4500
PL 2C (Alton)	100.0000	ATP 471P (Onerry)	72.5000
PL 2 (Kooroon)	52.5000	ATP 471P (Dalkeith)	66.6700
PL 2C (Alton Farm-out)	63.5000	ATP 471P (Bainbilla) (PL 119)	16.6700
ATP 512P	66.6700	PL 49 (Rocky Creek East Production)	50.0000
ATP 244P (Block D)	20.0000	**Facilities**	
PL 17	70.0000	Wungoona Processing Facilities	50.0000
PL 17 (Bennett Exclusion)	100.0000	Moonie to Brisbane Pipeline	100.0000
PL 17 (Leichardt Exclusion)	70.0000	Jackson Moonie Pipeline	82.7500
ATP 552P-GN	35.5264	Ballera to Mt Isa Pipeline	18.0188
ATP 552P-RM	21.9697		
Victoria			
PEP 108	100.0000	VIC/RL2	7.5000*
PEP 132	100.0000	VIC/RL3	25.0000
PEP 119	60.0000	VIC/RL7	10.0000
VIC/RL1	33.3334	VIC/RL8	10.0000
		* approximate figure	
Tasmania			
T/RL1 (Yolla)	5.0000		
Northern Territory			
OL 3 (Palm Valley)	47.9770	RL2 (Dingo)	65.6635
OLs 4 and 5 (Mereenie)	65.0000	Mereenie-Brewer Estate Pipeline	65.0000

Licence Area	% Interest	Licence Area	% Interest
Offshore Northern Australia			
EP 325	25.0000	AC/L1 (Jabiru)	10.3125
EP 398	55.0000	AC/L2 (Challis)	10.3125
TL/2	15.0000	AC/L3 (Cassini)	10.3125
TP/7 (1-3)	43.7110	AC/L4	30.5887
TP/7 (4)	18.7110	WA-261-P	29.5833
TP/12	55.0000	WA-264-P	66.6667
WA-149-P	18.7110	WA-258-P	45.4545
WA-206-P	100.0000	NT/RL1 (Petrel)	50.4900
WA-13-L	45.0000	NT/P52	37.5000
WA-208-P	20.0000	WA-1-P	22.5600
WA-214-P	20.0000	WA-8-L (Talisman)	27.3684
WA-215-P	10.0000	WA-15-L (Stag)	54.1666
WA-239-P	20.0000	WA-18-P (Tern)	70.0000
WA-242-P	20.0000	WA-191-P	33.3977
WA-281-P	27.5000	WA-209-P	36.0000
WA-282-P	42.5000	WA-6-R (West Petrel)	50.4900
WA-283-P	27.5000	ZOCA 91-01	20.0000
AC/RL2 (Oliver)	38.0000	ZOCA 91-12 (Elang)	21.4260
AC/P15	33.3334	Bayu-Undan Gas Field	11.8276
United States of America			
Gulf of Mexico	**Average working interest**		**Average working interest**
- EB 994 (Boomslang)	20.0000	- WC 276	20.0000
- EC 155	20.0000	- WC 520	25.0000
- EI 59	20.0000	- WC 574	25.0000
- EI 143	20.0000	- WC 575	25.0000
- EI 335	20.0000	- WC 582	20.0000
- HI A500	20.0000	- WC 632	20.0000
- MB 997	20.0000	- WD 119	14.8148
- MB 998	20.0000	- WD 152	13.0000
- MB 999	20.0000	**South Texas**	
- MC 357 (Deep)	12.5000	- Remmers	45.0000
- MC 357 (Shallow)	13.0000	- Birdie Porter Green	50.0000
- MC 358	13.0000	- Fuhrken	25.0000
- MP 273	20.0000	- Thomson-Barrow/O'Brien Ranch	18.0000
- SS 319	20.0000	- Queen City	50.0000
- SS 320	20.0000	- West Rosita	25.0000
- VR 247	20.0000	**Arkoma Basin**	26.4000
- WC 272	20.0000		
New Zealand			
PEP 38712	30.0000		
Papua New Guinea			
PPL 157	35.2500	PPL 206	46.0000
PPL 189	40.4040	PPL 213	35.0000
PPL 190	30.1010	PDL 3	15.5000
PPL 191	71.7750	SE Gobe Field Unit	6.9750
PPL 202	55.0000	PL 3	3.4875
Indonesia			
Seram	2.5000	Bangko	15.0000
Bula	100.0000	Bentu	61.1111
Korinci-Baru	61.1111	Sampang	45.0000
Warim	20.0000		

Glossary

appraisal well	An exploration well drilled for the purpose of identifying extensions to known fields or discoveries.
barrel/bbl	The standard unit of measurement for all production and sales. One barrel equals 159 litres or 35 imperial gallons.
boe	Barrels of oil equivalent. The factors used by Santos to convert volume of different hydrocarbon production to barrels of oil equivalent are printed below.
bopd	Barrels of oil per day.
the Company	Santos Ltd and its subsidiaries.
D,D&A	Depreciation, depletion and amortisation of building, plant and equipment, exploration and development expenditure.
development well	A well drilled to enable production from a known oil or gas reservoir.
exploration well	A wildcat or appraisal well drilled to find new reserves of oil or gas.
farm-out (farm-in)	An agreement which provides for a party to acquire an interest in a permit by either fully or partially funding an agreed program of work to be conducted in the permit.
fracture stimulation	A technique used to improve hydrocarbon recovery from reserves with poor permeability or porosity. Fracture stimulation involves the fracturing of the reservoir rock to encourage the flow of hydrocarbons.
hydrocarbons	Solid, liquid or gas compounds of the elements hydrogen and carbon.
LPG	Liquefied petroleum gas.
Mbbls	Thousand barrels.
MIM	MIM Holdings Ltd (formerly Mt Isa Mines).
MMbbls	Million barrels.
MMboe	Million barrels of oil equivalent.
monobore well	A well which has a single casing and no internal tubing.
petroleum liquids	Crude oil, condensate, or its derivative naphtha, and the liquefied petroleum gases propane and butane.
PJ	Petajoules. Joules are the metric measurement unit for energy. A petajoule is equal to 1 kilojoulex 10^{12}. The equivalent imperial measure to joules is British Thermal Units (BTU). One kilojoule = .9478 BTU.
PSC	Production sharing contract.
reserves	Proved and probable reserves as defined by the Australian Stock Exchange Ltd (ASX). Proved reserves are those reserves that, to a high degree of certainty, are recoverable, at commercial rates, under presently anticipated production methods, operating conditions, prices and costs. Probable reserves are those reserves that may be reasonably assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves. Reserves reported are based on, and accurately reflect, information compiled by full-time employees of the company who have the requisite qualifications and experience prescribed by the ASX Listing Rules.
reservoir	A rock formation in which hydrocarbons are present.
Santos	Santos Ltd and its subsidiaries.
seismic survey	A survey used to gain an understanding of rock formations beneath the earth's surface.
TJ	Terajoules. Joules are the metric measurement unit for energy. A terajoule is equal to 1 joule x 10^{12}.
wildcat well	An exploration well drilled to identify new accumulations of oil or gas.
WMC	WMC (formerly Western Mining Corporation).
boe conversion factors	Crude Oil 1 barrel = 1 boe Condensate/Naphtha 1 barrel = 0.935 boe Sales Gas 1 petajoule = 171.937 boe x 10^3 LPG 1 tonne = 8.458 boe

Corporate Governance

The purpose of this statement is to provide details of the main corporate governance practices the Company had in place during the past financial year.

The Board of Santos Limited is committed to good corporate governance and to this end has had in place for a number of years formal guidelines recording the Board's policy on: Board composition and appointment of chairman; Board membership and attendance; the appointment and retirement of Directors; independent professional advice; compensation arrangements; external auditors; risk management; and ethical standards. References in this statement to the "Board guidelines" are to the formal guidelines in force during the past financial year. The Board guidelines are reviewed by the Board on an annual basis and as required.

Board of Directors and its Committees

The Board is responsible for the overall corporate governance of the Company including its strategic direction and financial objectives, establishing goals for management and monitoring the attainment of these goals.

To assist in the effective execution of its responsibilities, the Board has established a number of Board Committees including a Nomination and Remuneration Committee, an Audit Committee and an Environmental Committee. The Nomination and Remuneration Committee comprises all non-executive Directors and each of the Audit and Environmental Committees comprises a majority of non-executive Directors and is chaired by a non-executive Director. The Board guidelines prescribe that the Board is to meet at least 10 times a year.

All current non-executive Directors, including the Chairman, are considered to be 'independent' Directors, as defined in the 1997 guidelines of the then Australian Investment Managers Association.

Composition of the Board

The names and details of the experience, qualifications, age, special responsibilities and shareholdings of each Director of the Company are set out on pages 22 and 23 of this Annual Report.

The composition of the Board is determined in accordance with the Company's Constitution and the Board guidelines including: the Board is to comprise a minimum of five and a maximum of ten Directors (exclusive of the Managing Director); the Board should comprise a substantial majority of non-executive Directors (currently the Board comprises six non-executive and two executive Directors); there should be a separation of the roles of Chairman and Chief Executive Officer of the Company; and the Chairman of the Board should be a non-executive Director.

Under the Board guidelines, it is the responsibility of the Nomination and Remuneration Committee to devise the criteria for, and review membership of, and nominations to, the Board. The primary criteria adopted in selection of suitable Board candidates is their capacity to contribute to the ongoing development of the Company having regard to the location and nature of the Company's significant business interests and to the candidates' age and experience by reference to the age and diversity of experience of existing Board members.

When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination and Remuneration Committee has responsibility for proposing candidates for consideration by the Board and, where appropriate, engages the services of external consultants.

Prior to appointment, each Director is provided with a letter of appointment which, inter alia, encloses a copy of the Board guidelines governing board operation, membership and corporate governance, including detailed regulations relating to disclosure of interests and guidelines for dealing in securities, together with the requisite form for completion in compliance with those regulations. The expectations of the Board in respect to a proposed appointee to the Board and the workings of the Board and its committees are conveyed in interviews with the Chairman and access provided to appropriate executives in relation to details of the business of the Company.

Under the Company's Constitution approximately one-third of Directors retire by rotation each year and Directors appointed during the year are required to submit themselves for election by shareholders at the Company's next Annual General Meeting.

The Board guidelines prescribe that, under normal circumstances, Directors should retire at the first Annual General Meeting after reaching the age of 72 years and not seek re-appointment.

Independent Professional Advice

The Board guidelines set out the circumstances and procedures pursuant to which a Director, in furtherance of his or her duties, may seek independent professional advice at the Company's expense. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant expert and, under normal circumstances, the provision of the expert's advice to the Board.

Remuneration

Under the Board guidelines, the Nomination and Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including: the compensation arrangements for executive Directors and senior management; the Company's superannuation arrangements; employee share and option plans; and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. Further information on these matters is included at pages 40 and 41 of this Annual Report and details of the Company's employee share and option plans are provided in Note 18 of the Financial Report. No non-executive Director may participate in any of the Company's share or option plans. Information in respect to indemnity and insurance arrangements for Directors and senior executives appears at page 41 of this Annual Report.

The current members of the Nomination and Remuneration Committee, all of whom are non-executive Directors, are: Mr J A Uhrig (Chairman), Mr P C Barnett, Mr S Gerlach, Mr M A O'Leary, Professor J Sloan and Mr I E Webber.

Audit Committee

The Board guidelines require the Board to continue in existence an Audit Committee of the Board.

The role of the Audit Committee is documented in a Charter, approved by the Board. In accordance with this Charter, the Committee comprises three non-executive Directors plus the Managing Director and is chaired by a non-executive Director. The internal and external auditors, and relevant senior management, attend Audit Committee meetings at the invitation of the Committee.

The current members of the Audit Committee are: Mr S Gerlach (Chairman), Mr P C Barnett, Mr I E Webber and Mr N R Adler.

The Committee is required to meet at least three times per year: at the planning stage of the audit, at which time the planned scope of the audit and the auditors recommendations on controls are considered, and before the issue of the half-yearly and annual financial statements and the Board meetings approving the same, at which time any significant matters arising during the audit are considered. The Committee also meets, as determined by the Chairman of the Committee and members may raise any matters considered desirable.

The role of the Audit Committee includes: examining the accounting policies of the Company to determine whether they are appropriate and in accordance with all applicable reporting requirements; ensuring that truth and fairness is reflected in the preparation and publication of the Company's financial reports; meeting regularly with the auditors to reinforce the independence of the auditors, to determine the appropriateness of internal and external audit procedures, to review the performance of the auditors and to provide the auditors with confidential access to the Board; and referring matters of concern to the Board, as appropriate, and considering risk management matters.

Minutes and recommendations of the Audit Committee are distributed at the next Board Meeting.

Risk Management

The Board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the maintenance of: Board Committees (including Audit and Environmental Committees of the Board); detailed and regular budgetary, financial and management reporting; established organisational structures, procedures, manuals and policies; audits (including internal and external financial, environmental and safety audits); comprehensive insurance programmes; and the retention of specialised staff and external advisers.

- *Management of environmental risk* - environmental risk is managed through: comprehensive environmental management systems; environmental committees at Board and management levels; the retention of specialist environmental staff and advisers; regular internal and external environmental audits; and imposing environmental care as a line management responsibility. Further information on these matters appears at pages 21 and 39 of this Annual Report. Membership of the Environmental Committee of the Board comprises three non-executive Directors and the Managing Director. The current members of the Committee are: Mr J A Uhrig (Chairman), Mr S Gerlach, Mr M A O'Leary and Mr N R Adler.

