Santos 1995 Annual Report

Company Information

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 Stock Exchange.

Santos American Depository Receipts issued by Morgan Guaranty in the US are sponsored and are quoted on the NASDAQ system in the US.

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, 3 May 1996 at 11.00 am.

Shareholders' Enquiries

Enquiries from shareholders and other interested people should be directed to:

The Secretary
Santos Ltd
39 Grenfell Street
Adelaide
South Australia 5000

Financial Calendar

1996	
March 29	Books close to determine entitlements to final dividend
April	First quarter revenue, production, exploration and development expenditure announced to Australian Stock Exchange (ASX)
May 2	Payment of final dividend
May 3	Annual General Meeting
June 30	Half-year end
July	Second quarter revenue, production and exploration and development expenditure announced to ASX
September	Half-year results announced to ASX
October	Third quarter revenue, production and exploration and development expenditure announced to ASX
December 31	Financial year-end
1997	
January	Final quarter 1996 revenue, production and exploration and development expenditure announced to ASX
March	Full year 1996 results announced to ASX

Directors

J A Uhrig (Chairman)
N R Adler (Managing Director)
P C Barnett (appointed 31 October 1995)
S Gerlach
J J Kennedy
R C H Mason*
J W McArdle (appointed 5 September 1995)
J Sloan
Robert Strauss
I E Webber

* Appointed by Sangas Development Ltd – holder of the B Class Shares

Secretary

M G Roberts

Front Cover

Undan-1, Timor Gap, Offshore Australia.

Exploration

Technology

Marketing

Growth

Contents

Performance Summary

1995 Highlights

Financial

- Increase in sales revenue of 4.9% to $671.6 million
- Increase in earnings before interest and tax of 9.6% to $296.1 million
- Increase in profit after tax before abnormals of 10.8% to $150.1 million
- Increase in earnings per share before abnormals of 7.7% to 27.9 cents
- Increase in dividends per share from 22.0 cents to 23.0 cents, fully franked

Exploration

- Discovery of the Undan gas/condensate field in Timor Gap Block ZOCA 91-12
- Successful appraisal of the Elang and Stag oil fields
- 66 exploration wells drilled (63 in 1994) with a 56% success rate

Reserves

- Increase in reserves of 72 million boe from exploration, the largest addition in over 20 years
- Largest increase in reserves of petroleum liquids in the company's history

Sales Volumes

- Annual sales volumes of 36.8 million boe (36.9 million in 1994)

Marketing

- Long-term contracts signed for the sale of south-west Queensland gas to customers in south-east Queensland
- New gas contract secured with the Northern Territory Power and Water Authority
- Commencement of construction of treatment facilities at Moomba for the ICI ethane project

Business Development

- Interest in the Stag oil field increased to 54.17%
- Acquisition of producing interests in the US

Investments

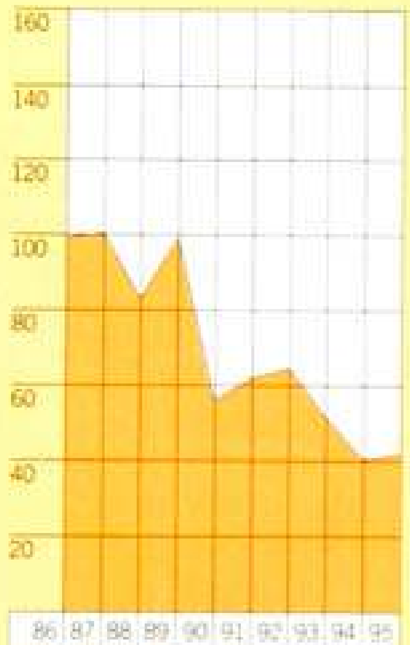
- Shareholding in QCT Resources Ltd increased from 28% to 32%

Financial

Key Results	1995	1994
Profit and Dividend		
Sales revenue ($million)	671.6	640.0
Earnings before interest and tax ($million)	296.1	270.1
Profit after tax and before abnormal items ($million)	150.1	135.5
Abnormal items after tax ($million)	(39.5)	54.9
Profit attributable to shareholders after tax ($million)	110.6	190.4
Dividends per share (cents fully franked)	23.0	22.0
Cash flow provided by operating activities ($million)	369.0	363.5
Balance Sheet		
Total assets ($million)	2,915.5	2,897.2
Total shareholders' equity ($million)	1,519.3	1,532.2
Net debt ($million)	642.0	619.9
Ratios		
Earnings per share before abnormal items (cents)	27.9	25.9
Return on shareholders' equity (%)	9.9	8.8
Net debt/equity (%)	42.3	40.5
Net interest cover (times)	7.6	6.7

Sales Revenue vs Oil Price

Gas & Gas Liquids | Crude Oil | Average Oil Price



Ratio of Net Debt to Equity %

Operating Profit after tax before abnormals $m

Company Profile

Global Operations

Since the company's foundation in 1954 as a petroleum explorer, Santos has developed into a major energy company. The majority of the company's assets are located in Australian petroleum provinces. In recent years Santos has acquired operations in the United States, the United Kingdom and South-East Asia. As it enters its fifth decade, Santos is increasingly an international company.

At the conclusion of 1995, Santos had a market capitalisation of over $2 billion and 1,500 employees. Santos shares are traded on the Australian and New Zealand Stock Exchanges. American Depository Receipts issued by Morgan Guaranty against Santos shares are quoted on NASDAQ.

Onshore Australia

The core of Santos' business is a majority interest in oil and gas fields in the Cooper/Eromanga Basins in Central Australia. This area covers over 121,000 square km of licences and leases over two States, South Australia and Queensland, and involves production from 783 gas and oil wells in 190 fields. Santos operates these facilities on behalf of a number of joint ventures. Around three-quarters of the company's revenue is sourced from this acreage.

Utilities in South Australia and New South Wales purchase gas from the region on the basis of long-term contracts. From 1997 gas from south-west Queensland will be sold into south-east Queensland under long-term contracts. The company markets its petroleum liquids products to Australian and international buyers.

In Queensland, Santos also participates in oil and gas production from the Surat Basin and gas production from the Denison Trough.

In the Northern Territory, Santos holds interests in the Mereenie oil and gas field and the Palm Valley gas field which are located in the Amadeus Basin. This gas is supplied principally to Alice Springs and Darwin under long-term contracts.

United States

Santos participates in onshore and offshore oil and gas exploration and production in the US through Santos USA Corporation, a wholly-owned subsidiary of Santos Americas and Europe Corporation which is based in Houston, Texas.

Offshore oil and gas production and exploration is undertaken in the Gulf of Mexico. Onshore production and exploration is focused on the Gulf Coast States and the Arkoma Basin, Oklahoma.

Key to details

- Land mass
- Production
- Exploration
- Pipelines (Gp = gas, Lp = liquids, Op = oil)
- Pipelines under construction

Offshore Australia

Off the north-west coast of Western Australia, Santos has interests in three producing oil fields in the Timor Sea and has interests in an onshore producing oil field in the Canning Basin. Exploration interests are also held in these areas. In addition, the company has exploration interests in permits in the Carnarvon Basin, the Bonaparte Basin and the Timor Gap. The company is actively pursuing new projects in these areas.

In South-East Asia, Santos holds production and exploration interests in the Bula oil field in Indonesia as well as exploration interests in Papua New Guinea.

United Kingdom

Santos' interests in oil and gas production and exploration in the UK are conducted through a wholly-owned subsidiary, Santos Europe Ltd, which is based near London. The production and exploration portfolio is focused on the Central North Sea and the Southern Gas Basin.

Currently, Santos Europe Ltd's only producing interest is in the Anglia gas field in the Southern Gas Basin. Interests in six other blocks are held which include two undeveloped oil fields, Banff and Pierce, which are located in the Central North Sea. The company is actively seeking to acquire producing interests with exploration potential.

Chairman's Overview

John Uhrig

1995 A Year of Achievement

"1995 was a successful year for Santos. The Board looks to the future growth of the company with confidence."

The company achieved a good result in 1995.

Total sales revenue increased by 4.9%. This reflects improved prices across the company's product range, together with sales volumes sustained at close to the record levels achieved in the previous year.

The company's gas business continued to grow strongly. Sales volumes were 2.4% above the record levels of the previous year. This resulted primarily from increased sales in the US and UK.

Total production during the year was 1.1% below the previous year, but gas production increased by 4.4% to a new record level.

The exploration program achieved a high level of success, both offshore in the Timor Gap and the Carnarvon Basin and onshore in the Cooper/Eromanga Basins. The exploration success rate recorded during the year was 56%.

The company's recent record of exploration success has led to a significant increase in reserves to 703 million barrels of oil equivalent (boe). This is a record level for Santos. Growth in reserves is one of the key factors in providing future growth for the company.

Our sales are also very important. 1995 was a successful year in this respect with the company signing long-term contracts to supply gas to customers in south-east Queensland from 1997. The demand for natural gas is growing and the company is well positioned to take advantage of this growth.

The continuing success in developing new marketing opportunities for Santos' gas reserves, together with exploration success, is necessary to ensure the company's growth.

Net profit after tax and before abnormal items for the year was $150.1 million, an increase of 10.8% on the previous year.

Earnings per share before abnormal items was 27.9 cents, an increase of 7.7% on 1994. The return on shareholders' funds before abnormal items was 9.9%.

Abnormal losses arose during the year as a result of the devaluation of the Australian dollar (AUD) against the US dollar (USD) and the increase in the company tax rate. In total, an abnormal loss of $39.5 million was recorded. This compares to an abnormal gain of $54.9 million in 1994 following the appreciation of the AUD against the USD during that year and the receipt of a compensation payment associated with the Moomba-Sydney pipeline.

After accounting for abnormal items, Santos' profit attributable to shareholders was $110.6 million, compared to the corresponding figure of $190.4 million in 1994.

The $94.4 million turnaround in abnormal items between the two periods is the predominant factor distinguishing the bottom line results.

Dividend

Directors have declared a final ordinary dividend of 12.0 cents per share which is fully franked. This dividend will be paid on 2 May 1996 to those shareholders registered in the books of the company on 29 March 1996.

The final dividend brings the company's total 1995 dividend to 23.0 cents per share which compares to 22.0 cents per share declared in 1994. The declared dividend is equivalent to a distribution of $123.6 million.

QCT Resources Ltd

During the year Santos increased its shareholding in QCT Resources Ltd (QRL) to 32%. The company's investment in QRL provides for modest diversification into an energy-related industry where the outlook is promising.

Board of Directors

A number of changes were made to the Board of Directors during the year:

- Mr Peter Barnett, formerly Managing Director and Chief Executive Officer of Pasminco Ltd, was appointed a non-executive Director.
- Mr Nobby Clark resigned from the Board, reflecting the additional commitments arising from his appointment as Chairman of Coles Myer Ltd. On behalf of the Board I would like to express the company's appreciation of Mr Clark's service over the past five years.
- Mr John McArdle, the company's Executive General Manager-Commercial, was appointed an Executive Director.

The Board places a high priority on having in place appropriate corporate governance arrangements, which are discussed further on page 39 of this Report.

As a company with significant operations in inland Australia, the Santos Board also places a high priority on responsible environmental management. The Environmental Committee of the Board regularly reviews the company's environmental policies and management. Santos' environmental practices are discussed further on page 23 of this Report.

B Class Shares

In December 1995, agreement was reached with The Australian Gas Light Company (AGL) to bring forward the expiry date of the special rights attaching to the 100,000 B Class shares in Santos' capital, all of which shares are held by Sangas Development Ltd, a subsidiary of AGL. These special rights principally include the right to appoint a Director and a veto right in respect of any proposed amendment to certain of Santos' Articles of Association.

Under the company's Articles of Association, the B Class shares are to be reclassified as ordinary shares on 31 December 2006, or such earlier date as Santos and AGL shall agree. Santos and AGL have negotiated an agreement upon terms so that in effect an agreed reclassification will now take place from the conclusion of Santos' next Annual General Meeting, in May 1996.

Outlook

The outlook for Santos is encouraging. The company has a strong balance sheet, substantial reserves, a significant number of development projects, particularly in offshore Australia, and a diverse range of marketing opportunities.

The strong balance sheet and cash flow will enable the company to fund a vigorous exploration program, fund necessary capital expenditure and take advantage of other commercial opportunities as they arise.

Conclusion

1995 has been a successful year for Santos. The company's financial results were good and the ground work was laid for further growth.

These results are due to the efforts of the company's management and employees and, on behalf of the Board, I wish to record our appreciation and thanks to them.

I also acknowledge the strong support of the company's shareholders. The number of shareholders has grown significantly in recent years, reaching a total of over 55,000 at the end of 1995. The company has before it a range of good growth opportunities, which will be of benefit to our shareholders.

J.A. Uhrig

J A Uhrig
Chairman

Managing Director's Review

Strategy for growth

Ross Adler

"Santos' strategy for growth in oil and gas has three major components. The company's success in each of these areas, together with the outlook for further growth, is the subject of this Review."

Roughnecks at work on the drilling rig floor.

First, successful **exploration** is fundamental to growth in the oil and gas business. Not only is it important to maintain a significant program but it is also important that the exploration program be cost-effective, targeted and disciplined with an appropriate mix of risk and reward. Exploration is complemented by the acquisition of producing assets or selected exploration opportunities. Successful development of projects resulting from exploration is also critical to bring reserves on stream.

Second, successful and cost-effective application of **technology** is also very important for growth. Petroleum technology has advanced significantly over the past decade, reducing well costs, enhancing recovery and reducing failure rates. Technology has also helped constrain growth in production costs.

The third is successful market development, particularly in the gas business, taking advantage of reserves built up over many years. **Marketing** gas to new customers is a high priority for Santos. There is currently good potential for further growth in gas demand, both in Australia and internationally, and the company has positioned itself to benefit from this growth.

Taken together, these three factors represent the major sources of growth in the company's existing businesses.

A drilling rig used in the Cooper/Eromanga Basins enhanced with new portable top drive technology.

Fertilizer being loaded for despatch at the Incitec Plant in Brisbane, Queensland. Natural Gas is the process feedstock for the manufacture of ammonia, the basic component of nitrogen fertilizers.

Production	1995	1994
PJ		
Sales gas	142.3	136.3
million barrels		
Crude oil	8.1	9.3
million barrels		
Condensate	2.2	2.3
thousand tonnes		
LPG	260.9	269.1
million boe		
Total	**36.8**	37.2

Financial

Growing Sales Revenue

Sales revenue increased by 4.9% to $671.6 million in 1995. This resulted from higher prices for all products, offset in part by a higher average AUD/USD exchange rate throughout the year and a shift in product volumes sold from oil to gas.

Total sales volumes were 36.8 million boe, close to the record 1994 level of 36.9 million boe.

Gas sales rose by 3.3 petajoules (PJ) to 139.6 PJ (24 million boe) which is the highest annual gas sales recorded by the company. This reflected higher gas sales in the UK and the acquisition of the Sublime gas field in the US. These increases in sales volumes were offset in part by lower gas sales from south-west Queensland.

Higher gas sales volumes helped compensate for the fall in the volumes of petroleum liquids sold. Weaker crude oil sales volumes resulted from natural field decline, field maintenance and unfavourable weather conditions which affected production from some fields.

Total production was 36.8 million boe compared to the record level of 37.2 million boe in 1994. It is expected that production will be higher in 1996.

Total operating revenue was $751.3 million compared to $728.3 million in the previous year.

Expenses

Total operating expenditure excluding royalties was lower in 1995.

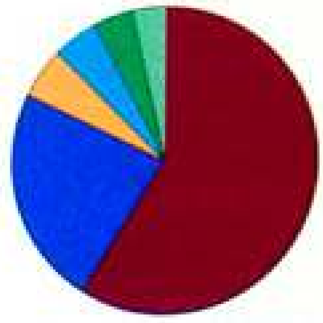
Expenses in 1995 include $39.6 million for royalty and resource rent tax payments to governments. This figure is $6.2 million higher than in 1994 largely due to higher sales revenue and lower deductions.

