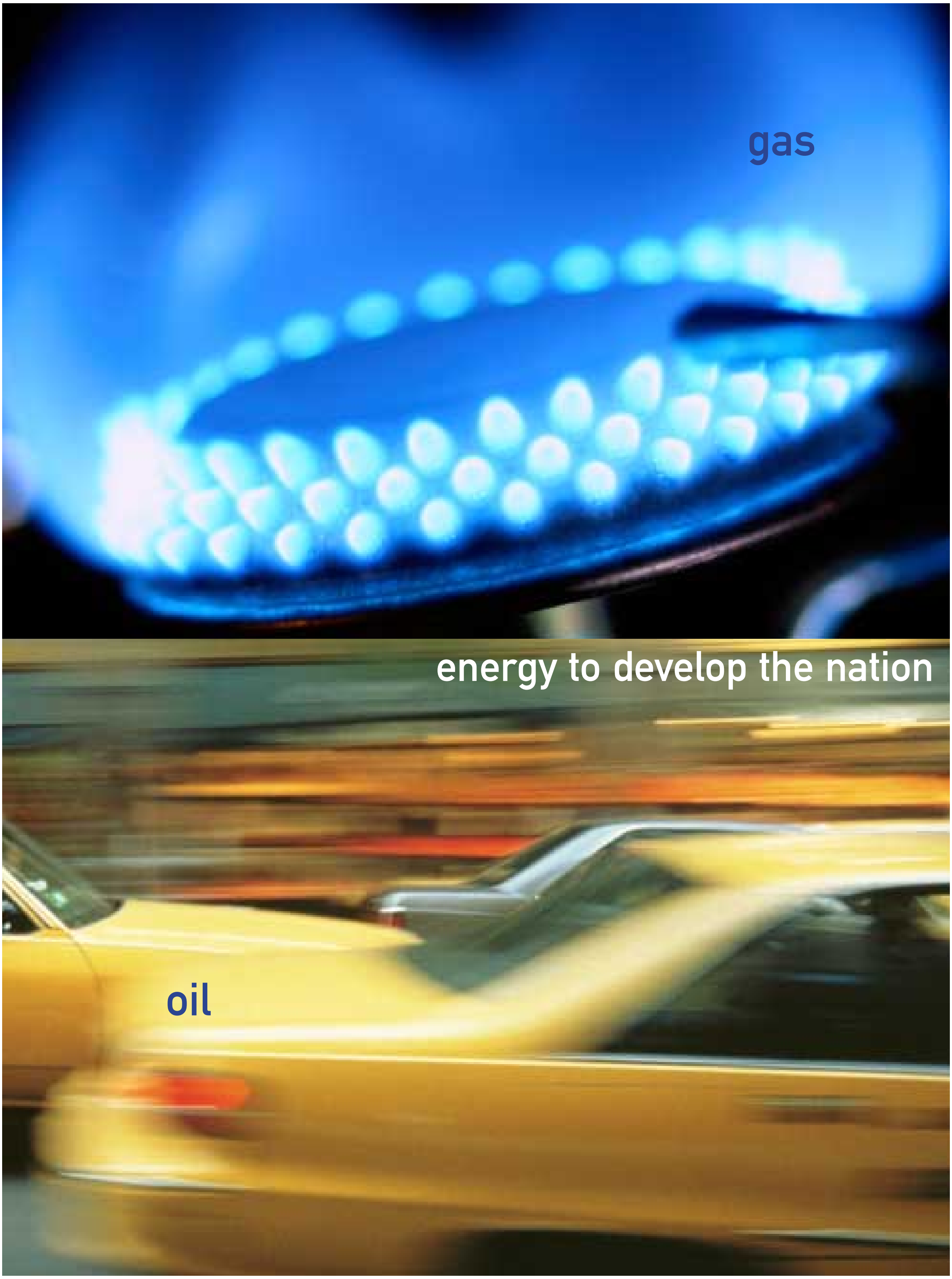
Santos

annual report 1999



Santos is Australia's largest onshore oil and gas producer, with assets of over $4 billion and annual production of almost 50 million barrels of oil equivalent.

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

In the past decade Santos' portfolio of interests has expanded considerably, with exploration acreage and producing interests offshore Australia and in South East Asia and the United States.

Contents

On 10 March 2000, after completion of the Report, Santos announced a strategic acquisition of Carnarvon Basin assets. Details of this acquisition, and other information on the Company, can be found on the Santos website.

Visit the Santos website www.santos.com.au

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.

Santos was founded in 1954 by a group of Adelaide businessmen who believed that South Australia and the Northern Territory had potential for oil and gas. This was eight years before any commercial quantities of hydrocarbons were found anywhere in Australia. The search proved to be a long and expensive one but it was ultimately rewarded with the discovery of one of Australia's major petroleum provinces.

energy to develop the nation

Since its first discoveries in the 1960s, and after the investment of billions of dollars, Santos has now grown to become one of Australia's major energy providers, with interests throughout the nation and overseas. With its joint-venturers it meets over one-third of the demand for domestic gas in Australia, as well as producing significant quantities of oil and petroleum liquids. Santos is proud of the role it plays in meeting Australia's energy needs.

gas

home heating, cooking, water heating, cement, food production, guttering, heating, catering, drying purposes, cement, cooking, food production,

energy to develop the nation

the future of Australia

Santos' gas has been an integral part of Australia's development. As the gas industry in Australia grows, so too will the number of people who benefit from what Santos does.

copper, nickel and gold production

Gas from Santos' operation in the Cooper Basin is used by MIM at Mt Isa in the processing of copper. Gas from the East Spar field, in which Santos has an interest, is used by WMC in their nickel and gold operations in Western Australia.

motor vehicle manufacturing

Cooper Basin gas is used as a fuel source for the manufacture of motor vehicles at the Mitsubishi Motors plant located in Adelaide.

catering, drying purposes, fuel for cars and buses, motor vehicles, brake fluid, plastic packaging, home heating, cooking, water plastic food wrap, fuel for cars and buses, motor vehicles, guttering, brake fluid, plastic packaging, plastic food wrap

pasta production

Gas from Santos' Cooper Basin operation is used by San Remo for the processing of pasta. San Remo, located in Adelaide, is the largest pasta producer in Australia.

plastic packaging

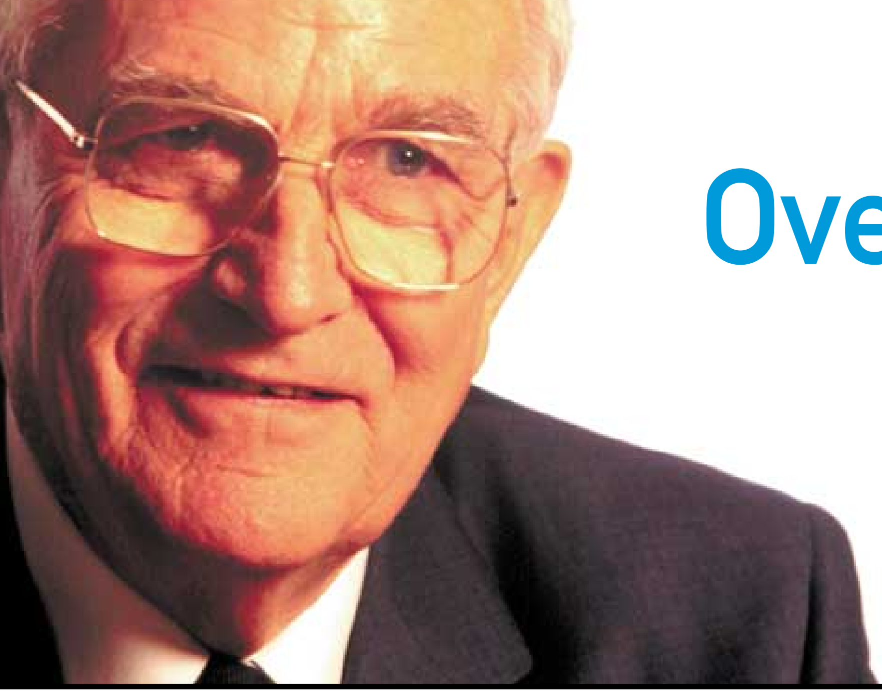
Ethane, from Santos' Cooper Basin operations, is converted into polyethylene at the Qenos petrochemical plant in New South Wales. Polyethylene is used in the manufacture of products such as food wrap and plastic packaging.

electricity generation

Santos' gas is used as a fuel source in the generation of electricity in many locations in Australia.

fertiliser

Gas from Santos' Cooper Basin operations is used by Incitec Ltd in the production of high grade nitrogen fertilisers at its plants in New South Wales and Queensland and also by WMC in their fertiliser processing operations at Mt Isa.



Chairman's Overview 1999

The past year has been another productive one for Santos.

The Company delivered record quantities of gas to its customers, both new and long-standing, and production of oil and liquids was at a seven-year high.

Earnings per share grew by 24% to a record 36 cents. This was a good outcome and one that exceeded market expectations.

In view of the strong profit result in 1999, the good results so far in 2000 and the outlook for the year as a whole Directors have declared a final dividend of 15 cents per share, increasing the total dividend payout to 27 cents for the year. The dividend continues to be fully franked.

Notwithstanding the growth in earnings per share and the high dividend yield, Santos' share price underperformed the Australian Energy Index during 1999 after outperforming in 1998. This has been disappointing for the Board and management, particularly given the achievements of the year.

Record production and earnings growth do not just happen but reflect the contributions of people throughout the Company. Santos' employees performed marvellously during the year and, on behalf of the Board, I wish to record our appreciation and thanks to the Company's management and employees.

Workplace safety is a particular priority for the Board. I am pleased to report that the Company achieved a 47% improvement in its safety performance during 1999.

Responsible environmental management is also important. It is pleasing to record that there were no significant environmental incidents in 1999.

During the year the Board welcomed two new Directors, Mr Graeme McGregor and Mr Frank Conroy. Both bring significant experience from a number of industries which will be valuable to the Company as it goes forward.

Protecting and Building the Future

One milestone during 1999 was that Santos celebrated 40 years of activity in Queensland. Santos now has a history of 45 years' successful operation since its formation. This has taken it from the early pioneering days of exploration in the Cooper Basin to interests in all Australian mainland States and Territories, offshore Australia, and internationally in the United States, Papua New Guinea and Indonesia.

In relative terms, however, Santos is still a young player in the world oil and gas industry, and the industry itself is still relatively new in Australia, notwithstanding the major role it now has in the economic well-being of the nation. This makes it even more important for the industry to foster and nurture the skills required to maintain and strengthen its capabilities.

The oil and gas industry depends on a highly educated workforce. This can only come from properly encouraged and funded tertiary education institutions which the business community needs to support if it is to be a mutual beneficiary.

To this end, Santos endowed the University of Adelaide with a chair of petroleum engineering as part of a long-term alliance with the University. The Company's commitments are spread over a long period of time and are detailed on page 23 of this report. This investment will deliver to the community, industry and to Santos substantive real benefits in the years ahead and the Board believes the benefits to the Company will exceed the cost.

Santos meanwhile remains securely and well placed to continue its growth and value for shareholders.

J A Uhrig, Chairman
6 March 2000

Managing Director's Review 1999

The year 1999 was a remarkable one for the world's oil industry and a good one for Santos.

Twelve months ago the world was, as *The Economist* put it, "Drowning in Oil". For Santos, this meant we had to start the year by doing what we could to mitigate the fall in oil prices through increased production and reduced costs.

However, by year-end oil prices were at their highest level since the Gulf War and there was talk about oil shortages.

During 1999 Santos achieved record profits, not only because of improved prices but also due to our own efforts.

This is another good result, which further strengthens the Company.

Santos has a strong balance sheet, skilled people, good acreage and a strong market position. We are the leading supplier of gas to Australian users.

While all companies have challenges as well as opportunities, Santos is in good shape for further growth.

Financial Results

In 1999 Santos achieved record earnings of $219.2 million before abnormal items, an increase of 24.3%. Earnings per share before abnormals reached a record 36.2 cents. Return on shareholders' funds increased to 10.7% and gearing fell to 63.3%.

This result is better than could have been foreseen twelve months ago.

Oil production reached its highest level in five years.

Increased oil production was achieved despite technical production difficulties experienced by our Stag and Elang oil fields. The problems in both fields have now been successfully addressed.

In 2000 total production is expected to grow further and we aim to keep it growing. During 1999 we committed to the development of the Legendre oil field and the Bayu-Undan Liquids Project.

Oil Prices

Managing fluctuations in the oil price is an important part of Santos' business. In 1998, when the oil price was falling, the Company was careful not to overreact. Staff numbers and the skills base were not cut, nor was the dividend reduced. Rather, the Company managed the situation by prudent management of other costs and capital expenditure.

While the future direction of oil prices is always uncertain, recent history provides considerable confidence for the industry and for Santos.

Santos benefits from strong oil prices but, at times when oil prices are low, it has a secure earnings stream from its gas business.

Gas Sales

Santos sells more gas in Australia than any other supplier, and in 1999 took sales to a new record. It is the only producer to sell gas in all Australian mainland States and Territories and it has interests in all major Basins capable of producing gas in Australia.

Gas consumption in Australia is forecast to grow and this provides opportunities, notwithstanding the increased level of competition between gas suppliers.

During the year Santos continued to develop its Australian gas business through acquisition and development activity. We acquired a 25% interest in the large Hides gas field in Papua New Guinea. This provides the opportunity to participate in the proposed Papua New Guinea to Queensland Gas Project. We also commenced our first direct gas sales in Victoria.

Looking Forward

> **In 2000, we expect our gas sales to grow further. In Australia, we have extensive gas resources and infrastructure. We will continue to explore for additional gas reserves and seek to extend existing contracts and secure new contracts.**

Exploration

Santos changed the balance and nature of its exploration program in 1999 in response to:

> The fall in world oil prices during 1998 and early 1999; and

> The completion of the Accelerated Exploration Program in the South Australia Cooper Basin in February 1999.

As a result our exploration program during 1999 was reduced. We drilled a fewer number of onshore wells and a larger proportion of higher risk wells.

The lower success rate during the year reflected these changes in the program. However, our average finding costs remain competitive and we continue to have a long average reserve life of 19 years at 1999 production rates.

Looking Forward

> **In 2000 we plan to increase spending on exploration to around $100 million. The program has a number of exciting prospects. Also, a significant amount of work will go into reviewing and upgrading our exploration portfolio, which will increase the number of opportunities for future years.**

> **The 2000 exploration program has already had one success with the Moomba 104 new pool oil discovery. This discovery, made in the South Australian Cooper Basin during February, is expected to contribute to the Company's oil production during 2000.**

Financial Outlook

Continued earnings growth is our top priority.

While 1999 was good, we expect 2000 to be significantly better than 1999 and performance in the first two months of 2000 supports this view. Following successful drilling, oil production has increased considerably from both the Stag and Elang oil fields and the recently discovered Moomba 104 oil pool is soon expected to go into production.

Gas production is also expected to increase further in 2000.

Looking Forward

> **Total production for 2000 is expected to exceed 51 million boe prior to the benefit of any acquisitions completed during 2000.**

Capital Management

Our financial capacity is strong.