- *Management of exploration risk* - exploration risk is managed through internal control systems which include: formalised risk assessment procedures at the business unit level; Corporate review in both prospect and hindsight; Board approval of exploration budgets; and regular reporting on progress to the Board. External reviews are also undertaken as necessary.

- *Management of Year 2000 issue* - the Year 2000 issue has been managed through: the establishment in 1997 of a Year 2000 Project Team to co-ordinate Company-wide Year 2000 activities; engagement since 1997 of external experts to assist and advise the Year 2000 Project Team; preparation by the Year 2000 Project Team of an Integrated Project Plan adopted by all business units; review of the Year 2000 Project Team's progress by an Executive Committee of senior management; quality assurance assessment by independent consultants; and regular reporting to the Board. Further information on the Company's response to the Year 2000 issue appears at page 13 of this Annual Report and in the releases to the Australian Stock Exchange Ltd made in June 1998 and March 1999.

- *Investment appraisal* - the Company has clearly defined procedures for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where assets are being acquired.

- *Financial reporting* - a comprehensive budgeting system exists with a five year financial plan and an annual budget approved by the Board. Monthly actual results are reported against budget and, where applicable, revised forecasts for the year are prepared and reported to the Board. Speculative transactions are prohibited. Further details relating to financial instruments and commodity price risk management are included in Note 33 of the Financial Report.

- *Functional speciality and business unit reporting* - all significant areas of Company operations are subject to regular reporting to the Board. The Board receives regular reports on the performance of each business unit and on exploration, development, finance, liquids marketing, safety, government, investor relations and environmental matters.

Senior management attend Board and Committee meetings, at which they report to Directors within their respective areas of responsibility. This assists the Board in maintaining its understanding of the Company's business and assessing the senior management team. Where appropriate, advisers to the Company attend meetings of the Board and of its Committees.

Under the Company's Delegation of Authority, the Board is responsible, inter alia, for the approval of the annual corporate budget and for significant: acquisitions and disposals of assets; expenditure decisions outside of the corporate budget; hedging of product sales; sales contracts; and financing arrangements.

The Audit Committee is responsible for approving the programme of internal audit to be conducted each financial year in ensuring compliance with these internal controls.

Ethical Standards

In pursuance of the promotion of high standards of corporate governance, the Board has, without adopting a formal code of ethics, established and maintained various internal standards which extend beyond requirements prescribed by law and include additional disclosure of interests by Directors and guidelines relating to the dealing in securities by Directors and managers.

Financial Report

Contents

Directors' Statutory Report

The Directors present their report together with the financial report of Santos Ltd ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the financial year ended 31 December 1998, and the auditors' report thereon. Information in this Annual Report referred to by page number in this report or contained in a Note to the financial statements referred to in this report is to be read as part of this report.

1. Directors, Directors' Shareholdings and Directors' Meetings

The names of Directors of the Company in office at the date of this report and details of the relevant interest of each of those Directors in shares in the Company at that date are as set out below. Each of the Directors has held his or her office at all times since the beginning of the financial year.

Surname	Other Names	Shareholdings in Santos Ltd Beneficial Interest		Non-Beneficial Interest
Uhrig	John Allan (Chairman)	16,875		-
Adler	Norman Ross (Managing Director)	855,000	*	-
Barnett	Peter Charles	16,250		-
Gerlach	Stephen	-		12,305
McArdle	John Walter (Executive Director)	516,732	**	37,913
O'Leary	Michael Anthony	4,725		-
Sloan	Judith	2,500		-
Webber	Ian Ernest	26,250		-

Except where otherwise indicated, all shareholdings are of fully paid ordinary shares.

* Includes 610,000 partly paid Executive Share Plan shares.

** Includes 320,000 partly paid Executive Share Plan shares.

No Director holds shares in any related body corporate, other than in trust for the Company.

Mr Robert Strauss retired as a Director of the Company on 1 May 1998, having been a Director at all times since the beginning of the financial year to that date.

At the date of this report, Mr N R Adler and Mr J W McArdle respectively hold 3,000,000 and 1,000,000 options issued pursuant to the Santos Executive Share Option Plan, approved by shareholders at the Annual General Meeting of the Company held on 15 May 1997. Details of the qualifications, experience and special responsibilities of each Director are set out on pages 22 and 23 of this Annual Report.

Directors' Meetings

The number of Directors' Meetings and meetings of committees of Directors held during the financial year and the number of meetings attended by each Director are as follows:

Surname	Other Names	Directors' Meetings	Audit Committee	Environmental Committee	Nomination and Remuneration Committee
		No. of Meetings Held 11	No. of Meetings Held 4	No. of Meetings Held 3	No. of Meetings Held 6
		No. of Meetings Attended	No. of Meetings Attended	No. of Meetings Attended	No. of Meetings Attended
Uhrig	John Allan	11		3	6
Adler	Norman Ross	11	4	3	
Barnett	Peter Charles	11	4		6
Gerlach	Stephen	11	4	3	6
McArdle	John Walter	10			
O'Leary	Michael Anthony	11		3	6
Sloan	Judith	11			6
Strauss	Robert*	4			2
Webber	Ian Ernest	10	4		5

* Retired as a Director of the Company on 1 May 1998

A special committee for the Santos Executive Share Option Plan (comprising Messrs J A Uhrig and I E Webber) held one meeting which was attended by each of those Directors.

As at the date of this report, the Company had an audit committee of the Board of Directors.

Particulars of the Company's corporate governance practices appear on pages 33 to 36 of this Annual Report.

2. Principal Activities

The principal activities of the consolidated entity during the financial year were: petroleum exploration; the production, treatment and marketing of natural gas, crude oil, condensate, naphtha and liquid petroleum gas; and the transportation by pipeline of crude oil. No significant change in the nature of these activities has occurred during the year.

3. Review and Results of Operations

A review of the operations and of the results of those operations of the consolidated entity during the financial year are contained in pages 5 to 9, 12 to 17, 20, 26 and 27 of this Annual Report.

4. Dividends

In respect of the financial year:

(a) the Directors on 15 March, 1999 declared a fully franked final dividend of 13 cents per fully paid share be paid on 30 April, 1999 to members registered in the books of the Company as at close of business on 8 April, 1999 and declared that such dividend be a Class C franked dividend to the extent of 100%. This final dividend amounts to approximately $78.8 million; and

(b) a fully franked interim dividend of $72.7 million (12 cents per share) was paid to members in November 1998.

A fully franked final dividend of $78.7 million on the 1997 results (13 cents per share) was paid in April 1998. Indication of this dividend payment was disclosed in the 1997 Annual Report.

5. State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year other than those referred to on pages 3 and 4 of this Annual Report, including the sale of Santos Europe Ltd.

6. Environmental Regulation

The consolidated entity's Australian operations are subject to various environmental regulations under Commonwealth, State and Territory legislation, including under applicable petroleum legislation and in respect to : its South Australian operations, some 34 State and Commonwealth Acts and licences (nos. EPA 2569, 1259, 888 and 2164) issued under the Environmental Protection Act, 1993; its Queensland operations, some 27 State and Commonwealth Acts and licence no. 150029 issued under the Environmental Protection Act, 1994; its Northern Territory operations, some 15 Territory and Commonwealth Acts; its offshore operations, some 29 State, Territory and Commonwealth Acts; and its Victorian operations, some 22 State and Commonwealth Acts. Applicable legislation and requisite environmental licences are specified in the entity's relevant Environmental Compliance Manuals, which Manuals form part of the consolidated entity's overall Environmental Management System. Compliance performance is monitored on a regular basis and in various forms, including environmental audits conducted by regulatory authorities and by the Company, either through internal or external resources. During the financial year : no fines were imposed; no prosecutions were instituted; and, except as mentioned below, no notice of non-compliance with the above referenced regulations was received from a regulatory body. Pursuant to the Environmental Protection Act 1994 (Queensland), a notice to conduct or commission an environmental investigation was received by the Company in respect of an oil spill from the Cooroo to Jackson oil pipeline. The Company's report of such investigation was accepted and all outstanding issues resolved at an on-site meeting held in November 1998.

7. Events Subsequent to Balance Date

In the opinion of the Directors there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years except that:-

(a) on 1 February, 1999 the Company announced the acquisition, subject to Papua New Guinea Governmental approvals, of a 31% interest in Petroleum Development Licence No. 1 which contains the majority of the Hides gas field; and

(b) Petroleum Exploration Licence Nos. 5 and 6 in South Australia expired, in accordance with their terms, at the end of February 1999.

8. Likely Developments

Certain likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are referred to at pages 6 to 9, 15 to 17 and 19 of this Annual Report. Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

9. Directors' and Senior Executives' Emoluments

The Board's Nomination and Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company, including the compensation arrangements for executive Directors and senior management, the Company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. This role also includes responsibility for the Company's employee share and option plans. Executive and senior management performance review and succession planning are matters referred to and considered by the Committee.

The Nomination and Remuneration Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

Non-executive Directors - As indicated above, within the aggregate amount approved by shareholders, the fees of the Chairman and non-executive Directors are set at levels which represent the responsibilities of and the time commitments provided by those Directors in discharging their duties. Regard is also had to the level of fees payable to non-executive Directors of comparable companies.

Non-executive Directors are also entitled to receive a retirement payment upon ceasing to hold office as a Director. The retirement payment (inclusive of superannuation guarantee charge entitlements) is made pursuant to an agreement entered into with each Director in terms approved by shareholders at the 1989 Annual General Meeting.

Details of the nature and amount of each element of the emolument for the financial year of each non-executive Director of the Company are:

Non-Executive Director		Directors' Fees (1)	Superannuation Contributions (2)	Non-Cash Benefits	Retirement Benefits Paid	Total
		$	$	$	$	$
Uhrig	John Allan	173,000	6,263	50,492	–	229,755
Barnett	Peter Charles	60,500	3,933	–	–	64,433
Gerlach	Stephen	68,500	4,452	–	–	72,952
O'Leary	Michael Anthony	60,500	3,933	–	–	64,433
Sloan	Judith	55,000	3,575	–	–	58,575
Strauss	Robert	18,421	–	–	258,288	276,709
Webber	Ian Ernest	60,500	3,933	–	–	64,433

(1) Includes Board fees and Committee fees
(2) Contributions made in accordance with the Company's Superannuation Guarantee Charge obligations

Senior Executives - Remuneration levels are competitively set to attract, retain and motivate appropriately qualified and experienced senior executives capable of discharging their respective responsibilities.

Remuneration packages of senior executives include performance based components in the form of equity participation through the Santos Executive Share Option Plan. Options issued under the Plan are linked to the longer term performance of the Company and are only exercisable following the satisfaction of performance hurdles that are designed to maximise shareholder wealth.

Details of the nature and amount of each element of the emolument for the financial year of each of the five officers of the Company and the consolidated entity receiving the highest emolument are:

Surname	Other names	Position	Base Remuneration (1)	Bonuses	Other Benefits (2)	Total	Number of shares over which options granted by Company
			$	$	$	$	
Adler	Norman Ross	Managing Director	984,753	300,000	299,383	1,584,136	2,500,000
McArdle	John Walter	Director & Executive General Manager, Commercial	492,377	–	157,885	650,262	650,000
Armstrong	John Dennis	General Manager, Offshore Australia Business Unit	402,107	–	113,668	515,775	175,000
McArdle	Rodney Eric	General Manager, Queensland & NT Business Unit	254,400	–	89,672	344,072	125,000
Roberts	Michael George	Group General Counsel & Company Secretary	212,833	15,000	112,657	340,490	150,000

(1) Base Remuneration includes base salary, packaged benefits and FBT (where applicable)

(2) Other Benefits are non base remuneration benefits including Company contributions to superannuation and the cost to the Company of cars (including applicable FBT).

Note: The five officers disclosed above are those executive officers within the consolidated entity responsible for the strategic direction and operational management of major business units receiving the highest emoluments.

The total emoluments disclosed above do not include a value attributed to the options granted during the year (any benefit arising on grant of the options not being quantifiable). No further options have been granted since the end of the financial year. Further information in relation to options granted by the Company to executives during the financial year is contained in Note 18 to the financial statements.

10. Indemnification

Article 177 of the Company's Articles of Association provides that the Company indemnifies each person who is or who has been an "officer" (as defined in section 241(4) of the Corporations Law) of the Company against any liability to another person (other than the Company or a related body corporate) arising from their position as such officer, unless the liability arises out of conduct involving a lack of good faith. The Company has insured against amounts which it is liable to pay pursuant to Article 177 or which it otherwise agrees to pay by way of indemnity. Article 177 also provides for an indemnity in favour of an officer or auditor (KPMG) in relation to costs incurred in defending proceedings in which judgement is given in their favour or in which they are acquitted or the Court grants relief.

In conformity with Article 177, the Company is party to Deeds of Indemnity in favour of each of the Directors referred to in this report, who held office during the year, and certain General Managers of the consolidated entity, being indemnities to the full extent permitted by law. There is no monetary limit to the extent of the indemnity under those Deeds and no liability has arisen thereunder during or since the financial year other than in respect of the legal costs referred to below.