Net stock levels increased due to the recognition of processed ethane gas stored in sub-surface reservoirs as inventory and storage of sales gas produced from south-west Queensland.

The 1995 results include $23.9 million for write-downs of exploration expenditure. The 1994 write-down in exploration expenditure of $20.0 million was previously reported as an abnormal item. This write-down has been reclassified to a normal component of operating profit to be consistent with the presentation of the 1995 write-down.

Earnings Before Interest and Tax up by 9.6%

Earnings before interest and tax for the 1995 year were $296.1 million, $26.0 million or 9.6% higher than in 1994. The net interest expense in 1995 was $39.1 million. This was $1.4 million lower than in 1994. While the total level of borrowings was lower, higher interest rates increased the net interest bill by $7.8 million. Capitalisation of interest on the financing of the south-west Queensland gas and South Australian ethane development projects reduced the 1995 net interest expense by $9.2 million.



1995 Production by Region	
million boe	
South Australia	21.7
Queensland	8.6
Northern Territory	2.0
Offshore Australia	1.7
US	1.5
UK	1.3

Operating Profit After Tax up by 10.8%

The company reported an operating profit after tax and before abnormal items of $150.1 million for the year ending 31 December 1995. This compares to the corresponding result of $135.5 million recorded in 1994, an increase of 10.8%.

Abnormal Items

A net abnormal loss of $39.5 million after income tax is reported in the 1995 year, comprising:

- The upward restatement of the net deferred income tax provision at 1 January 1995 of $29.3 million to reflect the increase of the company tax rate from 33% to 36%.
- Net foreign currency exchange losses of $10.2 million due to the depreciation of the AUD against the USD between balance dates. These losses are largely unrealised and reflect the revaluation of the company's USD denominated debt in line with exchange rate movements in accordance with accounting standards requirements. Since balance date, the AUD has strengthened against the USD which at the date of this Report has largely recouped these losses.

In 1994, a net abnormal gain of $54.9 million was recorded. This included net foreign currency exchange gains of $44.2 million after tax on USD denominated debt, due to an appreciation in the exchange rate between balance dates in that year, and a $10.7 million compensation payment in relation to the release of certain contractual rights associated with the Moomba-Sydney pipeline.

Profit After Tax and Abnormal Items

Total net profit attributable to shareholders after tax and abnormal items was $110.6 million. This compares to the 1994 result of $190.4 million.

Strong Cash Flow

The company's operating activities continue to provide strong cash flow sufficient to fund known growth projects.

In 1995 the net cash flow from operating activities totalled $369.0 million which compares to $363.5 million in 1994. The majority of this increase was due to higher sales revenue, net of higher income tax payments.

This cash was sufficient to fund outlays on plant, exploration and development of $168.6 million, and acquisitions and investments of $95.0 million which included the purchase of US oil and gas assets and additional shares in QCT Resources Ltd.

Balance Sheet Strength Maintained

Net debt at year end was $642.0 million, $22.1 million higher than at the 1994 year end. The net debt to equity ratio at year end was 42.3% compared to 40.5% at the end of 1994.

The credit rating agency, Standard and Poor's, maintained Santos' long-term credit rating at 'A-'.

Exploration Strategy

The key elements of Santos' Exploration Strategy are to:

- Build upon the accumulated knowledge and experience in the Cooper/Eromanga Basins.
- Pursue focused diversification of the business outside the Cooper/Eromanga Basins.
- Actively manage the risk profile of exploration expenditure to achieve a bias towards low to medium-risk opportunities while providing for a meaningful level of high risk and reward exploration.
- Continue active and rigorous management of the company's exploration acreage portfolio.
- Complement the company's own exploration program through prudent acquisitions.

Exploration

Best Exploration Performance in over 20 Years

Exploration expenditure during the year totalled $87.9 million and involved the drilling of 66 exploration wells:

- Gas: of the 44 gas wells drilled, 29 were successful.
- Oil: of the 22 oil wells drilled, eight were successful.

In total, the company achieved a success rate of 56%.

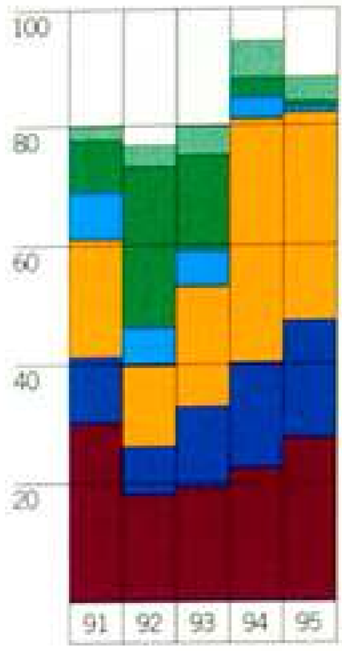
The highlights of the 1995 exploration program were:

- The participation in the discovery of the Undan field, a major new gas/condensate field in the Timor Gap.
- Successful appraisal of the Stag oil field in the Carnarvon Basin.
- The high number of successes recorded in the company's offshore Australian acreage (four oil, three gas).
- The high number of new gas field discoveries made in the company's acreage in the Cooper/Eromanga Basins (12 fields).

The following table provides a detailed summary of the company's exploration results for the year:

1995 Exploration Results

	Wells Drilled		Successful Wells		Success
	Gas	Oil	Gas	Oil	Rate (%)
SA	18	3	14	1	**71**
Qld & NT	21	8	12	2	**48**
Offshore Australia	4	9	3	4	**54**
Americas & Europe	1	2	0	1	**33**
	44	22	29	8	**56**



Exploration Expenditure by Region

$ million

- South Australia
- Qld & NT
- Offshore Australia
- SE Asia
- US
- UK

Portfolio Management

The company added exploration acreage in the Carnarvon Basin to its portfolio during the year. As part of its portfolio management process the company sold, withdrew, relinquished or applied to relinquish certain of its exploration interests.

1996 Exploration Program

The exploration program for 1996 involves the drilling of at least 90 wells at an estimated cost of $115 million. Over 60% of proposed exploration expenditures will be devoted to gas exploration. This is consistent with the group strategy of maintaining a strong focus on the identification and commercialisation of gas projects.

The proposed gas program consists of 63 wells. This will:

- Build upon the established position in the Cooper/Eromanga Basins.
- Undertake further appraisal of the Undan field to evaluate possible reserves beyond the area of the current reserve booking and to better define the development options.
- Continue to exploit remaining opportunities in eastern Queensland.

The proposed oil program consists of 27 wells and will pursue opportunities in the vicinity of the Stag field in the Carnarvon Basin, the Timor Gap and the Cooper/Eromanga Basins.

Roughnecks making a drill pipe connection on the rig floor.

Santos' exploration program for 1996 involves the drilling of at least 90 wells with an investment of up to $115 million. Gas exploration accounts for over 60% of this planned expenditure. The planned program will effectively see the doubling of drilling activity in the South Australian section of the Cooper/Eromanga Basins.

Seismic Data

Cooper/Eromanga Basins seismic survey costs ($/km) have been held at less than world equivalent prices, while quality standards have been maintained or improved. 3D seismic data continues to be reviewed for applications where economically justified. Seismic data is not only used to locate new exploration targets but also as an important tool to optimise field developments (such as the recently discovered Keleary/Telopea fields). Outside of the Cooper/Eromanga Basins, a 3D seismic survey was used to better estimate the extent of the Stag reservoir. It continues to be the prime tool to locate and assess exploration targets in Santos' acreage.

The company will also undertake the following pre-development studies:

- Analysis and review of the Undan appraisal program as a precursor to the development of the field.
- Participation in studies to assess the appraisal drilling results for the Stag field and future development options for the field.
- Analysis and review of the Petrel-6 results and exploration studies to plan future exploration activities for the Bonaparte gas project.

Technology

The application of advanced technology is very important in reducing exploration risks, in increasing available reserves and resources and in reducing required finding and operating expenditure. In recent years Santos has applied technological advances in a number of important areas:

- Improvements in seismic acquisition for definition of sub-surface strata including the use of a three-dimensional (3D) grid rather than two-dimensional (2D) lines. This can provide superior data quality resulting in greater object definition. The cost of 3D seismic is currently higher, but advances are rapidly decreasing the cost differential.
- Interpretation of seismic data facilitated by increasing computer power. As well as increasing interpretation turnaround, alternative interpretations can be presented to the geo-scientists on their computer screens and significantly enhance analytical capability.
- Drilling innovations including deviation of the wellbore to achieve a horizontal producing section and increased well productivity. Reduced diameter well drilling or "Slimholes" are also being used to lower production costs particularly where only one reservoir is targeted and/or it is shallow.
- Wellbore performance enhancement including the use of fracture stimulation to force open fractures in the rock and improve hydrocarbon flow into the wellbore, as well as optimisation of artificial lift to bring hydrocarbons to the surface.
- Enhanced oil recovery involving injection of a fluid into the reservoir to increase production. Technological advance is aimed at improved understanding of the reservoir to gain better reservoir response and increased hydrocarbon recoveries.

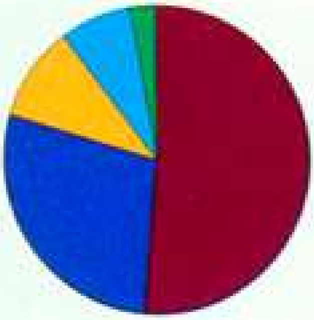
These initiatives will be further developed during 1996. Development of geoscientific analytical tools is continuing. The horizontal well program will be expanded with three reservoir targets planned in South Australia and one in Queensland. The first of these, the Big Lake-56 horizontal well, was recently spudded.

Seismic Interpretation

The dramatic increase in computer power for geo-scientists and engineers has contributed significantly to exploration well success rates in operated permits. Not only have high success rates been achieved in the SA Cooper/Eromanga Basins gas wells in 1995 but also drill bit finding costs (total drilling, seismic and associated below ground costs per gigajoule of gas found) have been contained. Comprehensive interpretation of seismic data, coupled with well results, facilitates detailed evaluation of project opportunities. Consequently, in 1995 Santos increased its interest in the permit where the successful Stag (Carnarvon Basin) exploration and appraisal wells were drilled.

Santos' Drilling Supervisor, Larry Werecky, inspecting a top drive during drilling operations.

The top drive is a key technology used to facilitate the successful drilling of high angle and horizontal wells. Santos plans to drill three horizontal wells in the South Australian section of the Cooper/Eromanga Basins and one in the Queensland section during 1996.



Reserves by Region	
million boe	
South Australia	359
Queensland	199
Northern Territory	70
Offshore Australia	56
US & UK	19

Record Reserves

After accounting for production of approximately 37 million boe, total proved and probable reserves increased by 40 million boe during 1995 to a record level of 703 million boe. This equates to close to 20 years of reserves at current production rates.

The exploration program contributed 72 million boe to reserves. The majority of this increment came from the Stag and Undan fields. Eighteen million barrels of oil reserves (Santos' share) resulted from appraisal and increased equity in the Stag field. The company also added reserves of close to one million tonnes of LPG and 22.8 million barrels of condensate from the Undan field (30 million boe).

Three-quarters of the reserve additions from exploration were from petroleum liquids. With these additions, the company's petroleum liquids reserves increased by 38% to 169 million boe. This represents the largest level of petroleum liquids reserves ever recorded by Santos.

By the end of the year, the proportion of the company's reserves located outside the Cooper/Eromanga Basins had increased to 23% from 17% at the end of 1994.

Proved and Probable Hydrocarbon Reserves*

	Sales Gas	Crude Oil	Condensate	LPG	Total
	PJ (inc ethane)	million barrels	million barrels	thousand tonnes	million boe
Estimated reserves at 31 December 1994	3,147	50	37	4,488	663
1995 Production	(142)	(8)	(2)	(261)	(37)
Additions from 1995 Exploration	101	21	25	1,234	72
Acquisitions	19	1	0	0	4
Field Revisions	(23)	4	(1)	58	1
Estimated Reserves at 31 December 1995	3,102	68	59	5,519	703

*A definition of proved and probable reserves is provided in the Glossary on the inside back cover.

Resources

The year end reserve figures exclude oil and gas resources which fall outside the definition of proved and probable reserves. This may result from uncertainty about their extent or the ability to be economically recovered. Santos holds interests in a number of oil and gas accumulations which currently fall into this category. Santos estimates, in broad terms, that its share of the technically recoverable hydrocarbons in these accumulations is approximately 300 million boe.

Gas Industry

The Australian natural gas industry is a significant growth industry.

It is internationally competitive, especially at the production end. In a study released in 1995, the Bureau of Industry Economics concluded that Australian prices of industrial, commercial and residential natural gas compare favourably with those paid in most industrialised countries.

It is also entering a period of significant change. Barriers to free interstate trade in gas are being removed.

However, the nature of these changes is often misunderstood. Inappropriate parallels are often drawn between reform in the electricity industry and changes occurring in the gas industry.

Historically in the electricity industry, there was a single generating authority in each State with a monopoly of sales to distributors (often the same organisation). This is now changing with the creation of a national market.

There have also typically been State-based monopolies in the downstream sector of the gas industry (transmission and distribution).

Upstream Competition

However, upstream producers (of which Santos is one) have faced strong competition in exploration and in securing sales contracts.

In exploration, the competition is global in nature as oil and gas companies search the world for opportunities. Competitors range from some of the world's largest corporations to a large number of small exploration companies. Small companies (as Santos was 40 years ago), companies from outside the industry and multi-national corporations have all been able to successfully enter the upstream gas industry in Australia over the past 35 years.

Regulated Sale

At the same time, upstream producers have faced significant restrictions on their ability to sell gas nationally. State governments have generally seen natural gas as a valuable resource, with first priority being placed on use in the home State. In economic terms, the producers have generally been restricted to a small number of potential purchasers.

Removing the Barriers

This situation is now changing. The previous marketing restrictions on the major upstream producers are being removed. This will further encourage the growth of gas demand by increasing the long-term supply of gas available to the eastern Australian market. Santos is well positioned to take advantage of these changes.

Some of the major factors leading to change include investment in gas pipeline infrastructure, competition policy and access reform and the National Electricity Market.

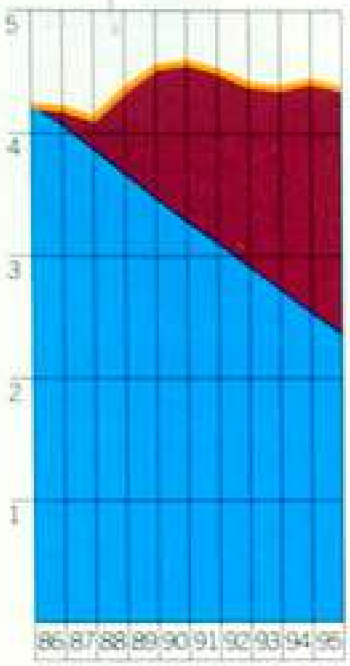
Growing Demand for Gas

Australian demand for natural gas is growing.

The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that consumption of natural gas has been growing at more than twice the rate of any other fuel over the past 20 years. Its current share of energy consumption is 18%. This is expected to rise to 23% by 2009/10. Consumption in eastern Australia is expected to grow at an average rate of 3% per annum over the next five years. Demand is likely to come from increasing industrial gas use and widespread residential and commercial growth.

Expanded use of gas in electricity generation is also a potential new market.

Santos has signed at least four major long-term supply contracts in the last two years.



Total Cooper/Eromanga Basins Reserves

PJ (000's)

Reserves in the absence of exploration

Reserves added by exploration and revisions

Total gas reserves

Strong Demand for Cooper/Eromanga Basins Gas

The Cooper/Eromanga Basins currently have around 1,900 PJ of uncontracted gas reserves. These reserves will prove to be highly competitive in the eastern Australian energy market. They do not require the development of new transmission infrastructure and are already on-line to consumers in New South Wales, the Australian Capital Territory and South Australia, with Queensland coming fully on-line from 1997.