During 1999, we successfully reduced our gearing to 63.3%. Interest cover increased from 4.4 to 5.0.

The Company has the capacity to invest in worthwhile exploration, development and acquisition opportunities.

At the same time we will continue to ration capital internally to high grade our portfolio of opportunities.

Coal Investment

Santos maintains its 36.4% interest in QCT Resources Limited. Over the last two years the performance of this investment has been disappointing. Despite considerable progress made by QCT Resources Limited in reducing costs, the outlook for the coal industry as a whole has deteriorated.

Santos believes that the carrying value of the Company's investment in QCT Resources Limited is appropriate. The opinion of an external expert has been obtained, confirming that the value of the investment in QCT Resources Limited exceeds the carrying value at year end 1999.

Human Resources

Santos is proud of the contribution made to the 1999 results by employees throughout the Company.

We continue to strengthen our senior management. In last year's report I mentioned three significant appointments.

These have been followed by the recent appointment of Mr Jonathon Young as General Manager of the South Australia Business Unit. Mr Young has 20 years of experience in senior positions in the oil and gas industry in Australia, the United States and other countries.

2000 and Beyond

Santos had a good year in 1999. We achieved most of the things that we set out to do and, importantly, we added further value to our business. In particular, positive results were achieved in development, acquisitions and gas sales.

In 2000, we will continue to seek out ways to grow our business and achieve earnings growth. With a sound business structure and high calibre of management and staff, I remain very positive about the outlook for the Company in 2000 and beyond.

N. R. Adler.

N R Adler
Managing Director
6 March 2000

1999 Highlights

1999 was a good year for Santos:

> Record production of 49 million boe
> Earnings per share before abnormals up 24% to a record 36 cents
> Operating cash flow up 16% to a record $530 million
> Gearing (net debt to equity) reduced to 63%
> Dividend payout increased to 27 cents per share

Santos achieved most things it set out to do.

Outlook January 1999	What the Company achieved
Production growth reflecting full year effect of new development projects.	Increase in production of 7.9%.
Improve Stag oil field production rate.	Improved production rates achieved reflecting successful remedial work program.
Reduction in operating costs per boe produced.	Operating costs per boe marginally increased from $4.49/boe to $4.52/boe.
$170 million reduction in exploration and development expenditure.	Total spending reduced by over $200 million.
1999 operating profit to be adversely affected by low oil prices.	Increase in operating profit of 24.3% reflecting improved oil prices and Company performance.
Studies to continue on a range of possible future development projects.	Commitment made to participate in the Legendre and Bayu-Undan projects.

Santos' strategy:

Maximise the value of the Company's core South Australian oil and gas business
Continue the growth of the Queensland, Northern Territory and Offshore Australia businesses
Develop the existing business in the United States and South East Asia

Santos added further value to its business:

Exploration

Drilled 34 wells with a 41% success rate

Discovered one new gas field and two gas field extensions in the Cooper Basin and successfully appraised the Yandina and Scotia gas fields in eastern Queensland and the Segat and Baru gas fields in Indonesia.

Acquisitions/Divestments

Acquired interests in the Hides gas field (Papua New Guinea), the Mylor/Fenton Creek gas fields (onshore Otway Basin) and the Kipper gas field (Gippsland Basin).

Development

Committed to two major development projects – Legendre and Bayu-Undan

Completed the Phase 4 expansion of the Ballera Gas Plant.

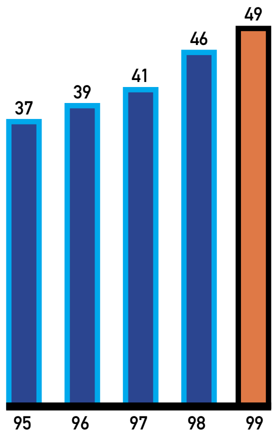
Developed the Heytesbury Gas Facility.

Marketing

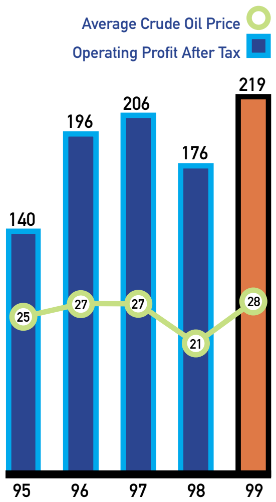
Commenced first direct sale of gas in Victoria.

Commenced a new East Spar gas contract.

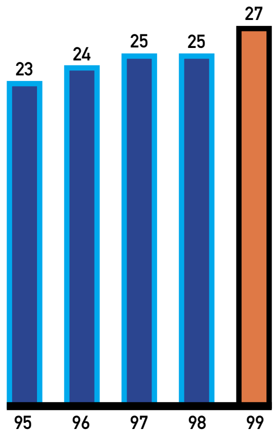
Results Overview



Production
(mmboe)



Net Profit After Tax
($million)
before abnormals



Dividends
(Cents per share)

Key Financial Results	1999	1998
Sales revenue ($million)	944.5	769.4
Earnings before interest expense and tax ($million)	414.0	334.6
Profit attributable to shareholders after tax before abnormal item ($million)	219.2	176.3
Profit attributable to shareholders after tax and abnormal item ($million)	309.1	176.3
Cash flow from operations ($million)	529.9	457.6
Exploration and development expenditure ($million)	297.4	504.5
Earnings per share before abnormals (cents)	36.2	29.1
Earnings per share after abnormals (cents)	51.0	29.1
Dividends per share (fully franked) (cents)	27.0	25.0
Total shareholders' equity ($ million)	2056.7	1939.2
Return on shareholders' equity after abnormals	15.0%	9.1%
Net debt/shareholders' equity	63.3%	66.0%
Net interest cover (times)	5.0	4.4

Our Objective

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

Our Values

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

Our 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

Business Units
Operations

	South Australia	Queensland and Northern Territory	Offshore Australia
Operational Profile	**Cooper/Eromanga Basins (South Australia)** > Exploration and Production **Port Bonython Liquids Processing Plant** > LPG extraction and liquids processing **Otway Basin** > Exploration and Production	**Cooper/Eromanga Basins (south-west Queensland)** > Exploration and Production **Surat/Bowen Basins** > Exploration and Production **Amadeus Basin** > Exploration and Production	**Exploration Acreage** > Bonaparte Basin, Browse Basin, Carnarvon Basin, Otway Basin, Bass Basin and Gippsland Basin **Production** > Crude oil: Stag and Chervil fields (Carnarvon Basin); Elang/Kakatua/ Kakatua North fields (Timor Gap); Jabiru and Challis fields (Timor Sea) > Sales gas and condensate: East Spar field (Carnarvon Basin)
Strategy	Increase contribution to Group earnings through gas marketing and control of development and operating costs. Continue to explore for new reserves and extract value from existing assets through development activity.	Increase contribution to Group earnings through commercialisation and cost-effective development of substantial gas reserves, together with continuing exploration to increase reserves.	Increase contribution to Group earnings through exploration and development. Development is focussed on existing reserves and the opportunities which arise through exploration.
Operations 1999	Production 23.5 mmboe Reserves 325 mmboe	Production 17.5 mmboe Reserves 355 mmboe	Production 6.8 mmboe Reserves 226 mmboe
Business Unit General Managers	Jonathon Young	Rod McArdle	John Armstrong

South East Asia

Papua New Guinea

> Exploration Acreage
> Oil production from SE Gobe field

Indonesia

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

Strategy is focussed on exploration targeting opportunities near SE Gobe, the continued development and use of seismic technology in Papua New Guinea and the commercialisation of gas resources in Indonesia.

Production 0.4 mmboe
Reserves 29 mmboe

Bob Hall

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.

Strategy is focussed on the optimisation of existing exploration and production interests and the participation in joint ventures with experienced players. Opportunistic acquisitions will continue to be pursued.

Production 1.0 mmboe
Reserves 6 mmboe

Michael Baugh
President

Company Management

Managing Director
Ross Adler

Commercial Executive General Manager
John McArdle

Accounting General Manager
Don Priestley

Engineering General Manager
Denis Dare

Exploration General Manager
Michael Frost

Finance & Investor Relations General Manager
Graeme Bethune

Group General Counsel and Company Secretary
Michael Roberts

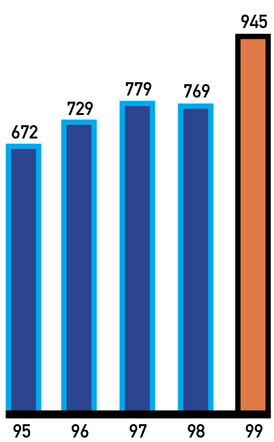
Liquids Marketing General Manager
Jeremy Lawrance

Petroleum Development and Planning General Manager
Ashok Khurana

Review of Performance
Financial Performance

Financial Snapshot

	$million	% increase
Sales revenue	944.5	22.8
Operating expenses + Depreciation & Depletion	542.3	10.7
Earnings before interest expense & tax	414.0	23.7
Operating profit after tax	219.2	24.3
Operating profit after tax & abnormal item	309.1	75.3
Earnings per share before abnormals	36.2 cents	24.4
Return on average equity before abnormals	11.0%	N/A



Sales Revenue ($million)

Year 2000

Santos experienced no disruption to its business due to the rollover of the century date.

Key Points

> The 23% growth in sales revenue reflects increased sales volumes and higher prices received.

> Operating expenses and depreciation and depletion increased by 11% due primarily to increased production.

> A record net profit after tax and before abnormals was achieved, with earnings per share of 36.2 cents.

> An abnormal tax item of $89.9 million was recorded reflecting the reduction in company tax rate.

> Return on shareholders' funds before abnormals increased to 10.7%.

Cash Flow and Balance Sheet

During 1999, Santos achieved a record operating cash flow and successfully reduced its gearing. This was a significant feat. The Company has a strong financial capacity and this will enable it to pursue further exploration, development and acquisition opportunities.

Treasury Policies and Funding

The Company moderates the impact on its cash flows caused by movements in the Australian dollar/US dollar exchange rate by hedging a portion of its US dollar sales revenue. The currency hedging program resulted in a small gain in 1999.

The approach to management of foreign exchange, interest rate and commodity price risk is detailed in Note 32 to the Financial Statements. The Company's borrowing facilities are summarised in Note 16 and the structure of its share capital is set out in Note 18.

Credit Rating

During the year, Standard and Poor's downgraded the Company's credit rating from "A- Negative Outlook" to "BBB+ Stable Outlook". The current credit rating remains strong and compares favourably with the majority of exploration and production companies.

Cash Flow & Balance Sheet

	1999	1998
Cash flow from operations	$529.9 million	$457.6 million
Operating cash flow per share	87.4 cents	75.6 cents
Net debt	$1,301.1 million	$1,280.0 million
Net debt to equity	63.3%	66.0%
Dividend per share	27 cents	25 cents
Shareholders' equity	$2,056.7 million	$1,939.2 million

10 Year Summary

1990-1999

As at 31 December	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Crude oil price (A$/bbl)	30.72	28.00	28.65	27.64	23.64	24.96	27.43	27.42	20.95	27.57
Profit and Loss ($million)										
Sales revenue	709.5	655.9	689.8	680.2	640.0	671.6	729.2	778.5	769.4	944.5
Total operating revenue	812.9	702.0	741.5	931.6	716.6	740.1	804.0	859.5	1,000.8	997.9
Foreign currency gains/(losses)	(1.3)	(11.4)	(36.8)	(7.3)	66.3	(16.0)	25.0	3.6	2.0	0.3
Operating profit before abnormal items	254.8	223.5	245.1	289.2	295.9	241.0	331.9	322.3	267.3	339.6
Income tax on operating profit	112.0	106.8	104.9	104.8	116.2	101.1	136.0	116.1	91.0	120.4
Operating profit after tax before abnormal items	142.8	116.7	140.2	184.4	179.7	139.9	195.9	206.2	176.3	219.2
Abnormal items after tax	18.5	(224.9)	(27.5)	34.9	10.7	(29.3)	–	–	–	89.9
Operating profit/(loss) after tax and abnormal items	161.3	(108.2)	112.7	219.3	190.4	110.6	195.9	206.2	176.3	309.1
Outside equity interest in operating profit	5.3	2.7	–	–	–	–	–	–	–	–
Profit/(loss) attributable to shareholders	156.0	(110.9)	112.7	219.3	190.4	110.6	195.9	206.2	176.3	309.1
Balance Sheet ($million)										
Total assets	2,962.5	2,797.6	2,821.8	2,831.2	2,897.2	2,915.5	3,443.4	4,036.2	4,236.1	4,338.7
Net debt	772.4	755.0	797.4	711.2	619.9	642.0	938.6	1,114.2	1,280.0	1,301.1
Total shareholders' equity	1,380.2	1,215.1	1,231.7	1,380.6	1,532.2	1,519.3	1,586.3	1,919.0	1,939.2	2,056.7
Exploration										
Wells drilled (number)	119	80	41	66	63	66	91	112	81	34
Expenditure ($million)	97.5	79.8	76.7	79.6	91.9	87.9	121.1	190.1	180.7	78.1
Reserves (MMboe)	646	623	670	675	663	703	860	1,009	966	941
Production (MMboe)	36.0	34.2	34.6	36.3	37.2	36.8	39.2	41.1	45.6	49.2
Capital Expenditure ($million)										
Field developments	88.9	51.9	33.2	40.0	52.2	53.9	105.8	179.7	158.1	194.9
Buildings, plant and equipment	60.9	69.1	75.6	80.6	30.5	40.1	150.3	205.4	165.7	102.5
Share Information										
Share issues	1 for 10 rights/ Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan/ Executive Share Plan	–	–	1 for 8 rights issue/ Employee Share Plan	Employee Share Plan	Employee Share Plan
Number of issued shares at year end (million)	450.4	473.0	498.6	517.9	539.6	539.6	539.6	607.3	607.8	608.2
Weighted average number of shares (million)*	438.0	477.5	495.7	518.8	539.2	553.3	553.4	583.7	605.6	606.1
Dividends per share										
– ordinary (¢)	19.0	19.0	21.0	22.0	22.0	23.0	24.0	25.0	25.0	27.0
– special (¢)	–	–	–	5.0	–	–	–	–	–	–
Dividends										
– ordinary ($million)	85.5	88.5	102.7	112.3	117.2	123.6	129.0	151.3	151.4	163.7
– special ($million)	–	–	–	25.8	–	–	–	–	–	–
Ratios and Statistics										
Earnings per share*										
– before abnormal items (¢)	31.4	23.9	28.3	35.5	33.3	25.3	35.4	35.3	29.1	36.2
– after abnormal items (¢)	35.6	(23.2)	22.7	42.3	35.3	20.0	35.4	35.3	29.1	51.0
Return on total operating revenue (%)	17.6	16.6	18.9	24.3	25.1	18.9	24.4	24.0	17.6	22.0
Return on average shareholders' equity (%)	10.6	9.7	11.4	13.4	11.7	9.2	12.3	10.7	9.1	11.0
Net debt/equity (%)	56.0	62.1	64.7	51.5	40.5	42.3	59.2	58.1	66.0	63.3
Net interest cover (times)	3.2	4.1	5.9	7.0	8.3	5.8	6.2	5.4	4.4	5.0
General										
Number of employees	1,683	1,570	1,468	1,526	1,492	1,471	1,461	1,615	1,650	1,645
Number of shareholders	26,251	29,706	35,492	42,068	50,595	55,684	55,482	65,459	81,286	81,416
Market capitalisation ($million)	1,779.8	1,399.2	1,288.5	1,988.1	1,868.2	2,111.2	2,741.1	3,826.1	2,653.9	2,516.1

*** 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.

Exploration

Santos achieved an annual finding cost of $2.17 per boe and reduced its five-year average finding cost to $1.65 per boe.