During and since the financial year up to the date of this report, legal costs of $231,244 have been paid by the Company in defending certain proceedings in relation to termination of employment brought by a former employee against: the Company; the Managing Director, Mr N R Adler; another employee of the consolidated entity, Dr J D Armstrong; and a former employee of the consolidated entity. These costs, which insofar as they relate to the three personal defendants have been paid pursuant to the terms of the above Deeds of Indemnity, have not been apportioned among the Company nor the three indemnified personal defendants and therefore it is not possible to determine the amount paid on behalf of each of them.

11. Rounding

Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998, applies to the Company and accordingly amounts have been rounded off in accordance with that Class Order, unless otherwise indicated.

This report is made on 15 March, 1999 in accordance with a resolution of the Directors.

J A Uhrig, Director

N R Adler, Director

15 March, 1999

Profit and Loss Statements

for the year ended 31 December 1998

	Note	Consolidated		Santos Ltd	
		1998 $million	**1997** $million	**1998** $million	**1997** $million
Sales revenue		**769.4**	778.5	**364.0**	376.0
Other revenue	(2)	**96.4**	84.6	**313.2**	119.0
Proceeds from sale of controlled entity	(25)	**137.0**	–	**–**	–
Operating revenue		**1,002.8**	863.1	**677.2**	495.0
Operating expenses		**(298.8)**	(270.4)	**(145.3)**	(117.4)
Book value of controlled entity sold	(25)	**(129.6)**	–	**–**	–
Depreciation, depletion and amortisation	(3)	**(239.8)**	(216.2)	**(93.7)**	(94.6)
Interest expense	(4)	**(67.3)**	(54.2)	**(42.7)**	(42.1)
Operating profit before income tax	(5)	**267.3**	322.3	**395.5**	240.9
Income tax attributable to operating profit	(6)	**(91.0)**	(116.1)	**(44.8)**	(53.3)
Operating profit after income tax attributable to the shareholders of Santos Ltd		**176.3**	206.2	**350.7**	187.6
Retained profits at the beginning of the year		**338.6**	283.7	**209.5**	173.2
Amount transferred from reserves	(19)	**14.9**	–	**14.9**	–
Total available for appropriation		**529.8**	489.9	**575.1**	360.8
Dividends provided for or paid	(7)	**(151.5)**	(151.3)	**(151.5)**	(151.3)
Retained profits at the end of the year		**378.3**	338.6	**423.6**	209.5

The profit and loss statements are to be read in conjunction with the notes to the financial statements.

Balance Sheets

at 31 December 1998

	Note	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Current assets					
Cash		**117.8**	109.8	**34.6**	30.6
Receivables	(8)	**122.0**	119.6	**171.2**	212.3
Inventories	(9)	**72.5**	74.8	**36.6**	38.3
Total current assets		**312.3**	304.2	**242.4**	281.2
Non-current assets					
Investments	(10)	**386.8**	389.7	**1,930.1**	1,910.6
Exploration and development expenditure	(11)	**2,243.4**	2,139.9	**788.2**	705.7
Land and buildings, plant and equipment	(12)	**1,179.8**	1,084.4	**544.4**	513.4
Intangibles	(13)	**53.6**	62.6	**–**	–
Other	(14)	**60.2**	55.4	**10.0**	11.3
Total non-current assets		**3,923.8**	3,732.0	**3,272.7**	3,141.0
Total assets		**4,236.1**	4,036.2	**3,515.1**	3,422.2
Current liabilities					
Accounts payable	(15)	**151.1**	183.5	**1,096.1**	1,215.6
Borrowings	(16)	**0.4**	3.7	**–**	0.1
Provisions	(17)	**121.3**	144.8	**117.9**	129.6
Total current liabilities		**272.8**	332.0	**1,214.0**	1,345.3
Non-current liabilities					
Borrowings	(16)	**1,397.4**	1,220.3	**–**	0.1
Provisions	(17)	**626.7**	564.9	**316.8**	293.8
Total non-current liabilities		**2,024.1**	1,785.2	**316.8**	293.9
Total liabilities		**2,296.9**	2,117.2	**1,530.8**	1,639.2
Net assets		**1,939.2**	1,919.0	**1,984.3**	1,783.0
Shareholders' equity					
Share capital	(18)	**1,555.0**	151.4	**1,555.0**	151.4
Reserves	(19)	**5.9**	1,429.0	**5.7**	1,422.1
Retained profits		**378.3**	338.6	**423.6**	209.5
Total shareholders' equity		**1,939.2**	1,919.0	**1,984.3**	1,783.0

The balance sheets are to be read in conjunction with the notes to the financial statements.

Statements of Cash Flows

for the year ended 31 December 1998

	Note	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Cash flows from operating activities					
Receipts from customers		**759.9**	809.2	**368.7**	386.0
Dividends received		**26.8**	23.9	**304.7**	161.1
Interest received		**4.7**	6.4	**1.0**	1.0
Overriding royalties received		**11.0**	16.6	**14.0**	17.7
Pipeline tariffs and other receipts		**21.5**	16.5	**18.4**	3.9
Payments to suppliers and employees		**(218.8)**	(187.9)	**(90.8)**	(82.1)
Government royalties and resource rent tax paid		**(40.7)**	(51.7)	**(21.5)**	(26.4)
Interest and other costs of finance paid		**(75.3)**	(73.6)	**(44.6)**	(47.1)
Income taxes paid		**(31.5)**	(98.7)	**(32.2)**	(20.1)
Net cash provided by operating activities	(25)	**457.6**	460.7	**517.7**	394.0
Cash flows from investing activities					
Payments for:					
Exploration		**(188.4)**	(166.9)	**(80.1)**	(64.6)
Development		**(178.2)**	(129.8)	**(58.2)**	(58.4)
Land and buildings, plant and equipment		**(185.0)**	(196.2)	**(73.6)**	(81.2)
Acquisitions of oil and gas assets		**(1.7)**	(194.7)	**–**	(13.5)
Acquisitions of controlled entities		**(25.5)**	(40.0)	**(25.5)**	(8.7)
Share subscriptions in controlled entities		**–**	–	**–**	(0.7)
Other investments		**(25.4)**	–	**(24.1)**	–
Proceeds from:					
Sale of controlled entity		**137.0**	–	**–**	–
Sale of notes		**27.2**	–	**27.2**	–
Disposal of non-current assets		**7.6**	16.6	**0.5**	1.1
Other		**4.1**	3.7	**4.1**	3.7
Net cash used in investing activities		**(428.3)**	(707.3)	**(229.7)**	(222.3)
Cash flows from financing activities					
Dividends paid		**(151.4)**	(142.5)	**(151.4)**	(142.5)
Proceeds from issues of shares		**2.2**	268.2	**2.2**	268.2
Net drawdown of borrowings		**149.7**	73.5	**–**	–
Advances to related entities		**–**	–	**(134.8)**	(273.8)
Net cash provided/(used) by financing activities		**0.5**	199.2	**(284.0)**	(148.1)
Net increase/(decrease) in cash		**29.8**	(47.4)	**4.0**	23.6
Cash at the beginning of the year		**109.8**	152.0	**30.6**	7.0
Cash held by controlled entity sold		**(22.1)**	–	**–**	–
Effects of exchange rate changes on the balances of cash held in foreign currencies		**0.3**	5.2	**–**	–
Cash at the end of the year		**117.8**	109.8	**34.6**	30.6

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

for the year ended 31 December 1998

1 Statement of Accounting Policies

The significant accounting policies that have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report has been prepared as a general purpose financial report in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views and the Corporations Law. They have been prepared on the basis of historical cost principles and do not take into account changes in the purchasing power of money or, except where specifically stated, current valuations of non-current assets. The accounting policies are consistent with those adopted in the previous financial year.

The disclosures in the financial report incorporate the additional requirements of new and revised Accounting Standards first effective in the current financial year.

(b) Non-current assets

With the exception of exploration expenditure carried forward pertaining to areas of interest in the exploration stage (refer note 1(h)), the carrying amounts of non-current assets are reviewed to determine whether they are in excess of their estimated recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(c) Principles of consolidation

The consolidated financial report comprises the financial report of Santos Ltd, the chief entity, and its controlled entities. Throughout this financial report the term "Company" refers to Santos Ltd and the term "economic entity" means the chief entity and its controlled entities.

The balances and effects of all transactions between controlled entities included in the consolidated financial report are eliminated.

Interests in associated companies are included in non-current investments and carried at cost or written down to their recoverable amount where there is a permanent diminution in value. Dividend income is only brought to account as it is received. Information, determined in accordance with the equity method of accounting, about the economic entity's interest in associated companies is contained in note 22.

Interests in unincorporated joint ventures are recognised by including in the financial report under the appropriate headings the economic entity's proportion of the joint venture costs, assets and liabilities.

Interests in partnerships are included in non-current investments and carried at cost plus the economic entity's share of the partnership's result, less drawings. The economic entity's share in the partnership's result for the year is included in the consolidated profit.

(d) Goodwill

On acquisition of a controlled entity, the identifiable net assets acquired are recorded at their fair values. To the extent that there is excess purchase consideration representing goodwill, the goodwill is amortised using the straight line method over a period of 20 years. The unamortised balance of goodwill is reviewed at each balance date and charged to profit and loss to the extent that the balance exceeds the value of expected future benefits.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to Australian currency at the exchange rate in effect at the date of each transaction. Monetary assets and liabilities held in foreign currencies at balance date are translated at the rates of exchange ruling on that date. To the extent that such balances are hedged, the effect of the hedging is taken into account. Gains or losses arising from such translations are taken to the profit and loss statements as operating profits or losses except where they relate to the assets and liabilities of overseas controlled entities.

Overseas controlled entity accounts are translated into Australian currency as follows:

(i) For self-sustaining operations, assets and liabilities are translated at the exchange rate existing at balance date, and revenue and expense items at the exchange rates applying at the date they were recognised in the controlled entities' profit and loss statements. Exchange differences arising on translation are included in the foreign currency translation reserve. In the consolidated financial report, gains and losses on certain long-term foreign currency loans are transferred to the foreign currency translation reserve. This transfer recognises that those foreign currency borrowings are matched by the net investment in overseas assets.

1 Statement of Accounting Policies continued

(e) Foreign currency transactions continued

(ii) For integrated operations, monetary assets and liabilities are translated at the exchange rate existing at balance date, non-monetary assets and liabilities at the historical exchange rate, and revenue and expense items at the exchange rates applying at the date they were recognised in the controlled entities' profit and loss statements. Any profit or loss on the translation of monetary assets and liabilities is brought to account in determining operating profit for the year.

(f) Receivables

Trade debtors and other receivables are recorded at amounts due. A provision is made for any doubtful debts based on a review of collectability of outstanding amounts at balance date. Bad debts are written off in the period they are identified.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value after provision is made for obsolescence. Cost is determined as follows:

(i) Drilling and maintenance stocks, which include plant spares, maintenance and drilling tools used for ongoing operations, are valued at average cost.

(ii) Petroleum products, which comprise extracted crude oil, LPG, condensate and naphtha stored in tanks and pipeline systems and processed sales gas and ethane stored in subsurface reservoirs, are valued using the absorption cost method.

(h) Exploration and development expenditure

Exploration and development expenditures in respect of each area of interest are accumulated and carried forward if either:

(i) such expenditure is expected to be recouped through successful development and commercial exploitation of the area of interest; or

(ii) the exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or if Directors consider the expenditure to be of reduced or no further value, accumulated exploration expenditure is written down or off in the period in which such a decision is made.

(i) Borrowings

Borrowings are carried on the balance sheet at their principal amount. Interest is accrued at the contracted rate and is included in "sundry creditors and accruals".

(j) Leases

Finance leases, which effectively transfer to the lessee substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments, disclosed as capitalised leases and amortised over the period the lessee is expected to benefit from the use of the leased assets. A corresponding liability is also established and each lease payment is allocated between the principal component and the interest expense.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are charged against operating profit in equal instalments over the lease term.

(k) Capitalisation of finance costs

Pre-production interest, finance charges and foreign currency exchange gains and losses relating to major plant and equipment projects under development and construction up to the date of commencement of commercial operations are capitalised and amortised over the expected useful economic lives of the facilities. Where funds are borrowed specifically for qualifying projects the actual finance costs incurred are capitalised. Where the projects are funded through general borrowings the finance costs are capitalised based on the weighted average borrowing rate, which for the year ended 31 December 1998 was 5.78% (1997: 6.25%).

Finance costs incurred in respect of completed projects are expensed.

(l) Deferred income

A liability is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received.

(m) Depreciation and depletion

Depreciation charges are calculated to write-off the carrying value of buildings, plant and equipment over their estimated useful lives to the entity. Depreciation of onshore buildings, plant and equipment assets is calculated using the straight line method of depreciation. The estimated useful lives to the entity will vary for each asset depending on projected average rate of usage, degree of technical obsolescence, expected commercial life and the period of time during which the right or entitlement to

1
Statement of Accounting Policies continued

(m) Depreciation and depletion continued
the asset exists. The depreciation rates are reviewed and reassessed periodically in light of the technical and economic developments.