The range of opportunities in Queensland, New South Wales, Victoria and South Australia considerably exceeds the quantities currently available from the Cooper/Eromanga Basins. Santos will be seeking to pursue these opportunities in a way that maximises the value of its gas reserves.

Good Prospects for Increased Reserves

The company also expects to add to reserves through an aggressive exploration program. The graph on the left shows the history of the Cooper/Eromanga Basins gas reserves. It demonstrates the good potential for reserves replacement, providing added security for existing contracts and scope for new contracts.

There is considerable confidence in the Cooper/Eromanga Basins as a long-term source of supply of gas to the eastern Australian market. This is reflected in the extent of recent third-party investment in the major pipelines linking the Cooper/Eromanga Basins with its major markets.

Major Opportunities

Queensland

Santos believes that Queensland presents major opportunities for gas sales and the finalisation of contracts to supply south-west Queensland gas to south-east Queensland customers is evidence of this. Consumption of gas is still relatively low but is expected to grow quickly. The next major opportunity for Santos is the sale of gas to north-west Queensland. Beyond this, a significant range of further industrial opportunities exist.

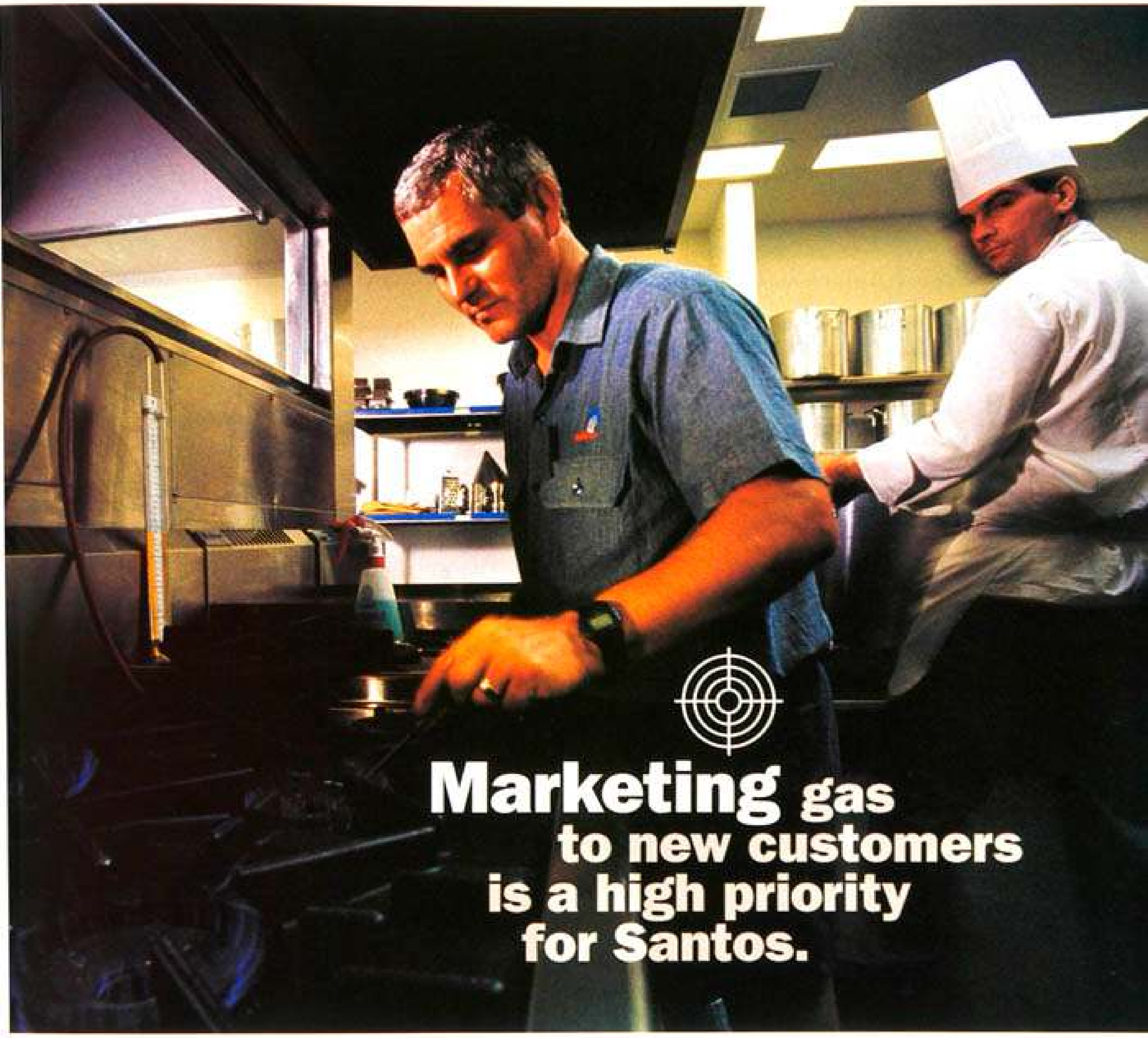
South Australia

In South Australia, the Cooper Basin Producers have contracts for the supply of about two thirds of the State's gas demand until 2005. (Almost all of the remaining demand is met by the South-west Queensland Gas Producers.)

The Cooper Basin Producers have currently reserved 300 PJ of gas for South Australia for the period 2006-2013. This undertaking ceases on 30 June 1996, but there is a further option for the Natural Gas Authority of South Australia (NGASA) to then purchase any remaining gas under this commitment by 30 September 1996. Santos is currently negotiating contracts for this gas.

New gas sales opportunities, including gas for power generation, are being pursued in New South Wales, South Australia and Victoria.

The Cooper/Eromanga Basins are also relatively close to potential new demand for gas in the State's north. For example, Western Mining is contemplating the use of a gas-fired generation plant at Olympic Dam.



An Allgas technician providing service to a commercial user of natural gas

The first major contracts for the sale of south-west Queensland gas to customers in south-east Queensland were signed during 1995. One of these customers, Allgas Energy Ltd, supplies gas for industrial, commercial and domestic use to customers from the south side of the Brisbane River to the New South Wales border.

New South Wales

In New South Wales, Santos is pursuing a number of opportunities for further gas sales and expects to be selling gas well beyond the existing period of the contract with AGL, which expires in 2006. Santos expects the Cooper/Eromanga Basins will be a significant competitive supplier of gas to New South Wales for many years.

Victoria

The opportunity will exist for gas from the Cooper/Eromanga Basins to be sold into Victoria. This will be facilitated once a pipeline link is established between Victoria and New South Wales.

Summary

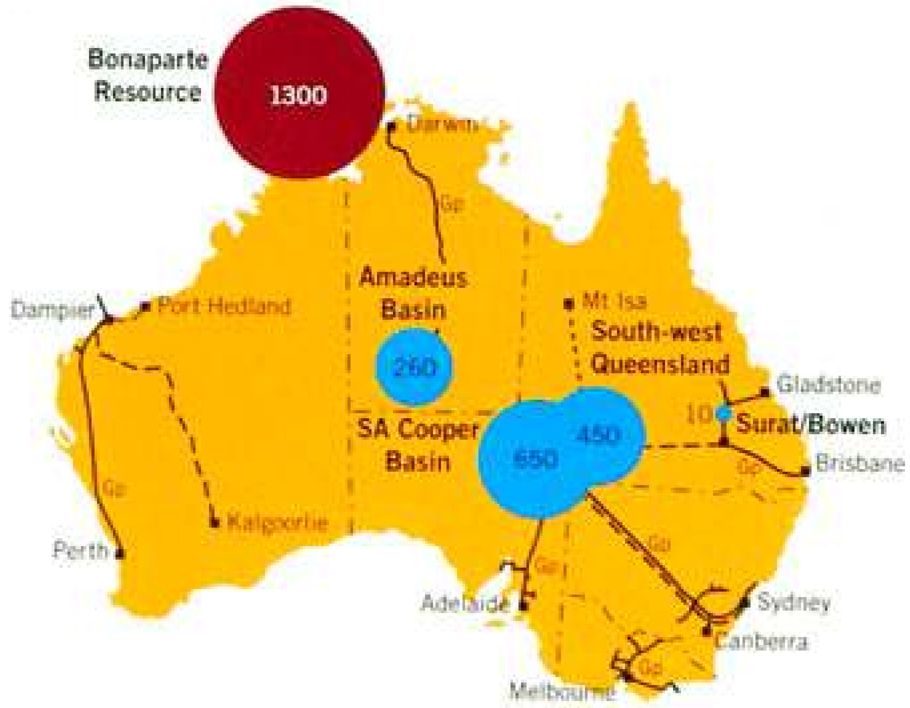
There are good prospects for increased sales of gas from the Cooper/Eromanga Basins over the next 15 years. Growth over this period is of course not expected to be evenly spread and will continue to be influenced from year to year by factors such as seasonal and economic conditions.

Santos' Interest in Uncontracted Australian Gas* Reserves† PJ

as at December 1995	Total Gas Reserves in Santos' Acreage	Santos' Share of Gas Reserves	Uncontracted Gas in Santos' Acreage	Santos' Share of Uncontracted Gas
South Australia	3,050	1,730	1,130	650
South-west Qld	1,380	810	770	450
Surat/Bowen	200	100	30	10
Amadeus	670	360	430	260
Total	5,300	3,000	2,360	1,370

*Includes ethane

†Excludes gas yet to be found through exploration



Santos' Uncontracted Gas (PJ)

Santos' uncontracted gas reserves

Bonaparte gas resource (estimated)

Pipelines (Gp = gas)

Pipelines under construction

Pipeline tendered by Queensland Government

Liquids Markets

In addition to being one of the major suppliers to the domestic gas market, Santos is a major Australian exporter of petroleum liquids.

During the year, the company commenced splitting naphtha production into two separate product streams to optimise naphtha revenue and enhance the quality of Cooper Basin crude oil. This development more fully utilises the Port Bonython processing facilities and adds flexibility to the operation by allowing Santos to blend to individual customers' needs. The ability to produce a range of blends has provided the opportunity to enter new markets in the petrochemical and gas production industries.

Cooper Basin crude oil from South Australia continues to be highly regarded for its distillate yield. The new enhanced quality has greatly improved its marketability, particularly for transport fuels, both in Australian and Asian markets.

Investments

QCT Resources Ltd

Santos has a significant investment in coal producer, QCT Resources Ltd (QRL). QRL participates in coal production for export in the Bowen Basin in Queensland, one of the world's premier coal producing regions. During the year Santos increased its shareholding in QRL from 28% to 32%.

After some years of difficult trading conditions, the future of the coal industry looks more positive. The combined effect of low prices and increasing costs progressively resulted in the reduction in the number of suppliers in both coking and thermal coal. As demand increased, particularly as a result of strong economic growth in the Asian economies but increasingly from Europe and South America, a situation of tight supply emerged. Consequently, coal producers were successful in negotiating higher prices for their product during 1995 and further increases in coking coal prices during 1996.

The continuation of tight supply conditions is expected to place further upward pressure on prices over the next year at least. QRL has positioned itself to take advantage of these price increases through increased production, following the development of the Crinum (Gregory Joint Venture) and Kenmare (South Blackwater) mines, and improved competitiveness. Santos is confident that these actions will have a positive impact on QRL's profitability over time.

Oil Company of Australia Ltd

Santos is the owner of approximately 12.5% of the issued shares in Oil Company of Australia Ltd (OCA), which is 85% owned by Boral Ltd. OCA holds interests in the Surat Basin, Denison Trough, the South-west Queensland Gas Unit and oil production from south-west Queensland.

Magellan Petroleum Australia Ltd

Santos holds approximately 18.3% of the issued ordinary shares in Magellan Petroleum Australia Ltd, a subsidiary of Magellan Petroleum Corporation. Magellan's major assets are interests in the Palm Valley gas field (50.8%) and the Mereenie oil and gas field (35.0%), both of which are located in the Amadeus Basin in the Northern Territory.

Community

In 1995 Santos supported a number of organisations and activities through sponsorships and donations. These contributions are made in order to enrich the community life in the regions in which Santos' major business interests lie.

The company's sponsorship and donations program covers a range of cultural, educational, health and environmental activities in South Australia, Queensland and the Northern Territory.

Outlook

In the oil and gas industry, developments take time to bear fruit. Over the last two years the ground work has been laid for good growth. Some of this work will begin to pay off in 1996 and 1997 with the full effects becoming evident in 1998 and 1999.

In 1996, production and sales volumes are expected to moderately exceed 1995 levels. The company therefore expects to at least maintain the strong level of earnings performance achieved in 1995, subject of course to commodity prices and exchange rates. Many of the aspects of the 1996 outlook have already been discussed in considerable detail. However, the major developments in 1996 are expected to be:

Exploration

- A total exploration program of around 90 wells with approximately 60% of exploration expenditure devoted to gas.
- Development decisions made on the Stag and Elang oil fields; In both cases production is expected to commence in 1997.
- Further appraisal of the Undan gas/condensate field.

Technology

- Three horizontal wells drilled in South Australia and one in Queensland.
- Commencement of the company's slimhole drilling program.

Marketing

- Commencement of ethane sales to ICI from mid-1996.
- Commencement of gas sales to AGL for Sithe Energies from late 1996.
- Commencement of gas sales to south-east Queensland under transitional supply arrangements from late in the year, with long-term contracts commencing in July 1997.

These developments will all contribute to the company's growth in 1997 and beyond.

NR Adler

N R Adler
Managing Director

Feature

Environmental Management

The management of produced water is an element associated with the production of oil and gas. The photo shows an example of a produced water management facility in the Cooper/Eromanga Basins.

Santos established its in-house environmental management team in 1980 and has been widely regarded as a corporate leader in this field for over a decade.

The company aims at environmental excellence, rather than just compliance with legislative and regulatory requirements. This has established a corporate culture which incorporates environmental objectives as a fundamental part of Santos' day-to-day management.

Responsibility for the environment is a line-management function. Specialist environmental staff provide advice and technical support to management at all levels.

Santos places great importance on training, education and induction. This is aided by the company's award-winning documentation.

The Environmental Committee of the Board, established in 1994, is the peak internal group providing policy direction and review.

Regular external and internal environmental audits have been undertaken since 1983. These provide an effective means of monitoring compliance with regulatory requirements and company policy.

Santos' Environmental and Waste Management policies, formally adopted in 1990, provide the foundation for the Santos Environmental Management System (SEMS).

First implemented in 1992, the SEMS was originally based on the British Standard for Environmental Management (BS 7750) and provided a structured framework for integrating Santos' existing environmental practices into an internationally recognised standard.

The Management System is subject to continual update and review. It has since been refined and modified to reflect the external adoption of ISO 14000 which is the newly emerging international standard for environmental management.

A proactive approach, which aims to avoid and minimise environmental problems before they occur, has enabled Santos to responsibly manage the impact of its activities on the different environments in which it operates.

Business Unit Reports

Business Units Overview

Company Management
Managing Director
Ross Adler
Commercial
Executive General Manager
John McArdle
Finance
Executive General Manager
Peter Maloney
Exploration
General Manager
Lloyd Taylor
Group General Counsel and Company Secretary
Michael Roberts
Investor and Corporate Relations
General Manager
Graeme Bethune
Liquids Marketing
General Manager
Jeremy Lawrance
Petroleum Development and Planning
General Manager
Peter Goode

Mike Hannell
General Manager
South Australia

South Australia

"1995 was a year of solid operating success for the Business Unit, building on the commercial, technical and operational initiatives commenced in 1994."

Rod McArdle
General Manager
Queensland and Northern Territory

Queensland and Northern Territory

"The signing of long-term contracts to supply gas to customers in south-east Queensland from 1997 was the highlight of the year for the Business Unit and puts Santos in an excellent position to attract more gas customers in the future."

Business Unit Management
Americas and Europe
President
John Armstrong
Offshore Australia
General Manager
Lloyd Taylor
Queensland and Northern Territory
General Manager
Rod McArdle
South Australia
General Manager
Mike Hannell
Manager, Production
Denis Dare

Lloyd Taylor
General Manager
Offshore Australia

Offshore Australia

"During the year the ground work was laid for a major new business for the group. Stag, Elang and Undan are all exciting projects providing an important opportunity for future growth."