1999 Exploration Results

	Wells Drilled Gas	Wells Drilled Oil	Successful Wells Gas	Successful Wells Oil	Success Rate%
South Australia	8	0	4	–	50
Queensland	7	3	5	1	60
Offshore Australia	1	4	0	0	0
South East Asia	2	2	2	0	50
US	6	1	1	1	29
Total	24	10	12	2	41

Exploration

The key to the success of any exploration program is rigorous geoscience, engineering and commercial analysis governed by a consistent risk assessment methodology. Santos maintains a staff of around 150 geologists and geophysicists dedicated to finding, detailing and documenting exploration prospects. As well as experience in the Company's current operating areas, many of these staff bring years of experience from other basins around the world. Before committing to any exploration drilling, prospects are subject to several levels of technical and managerial review.

1999 Exploration

Santos undertook a smaller exploration program during 1999.

With a high level of reserves and the completion of an accelerated program in South Australia, the Company was in a strong position to reduce its 1999 exploration program. Focus was maintained in the core areas of the Cooper Basin and Denison Trough onshore Australia and in the Carnarvon Basin. Outside Australia a smaller number of wells were drilled.

Key Facts:

> 34 wells drilled (25 wildcats and 9 appraisals)

> Total expenditure - $78.1 million

> Success rate – 41%

> Reserves added - 36 million boe

> Annual finding cost $2.17/boe

> Five-year average finding cost $1.65/boe.

1999 Exploration Program Highlights

> The discovery of a new gas field and two gas field extensions in the South Australia Cooper Basin.

> The completion of the Accelerated Exploration Program in the South Australia Cooper Basin. The program, which involved the drilling of 112 wells at a total cost of almost $160 million (Santos share), discovered approximately 68 million boe in net reserves.

> The successful appraisal of the Yandina and Scotia gas fields in the Denison Trough in eastern Queensland.

> The successful appraisal wells (Segat-3 and Baru-5) drilled in central Sumatra (Indonesia).

A considerable amount of seismic data was also acquired, particularly in the offshore Australia region, to aid in the further assessment of exploration prospects.

During 1999 Santos won its bid for a new exploration permit in the South Australian Cooper Basin. Formal granting of a new petroleum exploration licence is expected in due course.

Members of the team responsible for the successful appraisal of the Yandina gas field.

2000 Exploration Program

In 2000, the Company expects to spend around $100 million on exploration. The Company will spend considerable effort in upgrading the number of exploration opportunities outside its traditional Cooper Basin acreage.

Santos aims to expand its exploration portfolio from which to choose the best opportunities.

Features of the 2000 program include:

- Cooper Basin - exploration focus will shift to south-west Queensland where a program of 16 wells is planned. Extensive seismic data was acquired in 1999 and in 2000 an additional 1,800 km of seismic data will be acquired.
- Offshore Australia - five wells are planned to be drilled with a principal focus on oil prospects. Further seismic data (both 2-D and 3-D) will be acquired with a view to expanding the prospect inventory and bringing forward further opportunities for drilling.
- South East Asia - one oil well will be drilled in Papua New Guinea and two gas wells will be drilled in the offshore Sampang Production Sharing Contract in Indonesia.
- United States - focus will be on gas targets in the onshore Texas/Louisiana Gulf Coast area. Further seismic data will be acquired, extensive studies undertaken on existing prospects and up to six wildcat wells drilled.

2000 Indicative Exploration Program

	Wells	Expenditure $million
Onshore Australia		
Cooper/Eromanga	23	43
Other	9	8
Offshore Australia	5	20
South East Asia	3	12
US	14	20
Total	54	103

Review of Performance
Development

Activity focussed on extracting more value out of existing fields and assessing opportunities from the portfolio of undeveloped assets.

1999 Development Expenditure	$million
South Australia/Victoria	85
Queensland/Northern Territory	84
Offshore Australia	33
South East Asia	2
United States	3
Other	12
Total	219

Low Deliverability Gas Commercialisation

Santos continued its research and development on low deliverability gas fields during 1999. Many of these fields are located in the Nappamerri Trough in the South Australia Cooper Basin. Research during 1999 focussed on assessing ways to commercialise these resources. This effort culminated in the first successful fracture stimulation of a deep well in the Swan Lake field during 1999. This technique will be further tested in projects in the Nappamerri Trough in 2000.

1. Adding Value

> The Mylor and Fenton Creek gas fields located onshore in the Otway Basin were developed with production commencing from the Heytesbury Gas Facility.

> Phase 4 of the Ballera Gas Plant expansion in south-west Queensland was completed.

> Two wells on the Barrolka Complex in south-west Queensland were connected to the Ballera Gas Plant.

> The program undertaken in the Cooper Basin included drilling 30 development wells, connecting or working over 49 wells and installing three compression facilities.

> The fracture stimulation program successfully undertaken in the Scotia field in eastern Queensland improved the reserves and deliverability outlook for this resource.

2. Development studies on undeveloped assets

> Commitment was given to two major new development projects – Legendre and Bayu-Undan.

> Studies continued on a range of possible projects including the Reindeer, John Brookes, Petrel-Tern, Minerva and Kipper gas fields offshore Australia and the Bentu gas field in Indonesia.

3. Remedial work on producing assets

> Stag oil field (Carnarvon Basin) – successful remedial work has resulted in production increasing from 12,000 bopd in 1999 to 23,000 bopd being achieved during the first two months of 2000. Further work is planned for 2000.

> Elang/Kakatua/Kakatua North oil fields (Timor Gap) – studies indicated that there was potential to recover additional oil from the Elang field. Remedial work undertaken in February 2000 achieved a successful outcome with production increasing from 14,000 bopd to a rate of 27,000 bopd.

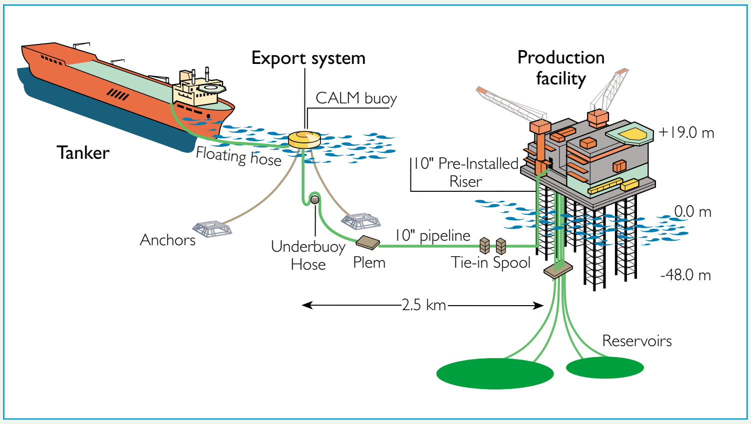
4. Technology

The Company strives to improve the performance of its producing interests through the use of cost effective technology such as horizontal drilling.

Horizontal drilling can significantly increase field deliverability, improve recovery and significantly reduce total field development costs. The first south-west Queensland horizontal well (Challum-14H) was successfully drilled and completed during 1999. Three further horizontal wells are planned to be drilled in the Challum field during 2000.

Some of the project team at work on the Stag oil field remedial program.

Santos committed to two major development projects during the year



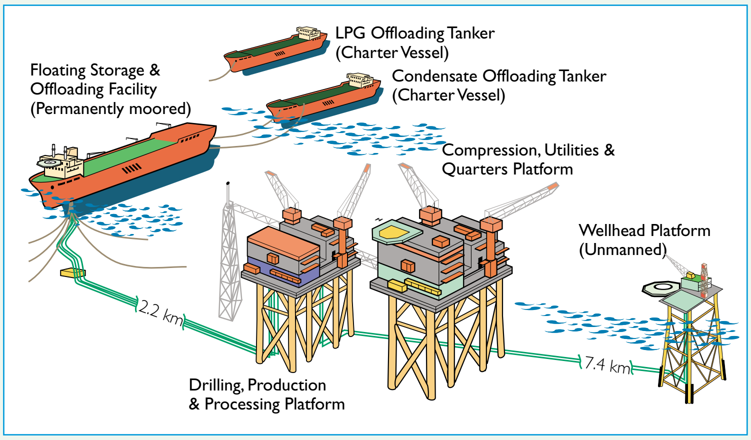
Legendre oil field project

> Located in the Carnarvon Basin

> Santos interest 22.56%

> Production to commence in mid-2001.

An important project to add to Santos' growing oil production



Bayu-Undan (Liquids Phase) project

> Located in the Timor Gap

> Santos interest 11.80%

> Production to commence in 2004.

A significant project expected to make a material contribution to Santos' liquids production for many years

Review of Performance
Reserves

Santos has an average reserve life of 19 years, 21 years for gas and 13 years for oil and liquids.

1999 Business Unit Reserves

	MMboe
South Australia	325
Queensland/Northern Territory	355
Offshore Australia	226
South East Asia	29
United States	6

Looking Forward

Looking to the future, Santos has a significant resource inventory that will continue to provide upside to the company's growth as the technology and markets necessary to commercialise the resources are developed.

Proved and probable reserves at the end of 1999 were 941 million boe, a decrease of 25 million boe from year end 1998. This reduction was primarily driven by record production.

Exploration additions comprised 18 million boe from 1999 activity plus 18 million boe from prior-year activity. The six million boe added from acquisitions represent the Kipper acquisition, partially offset by small divestments in Queensland, Indonesia and the United States. The 18 million boe revision (primarily in Queensland) reflects re-evaluation of reserves following further drilling.

Resources

Resources, excluded from the year end reserves figures, are discovered oil and gas accumulations which currently fall outside the definition of proved and probable reserves.

Resources are known to exist and will become reserves if technical, infrastructure and market issues are resolved. The most significant resources in the Company's portfolio include:

> Low deliverability gas in the Cooper Basin - the resource holds considerable quantities of gas.

> The Hides gas field in Papua New Guinea - the resource is estimated to hold significant quantities of gas plus a large quantity of liquids.

> The Petrel/Tern gas fields offshore Northern Territory and the John Brookes gas field offshore Western Australia - the ultimate recovery of these fields is about 1043 and 107 PJ net respectively.

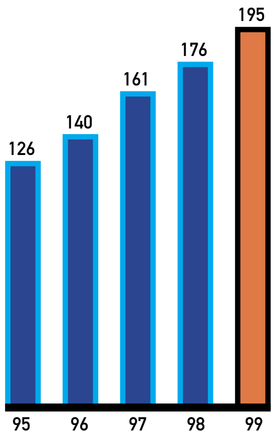
Santos is actively addressing these and other resources within its portfolio during 2000.

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 31/12/98	4399	80	89	5520	966
1999 Production	(202)	(9)	(3)	(280)	(49)
Additions from 1999 Exploration	98	0	1	39	18
Additions from prior year Exploration	97	1	0	0	18
Acquisitions/Divestments	36	(2)	1	78	6
Field revisions	(90)	0	(2)	(31)	(18)
Estimated reserves at 31/12/99	4338	70	86	5326	941

Australian Gas

Santos is the largest supplier of gas to Australian users.



Santos' Australian Gas Sales (PJ)

Santos has positioned itself as a major player in the Australian gas industry.

With its joint venturers, Santos produces 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 in Victoria and Western Australia.

During 1999, Santos achieved a milestone when production commenced from the Heytesbury Gas Facility. This represented the Company's first production in Victoria.

In 1999, Santos' gas sales volumes reached a record 195 PJ. Santos' Moomba operations produced a record amount of gas reflecting increased sales and there was further acquisition and business development activity. A new long-term gas sale agreement commenced in late 1999 supplying gas to WMC and in early 2000 a new East Spar gas sale agreeement began.

Santos' Gas Operations

The core of Santos' gas operations are located in the South Australian Cooper Basin. Gas from this area is distributed to customers in South Australia (NGASA) and New South Wales (AGL and Incitec Ltd).

Ethane is also supplied to Qenos Ltd in New South Wales. Some of the gas supplied to AGL is sold to customers in Canberra and Victoria.

The major gas operation in Queensland is located at Ballera in south-west Queensland. Gas is sold to customers in Brisbane (GCQ, Allgas Energy Ltd and Incitec Ltd) and Mt Isa (MIM and WMC). Gas is also supplied to South Australia. Santos also has operations in eastern Queensland supplying gas to Gladstone.

Santos has other gas producing areas located in the Northern Territory, Western Australia, and Victoria.

Santos' significant gas interests throughout Australia will enable the Company to actively participate in the growing Australian gas business.

Santos' Interest in Uncontracted Gas Reserves[a] PJ as at Dec 1999

	Total Gas Reserves in Santos' Acreage	Santos' Share of Gas Reserves	Uncontracted Gas in Santos' Acreage	Santos' Share of Uncontracted Gas
South Australia	2627	1564	1205	706
SW Queensland	2179	1298	1311	777
Surat/Bowen	232	141	177	111
Amadeus	574	350	412	253
East Spar	471	212	121	55
Reindeer	262	94	262	94
Bayu-Undan	3609	427	3609	427
Minerva	309	31	309	31
Kipper	371	48	371	48
Australian Areas	10634	4165	7777	2502
Other Areas	266	173	238	145
Total	10900	4338	8015	2647

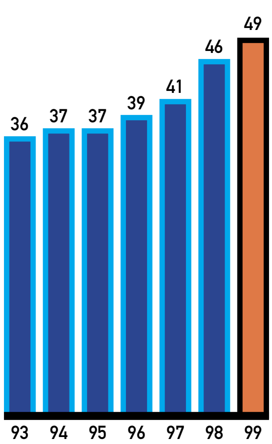
(a) includes ethane

Review of Performance
Production

Santos' production grew by 8% in 1999 to a record level of 49 million boe

The facts

- **Sales gas and ethane production increased by 2.9 million boe**
- **Crude oil and liquids production increased by 0.7 million boe**



Production Growth (mmboe)

This strong performance is a reflection of the successful exploration, development, acquisition and gas marketing activity undertaken by the Company in recent years.

Contributing to this performance were the results achieved by the Queensland/Northern Territory and the Offshore Australia Business Units whose production levels increased by 24% and 34% respectively.

These accomplishments reflect a 56% increase in crude oil production recorded by the Offshore Australia Business Unit and a 34% increase in sales gas production recorded by the Queensland/Northern Territory Business Unit.