The useful lives for each class of onshore asset will vary depending on their individual technical and economic characteristics but will generally fall within the following ranges:

- Buildings 20 – 50 years
- Plant and equipment 3 – 50 years
  - Computer equipment 3 – 5 years
  - Motor vehicles 4 – 7 years
  - Furniture and fittings 10 – 20 years
  - Pipelines 20 – 30 years
  - Plant and facilities 20 – 50 years

Depreciation of offshore plant and equipment is calculated using a unit of production method which will proportionately depreciate the assets over the life of the reserves on a field by field basis.

Depletion charges are calculated using a unit of production method which will amortise, over the life of the reserves, exploration and development expenditure together with future costs necessary to develop the hydrocarbon reserves in the respective areas of interest.

Depletion is not charged on costs carried forward in respect of areas of interest in the development stage until production commences.

(n) Restoration
Provisions are made for environmental restoration where gas and petroleum production is undertaken. Such provisions recognise the estimated future restoration obligations incrementally over the life of the hydrocarbon reserves on a unit of production basis. The estimated future obligations include removing of facilities, abandoning of wells and restoring the affected areas. Estimates for the future restoration obligations are reviewed and reassessed regularly, based on current legal requirements and technology and are measured in current dollars on an undiscounted basis. Adjustments to the provisions are made on a prospective basis.

(o) Employee entitlements
Long service leave is provided in respect of all employees, based on the present value of the estimated future cash outflow to be made resulting from employees' services up to the balance date, and having regard to the probability that employees as a group will remain in the entity's employ for the period of time necessary to qualify for long service leave.

Sick leave is provided based on the nominal value of the estimated cash outflow to be made resulting from employees' services up to the balance date, and having regard to the probability that employees as a group will utilise the non-vesting sick leave entitlement.

Contributions to defined benefit superannuation plans sponsored by the economic entity are charged against operating profit. Where the assets of a fund significantly exceed the liabilities and the fund's actuary has so recommended, contributions are suspended until such time as the surplus is reduced. The amount of such surplus is brought to account and amortised over the same period as the contributions have been suspended.

(p) Employee share ownership plans
The Company operates a number of share ownership plans.

Shares issued under the Santos Executive Share Plan, Santos Executive Share Option Plan and the Santos Employee Share Purchase Plan are treated as equity contributions to the extent the shares are paid up.

The value of the shares issued to eligible employees under the Santos Employee Share Acquisition Plan is expensed over a three year period.

(q) Income tax
Tax effect accounting is applied whereby the income tax charged in the profit and loss statements is matched with the accounting profit after allowing for permanent differences. Income tax on timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheets as a future income tax benefit or deferred income tax liability. Future income tax benefits relating to entities which incur losses are brought to account where realisation of the benefits is considered to be virtually certain.

(r) Derivative financial instruments
Gains and losses on derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposures they are hedging. The gains and losses on derivative financial instruments hedging specific purchase or sale commitments are deferred and included in the measurement of the purchase or sale.

(s) Comparatives
Where applicable, prior year amounts have been adjusted to place them on a comparable basis with current year amounts.

2 Other Revenue

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Dividends from:				
Controlled entities	**–**	–	**227.8**	64.8
Associated company	**19.4**	22.2	**19.4**	22.2
Other than related parties	**6.8**	1.7	**6.8**	1.7
Interest	**4.7**	6.3	**1.0**	1.0
Overriding royalties	**11.3**	15.0	**14.3**	16.4
Pipeline tariffs	**7.6**	9.5	**–**	–
Proceeds from sale of notes	**27.2**	–	**27.2**	–
Proceeds from disposal of non-current assets	**4.7**	16.6	**0.5**	1.1
Foreign currency gains	**2.0**	3.6	**–**	–
Other	**12.7**	9.7	**16.2**	11.8
	96.4	84.6	**313.2**	119.0

3 Depreciation, Depletion and Amortisation

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Depletion of exploration and development expenditures	**135.9**	111.4	**48.4**	42.0
Depreciation of plant and equipment	**86.8**	93.5	**44.2**	51.6
Depreciation of buildings	**2.3**	1.3	**1.1**	0.9
Amortisation of capitalised leases	**0.9**	1.0	**–**	0.1
Amortisation of goodwill	**9.0**	9.0	**–**	–
Write-down of exploration expenditure	**4.9**	–	**–**	–
	239.8	216.2	**93.7**	94.6

4 Interest Expense

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Interest paid or due and payable to:				
Controlled entities	**–**	–	**44.5**	47.0
Other than related parties:				
on loans	**79.2**	74.2	**0.1**	0.1
on finance leases	**0.8**	0.9	**–**	–
Less interest capitalised	**(12.7)**	(20.9)	**(1.9)**	(5.0)
	67.3	54.2	**42.7**	42.1

5 Operating Profit

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Operating profit before income tax includes the following items:				
Government royalties and resource rent tax	**41.1**	50.8	**21.8**	25.2
Increase in provisions:				
Doubtful debts	**0.1**	0.3	**–**	0.4
Stock obsolescence	**1.1**	0.8	**0.3**	–
Employee entitlements and non-executive Directors' retirement benefits	**3.6**	3.7	**1.6**	1.7
Future restoration costs	**3.3**	2.6	**0.4**	0.4
Operating lease rentals	**5.5**	4.3	**3.9**	3.1
Profit on disposal of non-current assets	**(1.5)**	(0.3)	**(0.3)**	(0.2)
Loss on sale of notes	**1.0**	–	**1.0**	–
Profit on sale of controlled entity	**(7.4)**	–	**–**	–

6
Taxation

	Consolidated		Santos Ltd	
	1998 $million	**1997** $million	**1998** $million	**1997** $million
Income tax attributable to operating profit				
The prima facie income tax attributable to operating profit differs from income tax expense and is calculated as follows:				
Prima facie income tax at 36%	**96.2**	116.0	**142.4**	86.7
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Non-deductible depreciation and amortisation of buildings, plant and equipment	**2.7**	4.8	**2.1**	3.6
Non-deductible depletion of exploration and development expenditure	**9.0**	9.6	**0.4**	0.3
Write-down of exploration expenditure	**1.8**	–	**–**	–
Amortisation of goodwill	**3.2**	3.2	**–**	–
Non-deductible/(assessable) items	**(1.6)**	(2.3)	**–**	0.7
Rebate on dividend income	**(8.4)**	(7.1)	**(90.6)**	(30.5)
Research and development allowances	**(10.5)**	(6.8)	**(7.8)**	(5.7)
Recognition of tax benefits not previously recognised	**–**	(2.7)	**–**	–
Income tax under/(over) provided in prior years	**(1.4)**	1.4	**(1.7)**	(1.8)
Income tax attributable to operating profit	**91.0**	116.1	**44.8**	53.3
Income tax attributable to operating profit comprises amounts set aside to:				
Provision for current income tax	**4.3**	59.1	**21.9**	38.8
Provision for deferred income tax	**84.0**	58.9	**22.9**	14.5
Future income tax benefits	**2.7**	(1.9)	**–**	–
	91.0	116.1	**44.8**	53.3

7
Dividends

Dividends provided for or paid by the Company				
Interim dividend of 12.0 cents per share, fully franked (1997: 12.0 cents per share, fully franked)	**72.7**	72.6	**72.7**	72.6
Final dividend of 13.0 cents per share, fully franked (1997: 13.0 cents per share, fully franked)	**78.8**	78.7	**78.8**	78.7
	151.5	151.3	**151.5**	151.3

Franking credits

Santos Ltd has $107.9 million of franking credits at 36% (1997: $166.2 million) available for future distribution of franked dividends, after adjusting for franking credits which will arise from the payment of the current income tax provision at 31 December 1998 and after deducting franking credits to be used in payment of the 1998 final dividend.

Notes to the Financial Statements

continued

for the year ended 31 December 1998

8 Receivables

	Consolidated		Santos Ltd	
	1998 $million	**1997** $million	**1998** $million	**1997** $million
Current				
Trade debtors	**86.5**	80.8	**39.5**	39.9
Sundry debtors and prepayments	**36.9**	40.1	**16.8**	20.1
Less provision for doubtful debts	**(1.4)**	(1.3)	**(0.8)**	(0.8)
Amounts owing by controlled entities	**–**	–	**115.7**	153.1
	122.0	119.6	**171.2**	212.3

9 Inventories

	Consolidated 1998	Consolidated 1997	Santos Ltd 1998	Santos Ltd 1997
Petroleum products	**48.3**	46.2	**25.0**	26.1
Drilling and maintenance stocks	**27.9**	31.2	**12.6**	12.9
Provision for obsolescence	**(3.7)**	(2.6)	**(1.0)**	(0.7)
	72.5	74.8	**36.6**	38.3

10 Investments

	Consolidated 1998	Consolidated 1997	Santos Ltd 1998	Santos Ltd 1997
Non-current				
Investments in controlled entities	**–**	–	**1,544.6**	1,520.9
Investment in associated company:				
Listed shares at cost	**351.7**	325.7	**351.7**	325.7
Listed notes at cost	**–**	36.3	**–**	36.3
Investment in partnership	**1.3**	–	**–**	–
Investments in other corporations:				
Listed shares at cost	**33.8**	27.7	**33.8**	27.7
	386.8	389.7	**1,930.1**	1,910.6
Market value of investments in listed shares and notes in associated company and in other corporations	**284.6**	375.4	**284.6**	375.4

The Directors have reviewed the carrying values of investments and they do not believe there has been a permanent diminution in their values and accordingly the carrying values have not been written down in 1998. An external expert's opinion has been obtained to confirm that the long-term value of the investment in associated company exceeds the carrying value at year end 1998. The external expert's valuation was based upon a review of expected cash flows discounted to present value. The Directors have reviewed the external expert's report and are satisfied that the basis of valuation is appropriate to the economic entity's circumstances.

11 Exploration and Development Expenditure

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Areas in which production has commenced				
Cost at the beginning of the year	**3,255.5**	2,733.3	**1,054.2**	923.9
Expenditure incurred during the year	**259.3**	282.3	**99.3**	116.9
Acquisitions, net of disposals and foreign currency revaluation	**(81.0)**	212.5	**–**	13.4
Expenditure transferred from areas in the exploration and development stage	**143.2**	27.4	**–**	–
Transfer to land and buildings, plant and equipment	**(12.0)**	–	**–**	–
Expenditure written off during the year	**(2.0)**	–	**–**	–
Cost at the end of the year	**3,563.0**	3,255.5	**1,153.5**	1,054.2
Less accumulated depletion	**(1,488.9)**	(1,363.8)	**(488.6)**	(440.2)
	2,074.1	1,891.7	664.9	614.0
Areas in the exploration and development stage				
Cost at the beginning of the year	**248.2**	152.9	**91.7**	75.1
Expenditure incurred during the year	**79.6**	87.5	**31.6**	15.1
Acquisitions, net of disposals and foreign currency revaluation	**(12.4)**	35.2	**–**	1.5
Expenditure transferred to areas where production has commenced	**(143.2)**	(27.4)	**–**	–
Expenditure written off during the year	**(2.9)**	–	**–**	–
Cost at the end of the year	**169.3**	248.2	**123.3**	91.7
Total exploration and development expenditure	**2,243.4**	2,139.9	**788.2**	705.7

12 Land and Buildings, Plant and Equipment

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Land and buildings				
At cost (refer below)	**67.4**	57.9	**39.6**	37.9
Less accumulated depreciation	**(34.7)**	(32.4)	**(24.7)**	(23.6)
	32.7	25.5	**14.9**	14.3
Plant and equipment				
At cost	**2,314.6**	2,152.0	**1,263.7**	1,189.5
Capitalised leases	**18.2**	18.2	**–**	–
	2,332.8	2,170.2	**1,263.7**	1,189.5
Less accumulated depreciation	**(1,185.7)**	(1,111.3)	**(734.2)**	(690.4)
	1,147.1	1,058.9	**529.5**	499.1
Total land and buildings, plant and equipment	**1,179.8**	1,084.4	**544.4**	513.4

The Directors consider the current value of land and buildings to be at least equal to their carrying value.

13 Intangibles

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Goodwill, at cost	**160.2**	160.2	**–**	–
Less accumulated amortisation	**(106.6)**	(97.6)	**–**	–
	53.6	62.6	**–**	–

14 Other Assets

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Non-current				
Security deposit (refer below)	**15.9**	18.2	**9.5**	10.8
Future income tax benefits	**4.8**	7.5	**–**	–
Other loans	**0.5**	0.5	**0.5**	0.5
Deferred foreign currency differences	**39.0**	29.2	**–**	–
	60.2	55.4	**10.0**	11.3

A security deposit has been lodged with the South Australian Government on behalf of the Cooper Basin downstream joint venture for the provision of a jetty at Port Bonython. The State Government is repaying the deposit including an interest component in annual instalments concluding in 2003.