John Armstrong
President
Americas and Europe

Americas and Europe

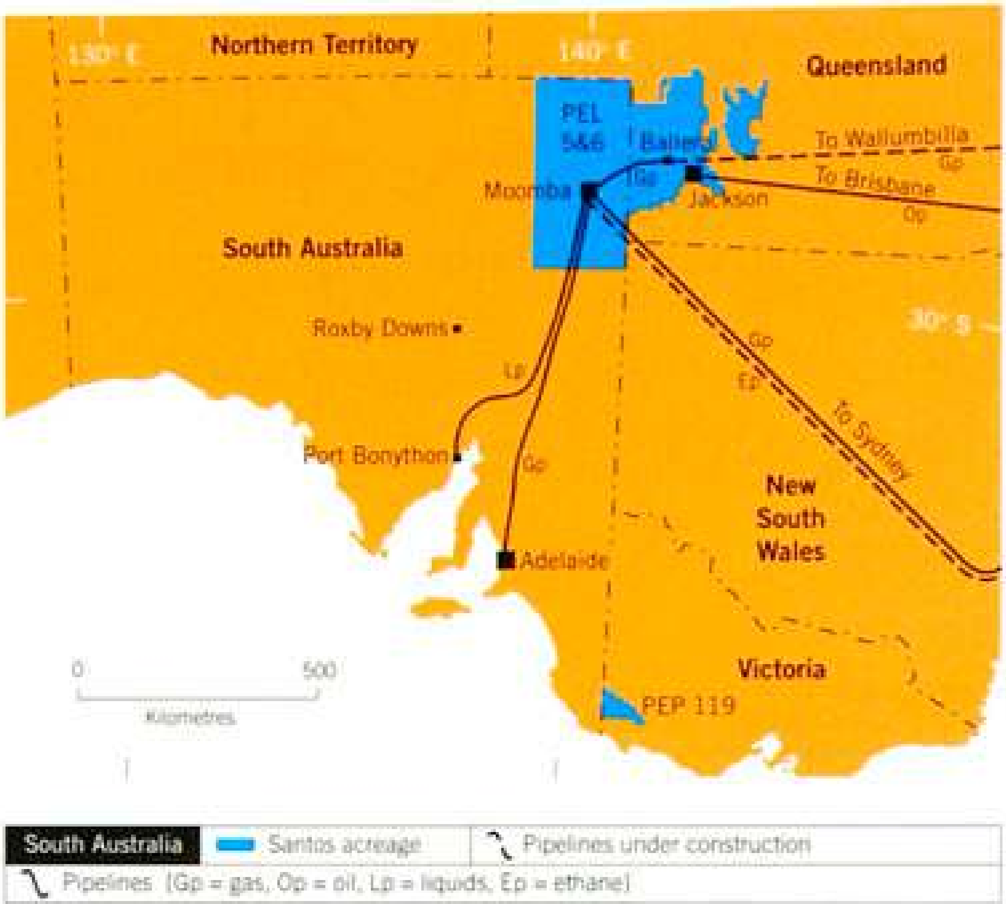
"The Business Unit concentrated on developing the core areas of activity in the US and UK during 1995. This is part of a broadly-based intention to build the company's international activities to approximately 20% of group production by the turn of the century."

South Australian Business Unit

Production	1995	1994
South Australia		
PJ		
Sales gas	92.4	91.8
million barrels		
Crude oil	2.7	3.1
million barrels		
Condensate	1.6	1.7
thousand tonnes		
LPG	201.5	209.6
million boe		
Total	21.7	22.2

Gas Production Benefits from Higher Demand

Total production for the year was close to 22 million boe, slightly lower than that recorded in 1994. However, gas production was at a record high of 92.4 PJ due to higher demand in New South Wales. Crude oil production was lower than in 1994 largely due to the natural decline of the fields but also due to unfavourable weather conditions.



Exploration Success Continued

In the company's South Australian Cooper/Eromanga Basins acreage, 20 exploration wells were drilled during the year of which 17 were gas and three were oil. In the gas exploration program, 14 successes were recorded which included six new field discoveries.

Oil exploration recorded one success, the Big Lake-55 well. The result was important in that it proved the existence of the south-westerly extension to the Big Lake oil pool and will assist in augmenting oil production from the area.

SA Gas Contract Extended to 2005

The continued success of the gas exploration program enabled the gas sales contract with NGASA to be extended a further year to 2005, with 50 PJ committed.

Safety

The company's commitment to providing a safe and healthy workplace for all employees and contractors was recognised during the year. Santos was presented with the 1995 South Australia WorkCover Distinguished Achiever Award and a National Safety Council of Australia High Commendation.

Reservoir Characterisation

Reservoir characterisation is a new technology used for developing a detailed reservoir model derived from all available geological, geophysical, petrophysical and engineering data. For an oil or gas field this enables improved prediction of future production, capital expenditure and hence cash flow. For an exploration area it provides a method of highlighting the most profitable areas for drilling.

In recent years Santos has successfully completed several reservoir characterisation projects.

The most recent of these is the Toolachee and Nappacoongee-Murteree study performed in collaboration with the Bureau of Economic Geology at the University of Texas, Austin.

This project has already made major contributions to identification of exploration and development opportunities, resource assessment and reserves growth with the drilling of nine successful gas wells. Additional benefits to Santos include the transfer of specialised technical knowledge from the Bureau.

Ethane Treatment Facilities

Construction of the new ethane processing plant at Moomba commenced late in the year to enable the Cooper Basin Producers to meet their commitment to deliver ethane concentrate to ICI Australia's Botany petrochemical plant in New South Wales from mid-1996. The total contract requirement is 160 PJ over 10 years; Santos' share is 85 PJ.

The budgeted total cost of the capital expenditure is $26.8 million of which Santos' share is approximately $14.6 million.

Moomba Plant, South Australia.
Construction of the extensions to the Moomba Plant to facilitate the sale of ethane to ICI will be completed in the first half of 1996.

Review and Adjustment under the Cooper Basin Unit Agreement

Under the South Australian Cooper Basin Unit Agreement, contributions to capital and operating costs and entitlements to production are subject to regular review and adjustment by reference to information available at the date of the review. Input data for the review and adjustment as at 1 January 1987 was reissued to all Unit Parties following a 1991 decision of the South Australian Supreme Court declaring the first 1987 review invalid. Two Unit Parties, Parker and Parsley Australasia Pty Ltd and Basin Oil NL, have disputed certain aspects of the reissued input data, which has been referred to arbitration in accordance with the provisions of the Unit Agreement. Hearings are scheduled to commence in September 1996.

Positive Outlook for 1996

The outlook for the Business Unit is positive in 1996. Production is expected to be higher as a result of the commencement of sales of ethane concentrate to ICI in addition to the start-up late in the year of gas sales to AGL for Sithe Energies Australia Pty Ltd's co-generation plant at Smithfield in New South Wales.

The Business Unit will continue to remain focused on:

- Optimising oil and gas exploration – The gas exploration program in Cooper/Eromanga Basins permits PELs 5 and 6 is planned to include 30 exploration and appraisal wells. Oil exploration is expected to involve the drilling of ten wells. In the areas outside the Cooper/Eromanga Basins, an assessment of available acreage will continue and it is proposed to participate in the drilling of at least one gas wildcat well in the onshore Otway Basin.
- Potential benefits of deregulation – The process of change occurring in the nation's energy sector will see opportunities to add further to the volume and value of the company's South Australian gas business. South Australia, New South Wales and Victoria will all be covered as part of this effort.
- Achieving further cost reductions and productivity improvements – Reductions in capital costs for the exploration and development effort and in operating costs will be realised through the application of new techniques and technologies and more effective engineering.

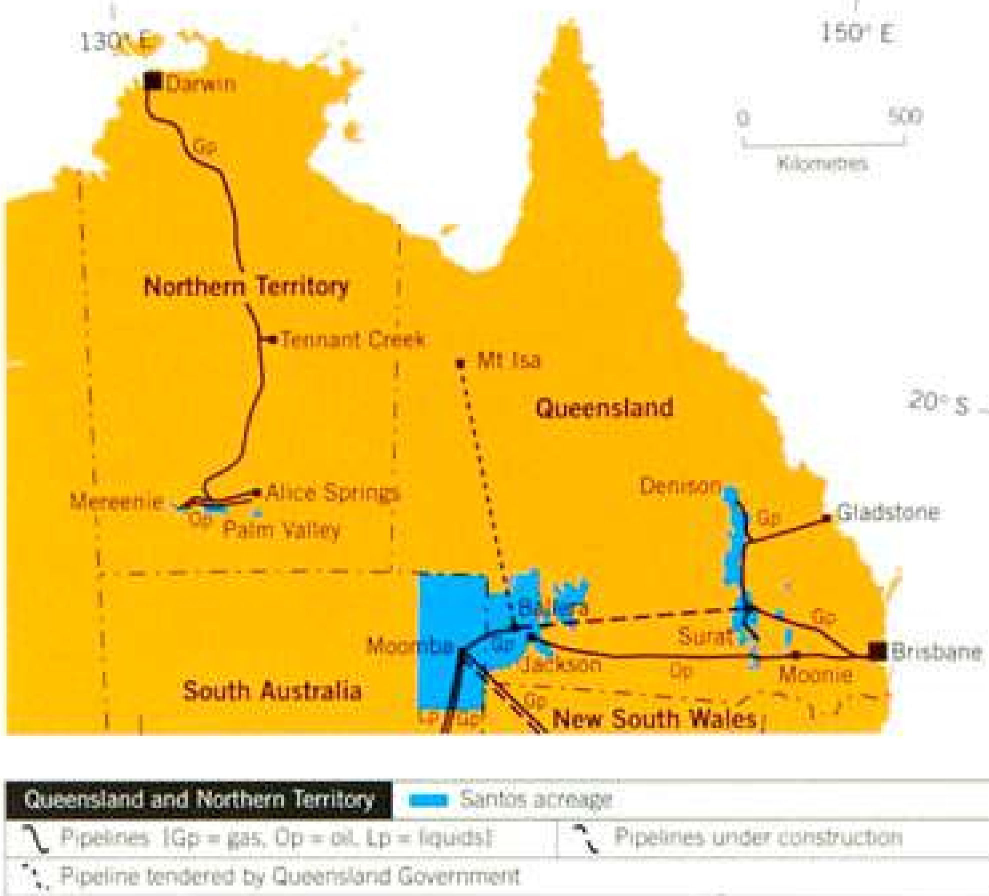
Queensland and Northern Territory Business Unit

Production	1995	1994
Queensland and Northern Territory		
PJ		
Sales gas	36.2	35.4
million barrels		
Crude oil	3.3	3.6
million barrels		
Condensate	0.6	0.6
thousand tonnes		
LPG	59.4	59.5
million boe		
Total	10.6	10.8

Increased Gas Production

Total production for the Queensland and Northern Territory Business Unit of 10.6 million boe was marginally lower than in 1994.

In Queensland, production for the year was 8.6 million boe. Sales gas production was similar to 1994 at 28.2 PJ. Crude oil production in 1995 was lower than 1994 due to unfavourable weather conditions and the natural decline of the fields.



In the Northern Territory, total production was 2.0 million boe, 17.6% higher than in 1994. Sales gas accounted for much of this growth, rising by 25% to 8.0 PJ. This reflects both the start-up of gas-fired power generation for the McArthur River mine and the increased share of supply from the Mereenie gas field. Oil production of 700,000 barrels was the highest since the end of the original Mereenie field development phase in 1986. Successful development drilling and fracture stimulation activities in the second half of the year added 1,000 barrels of oil per day (bopd) to field production.

Price Arbitration

Under the contract for supply of gas by the South-west Queensland Gas Producers (including Santos) to the Pipelines Authority of South Australia (now NGASA), both parties gave notice on 31 March 1995 of their intention to seek a review of the pricing arrangements to supply from 1 July 1996 and this process is underway.

Exploration Activity Focused on Gas in South-west Queensland

Exploration activity was confined to Queensland during 1995, focusing predominantly on gas, with the drilling of 21 gas wells and eight oil wells. Over half of the gas wells were drilled in the company's south-west Queensland acreage, of which eight were successful and resulted in six new field discoveries. This program is designed to build up reserves to meet the new opportunities that will emerge for south-west Queensland gas.

Ballera Gas Plant, south-west Queensland. $175 million will be spent on a major expansion of this facility and associated field development in 1996 and 1997.

New Gas Contracts Underwrite Future Growth

On 11 September 1995, the South-west Queensland Gas Producers entered into contracts for the sale of south-west Queensland gas to customers in south-east Queensland from July 1997. Santos has a 58.9% interest in the South-west Queensland Unit joint venture and is the operator.

Over the life of the contracts, sales are expected to total 375 PJ with the individual contracts involving:

Incitec Ltd (fertiliser manufacturer)	127 PJ to year 2007
Allgas Energy Ltd (gas utility)	166 PJ to year 2012
Gas Corporation of Queensland Ltd (gas utility)	82 PJ to year 2012

The benefits of these contracts will be recognised through a significant growth in gas sales for Santos, averaging 15 PJ per annum over the life of the contracts. Furthermore, they also place the South-west Queensland Gas Producers in an excellent position to attract more gas customers in the future.

Expansion of the Ballera Gas Plant Underway

The new south-east Queensland gas contracts require investment in a major expansion to the gas plant at Ballera and in additional field development. This is estimated to cost approximately $175 million. The expanded gas plant will produce sales specification gas. The preliminary engineering has been completed and the major equipment purchases and construction contracts awarded. Construction commenced in March 1996 and will be completed by June 1997.

Transitional Supply Arrangements Made

While gas supply under the main south-east Queensland contracts will commence on 1 July 1997, initial quantities of gas will be supplied under short-term transitional contracts from as early as October 1996. It is expected the new pipeline from Ballera to Wallumbilla will be completed by this time. The Chookoo Field in south-west Queensland will be the source of this early supply. The gas will be supplied for nine months after which time the Ballera Gas Plant expansion will be completed for supply under the new contracts.

Queensland and Northern Territory Business Unit continued

Wellbore Enhancement
The Amadeus Basin Mereenie fracture stimulation program significantly improved the performance of three new oil wells drilled in 1995. The fracture stimulation results, built on prior knowledge gained from Santos' fracture stimulation experience coupled with the advice of world experts, achieved an average four-fold increase in the initial production rate. Fracture stimulation has also become an important enhancement tool for South Australian gas wells and a program for a broader use of these techniques is under review.

Growth Opportunities in Queensland

Santos also believes that a major opportunity for growth exists in the sale of gas to customers in Mount Isa and the surrounding Carpentaria minerals province in the State's north-west. The base demand for gas would be for electricity generation at the Mica Creek Power Station, currently operated by Mount Isa Mines Ltd. Additional electricity demand or direct gas sales would come from new mining projects in the region, a number of which are already at an advanced stage of development including Osborne, Ernest Henry, Century and Cannington.

Santos is currently engaged in active negotiations for the supply and transport of gas to this region with potential customers and with AGL, whom the Queensland government has nominated as the preferred pipeline developer.

Mereenie Joint Venture Secures New Gas Contract

In May 1995 the Mereenie Joint Venture, of which Santos has a 65% interest and is the operator, secured a contract to supply an additional 25 PJ of gas over approximately 15 years to the Northern Territory Power and Water Authority (PAWA).

The contract is in addition to the original 1985 contracts signed with PAWA for a total of 266 PJ to the year 2010, from both the Mereenie and Palm Valley fields, representing growth in total gas sales of approximately 10%. This increase reflects the growth in the Territory's existing use of gas as well as the development of new demand arising largely from the expansion in the mining industry.

Expansion to the Mereenie Plant Completed

To meet the new demands resulting from the PAWA contract, and to enhance petroleum liquids production from the Mereenie field, the Mereenie Joint Venture committed itself to the further development of the Mereenie Central Treatment Plant, and associated facilities, at an approximate cost of $5.1 million.