▲	Exploration	—	Oil pipeline	—	Ethane pipeline
●	Production	—	Gas pipeline	·····	Gas pipeline under construction

Production Statistics

Field Units

	Sales Gas & Ethane PJ 1999	1998	Crude Oil '000 bbls 1999	1998	Condensate '000bbls 1999	1998	LPG '000 tonnes 1999	1998
South Australia								
Cooper/Eromanga	105.7	107.9	1860.4	2422.9	1573.9	1664.1	198.9	217.5
Otway	1.6	–	–	–	19.0	–	–	–
Total	107.3	107.9	1860.4	2422.9	1592.9	1664.1	198.9	217.5
Queensland & Northern Territory								
SW Queensland	56.3	37.5	1705.6	1886.6	941.3	771.9	79.5	63.8
Surat/Denison	11.9	11.2	133.8	170.4	35.4	46.6	1.8	4.4
Amadeus	11.3	10.6	399.2	496.4	–	–	–	–
Total	79.5	59.3	2238.6	2553.4	976.7	818.5	81.3	68.2
Offshore Australia								
Timor Sea	–	–	403.6	432.7	–	–	–	–
Timor Gap	–	–	1701.5	968.6	–	–	–	–
Carnarvon	10.3	9.7	2378.7	1469.7	609.3	575.7	–	–
Total	10.3	9.7	4483.8	2871.0	609.3	575.7	–	–
South East Asia								
Seram	–	–	–	261.2	–	–	–	–
PNG	–	–	448.5	248.1	–	–	–	–
Total	–	–	448.5	509.3	–	–	–	–
US	4.9	4.8	92.8	141.1	37.6	59.0	–	–
UK	–	3.2	–	–	–	3.7	–	–
Total	202.0	184.9	9124.1	8497.7	3216.5	3121.0	280.2	285.7

Million Barrels of Oil Equivalent

	Sales Gas & Ethane 1999	1998	Crude Oil 1999	1998	Condensate 1999	1998	LPG 1999	1998	Total 1999	1998
South Australia										
Cooper/Eromanga	18.17	18.55	1.86	2.42	1.47	1.56	1.68	1.84	23.19	24.37
Otway	0.28	–	–	–	0.02	–	–	–	0.29	–
Total	18.45	18.55	1.86	2.42	1.49	1.56	1.68	1.84	23.48	24.37
Queensland & Northern Territory										
SW Queensland	9.68	6.45	1.71	1.89	0.88	0.72	0.67	0.54	12.94	9.60
Surat/Denison	2.05	1.93	0.13	0.17	0.03	0.04	0.02	0.04	2.23	2.18
Amadeus	1.94	1.82	0.40	0.50	–	–	–	–	2.34	2.32
Total	13.67	10.20	2.24	2.56	0.91	0.76	0.69	0.58	17.51	14.10
Offshore Australia										
Timor Sea	–	–	0.40	0.43	–	–	–	–	0.40	0.43
Timor Gap	–	–	1.70	0.97	–	–	–	–	1.70	0.97
Carnarvon	1.77	1.67	2.38	1.47	0.57	0.54	–	–	4.72	3.68
Total	1.77	1.67	4.48	2.87	0.57	0.54	–	–	6.82	5.08
South East Asia										
Seram	–	–	–	0.26	–	–	–	–	–	0.26
PNG	–	–	0.45	0.25	–	–	–	–	0.45	0.25
Total	–	–	0.45	0.51	–	–	–	–	0.45	0.51
US	0.84	0.82	0.09	0.14	0.03	0.06	–	–	0.96	1.02
UK	–	0.55	–	–	–	0.00	–	–	–	0.55
Total	34.73	31.79	9.12	8.50	3.01	2.92	2.37	2.42	49.23	45.63

Note: The Santos Group divested its interests in Santos Europe Ltd and the Seram PSC during 1998 and 1999 respectively.

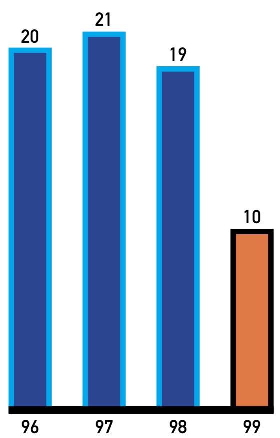
Review of Performance
Environment & Safety

Santos employees at the Ballera Gas Plant. This site has had a consistently good safety performance since commissioning.

Safety Performance

Santos investigates and reports all accidents, near misses and hazards. The measure of safety performance used is the Total Recordable Case Frequency rate (TRCF) which is defined as the number of Recordable Cases (Medical Treatment and Lost Time Injuries) per million hours worked by Santos employees and contractors.

In 1999, Santos recorded a significant improvement in its safety performance, achieving a reduction of almost 50% in its TRCF rate.



Santos employees and contractors safety performance (TRCF%)

Environment

This year marks the twentieth anniversary of Santos' appointment of its first environmental specialist. Today each of the Australian Business Units have a small team of environmental specialists who provide advice to the Company's line management and supervisors in the field.

Santos' environmental management emphasises prevention rather than cure.

Induction

Environmental and cultural heritage induction continues to take a high priority. Santos' employees and contractors who work on activities that may have an impact on the environment are required to undergo induction programs on environmental, cultural and scientific sensitivity.

Constant Monitoring

Field activities are also monitored by environmental staff and supervised by trained personnel.

Environmental Audits

Regular audits are undertaken by Santos' environmental advisors, specialist external advisors and government officers. This ensures that a high standard of environmental management is maintained in the Company's operational areas.

Environmental Committees

Each Business Unit has an Environmental Management Committee chaired by a senior management representative. Each of the Business Units reports on their environmental management performance to the Environmental Committee of the Santos Board (Chaired by the Chairman of the Board).

The total approach taken by Santos in meeting its environmental responsibilities spans all levels of employees and contractors from the well-head to the Boardroom.

Safety

Santos believes that all injuries are preventable.

The Company strives for the highest standard of occupational health and safety (OH&S) and is fully committed to a work environment free of injuries.

Under Santos' OH&S Policy, all employees and contractors have specific responsibilities for observing and maintaining a safe working environment.

Community

The Santos Atrium at the Art Gallery of South Australia.

Santos has long recognised the importance of providing support to the various communities in which the Company operates and to which the Company's success is linked.

Santos' sponsorship and donations program contributes to cultural, educational and not-for-profit organisations that are valued by and enrich the quality of life of people in these communities.

The sponsorship of the Art Gallery of South Australia, the Queensland Art Gallery, the Festival of Darwin, and the Adelaide Symphony Orchestra are evidence of the Company's commitment in this regard.

Santos has supported the Art Gallery of South Australia for 13 years, an organisation that plays a vital role in developing the cultural life of South Australia.

Santos' most recent contribution is to support the Gallery in creating a permanent space for the display of Aboriginal art, the Santos Atrium, and includes an acquisition program dedicated to the collection of Aboriginal art.

The Art Gallery of South Australia has long recognised the importance of Aboriginal art and began acquiring Aboriginal Art in the 1940s. The current collection is world renowned.

The Santos School of Petroleum Engineering

In 1999, Santos announced a major sponsorship in partnership with the University of Adelaide. Santos will provide $25 million spread over a 10 year period to establish a world class school of petroleum engineering. As well as providing the University with the necessary infrastructure for the Santos School of Petroleum Engineering, this contribution will assist with operational costs and scholarships, and enables the appointment of a Chair, the Santos Chair of Petroleum Engineering. This sponsorship is intended to lay the foundation for the financial viability of the school for a period of at least 25 years. The Federal Government has also agreed to contribute $1 million over five years for an additional professorial appointment. This is to be called the Reg Sprigg Chair of Petroleum Engineering in honour of the late Dr Sprigg who made a significant contribution to the oil and gas industry in Australia.

This is a strategic alliance for Santos and the University. Through this contribution the profile of a major Australian educational institution will be enhanced, providing educational and employment opportunities to young Australians in a global industry.

The Company expects to benefit significantly from the sponsorship both during the 10 year period that the sponsorship covers and beyond. The larger pool of locally trained petroleum engineers, a resource critical to Santos' future, will overcome a major skills shortage which can currently only be overcome by expensive overseas recruitment.

Santos Group Interests

as at 2 March 2000

Licence Area	% Interest
South Australia	
Cooper Basin (Fixed Factor Area) (PPLs 6-20, 22-25, 27-61, 63-75, 78-117, 119, 120, 124, 126-130, 132-140, 143-146, 148-151, 153-154, 157, 159-162 & 164-166)	59.8
Patchawarra East Joint Operating Area (PPLs 26, 76, 77, 118, 121-123, 125, 131, 142, 147, 152, 156, 158 & 167)	69.4
SA Unit and Downstream	59.8
Queensland	
South-West Queensland	
ATP 259P	
Naccowlah (PLs 23-26, 35, 36, 62, 76-79, 82, 87, 105, 107, 109, 133 & 149)	55.5
Total 66 (PLs 34, 37, 63, 68, 75, 84, 88, 110, 129, 130, 134, 140 & 142-144)	70.0
Wareena (PLs 113, 114, 141, 145, 148, 153, 157 & 158)	61.2
Innamincka (PLs 58, 80, 136, 137, 150 & 159)	70.0
Alkina	72.0
Aquitaine A (PLs 86, 131 & 146)	52.5
Aquitaine B (PLs 59-61, 81, 83, 85, 97, 106, 108, 111, 112, 132, 135, 139 & 147)	55.0
Aquitaine C (PLs 138 & 154)	47.8
50/40/10 (PL 55)	60.0
SWQ Unit	60.1
ATP 267P (Nockatunga) (PLs 33, 50 & 51)	59.1
ATP 269P (Bodalla)	5.8
PLs 31, 32 and 47 (Bodalla)	5.3
ATP 299P (Tintaburra) (PLs 29, 38, 39, 52, 57 & 95)	89.0
ATP 577P	7.0
Southern Surat	
PL 1 (Moonie)	100.0
PL 1 (2) (C) (Cabawin)	100.0
PL 1 (2) (Cabawin Farm-out)	50.0
PL 2C (Alton)	100.0
PL 2 (Kooroon)	52.5
PL 2C (Alton Farm-out)	63.5
PL 17	70.0
PL 17 (Bennett Exclusion)	100.0
PL 17 (Leichardt Exclusion)	70.0
ATP 244P (Block D)	20.0
ATP 512P	66.7
ATP 552P-GN	30.0
ATP 552P-RM	22.0
Roma Area	
PL 5 (Barcoo)	85.0
PL 5 (Drillsearch)	21.3
PL 5 (Mascotte)	42.5
PL 11 (Snake Creek East)	25.0
PL 12 (Trinidad)	92.5
ATP 336P (Kalima)	85.0
ATP 336P (Roma) (PLs 3-13, 93 & PPL2)	85.0
ATP 336P (Waldegrave) (PLs 10-12, 28, 69 & 89)	46.3
ATP 378P (Burunga)	100.0
Bowen Basin	
ATP 337P (Denison Trough)	50.0
ATP 553P (Denison Trough)	50.0
PLs 41-45, 54 and 67 (Denison Trough)	50.0
Surat Basin	
PLs 21, 22, 27 and 64 (Balonne)	12.5
ATP 212P (Major) (PLs 30, 56 & 74)	15.0
ATP 470P (Redcap) (PL 71)	10.0
ATP 471P (Bainbilla) (PL 119)	16.7
ATP 471P (Myall)	51.0
Facilities	
Wungoona Processing Facilities	50.0
Moonie to Brisbane Pipeline	100.0
Jackson Moonie Pipeline	82.8
Ballera to Mt Isa Pipeline	18.0
Victoria	
Otway Basin	
PEP 108 (Mylor/Fenton Creek)	100.0
PEP 119	60.0
PEP 132	100.0
VIC/RL7 (La Bella)	10.0
VIC/RL8 (Minerva)	10.0
Gippsland Basin	
VIC/RL1 (Golden Beach)	66.7
VIC/RL2 (Kipper)	13.0
VIC/RL3 (Sole)	25.0
Tasmania	
T/RL1 (Yolla)	5.0
Northern Territory	
OL 3 (Palm Valley)	48.0
OLs 4 and 5 (Mereenie)	65.0
RL2 (Dingo)	65.7
Mereenie-Brewer Estate Pipeline	65.0

Licence Area	% Interest
Offshore Western/Northern Australia	
Carnarvon Basin	
EP 325	25.0
EP 398	100.0
TL/2	15.0
TP/7 (1-3)	43.7
TP/7 (4)	18.7
TP/12	100.0
WA-1-P	22.6
WA-8-L (Talisman)	27.4
WA-13-L (East Spar)	45.0
WA-15-L (Stag)	54.2
WA-15-L (Lower area)	36.0
WA-20-L (Legendre)	22.6
WA-149-P	18.7
WA-191-P	33.4
WA-208-P	20.0
WA-209-P	36.0
WA-214-P	20.0
WA-215-P	10.0
WA-258-P	45.5
WA-261-P	29.6
WA-264-P	66.7
Bonaparte Gulf	
NT/P52	37.5
NT/RL1 (Petrel)	95.0
WA-6-R (West Petrel)	95.0
WA-18-P (Tern)	100.0
Browse Basin	
WA-206-P	100.0
WA-239-P	14.0
WA-242-P	33.3
WA-281-P	27.5
WA-282-P	42.5
WA-283-P	27.5
Timor Sea	
AC/L1 (Jabiru)	10.3
AC/L2 (Challis)	10.3
AC/L3 (Cassini)	10.3
AC/L4 (Skua)	33.6
AC/RL2 (Oliver)	100.0
AC/P15	33.3
Timor Gap	
ZOCA 91-01	20.0
ZOCA 91-12 (Elang/Kakatua/Kakatua North)	21.4
Bayu-Undan Gas Field	11.8

United States of America	Average working interest
Gulf of Mexico	
- EC 155	80.0
- EI 59	20.0
- EI 143	20.0
- EI 335	20.0
- MC 357 (Deep)	12.5
- MC 357 (Shallow)	13.0
- MC 358	13.0
- VR 247	75.0
- WC 272	80.0
- WC 276	75.0
- WC 520	25.0
- WC 574	30.0
- WC 582	80.0
- WC 632	50.0
- WD 152	13.0
South Texas	
- Aransas Bay	25.0
- Remmers	45.0
- Birdie Porter Green	50.0
- Fuhrken	25.0
- Driscoll	25.0
- Mathis	25.0
- Thomson-Barrow/O'Brien Ranch	20.0
- Queen City	50.0
- West Rosita	25.0
Arkoma Basin	32.0

Papua New Guinea	
PPL 157	35.3
PPL 189	42.6
PPL 190	31.3
PPL 191	71.8
PPL 202	45.0
PPL 206	48.0
PPL 213	35.0
PDL 1	31.0
PDL 3	15.5
SE Gobe Field Unit	7.0
PL 3	3.5

Indonesia	
Bangko	15.0
Bentu	61.1
Korinci-Baru	61.1
Sampang	45.0
Warim	20.0

Board of Directors

John Allan Uhrig AO

BSc, DUniv, Hon. DEcon, FAIM

Age 71. 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. Former Chairman of Rio Tinto Ltd and former Deputy Chairman of Rio Tinto plc. Until 1985 was Managing Director of Simpson Holdings Ltd.

Norman Ross Adler AO

BCom, MBA

Age 55. 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 Business Council of Australia.