15 Accounts Payable

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Current				
Trade creditors	**94.2**	142.8	**43.0**	43.2
Sundry creditors and accruals	**56.9**	40.7	**20.8**	10.9
Amounts owing to controlled entities	**–**	–	**1,032.3**	1,161.5
	151.1	183.5	**1,096.1**	1,215.6

16 Borrowings

Current				
Bank loans	**–**	3.3	**–**	–
Lease liabilities	**0.4**	0.4	**–**	0.1
	0.4	3.7	**–**	0.1
Non-current				
Bank loans	**600.0**	382.3	**–**	–
Commercial paper	**287.0**	414.0	**–**	–
Medium-term notes	**219.7**	149.7	**–**	–
Long-term notes	**277.1**	260.4	**–**	–
Lease liabilities	**13.6**	13.9	**–**	0.1
	1,397.4	1,220.3	**–**	0.1

Details of major credit facilities

(a) Bank loans

The economic entity has access to the following committed revolving facilities:

Revolving Facilities at 31 December 1998

Year of maturity	**Currency**	**Amount** A$million	**Amount drawn at 31 December 1998** A$million
1999	Multi option	50.0	**50.0**
1999	Australian dollars	5.0	**–**
2000	Multi option	100.0	**75.0**
2001	Multi option	125.0	**75.0**
2002	Multi option	200.0	**50.0**
2003	Multi option	325.0	**100.0**
2004	Multi option	250.0	**125.0**
2005	Multi option	150.0	**125.0**
		1,205.0	**600.0**

16
Borrowings continued

(a) Bank loans continued
Bank loans bear interest at the relevant interbank reference rate plus 0.125% to 0.25%. The weighted average annual effective interest rate is 5.15% (1997: 5.74%). Bank loans drawn at 31 December 1998 are denominated in Australian dollars.

(b) Commercial paper
The economic entity has commercial paper programs based in Hong Kong and Australia. The programs which total US$200.0 million (1997: US$200.0 million) (Euro Commercial Paper) and A$600.0 million (1997: A$600.0 million) (Promissory Notes) are supported by the revolving facilities referred to in (a) above. At 31 December 1998, A$287.0 million (1997: A$414.0 million) equivalent of commercial paper is on issue and the weighted average annual effective interest rate is 5.17% (1997: 5.02%).

(c) Medium-term notes
The economic entity has a A$500.0 million domestic medium-term note program. At 31 December 1998, A$150.0 million (1997: A$150.0 million) of fixed rate notes have been issued at an annual effective interest rate of 6.55% (1997: 6.55%), maturing in 2002. In addition, A$70.0 million (1997: nil) of medium-term notes have been issued at floating rates of interest averaging 5.47% at 31 December 1998, maturing in 2000 and 2008.

(d) Long-term notes
US$170.0 million (A$277.1 million) (1997: US$170.0 million equivalent to A$260.4 million) of long-term notes were issued to institutional investors in 1993 at an annual effective interest rate of 6.95% and are repayable in five annual US dollar instalments commencing in December 2001.

All facilities are unsecured and arranged through a controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd. In addition, Santos Ltd has guaranteed the finance lease obligations of its controlled entities.

17
Provisions

	Consolidated		Santos Ltd	
	1998 $million	**1997** $million	**1998** $million	**1997** $million
Current				
Dividends	**78.8**	78.7	**78.8**	78.7
Employee entitlements	**37.0**	33.4	**25.7**	24.1
Income tax	**5.5**	32.7	**13.4**	26.8
	121.3	144.8	**117.9**	129.6
Non-current				
Deferred income tax	**563.9**	498.9	**289.6**	266.7
Future restoration costs	**61.7**	64.9	**26.1**	26.0
Non-executive Directors' retirement benefits	**1.1**	1.1	**1.1**	1.1
	626.7	564.9	**316.8**	293.8

18 Share Capital

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Share capital				
605,909,045 (1997: 605,400,025) fully paid ordinary shares	**1,555.0**	151.4	**1,555.0**	151.4
1,929,750 (1997: 1,929,750) ordinary shares paid to 1¢	**–**	–	**–**	–
	1,555.0	151.4	**1,555.0**	151.4

Movement in fully paid ordinary shares

	Note	1998 Number of Shares	1997 Number of Shares	1998 $ million	1997 $ million
Balance at the beginning of the year		**605,400,025**	537,472,918	**151.4**	134.4
Rights issue		**–**	67,463,848	**–**	16.8
Santos Executive Share Plan	(a)	**–**	174,750	**–**	0.1
Santos Employee Share Acquisition Plan	(c)	**312,620**	190,109	**1.2**	0.1
Santos Employee Share Purchase Plan	(d)	**196,400**	98,400	**0.5**	–
Previous balance of share premium account	(f)	**–**	–	**1,401.9**	–
Balance at the end of the year		**605,909,045**	605,400,025	**1,555.0**	151.4

The market price of the Company's shares on 31 December 1998 was $4.38 (1997: $6.32).

a) Santos Executive Share Plan

The Santos Executive Share Plan was approved by shareholders in general meeting on 22 December 1987.

In essence, the Plan involves the Company issuing to employees selected by the Board ("the Executives"), a number of ordinary shares in the capital of the Company determined by the Board. There are two categories of Plan Shares which have been issued to Executives, Plan 2 Shares and Plan 0 Shares, each initially issued as partly paid shares, paid to one cent.

The Plan allows for calls to be made at the instigation of the Company in certain specified events or at the request of the Executive. While partly paid, the Plan Shares are not transferable, carry no voting right and no entitlement to dividend but are entitled to participate in any bonus or rights issue. The price payable for shares issued under the Plan varies according to the event giving rise to a call being made. Market price at the time of the call is payable on the issued Plan 2 Shares if the Executive resigns within two years from the date of issue or is dismissed. After a restriction period of two years, the price payable upon a call being made on the issued Plan 2 Shares is the lower of two-thirds of the market price on the date of allotment and the highest sale price on the day prior to the date of the call. The price payable on the issued Plan 0 Shares is the lowest of market price on the date of allotment, the date of the call and the date fourteen days thereafter.

Since its inception, some 101 Executives have participated in the Plan and 2,012,500 Plan 0 and 1,999,500 Plan 2 Shares have been issued, principally in years 1987 and 1989. During the financial year, no issue of Plan Shares was made and at balance date no offer to an Executive was outstanding. During the financial year no Plan 0 or Plan 2 Shares were fully paid and as at 31 December 1998 there were 38 holders of the outstanding 1,003,500 Plan 0 Shares and 33 holders of the outstanding 926,250 Plan 2 Shares.

In 1997 the Board determined that the Plan be discontinued and, accordingly, there has been no further issues of shares under the Plan.

(b) Santos Executive Share Option Plan

The Santos Executive Share Option Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. The Plan provides for the grant of options to subscribe for or purchase ordinary shares in the capital of the Company to eligible executives selected by the Board. Participation will be limited to those executives who, in the opinion of the Board, are able to significantly influence the generation of shareholder wealth. Directors envisage the Plan applying to up to 50 executives.

18
Share Capital continued

(b) Santos Executive Share Option Plan continued

Each option is a right to acquire one share, subject to adjustment in accordance with the Rules of the Plan. The options entitle the holder to participate in any bonus issue conducted by the Company, upon exercise of the options. The exercise price of each option will be adjusted in the event of a rights issue.

The exercise price of the options shall not be less than Market Value (as defined in the Rules of the Plan) on the grant date. No consideration is provided by executives for the options.

During the financial year, the Company granted options over unissued shares as set out in the following table. The ability to exercise the options is conditional on the Company achieving a prescribed performance hurdle. To reach the performance hurdle, the Company's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) ("TSR Growth") over a three year period (or four year period as indicated in the table below), must equal or exceed 10% per annum calculated on a compound basis. If Total Shareholder Return does not reach the performance hurdle at the end of those respective periods, the options may nevertheless be exercisable if the hurdle is subsequently reached within the remaining life of the options. In assessing the performance against the hurdle, the Board may apply on a consistent basis an averaging method over a period of three months to allow for short-term volatility.

Date of grant	Number of ordinary shares under option	Exercise price	Date first exercisable[1]	Expiry date
1 May 1998	1,575,000[2]	$5.59	1 May 2001	30 April 2003
1 May 1998	1,575,000[3,4]	$5.59	1 May 2002	30 April 2003
16 June 1998	2,825,000[5]	$4.84	16 June 2001	15 June 2003

1. In limited circumstances the options may be exercised before this date.
2. Of these 1,575,000 options, 1,250,000 were granted to Mr N R Adler and 325,000 were granted to Mr J W McArdle.
3. Of these 1,575,000 options, 1,250,000 were granted to Mr N R Adler and 325,000 were granted to Mr J W McArdle.
4. The prescribed performance hurdle in respect of these options is set by reference to TSR Growth of 10% per annum over a four year period.
5. These comprise options granted to Dr J D Armstrong, Mr R E McArdle and Mr M G Roberts and 31 other participating eligible executives.

At 31 December 1998, the total number of options acquired under the Plan since its commencement was 11,525,000, some of which have lapsed.

At the date of the Directors' Statutory Report, unissued ordinary shares of the Company under option are:

Expiry date of options	Issue price of shares	Number of ordinary shares under option
24 July 2002	$6.32	5,100,000
30 April 2003	$5.59	3,150,000
15 June 2003	$4.84	2,825,000

During or since the end of the financial year, no shares have been issued as a result of the exercise of an option.

(c) Santos Employee Share Acquisition Plan

The Santos Employee Share Acquisition Plan was approved by shareholders at the Annual General Meeting on 15 May 1997.

18 Share Capital continued

(c) Santos Employee Share Acquisition Plan continued

Broadly, permanent employees with at least a minimum period of service determined by Directors as at the offer date (one year of completed service for issues so far) are eligible to acquire shares under this Plan. Executives participating in the Santos Executive Share Option Plan (see above), casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

The Plan provides for free grants of fully paid ordinary shares in the capital of the Company up to a value of $1,000 per annum per eligible employee. A trustee is funded by the Company and its subsidiaries to acquire shares direct from the Company or on market. The shares are then allocated to eligible employees who have made applications under the Plan. The employee's ownership of shares allocated under the Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of three years and the time when he or she ceases to be an employee. Shares are granted to eligible employees for no consideration.

On 28 August 1998, the Company issued 312,620 ordinary shares to the trustee on behalf of 1,276 eligible employees under the Plan, being 245 shares for each employee. The total market value of those shares on the issue date was $1,250,480. At the Board's discretion, annual future grants of up to $1,000 per eligible employee may be offered. At this time no offers remain outstanding under this Plan.

At 31 December 1998, the total number of shares acquired under the Plan since its commencement was 502,729.

(d) Santos Employee Share Purchase Plan

The Santos Employee Share Purchase Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. The Plan is open to all employees (other than a casual employee or an executive Director of the Company) determined by the Board who are continuing employees at the date of the offer. However, employees who are not resident in Australia at the time of an offer under the Plan will not be eligible to participate in that offer unless the Board otherwise decides.

Under the Plan, eligible employees may be offered the opportunity to subscribe for fully paid ordinary shares in the capital of the Company at a discount to market price, subject to a 12 month restriction on disposal. The subscription price is 95% of Market Value (as defined in the Rules of the Plan). No loans will be provided to employees under the Plan.

On 7 April 1998, the Company issued 71,800 ordinary shares to 121 eligible employees at a subscription price of $5.30 per share under the Plan. The total market value of those shares on the issue date was $405,670 and the total amount received from employees for those shares was $380,540.

On 6 October 1998, the Company issued 124,600 ordinary shares to 169 eligible employees at a subscription price of $4.01 per share under the Plan. The total market value of those shares on the issue date was $580,636 and the total amount received from employees for those shares was $499,646.

The Company may make further offers under the Plan, but only during the periods following the announcement of the Company's half year and annual results.

At 31 December 1998, the total number of shares acquired under the Plan since its commencement was 294,800.

(e) Maximum number of shares that may be acquired under share and option schemes

The aggregate number of:

(a) shares issued and for the time being subject to the terms of each employee share plan of the Company; and

(b) unissued shares in respect of which options are granted and for the time being outstanding under any employee or executive share option plan of the Company;

cannot exceed 5% of the issued shares of all classes of the Company.

18
Share Capital continued

(f) Previous balance of share premium account

In accordance with the provisions of the Corporations Law the balance of the share premium account on 1 July 1998 became part of the Company's share capital. Changes to the Corporations Law effective on 1 July 1998 abolished the concepts of "par value" and "share premium" in relation to shares. As from 1 July 1998, all amounts received on the issue of shares have been credited to the share capital account.

19
Reserves

	Consolidated		Santos Ltd	
	1998 $million	**1997** $million	**1998** $million	**1997** $million
Share premium	**–**	1,401.5	**–**	1,401.5
Asset revaluation	**–**	14.9	**–**	14.9
Capital	**5.9**	5.9	**5.7**	5.7
Foreign currency translation	**–**	6.7	**–**	–
	5.9	1,429.0	**5.7**	1,422.1
Movements during the year				
Share premium				
Balance at the beginning of the year	**1,401.5**	1,149.1	**1,401.5**	1,149.1
Premium on shares issued	**0.4**	252.4	**0.4**	252.4
Became part of share capital on 1 July 1998	**(1,401.9)**	–	**(1,401.9)**	–
Balance at the end of the year	**–**	1,401.5	**–**	1,401.5
Asset revaluation				
Balance at the beginning of the year	**14.9**	14.9	**14.9**	14.9
Transferred to retained profits	**(14.9)**	–	**(14.9)**	–
Balance at the end of the year	**–**	14.9	**–**	14.9
Foreign currency translation				
Balance at the beginning of the year	**6.7**	(1.7)	**–**	–
Transfers to/(from) foreign currency translation reserve arising from exchange rate fluctuations on:				
Overseas net assets	**18.0**	39.7	**–**	–
Foreign currency borrowings	**(14.5)**	(31.3)	**–**	–
Transfer on sale of controlled entity	**(10.2)**	–	**–**	–
Balance at the end of the year	**–**	6.7	**–**	–

20
Earnings per Share

	Consolidated	
	1998	**1997**
Basic earnings per share (cents)	**29.1**	35.3
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (million)	**605.6**	583.7

Santos Ltd has potential ordinary shares on issue being 1,929,750 (1997: 1,929,750) ordinary shares paid to 1 cent issued to senior executives of the Company under the Santos Executive Share Plan, the dilutive impact of which is not material. Diluted earnings per share are therefore not materially different to basic earnings per share.