Construction began in late 1994 and the plant was officially opened in May 1995 at the time of the signing of the new gas contract. The facility has been designed to increase gas production capacity, reduce the flared gas associated with oil production and improve gas reinjection into the reservoir to enhance oil recovery. The Central Treatment Plant will become the basis for further incremental projects, such as possible LPG production, which would generate additional income from the field.

1996 Outlook

During 1996, the Business Unit's exploration program involves the drilling of 27 wells. Similar to 1995, the major focus of this program will be directed at increasing gas reserves in south-west Queensland where 14 of the 19 gas wells are planned to be drilled. Six of the eight oil wells planned will be drilled in south-west Queensland.

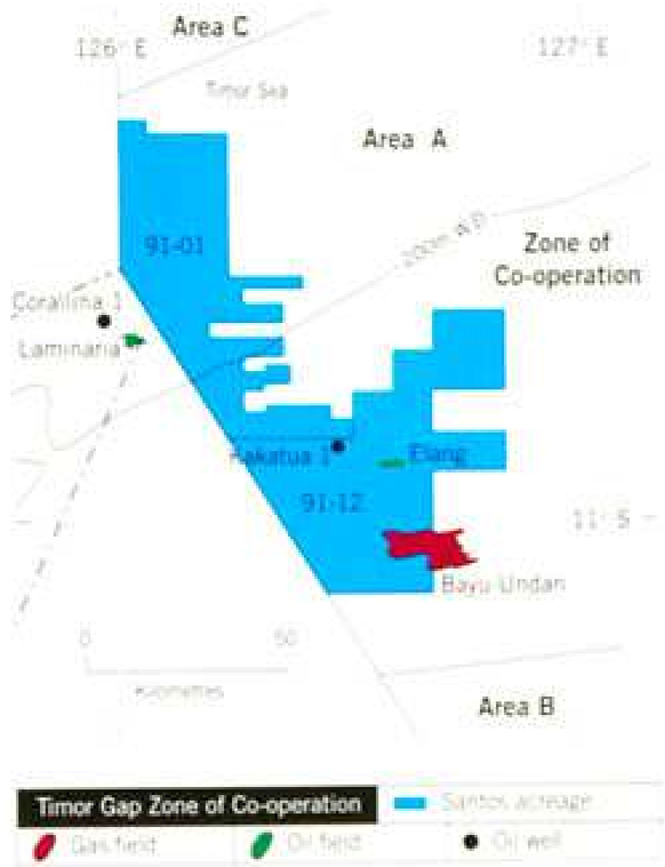
From a commercial viewpoint, additional customers for south-west Queensland gas will be actively pursued and it is hoped that current negotiations with potential customers in the minerals province of north-west Queensland will be finalised during the year.

Offshore Australia Business Unit

Production	1995	1994
Crude Oil		
million barrels		
Timor Sea	1.4	1.9
million barrels		
Indonesia	0.3	0.4
million barrels		
Total	1.7	2.3

Exploration Activity Yields Excellent Results

Exploration activity in the company's Offshore Australia acreage during the year focused on two key areas, the Timor Gap and the Carnarvon Basin, which produced some excellent results. The Business Unit's exploration program added 49.3 million boe of proved and probable reserves to the Business Unit's reserve base to realise a five-year average finding cost of $2.42 per boe.



A New Discovery in the Timor Gap

In the Timor Gap Block ZOCA 91-12 (Santos' interest 21.426%), Santos participated in the discovery of the Undan gas/condensate field. Undan-1, drilled in August 1995, encountered a 139 metre gross hydrocarbon column and tested at flow rates of up to 740,000 cubic metres of gas per day and 2,330 barrels per day of condensate. Subsequently two successful appraisal wells were drilled which confirmed the presence of a significant gas/condensate accumulation within ZOCA 91-12 but extending into the adjacent ZOCA 91-13 permit. Future appraisal drilling will determine the size of the field.

Elang Oil Field Nears Development

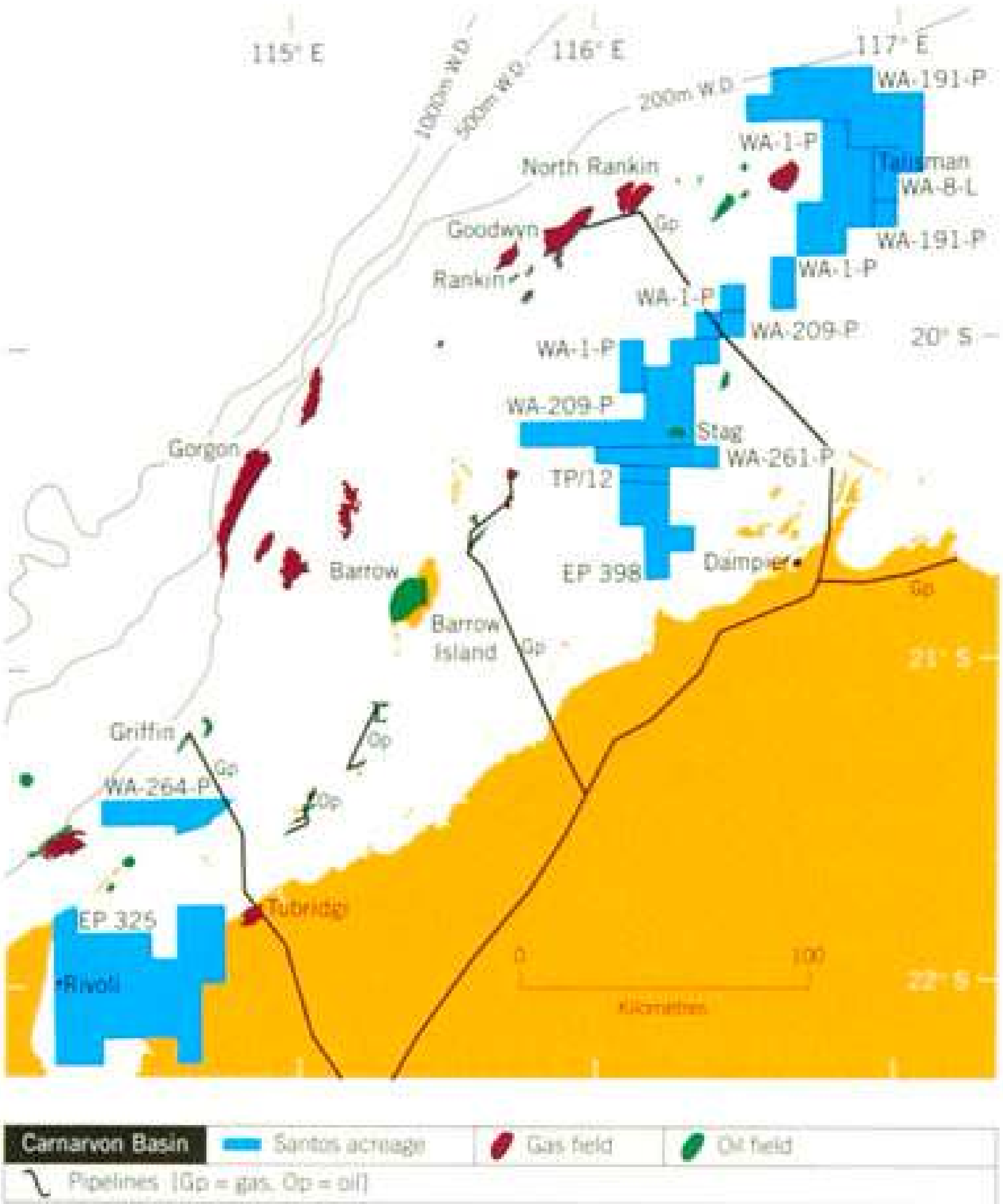
The Elang oil field, discovered in ZOCA 91-12 during 1994, was subjected to further appraisal activity during the year. Two of the three appraisal wells produced successful results. While the failure of the third well to record any significant hydrocarbons has downgraded early estimates of the extent of the field's recoverable reserves, the Elang oil field is still considered to be commercially viable. BHP Petroleum, as the operator of the ZOCA 91-12 Joint Venture, is currently working on a development plan for the field which could involve the tie-in of the Kakatua oil field, a discovery also made during 1994.

Stag Oil Field Proven Commercial

The focus of activity in the Carnarvon Basin was on the further appraisal of the Stag oil field located in WA-209-P. The Stag-5 well confirmed the

Undan

The Undan (ZOCA 91-12) and Bayu (ZOCA 91-13) discoveries indicate the presence of a single gas/condensate field astride the ZOCA 91-12/13 boundary in Timor Gap Area A. The field appears to have many of the characteristics of a world class discovery, with the potential for large reserves and long project life. The economics of condensate and LPG stripping in a gas recycling development are positive. Consequently, Santos has booked its share of condensate and LPG reserves from the currently appraised area of the field. Further appraisal drilling and development studies could demonstrate the feasibility of LNG development in which case additional value could be added to the base gas recycling development scheme.



north-easterly extension of the Stag oil field and the Stag-6 horizontal well provided important information on the potential deliverability from the Stag reservoir. The production testing of a 1,026 metre long horizontal well section resulted in a maximum flow rate of 6,317 bopd accompanied by 15,988 cubic metres of gas per day.

While these results confirm the existence of a commercial oil field, it is proposed to more accurately define the field's limits (and hence upside) before committing to any development scheme.

Acreage Acquisitions Centre on the Carnarvon Basin

During the year Santos undertook several initiatives to increase its exploration portfolio which collectively have positioned the company with a greater presence in the Carnarvon Basin. These include:

- increasing the company's equity interest in WA-209-P, the permit which contains the Stag oil field, from 33.33% to 54.17% through a farm-in agreement with Globex Far East of Dallas;
- acquiring a 25% interest in permit EP 325 by way of a farm-in agreement with Victoria Petroleum NL;
- the award of a 100% working interest in two new exploration permits, TP/12 and EP 398, which lie approximately 50 km west of Dampier, WA and 20 km to the south of the Stag oil field.

Evaluation of Petrel/Tern Gas Resource Continues

During 1995 a separate project team was established in Santos' corporate area to further advance the development of the Petrel and

Tern gas fields in the Bonaparte Basin, off the north-west coast of the Northern Territory. Santos' interest in these fields is 50.5% and 70% respectively.

The Petrel-6 gas appraisal well drilled during 1995 had the objective of determining the deliverability of the Petrel gas resource. The well was plugged and abandoned after failing to find the high deliverability sands that were targeted. Evaluation of the development options for the Bonaparte gas resource is continuing.

Timor Gap, Offshore Australia. The Atwood-Eagle, a semi-submersible rig drilling the successful Undan-1 well in ZOCA 91-12 during 1995.

Production Affected by Natural Field Decline

The major focus of the Offshore Australia Business Unit is currently on exploration and development. However, the company does produce oil from a number of mature fields.

Production of crude oil during 1995 was lower than in 1994 and largely reflects the natural decline of the producing Timor Sea fields. These fields, which account for over 80% of the Business Unit's annual production, are approaching the end of their field life having produced almost 150 million barrels of oil since production commenced from the Jabiru field in 1986. The shut-in of the Jabiru field at various times of the year for maintenance work also had an adverse impact on production.

Oil production from the Bula oil field in Indonesia averaged 900 bopd in 1995. This result was significant, given that economic production was maintained due to improved field operating efficiency.

1996: A Pivotal Year for New Growth Opportunities

Commitment to the development of the Stag and the Elang oil fields are major objectives in 1996 with targeted first oil production in 1997. Further appraisal of the Undan gas/condensate field will assume a high priority to enable early commitment to field development. This field is likely to afford a major source of production growth beyond the year 2000.

Given Santos' desire to progress these projects to early production, the majority of the Business Unit's capital budget will be focused on these opportunities.

Exploration and appraisal activity will centre on the Carnarvon Basin, in or around the Stag field (four wells), and in the Timor Gap, in and around the Undan and the Elang/Kakatua discoveries (four wells). An appraisal well on the Oseil oil discovery in the Seram Production Sharing Contract in Indonesia is also possible. Seismic surveys will be conducted over recently awarded acreage in the Carnarvon Basin to mature prospects and leads for drilling in 1997. An extensive 3D seismic survey over the Undan field and adjacent area is also probable.

In 1996, business development studies which concentrate on the gas industry in each of Western Australia, Indonesia and New Zealand, will be implemented with extensive prospectivity assessments. This effort is directed towards the achievement of a longer-term, sustainable continuum of development projects for the Business Unit.

Americas and Europe Business Unit

Production Boosted by US Acquisitions

Santos Americas and Europe Business Unit made an improved contribution to the company's results in 1995. Production rose to 2.8 million boe, up 47% on the 1994 result. This was largely attributable to gas production as a result of the acquisition of interests in two producing properties in the US, and the higher offtake from the Anglia gas field in the UK's Southern Gas Basin.

Production	1995	1994
Americas and Europe		
PJ		
Sales gas	13.7	9.1
million barrels		
Crude oil	0.4	0.3
million boe		
Total	2.8	1.9

United States of America	● Offshore production
▬ Counties in which permits are held with Santos interests	
P Production in that county	

United States

In the US, a wholly-owned subsidiary, Santos USA Corporation, participates in the exploration, production and development of oil and gas. The key areas of focus are the Texas Onshore Gulf Coast, the Gulf of Mexico and the Arkoma Basin in southern Oklahoma.

Acquisitions

Two producing properties were acquired during the year:

- Sublime Gas Field – An 87% working interest was acquired in this field which contains six wells producing gas and condensate and is expected to contribute 500,000 boe to production in 1996. The field is located approximately 160 km west of Houston, Texas.
- West Delta Block 152 Field – An average working interest of 13% was acquired in this field which contains 14 wells producing oil and gas and is expected to add 100,000 boe to production in 1996. The field is located in the Gulf of Mexico in a water depth of 120 metres.

Exploration and Development

Santos USA Corporation had a contributing interest in the drilling of two exploration wells during 1995, one gas and one oil. In addition, eight development wells were drilled. Six of these wells, four gas and two oil, were completed for production.

1996 Outlook

Santos USA Corporation aims to continue to add drilling opportunities and significant reserves and production to the company's business. Accordingly it will vigorously seek suitable opportunities in the major areas of focus, targeting incremental production of 500,000 to one million boe during 1996.

The exploration program for 1996 is forecast to involve 12 wells, mostly gas, and the acquisition of 3D seismic in the Arkoma Basin and the Texas Gulf Coast onshore areas.

Anglia production facility, North Sea, United Kingdom. The Anglia interest was acquired in 1994 and Santos will be pursuing further acquisitions of similar size in the UK in 1996.

United Kingdom

In the UK, a wholly-owned subsidiary, Santos Europe Ltd, participates in oil and gas production and exploration. The focus of the UK strategy is on producing and developing oil and gas fields in the Central North Sea and the Southern Gas Basin.