Peter Charles Barnett

FCPA

Age 59. Director since 31 October 1995 and member of the Environmental Committee of the Board. Chairman of Norwich Union Australia Group. Deputy Chairman of Smorgon Steel Group Limited. Director of Mayne Nickless Ltd, AMCIL Ltd and Ericsson Australia Pty Ltd. Former Managing Director and Chief Executive Officer of Pasminco Ltd and Chief Executive Officer of EZ Industries Ltd.

Stephen Gerlach

LLB

Age 54. Director since 5 September 1989. Member of the Audit and Environmental Committees of the Board. Chairman of Amdel Ltd, Equatorial Mining Ltd, Elders Australia Ltd and Beston Pacific Vineyard Management Ltd. Director of Southcorp Holdings Ltd, Futuris Corporation Ltd, Challenger Beston Limited and Elders Rural Services Ltd. Former Managing Partner of the Adelaide legal firm, Finlaysons.

John Walter McArdle

FCPA

Age 53. Executive Director since 5 September 1995 and Executive General Manager - Commercial of Santos Ltd. Director of QCT Resources Ltd Group and Santos Ltd subsidiary companies. Former Managing Director of Delhi Petroleum Pty Ltd and former Chairman of Australian National Railways Commission.

Michael Anthony O'Leary

DipMinE, BSc, FAusIMM, FAIM

Age 64. 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 45. Director since 5 September 1994 and member of the Audit Committee of the Board. Chairman of SGIC Holdings Ltd and Director of Mayne Nickless Ltd and SGIO Insurance Limited and a Board member of the Australian Broadcasting Corporation. Former Professor of Labour Studies at the Flinders University of South Australia and Director of the National Institute of Labour Studies.

Ian Ernest Webber AO

BE, ATS, FCIT, FAIM

Age 64. Director since 16 February 1993 and Chairman 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.

Francis John Conroy

BCom, MBA, FAIM, FAICD, FAIBF

Age 57. Director since 19 October 1999. Chairman of Howard Smith Ltd, St George Bank Ltd and ORIX Australia Corporation Ltd. Director of Futuris Corporation Ltd and Australian Pharmaceutical Industries Limited. Former Managing Director of Westpac Banking Corporation.

Graeme William McGregor AO,

BEc, FCPA, FCA, FAIM, FAICD

Age 61. Director since 3 September 1999, member of the Audit Committee of the Board and director of Santos Finance Ltd. Director of Foster's Brewing Group Ltd, Nufarm Ltd and Were Securities Ltd. Member of the Financial Reporting Council. Former Executive Director Finance of The Broken Hill Proprietary Company Limited.

Glossary

Crude Oil	Sales Gas	Condensate/Naphtha	LPG
1 barrel = 1 boe	1 petajoule = 171.937 boe x 10^3	1 barrel = 0.935 boe	1 tonne = 8.458 boe

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 above.

bopd
Barrels of oil per day.

the Company
Santos Ltd and its subsidiaries.

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.

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.

MMbbls
Million barrels.

MMboe
Million barrels of oil equivalent.

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 kilojoule x 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 clearly recoverable, at commercial rates, under currently 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 proved 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.

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.

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 the 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 setting 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 1999 guidelines of the Australian Investment and Financial Services 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 26, 27 and 34 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 eight 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 37 and 38 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 39 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 F J Conroy, Mr S Gerlach, Mr G W McGregor, 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. The Committee currently comprises four 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 I E Webber (Chairman), Mr S Gerlach, Mr G W McGregor, Professor J Sloan 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 advisors.

- *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 22 and 36 of this Annual Report. Membership of the Environmental Committee of the Board currently comprises four non-executive Directors and the Managing Director. The current members of the Committee are: Mr J A Uhrig (Chairman), Mr P C Barnett, 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 was managed through : the establishment in 1997 of a Year 2000 Project Team to co-ordinate Company-wide Year 2000 activities; engagement in 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. The Company experienced no disruption to its business due to rollover of the century date.
- *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 32 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 1999, 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:

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	–
Conroy	Francis John	1,900	–
Gerlach	Stephen	–	17,305
McArdle	John Walter (Executive Director)	516,732**	37,913
McGregor	Graeme William	10,000	–
O'Leary	Michael Anthony	4,725	–
Sloan	Judith	2,500	–
Webber	Ian Ernest	26,250	–

The above named Directors held office during and since the end of the financial year except for Mr G W McGregor, who was appointed a Director on 3 September 1999, and Mr F J Conroy, who was appointed a Director on 19 October 1999.

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.

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 26 and 27 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*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended
Uhrig	John Allan	11	11			4	4	2	2
Adler	Norman Ross	11	11	4	4	4	4		
Barnett[1]	Peter Charles	11	11	2	2	2	2	2	2
Conroy[2]	Francis John	3	3					1	1
Gerlach	Stephen	11	10	4	4	4	4	2	1
McArdle	John Walter	11	11						
McGregor[3]	Graeme William	4	4	–	–			1	1
O'Leary	Michael Anthony	11	10			4	3	2	2
Sloan[4]	Judith	11	10	2	1			2	2
Webber	Ian Ernest	11	10	4	4			2	1

* Reflects the number of meetings held during the time the Director held office, or was a member of the Committee, during the year.

1 Retired as member of Audit Committee on 5 June 1999 and appointed member of Environmental Committee on 6 June 1999.
2 Appointed as a Director of the Company on 19 October 1999.
3 Appointed as a Director of the Company and member of the Audit Committee on 3 September 1999.
4 Appointed as member of Audit Committee on 6 June 1999.

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 29 to 32 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 4 to 14 and 16 to 21 of this Annual Report.

4. Dividends

In respect of the financial year:

(a) the Directors on 6 March, 2000 declared a fully franked final dividend of 15 cents per fully paid share be paid on 28 April, 2000 to members registered in the books of the Company as at close of business on 3 April, 2000 and declared that such dividend be a Class C franked dividend to the extent of 100%. This final dividend amounts to approximately $91 million; and

(b) a fully franked interim dividend of $72.7 million (12 cents per share) was paid to members in November 1999.

A fully franked final dividend of $78.8 million on the 1998 results (13 cents per share) was paid in April 1999. Indication of this dividend payment was disclosed in the 1998 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 8 and 9 of this Annual Report.

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 no notice of non-compliance with the above referenced regulations was received from a regulatory body.

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.

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 8, 10, 11 and 15 to 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.

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 Director and each of the five officers of the Company and the consolidated entity receiving the highest emolument are:

Non-Executive Director	Directors' Fees (1) $	Superannuation Contributions (2) $	Non-Cash Benefits $	Total $
Uhrig, John Allan	188,000	7,067	50,501	245,568
Barnett, Peter Charles	65,500	4,585	-	70,085
Conroy, Francis John	12,065	845	-	12,910
Gerlach, Stephen	72,712	5,090	-	77,802
McGregor, Graeme William	21,359	1,495	-	22,854
O'Leary, Michael Anthony	65,500	4,585	-	70,085
Sloan, Judith	63,128	4,419	-	67,547
Webber, Ian Ernest	66,288	4,640	-	70,928

Executive Directors and other Executive Officers	Position	Base Remuneration (3) $	Bonuses $	Other Benefits (4) $	Total $	Number of shares over which options granted by Company during the year
Adler, Norman Ross	Managing Director	1,034,019	200,000	388,513	1,622,532	Nil
McArdle, John Walter	Director & Executive General Manager, Commercial	517,010	–	204,930	721,940	Nil
Armstrong, John Dennis	General Manager, Offshore Australia Business Unit	437,680	–	157,095	594,775	175,000
Baugh, Michael Arle	President, Santos USA Corp	458,856	–	71,912	530,768	250,000
McArdle, Rodney Eric	General Manager, Queensland and NT Business Unit	300,000	–	125,718	425,718	125,000

(1) Includes Board fees and Committee Fees.
(2) Contributions made in accordance with the Company's Superannuation Guarantee Charge obligations.
(3) Base Remuneration includes base salary, packaged benefits and FBT (where applicable).
(4) 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 directors and 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 (including Messrs F J Conroy and G W McGregor, who were appointed Directors 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 $377,064 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 6 March, 2000 in accordance with a resolution of the Directors.

J A Uhrig　　　　N R Adler

J A Uhrig
Director

6 March, 2000

N R Adler
Director

Profit and Loss Statements

for the year ended 31 December 1999

		Consolidated		Santos Ltd	
	Note	**1999 $million**	1998 $million	**1999 $million**	1998 $million
Revenue	(2)	**997.9**	1,002.8	**575.7**	677.2
Operating expenses		**(305.2)**	(295.5)	**(128.8)**	(144.9)
Depreciation, depletion and amortisation	(3)	**(278.5)**	(243.1)	**(103.9)**	(94.1)
Interest expense	(4)	**(74.4)**	(67.3)	**(74.6)**	(42.7)
Book value of controlled entity sold	(24)	**(0.2)**	(129.6)	**–**	–
Operating profit before income tax	(5)	**339.6**	267.3	**268.4**	395.5
Income tax attributable to operating profit	(6)	**(120.4)**	(91.0)	**(54.3)**	(44.8)
Abnormal income tax item	(6)	**89.9**	–	**48.3**	–
Operating profit after income tax attributable to the shareholders of Santos Ltd		**309.1**	176.3	**262.4**	350.7
Retained profits at the beginning of the year		**378.3**	338.6	**423.6**	209.5
Adjustment to retained profits at the beginning of the year on initial adoption of revised AASB 1016 "Accounting for Investments in Associates"	(1)	**(28.5)**	–	**–**	–
Amount transferred from reserves		**–**	14.9	**–**	14.9
Total available for appropriation		**658.9**	529.8	**686.0**	575.1
Dividends provided for or paid	(7)	**(163.7)**	(151.5)	**(163.7)**	(151.5)
Retained profits at the end of the year		**495.2**	378.3	**522.3**	423.6

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

	Note	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Current assets					
Cash		**97.9**	117.8	**2.8**	34.6
Receivables	(8)	**153.7**	122.0	**1,267.8**	171.2
Inventories	(9)	**90.1**	72.5	**46.0**	36.6
Total current assets		**341.7**	312.3	**1,316.6**	242.4
Non-current assets					
Investments	(10)	**349.3**	386.8	**1,931.9**	1,930.1
Exploration and development expenditure	(11)	**2,358.0**	2,243.4	**802.8**	788.2
Land and buildings, plant and equipment	(12)	**1,185.9**	1,179.8	**548.9**	544.4
Intangibles	(13)	**44.6**	53.6	**–**	–
Other	(14)	**59.2**	60.2	**8.1**	10.0
Total non-current assets		**3,997.0**	3,923.8	**3,291.7**	3,272.7
Total assets		**4,338.7**	4,236.1	**4,608.3**	3,515.1
Current liabilities					
Accounts payable	(15)	**121.6**	151.1	**2,078.0**	1,096.1
Borrowings	(16)	**0.4**	0.4	**–**	–
Provisions	(17)	**183.7**	121.3	**168.5**	117.9
Total current liabilities		**305.7**	272.8	**2,246.5**	1,214.0
Non-current liabilities					
Borrowings	(16)	**1,398.6**	1,397.4	**–**	–
Provisions	(17)	**577.7**	626.7	**276.9**	316.8
Total non-current liabilities		**1,976.3**	2,024.1	**276.9**	316.8
Total liabilities		**2,282.0**	2,296.9	**2,523.4**	1,530.8
Net assets		**2,056.7**	1,939.2	**2,084.9**	1,984.3
Shareholders' equity					
Share capital	(18)	**1,562.6**	1,555.0	**1,562.6**	1,555.0
Reserves	(19)	**(1.1)**	5.9	**–**	5.7
Retained profits		**495.2**	378.3	**522.3**	423.6
Total shareholders' equity		**2,056.7**	1,939.2	**2,084.9**	1,984.3

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 1999

results

		Consolidated		Santos Ltd	
	Note	1999 $million	1998 $million	1999 $million	1998 $million
Cash flows from operating activities					
Receipts from customers		**912.7**	759.9	**389.1**	368.7
Dividends received		**12.0**	26.8	**93.2**	304.7
Interest received		**3.8**	4.7	**29.6**	1.0
Overriding royalties received		**12.2**	11.0	**17.2**	14.0
Pipeline tariffs and other receipts		**13.7**	21.5	**10.4**	18.4
Payments to suppliers and employees		**(249.7)**	(218.8)	**(96.1)**	(90.8)
Government royalties		**(45.6)**	(40.7)	**(23.5)**	(21.5)
Interest and other costs of finance paid		**(84.2)**	(75.3)	**(75.1)**	(44.6)
Income taxes paid		**(45.0)**	(31.5)	**(9.0)**	(32.2)
Net cash provided by operating activities	(24)	**529.9**	457.6	**335.8**	517.7
Cash flows from investing activities					
Payments for:					
Exploration		**(95.0)**	(188.4)	**(32.0)**	(80.1)
Development		**(118.4)**	(178.2)	**(52.0)**	(58.2)
Land and buildings, plant and equipment		**(95.1)**	(185.0)	**(48.3)**	(73.6)
Acquisitions of oil and gas assets		**(112.5)**	(1.7)	**–**	–
Acquisitions of controlled entities		**(15.3)**	(25.5)	**(14.2)**	(25.5)
Restoration		**(2.2)**	–	**–**	–
Other investments		**–**	(25.4)	**(0.1)**	(24.1)
Proceeds from:					
Sale of controlled entity		**–**	137.0	**–**	–
Sale of notes		**–**	27.2	**–**	27.2
Disposal of non-current assets		**19.8**	7.6	**0.1**	0.5
Other		**0.3**	4.1	**–**	4.1
Net cash used in investing activities		**(418.4)**	(428.3)	**(146.5)**	(229.7)
Cash flows from financing activities					
Dividends paid		**(151.5)**	(151.4)	**(151.5)**	(151.4)
Proceeds from issues of shares		**1.9**	2.2	**1.9**	2.2
Net drawdown of borrowings		**18.0**	149.7	**–**	–
Advances to related entities		**–**	–	**(71.5)**	(134.8)
Net cash provided/(used) by financing activities		**(131.6)**	0.5	**(221.1)**	(284.0)
Net increase/(decrease) in cash		**(20.1)**	29.8	**(31.8)**	4.0
Cash at the beginning of the year		**117.8**	109.8	**34.6**	30.6
Cash held by controlled entity sold		**–**	(22.1)	**–**	–
Effects of exchange rate changes on the balances of cash held in foreign currencies		**0.2**	0.3	**–**	–
Cash at the end of the year		**97.9**	117.8	**2.8**	34.6

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

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, other authoritative pronouncements of the Australian Accounting Standards Board 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 except as noted below.

Change in Accounting Policy

The Directors have adopted AASB 1016 "Accounting for Investments in Associates" effective from 1 January 1999. Accordingly, the consolidated entity has applied the equity method of accounting for investments in associates for the first time. The equity method requires the carrying amount of investments in associated companies to be adjusted by the consolidated entity's share of the associates' net profit or loss after tax, amortisation of goodwill and other movements in reserves. These amounts are recognised in the consolidated profit and loss statement and consolidated reserves respectively. In previous years, the consolidated entity accounted for investments in associates using the cost method. The Company continues to use the cost method.