Options over 11,075,000 (1997: 5,550,000) unissued ordinary shares issued to senior executives of the Company under the Santos Executive Share Option Plan are not dilutive.

21 Investments in Controlled Entities

Name	Place of incorporation
Santos Ltd (Chief Entity)	SA
Controlled entities[1]:	
Alliance Oil Development Australia Pty Ltd	VIC
Controlled entity of Alliance Oil Development Australia Pty Ltd	
Alliance Petroleum Australia Pty Ltd	VIC
Australasian Eagle Petroleum Pty Ltd	NSW
Controlled entities of Australasian Eagle Petroleum Pty Ltd	
Castend Pty Ltd	NSW
Santos (BOL) Pty Ltd	NSW
Controlled entities of Santos (BOL) Pty Ltd	
Bridge Gas Queensland Pty Ltd	QLD
Bridge Oil Exploration Pty Ltd	ACT
Bridge Oil International Finance Pty Ltd	ACT
Bridge Oil Developments Pty Ltd	NSW
Bridge Oil Investments Pty Ltd	NSW
Controlled entity of Bridge Oil Investments Pty Ltd	
Santos (Bentu) Pty Ltd	NSW
Controlled entity of Santos (Bentu) Pty Ltd	
Santos (Bangko) Pty Ltd	WA
Boston Long Hedges Finance Pty Ltd	VIC
Doce Pty Ltd	QLD
Reef Oil Pty Ltd	NSW
Santos Australian Hydrocarbons Pty Ltd[3]	QLD
Santos Facilities Pty Ltd	SA
Santos Finance Ltd	NSW
Santos (Halph) Pty Ltd	ACT
Moonie Pipeline Company Pty Ltd	QLD
Controlled entities of Moonie Pipeline Company Pty Ltd	
Candolia Pty Ltd	ACT
Australian Interstate Pipeline Company Pty Ltd	NSW
Controlled entity of Australian Interstate Pipeline Company Pty Ltd	
Bridgefield Pty Ltd	QLD
Santos Asia Pacific Pty Ltd	QLD
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Bentu No. 2) Pty Ltd	QLD
Santos (Korinci-Baru No. 2) Pty Ltd	SA
Santos (Sampang) Pty Ltd	SA
Santos (Warim) Pty Ltd	SA
Western Australian Capital Holdings Pty Ltd	WA
Controlled entities of Western Australian Capital Holdings Pty Ltd	
Farmout Drillers Pty Ltd	NSW
Canso Resources Pty Ltd	NSW
Santos International Holdings Pty Ltd	ACT
Controlled entities of Santos International Holdings Pty Ltd	
Santos Americas and Europe Corp[2]	USA
Controlled entities of Santos Americas and Europe Corp	
SAE Management Services Corp[2]	USA
Santos Colombia Exploration Inc[2]	USA
Santos USA Corp[2]	USA
Controlled entity of Santos USA Corp	
Santos USA Pipeline Corp[2]	USA
Barracuda Limited[2]	PNG
Peko Offshore Ltd	BER
Santos Exploration (China) Pte Ltd (in liquidation)[2]	SIN
Santos Niugini Exploration Limited[2]	PNG
Santos Petroleum (NZ) Ltd[2]	NZ
Santos Petroleum (Seram) Ltd[2]	HK
Santos (Korinci-Baru) Pty Ltd	ACT
Santos (N.T.) Pty Ltd	ACT
Santos Offshore Pty Ltd	VIC
Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
Santos Petroleum Pty Ltd	NSW
Santos Resources Pty Ltd	QLD
Santos (Varanus) Pty Ltd[3]	WA
Santos (Zoca 91-01) Pty Ltd	ACT
Santos (Zoca 91-12) Pty Ltd	ACT
Vamgas Pty Ltd	VIC
Santos QNT Pty Ltd[3]	QLD
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd[3]	QLD
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd	QLD
Santos Petroleum Marketing Pty Ltd	QLD
Santos Petroleum Operations Pty Ltd	QLD
TMOC Exploration Pty Ltd	QLD
Santos QNT (No. 2) Pty Ltd[3]	QLD
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Alliance Minerals Australia Pty Ltd	VIC
Associated Petroleum Pty Ltd	QLD
Moonie Oil Pty Ltd	QLD
Petromin Pty Ltd	QLD
Santos (299) Pty Ltd	QLD
Santos Exploration Pty Ltd	VIC
Santos Gnuco Pty Ltd	QLD
Transoil Pty Ltd	QLD

1. Beneficial interests in all controlled entities is 100%.
2. Entities audited by overseas KPMG member firms.
3. Companies acquired or incorporated during the year.

21
Investments in Controlled Entities
continued

Notes

(a) Acquisition of controlled entities

(i) The following controlled entity was acquired during the year and its operating results have been included in the profit and loss statement from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest acquired %	Consideration paid for shares $million	Fair value of net assets at time of acquisition $million
Gulf Australian Hydrocarbons Ltd	1 January 1998	100	31.1	31.1

During the year the name of Gulf Australian Hydrocarbons Ltd was changed to Santos Australian Hydrocarbons Pty Ltd.

(ii) During the year Santos QNT Pty Ltd, Santos QNT (No. 1) Pty Ltd and Santos QNT (No. 2) Pty Ltd were incorporated. These companies subsequently acquired other controlled entities in accordance with a plan to realign the corporate structure with the operating business units.

(iii) During the year Santos (Varanus) Pty Ltd was incorporated to hold the economic entity's interest in a partnership (refer note 23).

(b) Disposal of controlled entities

(i) The following controlled entity was sold during the year and its operating results have been included in the profit and loss statement up to the effective date of disposal:

Name of entity	Effective date of disposal	Beneficial interest disposed %	Consideration received for shares $million	Book value of net assets at time of disposal $million
Santos Europe Ltd	31 May 1998	100	137.0	129.6

(ii) During the year Worldwide Assets Pty Ltd and Latec Investments Pty Ltd were placed into voluntary liquidation.

(c) Place of incorporation

ACT – Australian Capital Territory	NSW – New South Wales	QLD – Queensland
SA – South Australia	VIC – Victoria	WA – Western Australia
NZ – New Zealand	BER – Bermuda	HK – Hong Kong
MAL – Malaysia	PNG – Papua New Guinea	SIN – Singapore
UK – United Kingdom	USA – United States of America	

22
Associated Company

Details of investment in an associated company is as follows:

Name of associated company	Country where business carried on	Principal activity	Balance date	Beneficial interest in ordinary shares at 31 December		Book value of ordinary shares at 31 December (a)		Contribution to consolidated profit (b)	
				1998	**1997**	**1998**	**1997**	**1998**	**1997**
				%	%	$million	$million	$million	$million
QCT Resources Limited	Australia	Coal mining	30 June	**36.4**	34.9	**351.7**	325.7	**18.3**	20.8

Supplementary equity accounting information relating to the associated company:

	1998 $million	**1997** $million
Share of operating profit after income tax	**17.6**	10.2
Deduct amortisation of excess of fair values of net assets over the book values of net assets	**(5.3)**	(4.9)
Deduct ordinary share dividend income	**(16.4)**	(18.2)
Equity adjustment to operating profit after income tax	**(4.1)**	(12.9)
Deduct share of post acquisition decrease in retained profits at the beginning of the year	**(24.4)**	(11.5)
Total of post acquisition decrease in retained profits at the end of the year	**(28.5)**	(24.4)
Investment in ordinary shares as included in the consolidated financial report	**351.7**	325.7
Aggregate carrying value of investment in associated company as determined under the equity method of accounting	**323.2**	301.3

(a) In addition to ordinary shares, the economic entity and chief entity held an investment of $36.3 million at year end 1997, in non-maturing subordinated unsecured convertible notes ("notes") issued by QCT Resources Limited. During the current year the notes were either sold on the open market or converted into share capital.

(b) Represents dividends received of $16.4 million (1997: $18.2 million) on holdings of ordinary shares and interest received or receivable after tax of $1.9 million (1997: $2.6 million) on holdings of notes during the year.

23
Interest in Partnership

(a) As at 31 December 1998 the economic entity has an interest in the following partnership:

Name of partnership	Country where business carried on	Principal activity	Balance date	Beneficial interest in partnership as at 31 December		Contribution to consolidated profit	
				1998	**1997**	**1998**	**1997**
				%	%	$million	$million
Apache/Santos Pipeline Partnership	Australia	Construction and operation of pipeline	31 December	**50.0**	N/A	**NIL**	N/A

(b) The economic entity's share of the partnership's capital expenditure commitments and contingent liabilities are as follows:

	1998 $million
Commitments	
Share of partnership's capital expenditure commitments contracted but not provided in the financial report:	
Due not later than one year	**3.1**

24
Interests in Joint Ventures

(a) Santos Ltd and its controlled entities have combined interests in unincorporated joint ventures in the following major areas:

Joint venture/area	Principal activities	Average interest %
Bass Basin	Oil and gas exploration	5
Bonaparte Basin		
Bonaparte Sea	Oil and gas exploration	52
Timor Gap	Oil and gas exploration	18
Timor Sea	Oil and gas exploration and production	22
Browse Basin	Oil and gas exploration	24
Carnarvon Basin	Oil and gas exploration and production	33
Cooper Basin Downstream	Liquid hydrocarbon transportation and processing	60
Cooper Basin Unit		
South Australia	Oil and gas production	60
Queensland	Oil and gas exploration and production	60
Cooper/Eromanga Basins Block		
South Australia	Oil and gas exploration and production	60
Queensland, ATP 259P	Oil and gas exploration and production	60
Other Eromanga	Oil and gas exploration and production	33
Denison Trough	Oil and gas exploration and production	50
Indonesian interests	Oil and gas exploration and production	34
Jackson Moonie Pipeline	Oil transportation	83
Mereenie	Oil and gas production	65
Mereenie Pipeline	Oil transportation	65
Taranaki Basin – New Zealand	Oil and gas exploration	30
Otway Basin	Oil and gas exploration	34
Palm Valley	Gas production	48
Papua New Guinean interests	Oil and gas exploration	34
Roma	Oil and gas exploration and production	64
Southern Surat	Oil and gas exploration and production	53
Surat	Oil and gas exploration and production	40
USA		
Onshore/Gulf Coast	Oil and gas exploration and production	35
Gulf of Mexico	Oil and gas exploration and production	20

(b) The sales revenue received from the economic entity’s share of petroleum products produced by the joint ventures was $769.4 million (1997: $778.5 million) and the contribution of joint venture business undertakings to operating profit before interest and tax of the economic entity was $313.9 million (1997: $361.1 million).

24 Interests in Joint Ventures continued

	Consolidated		Santos Ltd	
	1998 $million	**1997** $million	**1998** $million	**1997** $million
(c) Santos Ltd and its controlled entities' share of assets and liabilities employed in the joint ventures are included in the balance sheets under the following classifications:				
Current assets				
Cash	**14.8**	28.0	**1.7**	8.0
Receivables	**16.1**	20.9	**6.7**	9.8
Inventories	**23.7**	28.2	**11.4**	12.1
Total current assets	**54.6**	77.1	**19.8**	29.9
Non-current assets				
Exploration and development expenditure	**2,227.9**	2,129.4	**783.6**	701.9
Land and buildings, plant and equipment	**1,114.4**	1,036.5	**515.6**	496.9
Other	**15.9**	18.2	**9.5**	10.8
Total non-current assets	**3,358.2**	3,184.1	**1,308.7**	1,209.6
Total assets	**3,412.8**	3,261.2	**1,328.5**	1,239.5
Current liabilities				
Accounts payable	**98.9**	141.9	**41.2**	41.3
Non-current liabilities				
Provisions	**60.0**	63.3	**26.1**	26.0
Total liabilities	**158.9**	205.2	**67.3**	67.3
Net investments in joint ventures	**3,253.9**	3,056.0	**1,261.2**	1,172.2
(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures are:				
Capital expenditure commitments	**18.9**	46.1	**9.9**	23.8
Minimum exploration commitments	**158.6**	161.5	**82.8**	37.7
Contingent liabilities	**12.0**	11.6	**8.0**	6.4