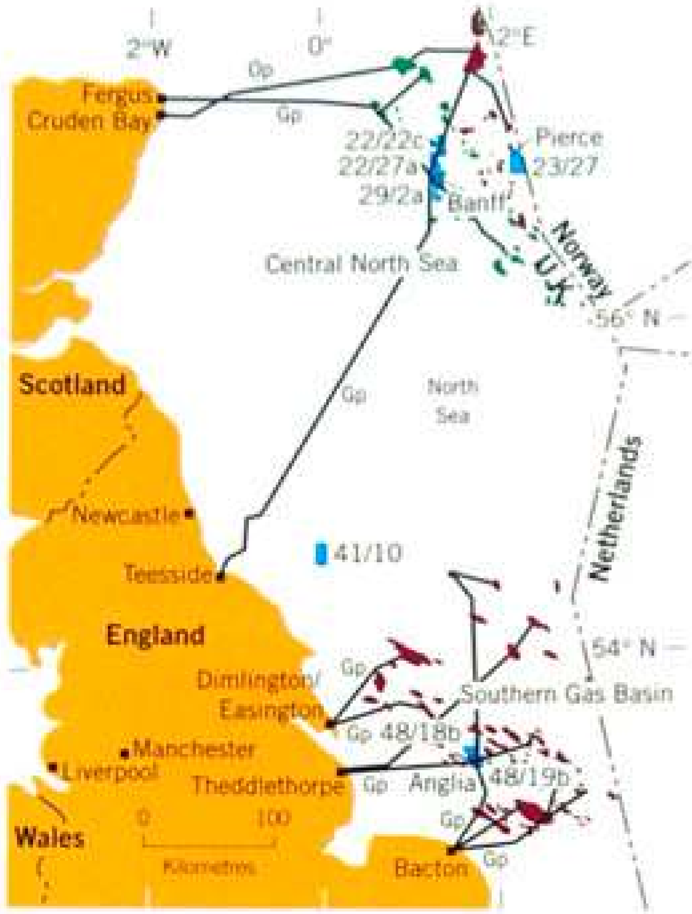
Focus Remains Clear

The 1994 acquisition of the Anglia gas field in the Southern Gas Basin has given the company valuable UK experience and insight. One of the growth strategies for 1995 was to increase the size of the gas business through another acquisition in the UK of at least a similar scale to Anglia. However, the assets reviewed in the major focus areas were either fully priced or there were other reasons for not proceeding. Given the rationalisation occurring within the UK following the deregulation of the gas industry, a number of new opportunities are expected to emerge.

Exploration Activity Centred on the Pierce Oil Field

During 1995, Santos Europe Ltd's exploration activity was confined to the Pierce oil field in Block 23/27 which is located approximately 60 km east of the Banff oil field in the Central North Sea. Santos Europe Ltd has a 3.75% interest in the Pierce field.

In November, well 23/27-10 was spudded which confirmed oil in Sector 4, a previously unappraised sector of the field. In early 1996 a high angle side track well will be drilled into Sector 6 for use during a proposed three-month extended production test (EPT) before making a commitment to full development of the field.



UK – Southern Gas Basin & Central North Sea	
Santos acreage	Gas field
Oil field	Pipelines [Gp = gas, Op = oil]

Agreement Fixed on Banff Equity Interests

A development decision was made during the year on the Banff oil field which is 200 km east of Aberdeen in the Central North Sea. The field, which was originally discovered in Block 29/2, extends into the neighbouring Block 22/27a in which Santos Europe Ltd holds an 11.75% interest.

An Agreement was reached between the Joint Ventures in the two blocks to fix the equity interests in the field for the duration of the field life. Santos Europe Ltd's interest is 1.8%.

During 1996, a 180 day EPT using a floating production unit with shuttle tanker offtake, will be conducted to assess the potential for development on a more permanent basis.

Prior to commencement of the EPT, two new wells will be drilled as part of the potential field development.

1996 Outlook

An objective for 1996 will be to increase Santos Europe Ltd's presence in the focus areas through the purchase of equity in producing oil and gas properties with exploration potential and in development projects which can add value and production in the medium-term.

Licence Areas and Interests

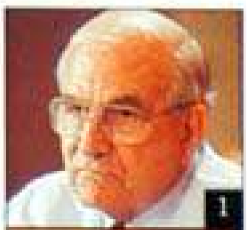
Licence Areas	% Interest
South Australia	
PELs 5 & 6	
Clifton	55.2500
Haddon	56.5000
Koonchera	55.2500
Patchawarra Central	37.7500
Patchawarra East	69.3522
Merrimelia Innamincka	75.2500
Patchawarra South West	50.2500
Lake Hope	55.2500
Murta	54.2500
Moomba	55.2500
Nappacoongee Murteree	67.2500
Toolachee	55.2500
Tinga Tingana	54.2500
SA Unit – Average interest	54.4577
Victoria	
PEP 119	60.0000
Queensland & Northern Territory	
Queensland	
ATP 259P	
Naccowlah	55.5000
Total 66	70.0000
Innamincka	65.0000
Aquitaine A	52.5000
Aquitaine B	55.0000
Wareena	59.2000
Alkina	60.0000
Aquitaine C	47.8000
Jackson Moonie Pipeline	82.7500
SWQ Unit	58.8625
PL 1 (Cabawin)	100.0000
PL 1 (Exclusion)	100.0000
PL 1 (Cabawin Farmout)	50.0000
PL 1 (Moonie Field)	100.0000
PL 2 (Alton)	100.0000
PL 2 (Kooroon Farmout)	52.5000
PL 2 (Alton Farmout)	51.0000
PLs 3-13, 93 (Roma)	85.0000
PLs 10-12, 28, 69 & 89 (Waldegrave)	46.2500
PL 17 (Leichhardt)	70.0000
PL 17 (Bennett)	100.0000
Moonie Brisbane Pipeline	100.0000
ATP 244P (Block D)	20.0000
PLs 21, 22, 27 & 64 (Balonne)	12.5000
PLs 41, 42, 43, 44, 45 54 & 67 (Denison)	50.0000
PL49 (Rocky Creek East)	20.0000
PL55 (Munro)	60.0000

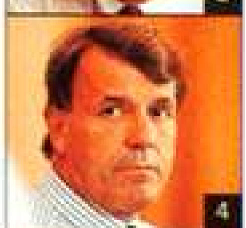
Licence Areas	% Interest
PL 71 (Red Cap)	10.0000
ATP 267P (Nockatunga)	59.0640
ATP 269P (Bodalla)	5.8060
PLs 31, 32 & 47	5.2500
ATP 299P (Tintaburra)	89.0000
ATP 336P (Kalima)	76.5000
ATP 336P (Roma)	85.0000
ATP 336P (Waldegrave)	46.2500
ATP 337P (Denison)	50.0000
ATP 378P (Burunga)	84.3750
ATP 451P (Denison)	50.0000
ATP 470P (Redcap)	10.0000
ATP 471P (Rocky Creek East)	33.3300
ATP 471P (Myall)	27.7800
ATP 512P	66.7000
ATP 535P (Denison Trough)	50.0000
ATP 553P (Denison Trough)	50.0000
ATP 577P	7.0000
Weribone	5.9100
PL 5 (Mascotte)	42.5000
PL 5 (Barcoo)	85.0000
PL 5 (Drillsearch)	21.2500
Snake Creek East	25.0000
Northern Territory	
OL 3 (Palm Valley)	37.3540
OLs 4 & 5 (Mereenie)	65.0000
NT/RL 2 (Dingo)	52.9330
PL 2 (Mereenie-Brewer Est) Pipeline	65.0000
Offshore Australia	
Australia	
AC/L 4 (Skua)	30.5887
AC/L 1 (Jabiru)	10.3125
VIC/RL 3	25.0000
NT/RL 1 (Petrel)	50.4900
WA-1-P	22.5600
WA-191-P	27.3684
WA-8-L (Talisman)	27.3684
WA-18-P	70.0000
WA-209-P (Stag)	54.1660
WA-222-P (West Petrel)	50.4900
WA-261-P	27.0833
WA-264-P	33.3330
WA-6-R	50.4900
EP 129	39.0000
EP 325	25.0000
EP 398	100.0000
AC/RL 1 (Talbot)	47.7478
AC/L 2 (Challis)	10.3125
AC/L 3 (Challis/Cassini)	10.3125
AC/P 6 (Oliver)	38.0000

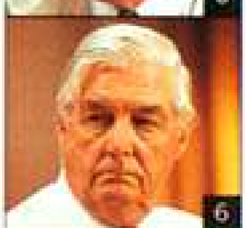
Licence Areas	% Interest
TP/12	100.0000
Papua New Guinea	
PPL 106	20.0000
PPL 157	100.0000
PPL 158	45.0000
Zone of Co-operation	
ZOCA 91-01	20.0000
ZOCA 91-12	21.4260
Indonesia	
Seram	2.5000
Bula	100.0000
Malaysia	
*PM 14 (participating)	15.0000
(contributing)	20.0000
Santos Americas and Europe	
United Kingdom Blocks	
22/22c	16.6700
22/27a	11.7500
23/27 (Pierce)	3.7500
41/10	12.5000
48/18b (Anglia)	32.8020
48/19b (Anglia)	32.8020
29/2a, 22/27 (Banff)	1.8000
Irish Blocks	
50/9	10.0000
50/10	10.0000
United States of America	
Texas Onshore Tertiary Trend	
– Sublime	87.0400
– SW Nordheim	36.7000
Arkoma Basin	26.4000
Gulf of Mexico	
– WD 152	13.0000
– ST 60-5	50.0000
– EB 989	25.0000
Mississippi Smackover	37.5600
East Texas Cretaceous	39.4000

*Surrendering the Permit

Board of Directors







Key to Directors	
J A Uhrig	1
N R Adler	2
P C Barnett	3
S Gerlach	4
J J Kennedy	5
R C H Mason	6
J W McArdle	7
Prof J Sloan	8
Robert Strauss	9
I E Webber	10

John Allan Uhrig
AO, DUniv, BSc, FAIM
Age 67. Director since 3 December 1991 and Chairman since 15 February 1994. Chairman of the Environment Committee of the Board and also Chairman of Santos Finance Ltd. Chairman of CRA Ltd, Westpac Banking Corporation, Amdel Ltd and The Australian Minerals and Energy Environment Foundation. Deputy Chairman of The RTZ Corporation PLC. Until 1985 was Managing Director of Simpson Holdings Ltd.

Norman Ross Adler
B Com, MBA
Age 51. Managing Director since 7 November 1984, member of the Audit and Environment 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 Australian Institute of Petroleum Ltd. Member of the Corporations and Securities Panel, Business Council of Australia, and a member of the Board of the MFP Development Corporation.

Peter Charles Barnett
FCPA
Age 55. Director since 31 October 1995. Chairman-Elect of Smorgon Steel Group. Director of Norwich Union Australia Group, Mayne Nickless Ltd and the Institute of Public Affairs. Former Managing Director and Chief Executive Officer of Pasminco Ltd and Chief Executive Officer of EZ Industries Ltd.

Stephen Gerlach LLB
Age 50. Director since 5 September 1989. Member of the Audit and Environment Committees of the Board. Chairman of Equitorial Mining N.L., Forwood Products Pty Ltd, South Australian Timber Corporation, Penrice Limited and Aser Nominees Pty Ltd. Deputy Chairman of Elders Australia Ltd. Director of AMP Australia, Southcorp Holdings Ltd, Amdel Limited, Australian Agricultural Company Limited, Beston Pacific Corporation Limited and Brunner Mond Holdings Limited (UK). Former Managing Partner and now consultant to the Adelaide legal firm, Finlaysons.

James Joseph Kennedy
AO, DUniv, CBE, FCA, CPA, ASIA, FAMI, FAIM
Age 61. Director since 2 February 1988. Member of the Environment Committee of the Board. Mr Kennedy is a Chartered Accountant. Director of Australian Stock Exchange Ltd, Pacific Dunlop Ltd, Commonwealth Bank of Australia, QCT Resources Ltd, Qantas Airways Limited, Industrial Property Management Limited and GWA International Ltd. Chairman of Queensland Investment Corporation.

Richard Chapman Hope Mason AM, OBE
Age 71. Director since 2 September 1986. Chairman of The Australian Gas Light Company Group. Director of Renison Goldfields Consolidated Ltd. Appointee of Sangas Development Ltd, holder of the B Class shares. Former Director and Chief General Manager of Ampol Ltd.

John Walter McArdle FCPA
Age 49. Executive Director since 5 September 1995 and Executive General Manager – Commercial of Santos Ltd. Deputy Chairman of Australian National Railways Commission. Director of QCT Resources Ltd Group and Santos Ltd subsidiary companies. Former Managing Director of Delhi Petroleum Pty Ltd.

Professor Judith Sloan
BA (Hons), MA, MSc
Age 41. Director since 5 September 1994. Since 1989 Professor Sloan has been Professor of Labour Studies at the Flinders University of South Australia and Director of the National Institute of Labour Studies. Director of Mayne Nickless Ltd, SGIC Holdings Ltd and South Australian Ports Corporation.

Robert Strauss
MBE, FCA, FCPA, FCIS
Age 70. Director since 4 October 1983. Mr Strauss is a Chartered Accountant. Chairman of John Kaldor Fabricmaker Ltd Group and Director of Gibson Holdings Inc. Chairman of the Council of the Australian Simon University. Former Executive Chairman of Bridge Oil Limited.

Ian Ernest Webber
AO, BE, ATS, FCIT, FAIM
Age 60. Director since 16 February 1993 and member of the Audit Committee of the Board. Chairman of Mayne Nickless Ltd Group, United Australian Automotive Industries Ltd, South Australian Development Council and ASEA Brown Boveri Advisory Board. Director of Pacific Dunlop Ltd and Optus Communications Pty Limited. Former Managing Director and Deputy Chairman of Chrysler Australia Ltd and Managing Director of Mitsubishi Motors Australia Ltd.

Corporate Governance

Board Composition

The Board currently comprises eight non-executive directors, the Managing Director and one executive director. It is the policy of the Board that there be a substantial majority of non-executive directors and that there be a separation of the roles of Chairman and chief executive officer of the company.

Board Membership and Compensation Arrangements

The Board has recently formalised its existing policy and practice by the establishment of a Nomination and Remuneration Committee. The Committee comprises all non-executive directors and its responsibilities include devising criteria for, and reviewing membership of, and nominations to, the Board and reviewing the remuneration policies and practices of the company, including the compensation arrangements for executive directors and senior management and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board.

Appointment and Retirement of Directors

In addition to the provisions of the company's Articles, the Board has adopted guidelines relating to the appointment and retirement of directors, including the age at which directors should retire from the Board.

Independent Professional Advice

The Board has established guidelines setting 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.

Audit

It is Board policy to continue in existence an Audit Committee, comprising three non-executive directors together with the Managing Director. The responsibilities of the Committee include: reviewing the terms and conditions of engagement of internal and external auditors; determining the appropriateness of internal and external audit procedures; and providing auditors with access to the Board. The Committee formally reports to the Board after each of its meetings.

Risk Management

The Board has in place a number of arrangements 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 programs; and the retention of specialised staff and external advisors.

Ethical Standards

In pursuance of the promotion of high standards of corporate governance, the Board has adopted 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.