The consolidated carrying value of investments in associated company and retained earnings as at the beginning of the year were decreased by $28.5 million on initial application of the standard.

The change in accounting policy has resulted in a decrease of $8.8 million in consolidated profit after tax for the period ended 31 December 1999 and a decrease of $8.8 million in the carrying value of investments in associated company for the period ended 31 December 1999.

(b) Principles of consolidation

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

(c) Non-current assets

With the exception of exploration expenditure carried forward pertaining to areas of interest in the exploration stage (refer note 1(i)), 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.

(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 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 financial statements 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.

(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.

results

1

Statement of Accounting Policies continued

(f) Revenue

Product sales, equipment rentals and pipeline tariffs, overriding royalties and other income are recognised when the goods and services are provided and the economic entity has a legally enforceable entitlement to the proceeds. Interest revenue is recognised as it accrues. Dividend income from controlled entities is recognised as revenue as dividends are declared and from other parties as dividends are received.

(g) 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.

(h) 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.

(i) 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.

(j) Borrowings

Borrowings are carried on the balance sheet at their principal amount. Interest is accrued at the contracted rate.

(k) 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.

(l) 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 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 1999 was 5.60% (1998: 5.78%).

Finance costs incurred in respect of completed projects are expensed.

(m) 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.

(n) 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 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.

(n) Depreciation and depletion continued

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.

(o) 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.

(p) Employee entitlements

The provisions for employee entitlements to wages, salaries, annual leave and sick leave are measured at undiscounted amounts based on current wage and salary rates and include related on-costs.

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.

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.

(q) 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.

(r) 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.

(s) 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.

(t) Comparatives

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

results

2 Revenue

	Consolidated		Santos Ltd	
	1999 $million	1998 $million	**1999 $million**	1998 $million
Revenue from operating activities				
Product sales	**944.5**	769.4	**420.5**	364.0
Overriding royalties	**13.3**	11.3	**17.2**	14.3
Equipment rentals, pipeline tariffs and other	**13.6**	22.3	**14.9**	16.2
Interest revenue:				
Controlled entities	**–**	–	**29.3**	–
Other entities	**3.8**	4.7	**0.4**	1.0
Dividends from:				
Other entities	**0.7**	6.8	**0.7**	6.8
Controlled entities	**–**	–	**81.2**	227.8
Associated company	**–**	19.4	**11.3**	19.4
Share of associated company's operating profit after tax	**2.5**	–	**–**	–
Proceeds from sale of non-current assets	**19.5**	4.7	**0.2**	0.5
	997.9	838.6	**575.7**	650.0
Revenue from outside operating activities				
Proceeds from sale of investments:				
Notes	**–**	27.2	**–**	27.2
Controlled entity	**–**	137.0	**–**	–
	–	164.2	**–**	27.2
	997.9	1,002.8	**575.7**	677.2

3 Depreciation, Depletion and Amortisation

Depletion of exploration and development expenditures	**163.1**	135.9	**59.6**	48.4
Depreciation of plant and equipment	**90.9**	86.8	**42.4**	44.2
Depreciation of buildings	**2.0**	2.3	**1.3**	1.1
Future restoration costs	**5.1**	3.3	**0.6**	0.4
Amortisation of capitalised leases	**0.8**	0.9	**–**	–
Amortisation of goodwill	**9.0**	9.0	**–**	–
Write-down of exploration expenditure	**7.6**	4.9	**–**	–
	278.5	243.1	**103.9**	94.1

4 Interest Expense

Interest expense:				
Controlled entities	**–**	–	**75.0**	44.5
Other entities:				
On loans	**81.7**	79.2	**0.1**	0.1
On finance leases	**0.7**	0.8	**–**	–
Less interest capitalised	**(8.0)**	(12.7)	**(0.5)**	(1.9)
	74.4	67.3	**74.6**	42.7

5 Operating Profit

	Consolidated		Santos Ltd	
	1999 $million	1998 $million	**1999 $million**	1998 $million
Operating profit before income tax includes the following items:				
Government royalties	**48.8**	41.1	**25.4**	21.8
Increase in provisions:				
Doubtful debts	**0.1**	0.1	**–**	–
Stock obsolescence	**0.1**	1.1	**–**	0.3
Employee entitlements and non-executive Directors' retirement benefits	**3.8**	3.6	**2.7**	1.6
Operating lease rentals	**25.1**	18.9	**2.1**	3.9
Loss on sale of notes	**–**	1.0	**–**	1.0
Writedown of investment in controlled entity	**–**	–	**7.7**	–
Loss/(profit) on sale of controlled entity	**0.2**	(7.4)	**–**	–
Loss/(profit) on disposal of non-current assets	**0.2**	(1.5)	**0.3**	(0.3)

6 Taxation

	Consolidated		Santos Ltd	
	1999 $million	1998 $million	**1999 $million**	1998 $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%	**122.3**	96.2	**96.6**	142.4
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Non-deductible depreciation and amortisation of buildings, plant and equipment	**2.4**	2.7	**1.8**	2.1
Non-deductible depletion of exploration and development expenditure	**9.4**	9.0	**0.6**	0.4
Write-down of exploration expenditure	**2.7**	1.8	**–**	–
Amortisation of goodwill	**3.2**	3.2	**–**	–
Non-deductible/(assessable) items	**(7.8)**	(1.6)	**2.9**	–
Rebate on dividend income	**(0.4)**	(8.4)	**(33.5)**	(90.6)
Research and development allowances	**(6.3)**	(10.5)	**(6.3)**	(7.8)
Recognition of tax benefits not previously recognised	**(4.1)**	–	**–**	–
Income tax over provided in prior years	**(1.0)**	(1.4)	**(7.8)**	(1.7)
Income tax attributable to operating profit	**120.4**	91.0	**54.3**	44.8
Abnormal income tax item				
Restatement of net deferred income tax provision due to change in future income tax rates	**(89.9)**	–	**(48.3)**	–
	30.5	91.0	**6.0**	44.8
Income tax comprises amounts set aside to:				
Provision for current income tax	**95.3**	4.3	**46.8**	21.9
Provision for deferred income tax	**(53.3)**	84.0	**(40.8)**	22.9
Future income tax benefits	**(11.5)**	2.7	**–**	–
	30.5	91.0	**6.0**	44.8

results

7 Dividends

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Dividends provided for or paid by the Company				
Interim dividend of 12.0 cents per share, fully franked (1998: 12.0 cents per share, fully franked)	**72.7**	72.7	**72.7**	72.7
Final dividend of 15.0 cents per share, fully franked (1998: 13.0 cents per share, fully franked)	**91.0**	78.8	**91.0**	78.8
	163.7	151.5	**163.7**	151.5

Franking credits

Santos Ltd has $61.1 million of franking credits at 36% (1998: $107.9 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 1999 and after deducting franking credits to be used in payment of the 1999 final dividend.

8 Receivables

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Trade debtors	**119.2**	86.5	**70.7**	39.5
Sundry debtors and prepayments	**35.9**	36.9	**16.4**	16.8
Less provision for doubtful debts	**(1.4)**	(1.4)	**(0.8)**	(0.8)
Amounts owing by controlled entities	**–**	–	**1,181.5**	115.7
	153.7	122.0	**1,267.8**	171.2

9 Inventories

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Petroleum products	**58.0**	48.3	**30.4**	25.0
Drilling and maintenance stocks	**35.9**	27.9	**16.6**	12.6
Provision for obsolescence	**(3.8)**	(3.7)	**(1.0)**	(1.0)
	90.1	72.5	**46.0**	36.6

10 Investments

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Investments in controlled entities	**–**	–	**1,546.4**	1,544.6
Investment in partnership	**1.1**	1.3	**–**	–
Investment in associated company:				
Equity accounted	**314.4**	–	**–**	–
Listed shares at cost	**–**	351.7	**351.7**	351.7
Investments in other listed shares at cost	**33.8**	33.8	**33.8**	33.8
	349.3	386.8	**1,931.9**	1,930.1
Market value of investments in listed shares	**261.6**	284.6	**261.6**	284.6

The Directors have reviewed the carrying values of investments in accordance with the requirements of AASB 1010: "Accounting for the Revaluation of Non-Current Assets" 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 1999. An external expert's opinion was obtained to confirm that the long-term value of the investment in associated company exceeds the carrying value at year end 1999. 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 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Areas in which production has commenced				
Cost at the beginning of the year	**3,563.0**	3,255.5	**1,153.5**	1,054.2
Expenditure incurred during the year	**170.5**	259.3	**61.3**	99.3
Disposals, net of acquisitions and foreign currency translation	**(29.3)**	(81.0)	**–**	–
Expenditure transferred from areas in the exploration and development stage	**12.8**	143.2	**–**	–
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	**3,717.0**	3,563.0	**1,214.8**	1,153.5
Less accumulated depletion	**(1,641.0)**	(1,488.9)	**(548.3)**	(488.6)
	2,076.0	2,074.1	**666.5**	664.9
Areas in the exploration and development stage				
Cost at the beginning of the year	**169.3**	248.2	**123.3**	91.7
Expenditure incurred during the year	**24.4**	79.6	**13.0**	31.6
Acquisitions, net of disposals and foreign currency translation	**108.7**	(12.4)	**–**	–
Expenditure transferred to areas where production has commenced	**(12.8)**	(143.2)	**–**	–
Expenditure written off during the year	**(7.6)**	(2.9)	**–**	–
Cost at the end of the year	**282.0**	169.3	**136.3**	123.3
Total exploration and development expenditure	**2,358.0**	2,243.4	**802.8**	788.2

12 Land and Buildings, Plant and Equipment

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Land and buildings				
At cost	**68.4**	67.4	**39.6**	39.6
Less accumulated depreciation	**(36.4)**	(34.7)	**(25.8)**	(24.7)
	32.0	32.7	**13.8**	14.9
Plant and equipment				
At cost	**2,403.6**	2,314.6	**1,310.9**	1,263.7
Capitalised leases	**18.2**	18.2	**–**	–
	2,421.8	2,332.8	**1,310.9**	1,263.7
Less accumulated depreciation	**(1,267.9)**	(1,185.7)	**(775.8)**	(734.2)
	1,153.9	1,147.1	**535.1**	529.5
Total land and buildings, plant and equipment	**1,185.9**	1,179.8	**548.9**	544.4

13 Intangibles

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Goodwill, at cost	**160.2**	160.2	**–**	–
Less accumulated amortisation	**(115.6)**	(106.6)	**–**	–
	44.6	53.6	**–**	–

results

14 Other Assets

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Security deposit	**13.0**	15.9	**7.6**	9.5
Future income tax benefits	**16.3**	4.8	**–**	–
Other loans	**0.5**	0.5	**0.5**	0.5
Deferred foreign currency fluctuations on borrowings	**29.4**	39.0	**–**	–
	59.2	60.2	**8.1**	10.0

15 Accounts Payable

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Trade creditors	**81.0**	94.2	**31.8**	43.0
Sundry creditors and accruals	**40.6**	56.9	**17.7**	20.8
Amounts owing to controlled entities	**–**	–	**2,028.5**	1,032.3
	121.6	151.1	**2,078.0**	1,096.1

16 Borrowings

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Current				
Lease liabilities	**0.4**	0.4	**–**	–
	0.4	0.4	**–**	–
Non-current				
Bank loans	**462.7**	600.0	**–**	–
Commercial paper	**443.0**	287.0	**–**	–
Medium-term notes	**219.8**	219.7	**–**	–
Long-term notes	**260.0**	277.1	**–**	–
Lease liabilities	**13.1**	13.6	**–**	–
	1,398.6	1,397.4	**–**	–

Details of major credit facilities

(a) Bank loans

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

Revolving Facilities at 31 December 1999

Year of maturity	Currency	Amount A$million	Amount drawn at 31 December 1999 A$million
2000	Australian dollars	5.0	**–**
2000	Multi option	100.0	**100.0**
2001	Multi option	125.0	**50.0**
2002	Multi option	50.0	**50.0**
2003	Multi option	325.0	**95.9**
2004	Multi option	250.0	**45.9**
2005	Multi option	150.0	**25.0**
2006	Multi option	150.0	**95.9**
		1,155.0	**462.7**

16
Borrowings continued

(a) Bank loans continued

Bank loans bear interest at the relevant interbank reference rate plus 0.15% to 0.45%. The weighted average annual effective interest rate is 5.87% (1998: 5.15%). The amount drawn at 31 December 1999 is comprised of US$90.0 million (A$137.7 million) (1998: nil) and A$325.0 million (1998: A$600.0 million).

(b) Commercial paper

The economic entity has commercial paper programs based in Hong Kong and Australia. The programs which total US$200.0 million (1998: US$200.0 million) (Euro Commercial Paper) and A$600.0 million (1998: A$600.0 million) (Promissory Notes) are supported by the revolving facilities referred to in (a) above. At 31 December 1999, A$443.0 million (1998: A$287.0 million) equivalent of commercial paper is on issue and the weighted average annual effective interest rate is 5.75% (1998: 5.17%).

(c) Medium-term notes

The economic entity has a A$500.0 million domestic medium-term note program. At 31 December 1999, A$149.8 million (1998: A$149.7 million) of fixed rate notes have been issued at an annual effective interest rate of 6.55% (1998: 6.55%), maturing in 2002. In addition, A$70.0 million (1998: A$70.0 million) of medium-term notes have been issued at floating rates of interest averaging 5.77% (1998: 5.47%) at 31 December 1999, maturing in 2000 and 2008.

(d) Long-term notes

US$170.0 million (A$260.0 million) (1998: US$170.0 million equivalent to A$277.1 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	
	1999 $million	1998 $million	**1999 $million**	1998 $million
Current				
Dividends	**91.0**	78.8	**91.0**	78.8
Employee entitlements	**36.8**	37.0	**28.0**	25.7
Income tax	**55.9**	5.5	**49.5**	13.4
	183.7	121.3	**168.5**	117.9
Non-current				
Deferred income tax	**510.6**	563.9	**248.7**	289.6
Future restoration costs	**65.6**	61.7	**26.7**	26.1
Non-executive Directors' retirement benefits	**1.5**	1.1	**1.5**	1.1
	577.7	626.7	**276.9**	316.8

18 Share Capital

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
Share capital				
606,340,553 (1998: 605,909,045) fully paid ordinary shares	**1,562.6**	1,555.0	**1,562.6**	1,555.0
1,845,750 (1998: 1,929,750) ordinary shares paid to 1¢	**–**	–	**–**	–
	1,562.6	1,555.0	**1,562.6**	1,555.0

Movement in fully paid ordinary shares

	Note	1999 No. of Shares	1998 No. of Shares	1999 $million	1998 $million
Balance at the beginning of the year		**605,909,045**	605,400,025	**1,555.0**	151.4
Santos Executive Share Plan	(a)	**84,000**	–	**0.2**	–
Santos Employee Share Acquisition Plan	(b)	**281,808**	312,620	**1.4**	1.2
Santos Employee Share Purchase Plan	(c)	**65,700**	196,400	**0.3**	0.5
Abolition of share premium on 1 July 1998		**–**	–	**–**	1,401.9
Transfer from capital reserve		**–**	–	**5.7**	–
Balance at the end of the year		**606,340,553**	605,909,045	**1,562.6**	1,555.0

The market price of the Company's shares on 31 December 1999 was $4.15 (1998: $4.38).