25 Notes to Statements of Cash Flows

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
(a) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	**176.3**	206.2	**350.7**	187.6
Add/(deduct) non-cash items:				
Depreciation of buildings, plant and equipment	**89.1**	94.8	**45.3**	52.5
Depletion of exploration and development expenditure	**135.9**	111.4	**48.4**	42.0
Amortisation of capitalised leases	**0.9**	1.0	**–**	0.1
Amortisation of goodwill	**9.0**	9.0	**–**	–
Write-down of exploration expenditure	**4.9**	–	**–**	–
Increase/(decrease) in income taxes payable	**(26.9)**	(42.1)	**(12.1)**	14.9
Net increase in deferred taxes payable and future income tax benefits	**86.4**	56.0	**26.0**	14.5
Increase in provisions	**2.7**	4.7	**1.8**	1.9
Interest capitalised	**(12.7)**	(20.9)	**(1.9)**	(5.0)
Foreign currency gains	**(2.0)**	(3.6)	**–**	–
Deduct items classified as investing activities:				
Profit on sale of controlled entity	**(7.4)**	–	**–**	–
Loss on disposal of notes	**1.0**	–	**1.0**	–
Profit on disposal of non-current assets	**(1.5)**	(0.3)	**(0.3)**	(0.2)
Net cash provided by operating activities before change in assets or liabilities	**455.7**	416.2	**458.9**	308.3
Add/(deduct) change in assets or liabilities:				
Decrease/(increase) in receivables	**(12.9)**	17.8	**49.5**	71.1
Decrease/(increase) in inventories	**(1.9)**	(3.0)	**1.1**	(0.2)
Decrease in other assets	**2.2**	2.3	**–**	1.1
Increase in accounts payable	**14.5**	27.4	**8.2**	13.7
Net cash provided by operating activities	**457.6**	460.7	**517.7**	394.0
(b) Acquisitions of controlled entity				
During the financial year, the economic entity acquired a controlled entity as disclosed in note 21. Details of the acquisition are as follows:				
Fair value of net assets acquired				
Exploration and development	**27.9**	43.6	**27.9**	–
Land and buildings, plant and equipment	**3.1**	1.0	**3.1**	0.8
Cash	**0.6**	2.1	**0.6**	–
Receivables	**0.5**	1.5	**0.5**	9.7
Inventories	**0.3**	–	**0.3**	–
Accounts payable	**(1.0)**	(0.9)	**(1.0)**	(0.5)
Provisions	**(0.3)**	(0.4)	**(0.3)**	(0.3)
Consideration	**31.1**	46.9	**31.1**	9.7
Outflow of cash to acquire net assets, net of cash acquired				
Total consideration to be paid	**31.1**	46.9	**31.1**	9.7
Less amount due for payment in 1999	**(5.0)**	–	**(5.0)**	–
Less cash paid in prior year	**–**	(4.8)	**–**	(1.0)
Less cash balances acquired	**(0.6)**	(2.1)	**(0.6)**	–
Outflow of cash	**25.5**	40.0	**25.5**	8.7

Notes to the Financial Statements
continued

for the year ended 31 December 1998

25
Notes to Statements of Cash Flows continued

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
(c) Disposal of controlled entity				
During the financial year the economic entity sold its interest in Santos Europe Ltd as discussed in note 21. Details of the sale are as follows:				
Cash proceeds from sale	**137.0**	–	–	–
Net assets sold				
Exploration and development	**134.0**	–	–	–
Land and buildings, plant and equipment	**2.2**	–	–	–
Cash	**22.1**	–	–	–
Receivables	**3.9**	–	–	–
Accounts Payable	**(5.6)**	–	–	–
Provisions	**(16.8)**	–	–	–
Foreign currency translation reserve	**(10.2)**	–	–	–
	129.6	–	–	–
Profit after income tax on disposal of controlled entity	**7.4**	–	–	–

26
Related Parties

The names of each person holding the position of Director of Santos Ltd during the financial year are:

UHRIG John Allan
ADLER Norman Ross
BARNETT Peter Charles
GERLACH Stephen
McARDLE John Walter
O'LEARY Michael Anthony
SLOAN Judith
STRAUSS Robert: retired 1 May 1998
WEBBER Ian Ernest

Santos Ltd and its controlled entities engage in a variety of related party transactions in the ordinary course of business. These transactions are conducted on normal terms and conditions, the effects of which are eliminated on consolidation.

Details of related party transactions and amounts are set out in:

Note 2 as to dividends received from controlled entities;
Note 4 as to interest paid to controlled entities;
Note 8 as to amounts owing by controlled entities;
Note 15 as to amounts owing to controlled entities;
Note 16 as to guarantees by Santos Ltd of the financing facilities and lease obligations of controlled entities;
Note 17 as to non-executive Directors' retirement benefits;
Notes 10 and 21 as to investments in controlled entities;
Note 22 as to investments in associated company and interest and dividends received from associated company; and
Note 27 as to Directors' remuneration, including amounts paid or prescribed benefits given in respect of the retirement of Directors.

26
Related Parties continued

In addition:

(i) Agreements exist with the non-executive Directors providing for the payment of a sum on retirement from office as a Director in accordance with shareholder approval at the 1989 Annual General Meeting. The amount provided for the year was $195,277 (1997: $327,560).

(ii) Included in other loans is an amount of $506,000 (1997: $506,000) being a loan made to an executive Director of Santos Ltd, Mr N R Adler, in accordance with the provisions of the Loan Scheme approved at the 1990 Annual General Meeting. Interest received during the year on this loan totalled $32,890 (1997: $32,890).

(iii) During the financial year, executive Directors of Santos Ltd, Messrs N R Adler and J W McArdle, acquired an aggregate of 3,150,000 options (1997: 850,000) under the Santos Executive Share Option Plan and the further terms approved by shareholders at the Annual General Meeting of the Company held on 1 May 1998 (further details of the terms of these options appear in paragraph (b) of note 18).

(iv) The aggregate number of shares and options held directly, indirectly or beneficially by Directors of Santos Ltd and their director-related entities in Santos Ltd as at the balance sheet date was 569,800 fully paid ordinary shares (1997: 574,675), 930,000 Executive Share Plan Shares paid to 1 cent (1997: 930,000) and 4,000,000 options granted under the Santos Executive Share Option Plan (1997: 850,000).

	Santos Ltd	
	1998 $million	**1997** $million
(v) All amounts owing by or to controlled entities are for loans made on interest free terms for an indefinite period with the exception of:		
Amounts owing to controlled entities	**620.9**	725.8

These loans were made in the ordinary course of business on normal market terms and conditions.

(vi) During the financial year, legal costs of $230,220 (1997: $415,344) have been paid by the Company in defending certain proceedings in relation to termination of employment brought by a former employee against: the Company; the Managing Director, Mr N R Adler; another employee of the economic entity, Dr J D Armstrong; and a former employee of the economic entity. These costs, which in so far as they relate to the three personal defendants have been paid pursuant to the terms of Deeds of Indemnity entered into between the Company and each of them, have not been apportioned among the Company nor the three indemnified personal defendants and therefore it is not possible to determine the amount paid on behalf of each of them.

27 Executives' and Directors' Remuneration

	Consolidated 1998 $000	Consolidated 1997 $000	Santos Ltd 1998 $000	Santos Ltd 1997 $000
Executives				
Amounts received from Santos Ltd or its controlled entities by executive officers domiciled in Australia whose income is $100,000 or greater	**5,026**	4,106	**5,026**	4,106
Number of executive officers whose remuneration was within the following bands:				
$000	**No.**	**No.**	**No.**	**No.**
220 – 230	**2**	1	**2**	1
230 – 240	**1**	–	**1**	–
240 – 250	**–**	1	**–**	1
250 – 260	**–**	1	–	1
270 – 280	**1**	–	**1**	–
290 – 300	**1**	–	**1**	–
300 – 310	**–**	1	**–**	1
310 – 320	**–**	2	**–**	2
330 – 340	**1**	–	**1**	–
340 – 350	**2**	1	**2**	1
510 – 520	**1**	–	**1**	–
590 – 600	**–**	1	**–**	1
650 – 660	**1**	–	**1**	–
1,510 – 1,520	**–**	1	**–**	1
1,580 – 1,590	**1**	–	**1**	–

Executive Officers disclosed above are those persons within the economic entity who have responsibility for the strategic direction and operational management of major business units. This disclosure is a change for 1998 and prior year values have been restated.

	Consolidated 1998 $000	Consolidated 1997 $000	Santos Ltd 1998 $000	Santos Ltd 1997 $000
Directors				
Amounts received or due from Santos Ltd and its controlled entities to the Directors of Santos Ltd and Directors of each of its controlled entities	**3,305**	3,140	**2,807**	2,724
Number of Directors whose remuneration was within the following bands:				
$000			**No.**	**No.**
10 – 20			**1**	–
50 – 60			**1**	6
60 – 70			**3**	1
70 – 80			**1**	–
220 – 230			**1**	1
590 – 600			**–**	1
650 – 660			**1**	–
1,510 – 1,520			**–**	1
1,580 – 1,590			**1**	–

27
Executives' and Directors' Remuneration continued

	Consolidated		Santos Ltd	
	1998 $000	**1997** $000	**1998** $000	**1997** $000
Retirement Benefits				
Retirement benefits paid to Directors, in accordance with Directors' retirement arrangements previously approved by shareholders in a general meeting	**258**	–	**258**	–

28
Remuneration of Auditors

	Consolidated		Santos Ltd	
	1998 $000	**1997** $000	**1998** $000	**1997** $000
Amounts received or due and receivable by the auditors of Santos Ltd for:				
Audit of financial reports	**380**	375	**285**	281
Other audit assurance services	**390**	360	**376**	331
Other services	**254**	181	**212**	150
	1,024	916	**873**	762
Amounts received or due and receivable by auditors other than the auditors of Santos Ltd for:				
Audit of financial reports	**87**	94	**–**	–
Other audit assurance services	**20**	33	**–**	–
Other services	**285**	140	**–**	–
	392	267	**–**	–

29
Segment Reporting

Santos Ltd and its controlled entities operate predominantly in one industry, namely exploration, development, production, transportation and marketing of hydrocarbons and in one geographical segment, namely Australia. Operations are also conducted in Indonesia, Papua New Guinea and the United States but are not material to the economic entity results. Revenue is derived from the sale of gas and liquid hydrocarbons and transportation of crude oil.

30 Commitments for Expenditure

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
Santos Ltd and its controlled entities have the following commitments for expenditure:				
(a) Capital commitments				
Capital expenditure contracted for at balance date for which no amounts have been provided in the financial report:				
Due not later than one year	**13.7**	43.2	**6.4**	21.8
Due later than one year but not later than two years	**2.3**	2.5	**1.6**	1.7
Due later than two years but not later than five years	**2.9**	–	**1.9**	–
Due later than five years	**–**	0.4	**–**	0.3
	18.9	46.1	**9.9**	23.8
(b) Minimum exploration commitments				
Minimum exploration commitments for which no amounts have been provided in the financial report or capital commitments:				
Due not later than one year	**45.8**	43.8	**9.5**	5.7
Due later than one year but not later than two years	**31.4**	25.5	**10.0**	0.3
Due later than two years but not later than five years	**119.8**	46.1	**50.5**	3.1
Due later than five years	**45.0**	46.1	**22.4**	28.6
	242.0	161.5	**92.4**	37.7

Santos Ltd and its controlled entities have certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.

	Consolidated 1998 $million	Consolidated 1997 $million	Santos Ltd 1998 $million	Santos Ltd 1997 $million
(c) Lease commitments				
Finance leases:				
Due not later than one year	**1.1**	1.1	**–**	0.1
Due later than one year but not later than two years	**1.1**	1.1	**–**	0.1
Due later than two years but not later than five years	**14.0**	15.2	**–**	–
Total commitments under finance leases	**16.2**	17.4	**–**	0.2
Less future finance charges	**(2.2)**	(3.1)	**–**	–
Lease liabilities	**14.0**	14.3	**–**	0.2
Operating leases:				
Due not later than one year	**14.5**	15.8	**4.3**	3.5
Due later than one year but not later than two years	**46.0**	22.8	**3.5**	3.7
Due later than two years but not later than five years	**60.2**	61.6	**10.1**	5.1
Due later than five years	**29.5**	36.7	**5.4**	6.9
Total commitments under operating leases	**150.2**	136.9	**23.3**	19.2

31
Superannuation Commitments

Santos Ltd and certain of its controlled entities participate in a number of superannuation funds and pension plans in Australia and United States of America which provide benefits either on a defined benefit or cash accumulation basis for employees or their dependants on retirement, resignation, total or permanent disablement or death.
The employers and employee members make contributions as specified in the rules of the respective funds.

The assets of all funds were sufficient to satisfy all benefits which would have been vested in the event of termination of the fund, or in the event of voluntary or compulsory termination of the employment of each employee. The following is a review of the significant employee benefit plans:

	Santos Petroleum Management Superannuation Fund and Santos Retirement Plan	**Santos Superannuation Fund**
Type of benefit	Cash accumulation	Defined benefits and cash accumulation
Basis of contributions	Percentage of member's wage contributed by member and employer	Percentage of member's salary contributed by member and employer. The employer's percentage reflects the amount to provide an accumulation and the amount recommended by the actuary to provide the defined benefit.
Employer's legal obligation to contribute	Enforceable subject to right to cease contributions on written notice to the Trustee	Enforceable subject to right to cease contributions on written notice to the Trustee.
Last actuarial assessment:		
Date	Not applicable	1 January 1997
Name of valuer and qualifications	Not applicable	NL Wilmont BSc, FIAA

The Santos Superannuation Fund has employee accrued benefits and assets as follows:

	Consolidated		Santos Ltd	
	As at 30 June 1998 $million	**As at 1 January 1997 $million**	**As at 30 June 1998 $million**	**As at 1 January 1997 $million**
Present value of employees' accrued benefits	*	64.1	*	64.1
Net market value of net assets held by the Fund to meet future benefit payments	**85.3**	72.9	**85.3**	72.9
Excess of assets held to meet future benefit payments	*	8.8	*	8.8

Vested benefits at 1 January 1998 are $73.4 million.