Ten Year Summary 1986-95

as at 31 December	1986	1987	1988	1989	1990	1991	1992	1993	1994	**1995**
Profit and Loss $million										
Sales revenue	400.4	530.7	436.1	560.6	709.5	655.9	689.8	680.2	640.0	**671.6**
Total operating revenue	483.3	589.2	465.6	603.0	812.9	705.9	752.0	943.2	728.3	**751.3**
Crude oil price (A$/bbl)	25.70	29.61	19.26	23.44	30.72	28.00	28.65	27.64	23.64	**24.96**
Operating profit before abnormal items										
Operating profit before tax	164.4	199.3	122.9	146.6	254.8	223.5	281.9	289.2	229.6	**257.0**
Income tax on operating profit	82.3	102.9	53.8	61.7	112.0	106.8	119.3	104.8	94.1	**106.9**
Operating profit after tax	82.1	96.4	69.1	84.9	142.8	116.7	162.6	184.4	135.5	**150.1**
Abnormal items										
Abnormal gains/(losses)	(27.2)	18.1	(122.7)	55.7	-	(284.9)	(64.3)	(9.3)	77.0	**(16.0)**
Abnormal income tax items	27.3	7.6	61.5	(21.8)	18.5	60.0	14.4	44.2	(22.1)	**(23.5)**
Abnormal items after tax	0.1	25.7	(61.2)	33.9	18.5	(224.9)	(49.9)	34.9	54.9	**(39.5)**
Operating profit/(loss) after tax and abnormal items	82.2	122.1	7.9	118.8	161.3	(108.2)	112.7	219.3	190.4	**110.6**
Outside equity interest in operating profit/(loss)	-	5.0	5.7	1.7	5.3	2.7	-	-	-	**-**
Profit/(loss) attributable to shareholders	82.2	117.1	2.2	117.1	156.0	(110.9)	112.7	219.3	190.4	**110.6**
Balance Sheet $million										
Total shareholders' equity	597.3	860.3	1,106.8	1,123.8	1,380.2	1,215.1	1,231.7	1,380.6	1,532.2	**1,519.3**
Total assets	1,883.6	2,378.7	2,849.0	2,931.6	2,962.5	2,797.6	2,821.8	2,831.2	2,897.2	**2,915.5**
Net debt	593.7	864.7	919.3	1,116.1	772.4	755.0	797.4	711.2	619.9	**642.0**
Exploration										
Wells drilled	48	97	120	133	119	80	41	66	63	**66**
Expenditure ($million)	43.2	55.6	90.9	109.2	97.5	79.8	76.7	79.6	91.9	**87.9**
Reserves (MMBOE)	412	552	623	671	646	623	670	675	663	**703**
Production (MMBOE)	25.5	30.6	30.6	35.6	36.0	34.2	34.6	36.3	37.2	**36.8**
Capital Expenditure $million										
Field developments	14.9	13.6	20.1	54.9	88.9	51.9	33.2	40.0	52.2	**53.9**
Buildings, plant and equipment	21.9	63.4	40.4	59.7	60.9	69.1	75.6	80.6	30.5	**40.1**
Share Information										
Share issues	-	1 for 10 rights/ Exploration purchase/ Executive share plan	1 for 10 bonus/ 1 for 4 rights/ Private placement	Executive share plan	1 for 10 rights/ Dividend reinvestment plan/ Executive share plan	Dividend reinvestment plan/ Executive share plan	Dividend reinvestment plan	Dividend reinvestment plan	Dividend reinvestment plan/ Executive share plan	**-**
Number of issued shares at year end (million)	240.0	273.8	403.3	404.3	450.4	473.0	498.6	517.9	539.6	**539.6**
Weighted average number of shares (million)	275.5	301.7	330.3	415.1	425.3	463.6	481.3	503.7	523.5	**537.2**
Dividends per share - ordinary (¢)	16.0	19.0	19.0	19.0	19.0	19.0	21.0	22.0	22.0	**23.0**
- special (¢)	-	-	-	-	-	-	-	5.0	-	**-**
Dividends - ordinary ($million)	38.4	55.7	68.9	76.0	85.5	88.5	102.7	112.3	117.2	**123.6**
- special ($million)	-	-	-	-	-	-	-	25.8	-	**-**
Ratios and Statistics										
Earnings per share										
- before abnormal items (¢)	29.8	30.3	19.7	20.0	32.3	24.6	33.8	36.6	25.9	**27.9**
- after abnormal items (¢)	29.8	38.8	0.7	28.2	36.7	(23.9)	23.4	43.5	36.4	**20.6**
Return on total income (%)	17.0	16.4	14.8	14.1	17.6	16.5	21.6	23.9	18.6	**20.0**
Return on shareholders' equity (%)	13.7	12.0	6.4	8.0	10.6	9.7	13.2	13.4	8.8	**9.9**
Net debt/equity (%)	99.4	100.5	83.1	99.3	56.0	62.1	64.7	51.5	40.5	**42.3**
Net interest cover (times)	5.5	4.5	2.6	2.0	3.2	4.1	6.6	8.6	6.7	**7.6**
General										
Number of employees	1,263	1,561	1,547	1,655	1,683	1,570	1,468	1,526	1,492	**1,471**
Number of shareholders	26,653	25,267	27,113	26,499	26,251	29,706	35,492	42,068	50,595	**55,684**
Market capitalisation ($million)	984.7	1,094.4	1,335.1	1,639.3	1,779.8	1,399.2	1,288.5	1,988.1	1,868.2	**2,111.2**

Comparative figures have, where applicable, been adjusted to place them on a comparable basis with current year figures.

Santos Ltd and controlled entities ACN 007 550 923

Financial Statements

for the year ended 31 December 1995

Contents

Directors' Statutory Report

This report by the Directors of Santos Ltd ("the Company") is made pursuant to Division 6 of Part 3.6 of the Corporations Law for the year ended 31 December 1995 and is accompanied by the Financial Statements for the period of the Company and the entities it controlled from time to time during the period ("economic entity") and the information appearing on the pages specified herein of this Annual Report, which are to be read as part of the 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 the share capital in the Company or in any related body corporate as notified to Australian Stock Exchange Limited are:

Surname	Other Names	Shareholdings in Santos Ltd	
		Beneficial Interest	Non-Beneficial Interest
Uhrig	John Allan (Chairman)	15,000	–
Adler	Norman Ross (Managing Director)	760,000*	–
Barnett	Peter Charles	10,000	–
Gerlach	Stephen	–	3,826
Kennedy	James Joseph	1,000	–
Mason	Richard Chapman Hope	–	1,000
McArdle	John Walter (Executive Director)	459,317**	33,700
Sloan	Judith	1,000	–
Strauss	Robert	8,044	–
Webber	Ian Ernest	10,000	–

Except where otherwise indicated, all shareholdings are of fully paid ordinary shares of 25 cents each.

* 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.

Details of the qualifications, experience, other directorships and special responsibilities of each Director are set out on page 38 of this Annual Report.

Mr Neil Rex Clark retired as a Director of the Company during the year.

Mr John Walter McArdle was appointed an Executive Director of the Company on 5 September 1995.

Mr Peter Charles Barnett was appointed a Director of the Company on 31 October 1995.

Directors' Meetings

The number of Directors' Meetings and meetings of committees of Directors held in the period each Director held office 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	
		No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*
Uhrig	John Allan	10	11			3	3
Adler	Norman Ross	11	11	4	4	3	3
Barnett	Peter Charles	3	3				
Clark	Neil Rex	8	9	4	4		
Gerlach	Stephen	10	11	4	4	2	3
Kennedy	James Joseph	9	11			3	3
Mason	Richard Chapman Hope	10	11				
McArdle	John Walter	4	4				
Sloan	Judith	11	11				
Strauss	Robert	9	11				
Webber	Ian Ernest	9	11	2	4		

*Reflects the number of meetings held during the time the Director held office during the year.

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 page 39 of this Annual Report.

2. Principal Activities

The principal activities of the economic entity constituted by the Company and the entities it controlled from time to time during the year ("economic entity") were gas and 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. Consolidated Result

The net amount of Consolidated Profit for the year ended 31 December 1995 after providing for income tax and abnormal items was $110.6 million.

4. Dividends

In respect of the year ended 31 December 1995:

(a) the Directors on 13 March 1996 declared a fully franked final dividend of 12 cents per fully paid share be paid on 2 May 1996 to members registered in the books of the Company as at close of business on 29 March 1996 and declared that such dividend be a Class C franked dividend to the extent of 100%. This final dividend amounts to approximately $64.5 million; and

(b) a fully franked interim dividend of $59.1 million (11 cents per share) was paid to members in December 1995.

A fully franked final dividend of $59.1 million on the 1994 results (11 cents per share) was paid in June 1995. Indication of this dividend payment was disclosed in the 1994 Annual Report.

5. Review of Operations

A review of the operations and of the results of those operations of the economic entity during the financial year are contained in pages 6, 7, 10 to 12, 16 and 26 to 36 of the Report to Shareholders forming part of this Annual Report ("Report to Shareholders").

6. State of Affairs

There was no significant change in the state of affairs of the economic entity that occurred during the financial year other than:

(a) those included in the 1995 Highlights on pages 2 and 3 of the Report to Shareholders;

(b) the increase in the Australian company tax rate from 33% to 36% which required a $29.3 million upward restatement of the net deferred income tax provision. In addition, the depreciation of the Australian dollar resulted in net foreign currency exchange losses of $10.2 million after tax on the conversion of the US dollar denominated debt to Australian currency;

(c) the 1994 net profit attributable to shareholders of $190.4 million benefited from abnormal items after tax of $54.9 million comprising net foreign currency exchange gains on the US dollar denominated debt of $44.2 million after tax and a $10.7 million compensation payment in relation to the release of certain contractual rights associated with the Moomba-Sydney pipeline; and

(d) upon satisfaction of the conditions of an escrow agreement entered into during the financial year between the Company and the Australian Gas Light Company, the special rights attaching to the B Class Shares will expire at 5.00 p.m. on the day of the Company's Annual General Meeting to be held during 1996. Upon expiry of those rights, the B Class Shares convert into, and carry the rights attaching to, ordinary shares of the Company.

7. Subsequent Events

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 economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

8. Future Developments

Certain likely developments in the operations of the economic entity and the expected results of these operations subsequent to the financial year ended 31 December 1995 are referred to at pages 18, 20, 22, 27, 30, 33, 35 and 36 of the Report to Shareholders. The Directors believe, on reasonable grounds, it would be likely to result in unreasonable prejudice to the Company if further information which may be required by Section 305(11) of the Corporations Law to be included in this report was so included and the information has been excluded in accordance with Section 306 of the Corporations Law.

9. Directors' Interests and Benefits

(a) Directors have declared interests in contracts or proposed contracts with the Company by virtue of their association with the companies specified in the statement setting out particulars of the qualifications, experience and special responsibilities of each Director on page 38 of this Annual Report. Some of these companies have transactions with the Company in the ordinary course of business.

(b) There are no particulars of Directors' interests declared in contracts or proposed contracts as described in Section 307(1)(c) of the Corporations Law which are not otherwise disclosed in this report.

(c) Since the end of the previous financial year no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Consolidated Accounts or the fixed salary of a full time employee of the Company or an entity that the Company controlled or a body corporate that was related to the Company at a relevant time) by reason of a contract made by the Company or a body corporate (that was related to the Company when the contract was made or when the Director received or became entitled to receive the benefits) with the Director or with a firm of which he or she is a member or with an entity in which he or she has a substantial financial interest except that:

(i) Mr N R Clark was, following his retirement during the year, paid a retirement benefit pursuant to an agreement entered into with members' approval at the 1989 Annual General Meeting;

(ii) an agreement was entered into on 31 October, 1995 with Mr P C Barnett in accordance with members' approval at the 1989 Annual General Meeting providing for payment of a sum on retirement from office as a Director; and

(iii) a retirement benefit in accordance with an agreement entered into with members' approval at the 1989 Annual General Meeting will be payable to Mr R C H Mason consequent upon his ceasing to be a Director at 5.00 p.m. on the day of the Company's Annual General Meeting to be held during 1996.

10. Share Options

There are no unissued shares under option.

11. Indemnification

At the Company's last Annual General Meeting Article 177 was amended so that the Company indemnifies each person who is or who has been an officer (as defined) 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 the auditor in relation to costs incurred in defending proceedings in which judgment is given in favour of the auditor or in which the auditor is acquitted.

12. Rounding

The Company is a company of the kind referred to in Class Order No. 94/1252 dated 17 August 1994 made by the Australian Securities Commission pursuant to sub-section 313(6) of the Corporations Law and accordingly amounts set out in the accounts and reports contained in this Annual Report have been rounded off to the nearest tenth of a million dollars or, where the amount is $50,000 or less, zero.

This report is made out on 13 March 1996 in accordance with a resolution of the Directors.

J A Uhrig, Director
13 March 1996

N R Adler, Director

Santos Ltd and controlled entities

Profit and Loss Accounts

for the year ended 31 December 1995

	Note	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
Operating revenue	(2)	**751.3**	728.3	**418.2**	504.9
Operating profit before abnormal items	(3)	**257.0**	229.6	**170.4**	217.8
Abnormal items	(3)	**(16.0)**	77.0	**-**	8.1
Operating profit before income tax		**241.0**	306.6	**170.4**	225.9
Income tax attributable to operating profit before abnormal items	(4)	**(106.9)**	(94.1)	**(51.3)**	(43.2)
Abnormal income tax items	(3)	**(23.5)**	(22.1)	**(18.9)**	-
Income tax attributable to operating profit		**(130.4)**	(116.2)	**(70.2)**	(43.2)
Operating profit after income tax attributable to shareholders of Santos Ltd	(19)	**110.6**	190.4	**100.2**	182.7
Retained profits at the beginning of the year		**231.1**	157.9	**115.0**	49.5
Change in accounting policy	(1)	**(1.3)**	-	**(1.1)**	-
Total available for appropriation		**340.4**	348.3	**214.1**	232.2
Dividends provided for or paid	(5)	**(123.6)**	(117.2)	**(123.6)**	(117.2)
Retained profits at the end of the year		**216.8**	231.1	**90.5**	115.0

The Profit and Loss Accounts are to be read in conjunction with the notes to and forming part of the financial statements.

Balance Sheets

at 31 December 1995

	Note	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
Current assets					
Cash		**87.8**	118.7	**2.3**	6.9
Receivables	(6)	**120.2**	110.2	**49.9**	47.0
Inventories	(7)	**60.7**	52.4	**31.8**	25.7
Other	(8)	**–**	–	**49.3**	147.3
Total current assets		**268.7**	281.3	**133.3**	226.9
Non-current assets					
Receivables	(6)	**18.9**	20.2	**13.4**	14.3
Investments	(9)	**357.7**	304.1	**1,729.2**	1,644.1
Property, plant and equipment	(10)	**2,181.6**	2,193.0	**1,030.9**	1,031.5
Intangibles	(11)	**80.7**	89.7	**–**	–
Other	(8)	**7.9**	8.9	**–**	–
Total non-current assets		**2,646.8**	2,615.9	**2,773.5**	2,689.9
Total assets		**2,915.5**	2,897.2	**2,906.8**	2,916.8
Current liabilities					
Creditors and borrowings	(12)	**67.3**	77.8	**46.9**	54.3
Provisions	(13)	**134.4**	135.5	**118.3**	115.5
Other	(14)	**–**	–	**1,085.7**	1,091.2
Total current liabilities		**201.7**	213.3	**1,250.9**	1,261.0
Non-current liabilities					
Creditors and borrowings	(12)	**729.1**	737.4	**0.2**	0.7
Provisions	(13)	**465.4**	414.3	**261.9**	237.1
Total non-current liabilities		**1,194.5**	1,151.7	**262.1**	237.8
Total liabilities		**1,396.2**	1,365.0	**1,513.0**	1,498.8
Net assets		**1,519.3**	1,532.2	**1,393.8**	1,418.0
Shareholders' equity					
Share capital	(15)	**134.3**	134.2	**134.3**	134.2
Reserves	(16)	**1,168.2**	1,166.9	**1,169.0**	1,168.8
Retained profits		**216.8**	231.1	**90.5**	115.0
Total shareholders' equity		**1,519.3**	1,532.2	**1,393.8**	1,418.0

The Balance Sheets are to be read in conjunction with the notes to and forming part of the financial statements.

Statements of Cash Flows

for the year ended 31 December 1995

	Note	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
Cash flows from operating activities					
Receipts from customers		655.6	604.8	340.6	319.5
Dividends received		22.0	18.0	140.4	46.5
Interest received		5.4	7.2	0.8	0.3
Overriding royalties received		10.7	10.3	13.0	12.2
Pipeline tariffs and other receipts		32.9	35.2	9.5	7.5
Payments to suppliers and employees		(173.4)	(170.3)	(76.1)	(74.8)
Government royalties and resource rent tax paid		(38.1)	(31.5)	(22.0)	(20.2)
Interest and other costs of finance paid		(51.7)	(47.2)	(56.8)	(56.7)
Income taxes paid		(94.4)	(63.0)	(53.2)	(48.5)
Net cash provided by operating activities	(22)	369.0	363.5	296.2	185.8
Cash flows from investing activities					
Payments for:					
Land and buildings, plant and equipment		(36.2)	(35.1)	(21.1)	(18.0)
Exploration		(89.9)	(85.1)	(40.5)	(35.5)
Development		(42.5)	(42.5)	(16.8)	(15.4)
Acquisitions of oil and gas assets		(27.4)	(95.7)	(0.3)	(0.7)
Share subscriptions in controlled entities		-	-	(45.9)	(137.0)
Other investments		(67.6)	(48.8)	(67.6)	(48.8)
Proceeds from:					
Sale of non-current assets		9.8	2.9	0.4	9.9
Compensation for release of contractual rights		-	10.7	-	8.1
Net cash used in investing activities		(253.8)	(293.6)	(191.8)	(237.4)
Cash flows from financing activities					
Dividends paid		(118.2)	(140.5)	(118.2)	(140.5)
Proceeds from issues of shares		0.8	80.5	0.8	80.5
Net drawdown/(repayment) of borrowings		(29.0)	6.0	-	-
Advances from related entities		-	-	8.4	119.2
Net cash provided by/(used in) financing activities		(146.4)	(54.0)	(109.0)	59.2
Net increase/(decrease) in cash		(31.2)	15.9	(4.6)	7.6
Cash at the beginning of the year		118.7	105.2	6.9	(0.7)
Effects of exchange rate changes on the balances of cash held in foreign currencies		0.3	(2.4)	-	-
Cash at the end of the year		87.8	118.7	2.3	6.9

The Statements of Cash Flows are to be read in conjunction with the notes to and forming part of the financial statements.