(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 54,500 Plan 0 and 29,500 Plan 2 Shares were fully paid and as at 31 December 1999 there were 33 holders of the outstanding 949,000 Plan 0 Shares and 30 holders of the outstanding 896,750 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 Employee Share Acquisition Plan

The Santos Employee Share Acquisition Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. Approval was sought for a period of three years, in that there would be no offers under the Plan after this period without further shareholder approval.

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 below), 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 26 August 1999, the Company issued 281,808 ordinary shares to the trustee on behalf of 1,368 eligible employees under the Plan, being 206 shares for each employee. The total market value of those shares on the issue date was $1,352,678.40. At this time no offers remain outstanding under this Plan.

At 31 December 1999, the total number of shares acquired under the Plan since its commencement was 784,537.

(c) Santos Employee Share Purchase Plan

The Santos Employee Share Purchase Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. Approval was sought for a period of three years, in that there would be no offers under the Plan after this period without further shareholder approval. 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 1999, the Company issued 55,100 ordinary shares to 80 eligible employees at a subscription price of $4.41 per share under the Plan. The total market value of those shares on the issue date was $252,909 and the total amount received from employees for those shares was $242,991.

On 30 September 1999, the Company issued 10,600 ordinary shares to 31 eligible employees at a subscription price of $4.38 per share under the Plan. The total market value of those shares on the issue date was $45,442 and the total amount received from employees for those shares was $46,428.

At 31 December 1999, the total number of shares acquired under the Plan since its commencement was 360,500.

(d) Santos Executive Share Option Plan

The Santos Executive Share Option Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. Approval was sought for a period of three years, in that there would be no offers under the Plan after this period without further shareholder approval.

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.

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. The Plan provides for options with a life of up to ten years.

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 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
15 June 1999	2,925,000[2]	$5.12	15 June 2002	14 June 2004

1. In limited circumstances described in the Plan the options may be exercised before this date.
2. These comprise options granted to Dr J D Armstrong, Mr M A Baugh and Mr R E McArdle and 37 other participating eligible executives.

At 31 December 1999, the total number of options acquired under the Plan since its commencement was 14,450,000, 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	4,850,000
30 April 2003	$5.59	3,150,000
15 June 2003	$4.84	2,725,000
14 June 2004	$5.12	2,925,000

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

18
Share Capital continued

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

The aggregate number of:

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

(ii) 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.

19
Reserves

	Consolidated		Santos Ltd	
	1999 $million	1998 $million	**1999 $million**	1998 $million
Capital	**–**	5.9	**–**	5.7
Foreign currency translation	**(1.1)**	–	**–**	–
	(1.1)	5.9	**–**	5.7
Movements during the year				
Capital				
Balance at the beginning of the year	**5.9**	5.9	**5.7**	5.7
Transferred to share capital	**(5.9)**	–	**(5.7)**	–
Balance at the end of the year	**–**	5.9	**–**	5.7
Foreign currency translation				
Balance at the beginning of the year	**–**	6.7	**–**	–
Transfers to/(from) foreign currency translation reserve arising from exchange rate fluctuations on:				
Overseas net assets	**(7.6)**	18.0	**–**	–
Foreign currency borrowings	**6.5**	(14.5)	**–**	–
Transfer on sale of controlled entity	**–**	(10.2)	**–**	–
Balance at the end of the year	**(1.1)**	–	**–**	–

20
Earnings per Share

	Consolidated	
	1999	1998
Basic earnings per share (cents)	**51.0**	29.1
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (million)	**606.1**	605.6

Santos Ltd has potential ordinary shares on issue being 1,845,750 (1998: 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 13,850,000 (1998: 11,075,000) 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 (Parent 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 Developments Pty Ltd	NSW
Bridge Oil Exploration Pty Ltd	ACT
Bridge Oil International Finance Pty Ltd	ACT
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 L.H.F. Pty Ltd	VIC
Doce Pty Ltd	QLD
Kipper GS Pty Ltd[3]	WA
Controlled entity of Kipper GS Pty Ltd	
Crusader (Victoria) Pty Ltd[3]	VIC
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
Reef Oil Pty Ltd	NSW
Santos Australian Hydrocarbons Pty Ltd	QLD
Santos Facilities Pty Ltd	SA
Santos Finance Ltd	NSW
Santos (Halph) Pty Ltd	ACT
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 (in liquidation)	WA
Controlled entities of Western Australian Capital Holdings Pty Ltd	
Farmout Drillers Pty Ltd	NSW
Canso Resources Pty Ltd	NSW

Name	Place of incorporation
Santos International Holdings Pty Ltd	ACT
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Limited[2]	PNG
Lavana Limited[2,3]	PNG
Peko Offshore Ltd	BER
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
Santos Niugini Exploration Limited[2]	PNG
Santos Petroleum (NZ) Ltd[2]	NZ
Zan Star Ltd[2,3]	PNG
Santos (Korinci-Baru) Pty Ltd	ACT
Santos (N.T.) Pty Ltd	ACT
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Limited[3]	NSW
Santos Offshore Pty Ltd	VIC
Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
Santos Petroleum Pty Ltd	NSW
Santos QNT Pty Ltd	QLD
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd	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	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
Santos Resources Pty Ltd	QLD
Santos (Varanus) Pty Ltd	WA
Santos (Zoca 91-01) Pty Ltd	ACT
Santos (Zoca 91-12) Pty Ltd	ACT
Vamgas Pty Ltd	VIC

1. Beneficial interests in all controlled entities is 100% except for Kipper GS Pty Ltd in which two shares of the total issued capital of 9,246,353 shares are owned by a third party.
2. Entities audited by overseas KPMG member firms.
3. Companies acquired or incorporated during the year.

results

21

Investments in Controlled Entities continued

Notes

(a) Acquisition of controlled entities

The following controlled entities were acquired during the year and their 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
Kipper GS Pty Ltd	3 March 1999	100*	10.3	10.3
Bonaparte Gas & Oil Pty Limited	13 July 1999	100	–	–
Zan Star Ltd	29 January 1999	100	–	–
Lavana Limited	29 January 1999	100	–	–

* Rounded amount, two shares of the total issued capital of 9,246,353 shares are owned by a third party.

(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 Petroleum (Seram) Ltd	1 January 1999	100	–	0.2

(ii) During the year Western Australian Capital Holdings Pty Ltd was placed into voluntary liquidation and Santos Exploration (China) Pte Ltd was liquidated.

(c) Place of incorporation

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

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	
				1999	1998	**1999**	1998
				%	%	**$million**	$million
QCT Resources Limited	Australia	Coal mining	30 June	**36.4**	36.4	**314.4***	351.7*

*The book value of the investment in the associated company is at the equity accounted amount at year end 1999 and at cost at year end 1998.

	Consolidated	
	1999 $million "Equity Accounted"	1998 $million "At Cost"
Movements in carrying amount of investment		
Carrying amount of investment in associate at the beginning of the year, at cost	**351.7**	325.7
Adjustment on initial adoption of equity accounting as at 1 January 1999	**(28.5)**	–
	323.2	325.7
Investments during the year	**–**	26.0
Share of operating profit after tax	**2.5**	–
Dividends received	**(11.3)**	–
Carrying amount of investment in associate at the end of the year	**314.4**	351.7
Equity accounted results of associate		
Share of operating profit before income tax	**8.8**	
Share of income tax attributable to operating profit	**(6.7)**	
Share of abnormal income tax item	**5.6**	
Share of operating profit after tax - as reported by associate	**7.7**	
Adjustments for amortisation of goodwill	**(5.2)**	
Share of operating profit after tax - equity accounted	**2.5**	
Equity accounted share of post-acquisition retained profits		
Share of associate's retained profits at the beginning of the year due to application of AASB 1016: "Accounting for Investments in Associates"	**(28.5)**	
Share of associate's operating profit after tax - equity accounted	**2.5**	
Dividends received from associate	**(11.3)**	
Share of associate's retained profits at the end of the year	**(37.3)**	

results

22 Associated Company continued

	Consolidated 1999 $million
Summary of financial position of associate	
The economic entity's share of aggregate assets and liabilities of associate are as follows:	
Current assets	100.5
Non-current assets	410.3
Total assets	510.8
Current liabilities	51.6
Non-current liabilities	218.5
Total liabilities	270.1
Net assets - as reported by associate	240.7

	30 June 1999 $million*
Commitments	
Share of associate's capital expenditure commitments contracted but not provided in the financial report:	
Capital expenditure commitments contracted:	
Due not later than one year	6.7
	6.7
Operating lease commitments:	
Due not later than one year	1.4
Due later than one year but not later than two years	1.0
Due later than two years but not later than five years	1.8
Due later than five years	1.8
	6.0
Contingent liabilities	
Share of associate's contingent liabilities:	
Bank guarantees	3.2
Other	5.0
	8.2

* The most recent commitment and contingency information available to equity holders is that published in the 30 June 1999 QCT Resources Limited Financial Report.

23
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 %
Ballera to Mt Isa Pipeline	Gas transport	18
Bonaparte Basin		
Bonaparte Sea	Oil and gas exploration	76
Timor Gap	Oil and gas exploration and production	18
Timor Sea	Oil and gas exploration and production	23
Browse Basin	Oil and gas exploration	24
Carnarvon Basin	Oil and gas exploration and production	34
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 Basin		
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
Gippsland Basin	Oil and gas exploration	40
Indonesian interests	Oil and gas exploration and production	40
Jackson Moonie Pipeline	Oil transportation	83
Mereenie	Oil and gas production	65
Mereenie Pipeline	Oil transportation	65
Otway Basin	Oil and gas exploration and production	39
Palm Valley	Gas production	48
Papua New Guinean interests	Oil and gas exploration and production	33
Roma	Oil and gas exploration and production	60
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	26
Gulf of Mexico	Oil and gas exploration and production	50

(b) The sales revenue received from the economic entity's share of petroleum products produced by the joint ventures was $936.0 million (1998: $769.4 million) and the contribution of joint venture business undertakings to operating profit before interest and tax of the economic entity was $427.6 million (1998: $313.9 million).

results

23 Interests in Joint Ventures continued

	Consolidated		Santos Ltd	
	1999 $million	1998 $million	**1999 $million**	1998 $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	**21.6**	14.8	**4.0**	1.7
Receivables	**24.9**	16.1	**11.5**	6.7
Inventories	**30.7**	23.7	**15.1**	11.4
Total current assets	**77.2**	54.6	**30.6**	19.8
Non-current assets				
Exploration and development expenditure	**2,323.2**	2,227.9	**778.4**	783.6
Land and buildings, plant and equipment	**1,128.5**	1,114.4	**524.2**	515.6
Other	**13.0**	15.9	**7.6**	9.5
Total non-current assets	**3,464.7**	3,358.2	**1,310.2**	1,308.7
Total assets	**3,541.9**	3,412.8	**1,340.8**	1,328.5
Current liabilities				
Accounts payable	**73.9**	98.9	**28.2**	41.2
Non-current liabilities				
Provisions	**63.9**	60.0	**26.3**	26.1
Total liabilities	**137.8**	158.9	**54.5**	67.3
Net investments in joint ventures	**3,404.1**	3,253.9	**1,286.3**	1,261.2
(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures are:				
Capital expenditure commitments	**100.5**	18.9	**45.5**	9.9
Minimum exploration commitments	**225.5**	242.0	**78.4**	92.4
Contingent liabilities	**14.2**	12.0	**9.1**	8.0

24 Notes to Statements of Cash Flows

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
(a) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	**309.1**	176.3	**262.4**	350.7
Add/(deduct) non-cash items:				
Depreciation, depletion and amortisation	**278.5**	243.1	**103.9**	94.1
Write-down of controlled entity	**–**	–	**7.7**	–
Increase/(decrease) in income taxes payable	**50.4**	(26.9)	**37.9**	(12.1)
Net increase/(decrease) in deferred tax payable and future income tax benefits	**(64.8)**	86.4	**(40.9)**	26.0
Increase/(decrease) in provisions	**0.7**	(0.6)	**1.6**	1.4
Capitalised interest	**(8.0)**	(12.7)	**(0.5)**	(1.9)
Foreign currency fluctuations	**(0.2)**	(2.0)	**–**	–
Share of associated company's operating profit after tax	**(2.5)**	–	**–**	–
Dividends received from associate	**11.3**	–	**–**	–
Net loss/(profit) on sale of non-current assets	**0.4**	(7.9)	**0.3**	0.7
Net cash provided by operating activities before change in assets or liabilities	**574.9**	455.7	**372.4**	458.9
Add/(deduct) change in assets or liabilities:				
Decrease/(increase) in receivables	**(39.5)**	(12.9)	**(32.9)**	49.5
Decrease/(increase) in inventories	**(13.9)**	(1.9)	**(8.0)**	1.1
Decrease in other assets	**2.8**	2.2	**1.9**	–
Increase in accounts payable	**5.6**	14.5	**2.4**	8.2
Net cash provided by operating activities	**529.9**	457.6	**335.8**	517.7
(b) Acquisitions of controlled entity				
During the financial year, the economic entity acquired controlled entities as disclosed in note 21. Details of the acquisitions are as follows:				
Fair value of net assets acquired				
Exploration and development	**10.3**	27.9	**9.2**	27.9
Land and buildings, plant and equipment	**–**	3.1	**–**	3.1
Working capital	**–**	0.1	**–**	0.1
Consideration	**10.3**	31.1	**9.2**	31.1
Outflow of cash to acquire net assets, net of cash acquired				
Total consideration to be paid	**10.3**	31.1	**9.2**	31.1
Payment relating to 1998 acquisition	**5.0**	–	**5.0**	–
Less amount due for payment in 1999	**–**	(5.0)	**–**	(5.0)
Less cash balances acquired	**–**	(0.6)	**–**	(0.6)
Outflow of cash	**15.3**	25.5	**14.2**	25.5

results

24 Notes to Statements of Cash Flows continued

	Consolidated 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
(c) Disposal of controlled entity				
During the financial year the economic entity sold its interest in a controlled entity as disclosed in note 21. Details of the sale are as follows:				
Cash proceeds from sale	**–**	137.0	**–**	–
Net assets sold				
Exploration and development	**1.1**	134.0	**–**	–
Land and buildings, plant and equipment	**–**	2.2	**–**	–
Working capital	**(0.9)**	3.6	**–**	–
Foreign currency translation reserve	**–**	(10.2)	**–**	–
	0.2	129.6	**–**	–
Profit/(loss) after income tax on disposal of controlled entity	**(0.2)**	7.4	**–**	–

25 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
CONROY Francis John: appointed 19 October 1999
GERLACH Stephen
McARDLE John Walter
McGREGOR Graeme William: appointed 3 September 1999
O'LEARY Michael Anthony
SLOAN Judith
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 and interest 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 dividends received from associated company; and
Note 26 as to Directors' remuneration, including amounts paid or prescribed benefits given in respect of the retirement of Directors.