* The last actuarial review of the Santos Superannuation Fund was at 1 January 1997. Upon recommendation of the actuary, the employer contribution to the defined benefits and 3% supplementary accounts were suspended until 31 December 1998. The employer contributions are to recommence as from 1 January 1999. The last audited financial statements available are as at 30 June 1998.

32 Contingent Liabilities

	Consolidated		Santos Ltd	
	1998 $million	1997 $million	1998 $million	1997 $million
Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of other persons:				
Performance guarantees	**4.9**	7.6	**3.9**	4.9
Employee service agreements	**4.0**	3.3	**4.0**	3.3
Claims have been lodged including the following:				
(a) claims under and for breach of contract and public liability	**7.1**	4.0	**4.1**	1.5
(b) miscellaneous claims	**–**	0.3	**–**	–
	16.0	15.2	**12.0**	9.7

Legal advice in relation to the claims lodged above indicates that on the basis of available information, liability in respect of these claims is unlikely to exceed $2.0 million on a consolidated basis.

Guarantees provided by Santos Ltd for borrowings in respect of controlled entities are disclosed in note 16. In addition, Santos Ltd has guaranteed other borrowings of $27.0 million in relation to its interest in partnership disclosed in note 23.

A number of the Australian interests of the economic entity are located within areas the subject of one or more claims or applications for native title determination. Whatever the outcome of those claims or applications, it is not believed that they will significantly impact the economic entity's asset base. The decision of the High Court of Australia in the "Wik" case has the potential to introduce delay in the grant of mineral and petroleum tenements and consequently to impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues dependant on the response of the States to the Commonwealth Native Title Amendment Act, 1998.

33 Additional Financial Instruments Disclosure

The economic entity uses derivative financial instruments to hedge its exposure to changes in foreign exchange rates, commodity prices and interest rates arising in the normal course of business. The principal derivatives used are forward foreign exchange contracts, foreign currency option contracts, interest rate swaps and commodity crude oil price swap contracts. Their use is subject to a comprehensive set of policies, procedures and limits approved by the Board of Directors. The economic entity does not trade in derivative financial instruments for speculative purposes.

(a) Foreign exchange risk exposure

The economic entity is exposed to foreign exchange risk principally through the sale of liquid petroleum products denominated in US dollars, US dollar borrowings and US dollar capital expenditure. In order to hedge this foreign exchange risk, the economic entity has from time to time entered into forward foreign exchange and foreign currency option contracts.

At 31 December 1998 the economic entity had open forward foreign exchange and foreign currency option contracts with settlement/expiry dates up to one month. If closed out at balance date these contracts would have resulted in a loss of $0.1 million (1997: loss of $2.1 million) that has been deferred for inclusion as part of the underlying future sales transaction.

US dollar denominated borrowings are fully designated either as a hedge of US dollar denominated investments in self-sustaining overseas controlled entities or as a hedge of future US denominated sales revenues. As a result, there were no foreign currency gains or losses arising from translation of US denominated dollar borrowings recognised in the profit and loss statement in 1998. Accordingly, $39.0 million of unrealised foreign currency losses were deferred as at 31 December 1998 (1997: $29.2 million). The ultimate foreign currency gains or losses will be included in the measurement of the specific hedged US dollar denominated sales revenues to be realised in the years 2001 through 2005.

33 Additional Financial Instruments Disclosure continued

		Consolidated		Santos Ltd	
		1998 $million	1997 $million	1998 $million	1997 $million
The Australian dollar equivalents of foreign currency monetary items included in the balance sheet to the extent that they are not effectively hedged are:					
Current assets	– United States dollars	**54.6**	14.7	**11.5**	–
	– United Kingdom pounds	**–**	15.1	**–**	–
Current liabilities	– United States dollars	**9.6**	13.4	**–**	–
	– United Kingdom pounds	**–**	12.0	**–**	–

(b) Interest rate risk exposure

The economic entity enters into interest rate swap contracts with maturities up to 10 years to manage interest rate risk.

At 31 December 1998 the economic entity had open interest rate swap contracts which if closed would have resulted in a gain of $7.2 million (1997: loss of $0.5 million).

The economic entity's exposure to interest rate risk and the effective weighted average interest rates for classes of interest-bearing financial assets and financial liabilities is set out below:

		Floating interest rate	Fixed interest repriced or maturing in			Non interest bearing	Total
			1 year or less	Over 1 to 5 years	More than 5 years		
	Note	$million	$million	$million	$million	$million	$million
31 December 1998							
Financial assets							
Cash		117.8	–	–	–	–	117.8
Receivables	8	–	–	–	–	122.0	122.0
Investments	10	–	–	–	–	386.8	386.8
Other assets	14	–	–	–	0.5	–	0.5
		117.8	–	–	0.5	508.8	627.1
Weighted average interest rate		*4.07%*	–	–	*6.50%*		
Financial liabilities							
Accounts payable	15	–	–	–	–	151.1	151.1
Borrowings	16	14.0	907.0	346.0	130.8	–	1,397.8
		14.0	907.0	346.0	130.8	151.1	1,548.9
Interest rate swaps*		–	179.3	(55.0)	(124.3)	–	–
Weighted average interest rate		*5.01%*	*5.49%*	*6.29%*	*6.95%*		

* notional principal amounts

33
Additional Financial Instruments Disclosure continued

(b) **Interest rate risk exposure** continued

	Note	Floating interest rate	Fixed interest repriced or maturing in			Non interest bearing	Total
			1 year or less	Over 1 to 5 years	More than 5 years		
		$million	$million	$million	$million	$million	$million
31 December 1997							
Financial assets							
Cash		109.8	–	–	–	–	109.8
Receivables	8	–	–	–	–	119.6	119.6
Investments	10	–	–	–	–	389.7	389.7
Other assets	14	–	–	–	0.5	–	0.5
		109.8	–	–	0.5	509.3	619.6
Weighted average interest rate		*4.63%*	–	–	*6.50%*		
Financial liabilities							
Accounts payable	15	–	–	–	–	183.5	183.5
Borrowings	16	17.6	796.2	253.9	156.3	–	1,224.0
		17.6	796.2	253.9	156.3	183.5	1,407.5
Interest rate swaps*		–	120.2	26.9	(147.1)	–	–
Weighted average interest rate		*5.95%*	*5.75%*	*6.61%*	*6.95%*		

* notional principal amounts

(c) Commodity price risk exposure

The economic entity is exposed to liquid petroleum price fluctuations through the sale of liquid petroleum products denominated in US dollars. The economic entity enters into commodity crude oil price swap contracts to manage its commodity price risk. These contracts allow the economic entity to receive a fixed price on a specified quantity of crude oil at some point in the future.

At 31 December 1998 the economic entity did not have any open crude oil price swap contracts (1997: Nil).

(d) Credit risk exposure

Credit risk represents the potential financial loss if counterparties fail to perform as contracted.

The credit risk on financial assets, excluding investments, of the economic entity which have been recognised on the balance sheet is indicated by the carrying amount.

The credit risk on off-balance sheet derivatives is the cost of replacing the contract if the counterparty was to default and is measured by their market value at the reporting date. As at 31 December 1998, counterparty default of interest rate swap contracts, foreign exchange contracts and foreign currency options would result in a loss of $10.6 million (1997: loss of $2.5 million).

The economic entity controls credit risk on derivative financial instruments by setting exposure limits related to the credit worthiness of counterparties, all of which are selected banks or institutions with a Standard and Poor's rating of A or better.

33
Additional Financial Instruments Disclosure continued

(e) Net Fair Values of Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities approximate net fair value other than investments (refer note 10).

The estimated amount that the economic entity would expect to receive if the derivative financial instruments contracts relating to future revenue transactions were closed out at their market rates at 31 December 1998 amounted to $7.1 million (1997: loss $2.6 million).

34
Economic Dependency

There are in existence long-term contracts for the sale of gas, but otherwise the Directors believe there is no economic dependency.

35
Post Balance Date Events

On 1 February 1999 the Company announced the acquisition, subject to Papua New Guinea Government approvals, of a 31% interest in Petroleum Development Licence No. 1 which contains the majority of the Hides Gas Field.

In addition, Petroleum Exploration Licence Nos. 5 and 6 in South Australia expired, in accordance with their terms, at the end of February 1999.

Directors' Declaration

for the year ended 31 December 1998

In the opinion of the Directors of Santos Ltd:

(a) the financial statements and notes, set out on pages 42 to 73, are in accordance with the Corporations Law, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 1998 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Adelaide this 15th day of March 1999.

Signed in accordance with a resolution of the Directors:

J A Uhrig
Director

N R Adler
Director

Independent Auditors' Report

to the members of Santos Ltd

Scope

We have audited the financial report of Santos Ltd for the financial year ended 31 December 1998, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 42 to 74. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Santos Ltd is in accordance with:

(a) the Corporations Law, including:

- i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 1998 and of their performance for the year ended on that date; and
- ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

KPMG

KPMG
Chartered Accountants

William J Stevens
Partner

Adelaide, 15 March 1999

Stock Exchange and Shareholder Information

Listed on Australian Stock Exchange at 26 February 1999 were 605,712,645 fully paid ordinary shares. Unlisted are 1,003,500 partly paid Plan 0 shares, 926,250 partly paid Plan 2 shares and 196,400 fully paid ordinary shares issued pursuant to the Santos Employee Share Purchase Plan ('SESPP'). There were 81,428 holders of all classes of issued shares (including 38 holders of Plan 0 shares and 33 holders of Plan 2 shares) compared with 67,003 a year earlier.

The listed issued ordinary shares plus the ordinary shares issued pursuant to SESPP represent all of the voting power in Santos. The holdings of the 20 largest holders of shares represent 42.76% of the total voting power in Santos (last year 48.38%).

The 20 largest shareholders in Santos as shown in the Company's Register of Members at 26 February 1999 were:

Name	**Number of fully paid shares**	**% of voting capital**
Westpac Custodian Nominees Limited	50,637,549	8.36
National Nominees Limited	36,815,282	6.08
Chase Manhattan Nominees Limited	33,023,398	5.45
ANZ Nominees Limited	26,617,527	4.39
Perpetual Trustees Nominees Limited	13,513,132	2.23
MLC Limited	11,947,137	1.97
SAS Trustee Corporation	11,003,465	1.82
Queensland Investment Corporation	9,903,048	1.63
BT Custodial Services Pty Limited (Sub Cus Account)	8,855,690	1.46
Perpetual Trustees Australia Limited	8,271,247	1.36
Westpac Custodian Nominees Limited (ADR Account)	8,014,151	1.32
AMP Life Limited	7,989,224	1.32
Citicorp Nominees Pty Limited	6,233,323	1.03
Woodross Nominees Pty Ltd (BTCASH Account)	4,611,091	0.76
AMP Nominees Pty Limited	4,230,377	0.70
Prudential Corporation Australia Limited	4,137,715	0.68
Permanent Trustee Australia Limited (ADV0006 Account)	4,000,000	0.66
Australian Foundation Investment Company Limited (Investment Portfolio Account)	3,514,251	0.58
IOOF Australia Trustees (NSW) Limited	2,951,393	0.49
AM Trusteeship Services Limited	2,839,823	0.47
	259,108,823	42.76

Substantial Shareholders, as at 26 February 1999, as disclosed by notices received by the Company:

Name	**Address**	**No. of voting shares held**
Maple-Brown Abbott Limited	Level 28, 60 Margaret Street SYDNEY NSW 2000	63,077,366
The Capital Group Inc.	333 South Hope Street LOS ANGELES California 90071 USA	25,001,726

Analysis of Fully Paid Ordinary Shares – range of shares held

	Fully paid ordinary shares (Holders)	**% of holders**	**% of shares held**
1 – 1,000 *	24,448	30.04	2.48
1,001 – 5,000	44,726	54.95	17.79
5,001 – 10,000	7,790	9.57	9.09
10,001 – 100,000	4,186	5.14	14.04
100,001 and over	240	0.30	56.60
Total No.	**81,390**	**100.00**	**100.00**

* There were 1,286 shareholders who held less than 100 shares which at the then current market price was deemed to be the minimum marketable parcel.

For Directors' Shareholdings see Directors' Statutory Report as set out on page 38 of this Annual Report.

Voting Rights

Every member present in person or by an attorney, a proxy or a representative shall on a show of hands, have one vote and upon a poll, one vote for every fully paid share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

Notice of Meeting

The Annual General Meeting of Santos Ltd will be held in the Auditorium at The Adelaide Town Hall Function Centre, 128 King William Street, Adelaide, South Australia on Tuesday, 4 May 1999 at 11.00 a.m.

Final Dividend

The 1998 final ordinary dividend will be paid on 30 April 1999 to shareholders registered in the books of the Company at the close of business on 8 April 1999 in respect of fully paid shares held at record date.

Shareholders' Enquiries

Enquiries from shareholders and other interested people should be directed to:
Investor Relations Santos Ltd Santos House Level 29 91 King William Street Adelaide South Australia 5000
Email: investor.relations@santos.com.au

Directors

J A Uhrig Chairman, N R Adler Managing Director, P C Barnett, S Gerlach, J W McArdle Executive Director, M A O'Leary, J Sloan, I E Webber

Secretary

M G Roberts

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Santos