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, which agreements include those entered into with respectively Mr G W McGregor on 3 September 1999 and Mr F J Conroy on 19 October 1999. The amount provided for the year was $375,335 (1998: $195,277).

(ii) Included in other loans is an amount of $506,000 (1998: $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 (1998: $32,890).

(iii) 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 588,700 fully paid ordinary shares (1998: 569,800), 930,000 Executive Share Plan Shares paid to 1 cent (1998: 930,000) and 4,000,000 options granted under the Santos Executive Share Option Plan (1998: 4,000,000).

25 Related Parties continued

	Santos Ltd 1999 $million	Santos Ltd 1998 $million
(iv) 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 by controlled entities	**896.7**	–
Amounts owing to controlled entities	**1,709.5**	620.9

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

(v) During the financial year, legal costs of $351,339 (1998: $230,220) 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.

26 Executives' and Directors' Remuneration

	Consolidated 1999 $000	Consolidated 1998 $000	Santos Ltd 1999 $000	Santos Ltd 1998 $000
Executives				
Amounts received from Santos Ltd or its controlled entities by Executive Officers domiciled in Australia whose income is $100,000 or greater	**5,920**	5,026	**5,920**	5,026

Number of Executive Officers whose remuneration was within the following bands:

$000	No.	No.	No.	No.
220 – 230	**–**	2	**–**	2
230 – 240	**–**	1	**–**	1
240 – 250	**2**	–	**2**	–
270 – 280	**–**	1	**–**	1
290 – 300	**–**	1	**–**	1
300 – 310	**1**	–	**1**	–
310 – 320	**1**	–	**1**	–
330 – 340	**–**	1	**–**	1
340 – 350	**2**	2	**2**	2
360 – 370	**1**	–	**1**	–
370 – 380	**1**	–	**1**	–
420 – 430	**1**	–	**1**	–
510 – 520	**–**	1	**–**	1
590 – 600	**1**	–	**1**	–
650 – 660	**–**	1	**–**	1
720 – 730	**1**	–	**1**	–
1,580 – 1,590	**–**	1	**–**	1
1,620 – 1,630	**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.

results

26 Executives' and Directors' Remuneration continued

	Consolidated		Santos Ltd	
	1999	1998	**1999**	1998
	$000	$000	**$000**	$000
Directors				
Amounts received or due from Santos Ltd and its controlled entities by the Directors of Santos Ltd and Directors of each of its controlled entities	**3,275**	3,305	**2,982**	2,807

Number of Directors whose remuneration was within the following bands:

$000		No.	No.
10 – 20		**1**	1
20 – 30		**1**	–
50 – 60		**–**	1
60 – 70		**1**	3
70 – 80		**4**	1
220 – 230		**–**	1
240 – 250		**1**	–
650 – 660		**–**	1
720 – 730		**1**	–
1,580 – 1,590		**–**	1
1,620 – 1,630		**1**	–

	Consolidated		Santos Ltd	
	1999	1998	**1999**	1998
	$000	$000	**$000**	$000
Retirement Benefits				
Retirement benefits paid to Directors, in accordance with Directors' retirement arrangements previously approved by shareholders in a general meeting	**–**	258	**–**	258

27 Remuneration of Auditors

Amounts received or due and receivable by the auditors of Santos Ltd for:				
Audit of financial reports	**363**	380	**273**	285
Other audit assurance services	**290**	390	**290**	376
Other services	**239**	254	**188**	212
	892	1,024	**751**	873
Amounts received or due and receivable by auditors other than the auditors of Santos Ltd for:				
Audit of financial reports	**76**	87	**–**	–
Other audit assurance services	**–**	20	**–**	–
Other services	**182**	285	**–**	–
	258	392	**–**	–

28 Segment Reporting

The economic entity operates 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.

29 Commitments for Expenditure

	Consolidated		Santos Ltd	
	1999	1998	**1999**	1998
	$million	$million	**$million**	$million
The economic entity has 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	**32.6**	13.7	**11.9**	6.4
Due later than one year but not later than two years	**23.7**	2.3	**8.1**	1.6
Due later than two years but not later than five years	**44.2**	2.9	**25.5**	1.9
	100.5	18.9	**45.5**	9.9
(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	**48.6**	45.8	**8.9**	9.5
Due later than one year but not later than two years	**53.0**	31.4	**10.5**	10.0
Due later than two years but not later than five years	**91.0**	119.8	**36.6**	50.5
Due later than five years	**32.9**	45.0	**22.4**	22.4
	225.5	242.0	**78.4**	92.4

The economic entity has 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 1999 $million	Consolidated 1998 $million	Santos Ltd 1999 $million	Santos Ltd 1998 $million
(c) Lease commitments				
Finance leases:				
Due not later than one year	**1.1**	1.1	**–**	–
Due later than one year but not later than five years	**14.0**	15.1	**–**	–
Total commitments under finance leases	**15.1**	16.2	**–**	–
Less future finance charges	**(1.6)**	(2.2)	**–**	–
Lease liabilities	**13.5**	14.0	**–**	–
Operating leases:				
Due not later than one year	**26.4**	14.5	**3.6**	4.3
Due later than one year but not later than five years	**79.4**	106.2	**13.9**	13.6
Due later than five years	**24.7**	29.5	**10.3**	5.4
Total commitments under operating leases	**130.5**	150.2	**27.8**	23.3

results

30 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.

Independent actuarial valuations of the company sponsored defined benefit plan are undertaken every three years as at the 31st of December. The last actuarial review for the year ended 31 December 1996 was issued on 8 May 1997 and revealed a surplus in the fund and that there were sufficient funds to satisfy all benefits, which would have been vested under the plan 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 issued	Not applicable	8 May 1997
Name of valuer and qualifications	Not applicable	NL Wilmont BSc, FIAA

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

	As at 30 June 1999 $million	As at 30 June 1998 $million
Net market value of assets	**93.0**	85.3
Present value of employees' accrued benefits as determined by acturial assessment on 31 December 1996	**64.1**	64.1
Excess of assets held to meet future benefit payments	**28.9**	21.2

Vested benefits at 31 December 1998 are $84.3 million.

31 Contingent Liabilities

	Consolidated 1999 $million	Consolidated 1998 $million	**Santos Ltd 1999 $million**	Santos Ltd 1998 $million
Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of other persons:				
Performance guarantees	**7.0**	4.9	**5.0**	3.9
Employee service agreements	**3.3**	4.0	**3.3**	4.0
Claims have been lodged including the following:				
(a) claims under and for breach of contract and public liability	**7.1**	7.1	**4.0**	4.1
(b) miscellaneous claims	**0.1**	–	**0.1**	–
	17.5	16.0	**12.4**	12.0

31 Contingent Liabilities continued

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 $1.2 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 $33.0 million (1998: $27.0 million) in relation to its interest in partnership.

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 dependent on the response of the States to the Commonwealth Native Title Amendment Act, 1998.

32 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 1999 the economic entity had open forward foreign exchange and foreign currency option contracts with settlement/expiry dates up to thirteen months. If closed out at balance date these contracts would have resulted in a gain of $2.6 million (1998: loss of $0.1 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 1999. Accordingly, $29.4 million of unrealised foreign currency losses were deferred as at 31 December 1999 (1998: $39.0 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.

		Consolidated		Santos Ltd	
		1999 $million	1998 $million	**1999 $million**	1998 $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	**91.2**	54.6	**28.4**	11.5
Current liabilities	– United States dollars	**6.4**	9.6	**–**	–

results

32

Additional Financial Instruments Disclosure continued

(b) Interest rate risk exposure

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

At 31 December 1999 the economic entity had open interest rate swap contracts which if closed would have resulted in a loss of $6.0 million (1998: gain of $7.2 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 1999							
Financial assets							
Cash		**97.9**	**–**	**–**	**–**	**–**	**97.9**
Receivables	8	**–**	**–**	**–**	**–**	**153.7**	**153.7**
Investments	10	**–**	**–**	**–**	**–**	**349.3**	**349.3**
Other assets	14	**–**	**–**	**–**	**0.5**	**–**	**0.5**
		97.9	**–**	**–**	**0.5**	**503.0**	**601.4**
Weighted average interest rate		***4.66%***	**–**	**–**	***6.50%***		
Financial liabilities							
Accounts payable	15	**–**	**–**	**–**	**–**	**121.6**	**121.6**
Borrowings	16	**13.5**	**955.7**	**357.8**	**72.0**	**–**	**1,399.0**
		13.5	**955.7**	**357.8**	**72.0**	**121.6**	**1,520.6**
Interest rate swaps*		**–**	**188.2**	**(119.3)**	**(68.9)**	**–**	**–**
Weighted average interest rate		***5.01%***	***6.01%***	***6.37%***	***6.95%***		
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

32

Additional Financial Instruments Disclosure continued

(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 1999 the economic entity had open oil price swap contracts with settlement expiry dates up to nine months. If closed out at balance date these contracts would have resulted in no gain or loss (1998: 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 1999, counterparty default of interest rate swap contracts, foreign exchange contracts, foreign currency options and oil price swap contracts would result in a loss of $7.4 million (1998: loss of $10.6 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.

(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).

At 31 December 1999 the economic entity had open derivative financial instruments contracts relating to future revenue transactions which if closed out at their market rates would have resulted in a loss of $3.4 million (1998: gain $7.1 million).

33

Economic Dependency

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

Directors' Declaration

for the year ended 31 December 1999

In the opinion of the Directors of Santos Ltd:

(a) the financial statements and notes, set out on pages 40 to 69, 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 1999 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 6th day of March 2000.

Signed in accordance with a resolution of the Directors:

J. A. Uhrig

J A Uhrig
Director

N. R. Adler.

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 1999, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 40 to 70. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year 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 it 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 in Australia 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 1999 and of their performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

KPMG

KPMG

William J Stevens
Partner

Adelaide, 6 March 2000

Stock Exchange and Shareholder Information

Listed on Australian Stock Exchange at 29 February 2000 were 606,274,853 fully paid ordinary shares. Unlisted were 949,000 partly paid Plan 0 shares, 896,750 partly paid Plan 2 shares and 65,700 fully paid ordinary shares issued pursuant to the Santos Employee Share Purchase Plan ('SESPP'). There were 82,113 holders of all classes of issued shares (including 33 holders of Plan 0 shares; 30 holders of Plan 2 shares; and 48 holders of SESPP shares) compared with 81,428 a year earlier and there were 46 holders of the 13,650,000 options granted pursuant to the Santos Executive Share Option Plan.

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 44.85% of the total voting power in Santos (last year 42.76%).

The 20 largest shareholders in Santos as shown in the Company's Register of Members at 29 February 2000 were:

Name	Number of fully paid shares	% of voting capital
Chase Manhattan Nominees Limited	58,138,361	9.59
National Nominees Limited	53,128,251	8.76
Westpac Custodian Nominees Limited	40,768,173	6.72
ANZ Nominees Limited	24,208,514	3.99
Perpetual Trustees Nominees Limited	15,905,490	2.62
MLC Limited	11,798,292	1.95
Queensland Investment Corporation	9,350,835	1.54
BT Custodial Services Pty Limited (Sub Cus Account)	8,140,039	1.34
Westpac Custodian Nominees Limited (ADR Account)	7,582,379	1.25
AMP Life Limited	7,122,331	1.18
Perpetual Trustees Australia Limited	7,057,202	1.16
Citicorp Nominees Pty Limited	6,415,387	1.06
AMP Nominees Pty Limited	5,049,686	0.83
Commonwealth Custodial Services Limited	3,723,014	0.62
Australian Foundation Investment Company Limited (Investment Portfolio Account)	3,314,251	0.55
Merrill Lynch (Australia) Nominees Pty Ltd	2,618,595	0.43
Woodross Nominees Pty Ltd (BTWBO Account)	2,123,657	0.35
Djerriwarrh Investments Limited (Investment Portfolio Account)	1,961,260	0.32
Perpetual Trustees Australia Limited (ASF Account)	1,803,095	0.30
LGSS Pty Limited	1,769,979	0.29
	271,978,791	44.85

Substantial Shareholders, as at 29 February 2000, as disclosed by notices received by the Company:

Name	No. of voting shares held
Maple-Brown Abbott Limited	63,077,366
The Capital Group Companies Inc.	30,501,177

Analysis of Fully Paid Ordinary Shares – range of shares held

	Fully paid ordinary shares (Holders)	% of holders	% of shares held
1 – 1,000*	24,475	29.81	2.52
1,001 – 5,000	45,157	55.00	18.18
5,001 – 10,000	8,058	9.81	9.51
10,001 – 100,000	4,216	5.14	14.07
100,001 and over	200	0.24	55.72
Total	82,106	100.00	100.00

* There were 1,949 shareholders who held less than a marketable parcel based on the market price as at 29 February 2000.

For Directors' Shareholdings see Directors' Statutory Report as set out on page 34 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 Friday, 5 May 2000 at 11.00 a.m.

Final Dividend

The 1999 final ordinary dividend will be paid on 28 April 2000 to shareholders registered in the books of the Company at the close of business on 3 April 2000 in respect of fully paid shares held at record date.

Ann Boucaut
Share Registrar

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
Santos website: www.santos.com.au

Share Registrar, Santos Ltd, Santos House, Level 29, 91 King William Street, Adelaide, South Australia 5000

Directors

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

Secretary

M G Roberts

Registered and Head Office
Level 29
Santos House
91 King William Street
Adelaide South Australia 5000
Telephone (08) 8218 5111
Facsimile (08) 8218 5274
Telex AA82716

Share Register
Level 29
Santos House
91 King William Street
Adelaide South Australia 5000

Offices

Port Bonython
PO Box 344
Whyalla South Australia 5600
Telephone (08) 8640 3100
Facsimile (08) 8640 3200

Brisbane
Santos House
14th floor, 60 Edward Street
Brisbane Queensland 4000
Telephone (07) 3228 6666
Facsimile (07) 3228 6920

Sydney
Suite 5304, Level 53
MLC Centre
19 Martin Place
Sydney New South Wales 2000
Telephone (02) 9235 0899
Facsimile (02) 9232 5827

Subsidiary Companies

Brisbane
Santos Asia Pacific Pty Ltd
Level 2, Muruk Haus
230 Lutwyche Road
Windsor Queensland 4030
Telephone (07) 3857 7088
Facsimile (07) 3857 7089

Representative office of
Santos Asia Pacific Pty Ltd
in Jakarta:
Ratu Plaza Office Tower
10th floor
Jalan Jendral Sudirman Kav 9
Jakarta 10270 Indonesia
(PO Box 6221, JKS GN,
Jakarta 12060)
Telephone (62-21) 270 0410
Facsimile (62-21) 720 4503

United States of America
Santos USA Corporation
2500 Tanglewilde
Suite 160, Houston
Texas 77063 USA
Telephone (1-713) 975 3700
Facsimile (1-713) 975 3711

Papua New Guinea
Barracuda Limited
Level 11, Pacific Place
Cnr Champion Parade
and Musgrave Street
Port Moresby PNG
Telephone (675) 321 2633
Facsimile (675) 321 2847

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