Notes to and forming part of the financial statements

for the year ended 31 December 1995

1 Statement of Accounting Policies

The significant accounting policies which have been adopted in the preparation of these financial statements are:

(a) **Basis of preparation**

The financial statements have been drawn up in accordance with the Corporations Law, Schedule 5 to the Corporations Regulations and applicable Accounting Standards. 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.

Except for the change in the policy for measuring employee entitlements (refer note 1(l)), the accounting policies are consistent with those adopted in the previous year.

Following the South Australian Government's release of ethane reserves for sale interstate and the securing of a contract to sell ethane, the value of processed ethane stored for sale in sub-surface reservoirs is being brought to account as inventory for the first time, in accordance with the economic entity's existing policy for recognising inventories. The impact of bringing ethane to account for the year ending 31 December 1995 is to increase operating profit before income tax by $10.9 million and operating profit after income tax by $7.0 million.

(b) **Non-current assets**

With the exception of exploration expenditure carried forward pertaining to areas of interest in the exploration and/or evaluation phase (refer note 1(f)), 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 recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(c) **Principles of consolidation**

The consolidated accounts comprise the accounts of Santos Ltd, the chief entity, and its controlled entities. The term "economic entity" used throughout these financial statements means the chief entity and its controlled entities. A listing of the controlled entities is contained in note 19.

The effects of all transactions between entities incorporated in the consolidated accounts are eliminated in full.

Interests in associated companies are included in non-current investments using the cost method of accounting and dividend income only is brought to account. Information, determined in accordance with the equity method of accounting, about the economic entity's interests in associated companies is contained in note 20.

Interests in unincorporated joint ventures are recognised by including in the financial statements under the appropriate headings the economic entity's proportion of the joint venture costs, assets and liabilities. The major interests in unincorporated joint ventures are listed in note 21.

(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 twenty years. The unamortised balance of goodwill is reviewed at each balance date and charged to profit and loss to the extent that the balance exceeds the value of expected future benefits.

(e) **Foreign currency transactions**

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

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

(i) For self sustaining operations, assets and liabilities are translated at the exchange rate existing at balance date, and revenue and expense items at the exchange rates applying at the date they were recognised in the controlled entities' Profit and Loss Accounts. Exchange differences arising on translation are included in the foreign currency translation reserve. In the consolidated accounts, 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 Accounts. Any profit or loss on the translation of monetary assets and liabilities is brought to account in determining operating profit for the year.

(f) **Property, plant and equipment**

Property, plant and equipment includes land and buildings, plant and equipment and exploration, evaluation and development expenditure. Profits or losses resulting from the disposal of property, plant and equipment in the normal course of business are brought to account as a component of operating profit.

All exploration, evaluation 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.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

1 Statement of Accounting Policies continued

(g) 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.

(h) Capitalisation of finance costs

Preproduction interest, finance charges and foreign currency exchange gains and losses relating to major plant and equipment projects under development and construction up to the date of commencement of commercial operations are capitalised and amortised over the expected useful economic lives of the facilities. Finance costs incurred in respect of completed projects are expensed.

(i) Depreciation and depletion of property, plant and equipment

Depreciation charges are calculated to write-off the value of buildings, plant and equipment over their estimated economic lives. The depreciation rates are reviewed and reassessed periodically in light of technical and economic developments. Depletion charges are calculated using a unit of production method based on heating value 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 phase until production commences.

(j) Inventories

Inventories are valued at the lower of cost or 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.

(k) Income tax

Tax effect accounting is applied whereby the income tax charged in the Profit and Loss Accounts 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 in respect of losses incurred are brought to account where realisation of the benefits of such losses is considered to be virtually certain.

(l) Employee entitlements

Employee entitlements have been calculated in accordance with the recently issued AASB1028: Accounting for Employee Entitlements. The adoption of this Standard has resulted in a change in the method of calculating the economic entity's provision for long service leave and to record a provision for sick leave for the first time. In the past the economic entity provided for long service leave only in respect of employees with more than seven years' service and did not provide for sick leave. The economic entity now provides for long service leave in respect of all employees, based on the present value of the estimated future cash outflow to be made resulting from employees' services up to the balance date, and having regard to the probability that employees as a group will remain in the entity's employ for the period of time necessary to qualify for long service leave. Sick leave is provided based on the nominal value of the estimated cash outflow to be made resulting from employees' services up to the balance date, and having regard to the probability that employees as a group will utilise the non-vesting sick leave entitlement.

The financial effect of the change has been to decrease retained earnings at the beginning of the financial year by $1.3 million in the consolidated accounts. The effect on the current year is negligible.

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 have been suspended until such time as the surplus is reduced. The amount of such surplus is brought to account and amortised over the same period as the contributions have been suspended (refer note 28.).

(m) Doubtful debts

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 when they are identified.

(n) Restoration

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

1 Statement of Accounting Policies continued

(o) **Participation factors – Cooper Basin, South Australia**

There are provisions in the South Australian Unit and Downstream Cooper Basin Joint Venture Agreements for a biennial review of participation factors to be made and revenues and expenditures adjusted. Revenues and expenditures have been brought to account based on the participation factors estimated by Santos Ltd to be effective on and from 1 January 1987. These factors were the subject of a Supreme Court order in June 1991 to the effect that they be redetermined. The Directors believe that the 1 January 1987 participation factors when so redetermined will not vary significantly from those factors as previously calculated.

In addition, an accrual has been made in the financial statements for the estimated favourable profit impact of the change in participation factors anticipated to arise from the 1 January 1989 Review and Adjustment.

Until the 1 January 1987 and 1 January 1989 Reviews and Adjustments are finalised with the South Australian Cooper Basin joint venture participants, Directors have decided not to accrue for the expected impacts of the subsequent biennial reviews.

(p) **Derivative financial instruments**

The economic entity is exposed to foreign currency, interest rate and commodity price risk in the normal course of business.

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

The economic entity does not trade in derivative financial instruments for speculative purposes.

Additional information is set out in note 31 on the use of derivative financial instruments.

(q) **Comparatives**

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

2 Operating Revenue

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	**1995 $million**	1994 $million
Sales revenue	**671.6**	640.0	**338.3**	330.7
Other revenue				
Dividends from:				
– wholly-owned controlled entities	**–**	–	**32.7**	114.2
– associated company	**20.4**	16.4	**20.4**	16.4
– other than related parties	**1.6**	1.6	**1.6**	1.6
Interest	**5.3**	6.4	**0.7**	0.3
Overriding royalties	**11.3**	11.1	**13.9**	12.9
Pipeline tariffs	**8.7**	12.3	**–**	–
Proceeds from sale of non-current assets:				
– property, plant and equipment	**6.9**	5.8	**0.4**	0.9
– investments	**–**	–	**–**	9.0
Compensation for release of contractual rights	**–**	10.7	**–**	8.1
Hotel revenue	**11.7**	12.3	**–**	–
Other income	**13.8**	11.7	**10.2**	10.8
	751.3	728.3	**418.2**	504.9

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

3 Operating Profit

	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
Operating profit before income tax is arrived at after crediting the following item:				
Profit from the sale of non-current assets	–	–	0.2	0.1
Operating profit before income tax is arrived at after charging/(crediting) the following items:				
Depreciation, depletion and amortisation of property, plant and equipment:				
– depreciation	94.6	97.5	51.5	53.7
– depletion	100.1	99.8	30.5	30.1
– amortisation of capitalised leases	0.7	0.9	0.3	0.5
Write-down of exploration expenditure	23.9	20.0	–	3.8
Amortisation of goodwill	9.0	9.0	–	–
Write-down of investments in controlled entities	–	–	14.4	27.3
Government royalties and resource rent tax	39.6	33.4	22.3	18.9
Increase/(decrease) in provisions:				
– doubtful debts	–	0.4	–	–
– stock obsolescence	(0.2)	(0.4)	(0.3)	(0.1)
– non-executive Directors' retirement benefits and employee entitlements	2.9	1.3	1.4	0.9
– future restoration costs	5.4	2.6	1.4	1.5
– deferred income	–	(15.8)	–	(12.7)
Operating lease rentals	5.4	6.2	3.7	3.0
Interest paid or due and payable to:				
– wholly-owned controlled entities	–	–	56.7	52.9
– other than related parties:				
– on loans	52.3	45.8	0.1	0.1
– on finance leases	1.3	1.1	0.1	0.1
– less interest capitalised	(9.2)	–	(3.1)	–
Interest expense	44.4	46.9	53.8	53.1
Abnormal items				
Operating profit before income tax is arrived at after crediting/(charging) the following abnormal items:				
Net foreign currency exchange gains/(losses)	(16.0)	66.3	–	–
Compensation for release of contractual rights	–	10.7	–	8.1
Abnormal items before income tax	(16.0)	77.0	–	8.1
Abnormal income tax items				
Income tax attributable to abnormal items:				
Net foreign currency exchange gains/(losses)	5.8	(22.1)	–	–
Compensation for release of contractual rights	–	–	–	–
Income tax attributable to above abnormal items	5.8	(22.1)	–	–
Restatement of net deferred income tax provisions due to change in income tax rate	(29.3)	–	(18.9)	–
Abnormal income tax items (refer note 4)	(23.5)	(22.1)	(18.9)	–

4 Taxation

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	**1995 $million**	1994 $million
Income tax attributable to operating profit				
The prima facie income tax attributable to operating profit before abnormal items differs from income tax expense and is calculated as follows:				
Prima facie income tax at 36% (1994 - 33%)	**92.5**	75.8	**61.3**	71.9
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Non-deductible depreciation, depletion and write-down of property, plant and equipment	**17.6**	17.9	**4.0**	4.3
Write-down of investments in controlled entities	**-**	-	**5.2**	9.0
Amortisation of goodwill	**3.2**	3.0	**-**	-
Development/investment allowance	**(0.2)**	(0.8)	**-**	(0.5)
Non-deductible items	**1.5**	2.9	**0.2**	0.4
Rebate on dividend income	**(6.5)**	(4.6)	**(18.2)**	(42.3)
Income tax under/(over) provided in prior years	**(1.2)**	(0.1)	**(1.2)**	0.4
Income tax attributable to operating profit before abnormal items	**106.9**	94.1	**51.3**	43.2
Abnormal income tax items	**23.5**	22.1	**18.9**	-
Income tax attributable to operating profit	**130.4**	116.2	**70.2**	43.2
Income tax attributable to operating profit comprises amounts set aside to:				
Provision for current income tax	**83.0**	52.4	**46.3**	36.5
Provision for deferred income tax	**46.4**	30.3	**23.9**	6.7
Future income tax benefits	**1.0**	33.5	**-**	-
	130.4	116.2	**70.2**	43.2

5 Dividends

Dividends provided for or paid by Santos Ltd are:				
Interim dividend of 11.0 cents per share, fully franked (1994 - 11.0 cents per share, fully franked)	**59.1**	58.1	**59.1**	58.1
Final dividend of 12.0 cents per share, fully franked (1994 - 11.0 cents per share, fully franked)	**64.5**	59.1	**64.5**	59.1
	123.6	117.2	**123.6**	117.2

Franking credits

Santos Ltd has $157.2 million of franking credits at 36% available as at 13 March 1996. After deducting franking credits to be used in payment of the 1995 final dividend, $92.7 million of franking credits will be available for future distribution of franked dividends.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

6 Receivables

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	**1995 $million**	1994 $million
Current				
Trade debtors	**68.9**	54.3	**34.7**	27.2
Sundry debtors and prepayments	**52.2**	57.1	**14.7**	19.5
Less provision for doubtful debts	**(2.2)**	(2.2)	**(0.4)**	(0.4)
Security deposit (refer below)	**1.3**	1.0	**0.9**	0.7
	120.2	110.2	**49.9**	47.0
Non-current				
Security deposit (refer below)	**18.4**	19.7	**12.9**	13.8
Other loans (refer note 23)	**0.5**	0.5	**0.5**	0.5
	18.9	20.2	**13.4**	14.3

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

7 Inventories

	Consolidated 1995	Consolidated 1994	Santos Ltd 1995	Santos Ltd 1994
Petroleum products	**43.0**	29.2	**23.9**	14.9
Drilling and maintenance stocks	**19.1**	24.8	**8.6**	11.8
Provision for obsolescence	**(1.4)**	(1.6)	**(0.7)**	(1.0)
	60.7	52.4	**31.8**	25.7

8 Other Assets

	Consolidated 1995	Consolidated 1994	Santos Ltd 1995	Santos Ltd 1994
Current				
Amounts owing by wholly-owned controlled entities	**–**	–	**49.3**	147.3
Non-current				
Future income tax benefits	**7.9**	8.9	**–**	–

9 Investments

	Consolidated 1995	Consolidated 1994	Santos Ltd 1995	Santos Ltd 1994
Non-current				
Investments in controlled entities (refer note 19)	**–**	–	**1,371.5**	1,340.0
Listed shares and notes in other entities	**357.7**	304.1	**357.7**	304.1
	357.7	304.1	**1,729.2**	1,644.1
Total market value of investments in listed shares and notes in other than controlled entities	**399.1**	314.4	**399.1**	314.4

10 Property, Plant and Equipment

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Land and buildings				
At cost (refer below)	54.5	54.3	34.7	34.6
Less accumulated depreciation	(29.3)	(27.8)	(21.2)	(20.1)
	25.2	26.5	13.5	14.5
Plant and equipment				
At cost	1,722.9	1,681.6	1,054.2	1,032.2
At independent valuation - 1977	35.2	35.2	35.2	35.2
Capitalised leases	20.6	20.7	3.1	3.4
	1,778.7	1,737.5	1,092.5	1,070.8
Less accumulated depreciation	(983.2)	(890.0)	(631.8)	(581.8)
	795.5	847.5	460.7	489.0
Total land and buildings, plant and equipment	820.7	874.0	474.2	503.5
Exploration, evaluation and development expenditure				
Areas of interest in which production has commenced:				
At cost	2,296.0	2,156.7	839.6	794.8
Less accumulated depletion and write-downs of carrying value	(1,107.8)	(985.8)	(365.5)	(335.0)
	1,188.2	1,170.9	474.1	459.8
Areas of interest in the exploration and/or evaluation stage:				
At cost	172.7	148.1	82.6	68.2
Total exploration, evaluation and development expenditure	1,360.9	1,319.0	556.7	528.0
Total property, plant and equipment	2,181.6	2,193.0	1,030.9	1,031.5

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

11 Intangibles

Goodwill, at cost	160.2	160.2	-	-
Less accumulated amortisation	(79.5)	(70.5)	-	-
	80.7	89.7	-	-

12 Creditors and Borrowings

Current				
Trade creditors	52.4	46.1	21.1	19.3
Sundry creditors and accruals	14.2	30.5	25.5	34.6
Lease liabilities	0.7	1.2	0.3	0.4
	67.3	77.8	46.9	54.3
Non-current				
Bank loans	286.5	301.2	-	-
Long term notes	228.2	218.9	-	-
Commercial paper	199.5	202.0	-	-
Lease liabilities	14.9	15.3	0.2	0.7
	729.1	737.4	0.2	0.7

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

12 Creditors and Borrowings continued

Details of major credit facilities

(i) **Bank loans**

The economic entity has access to the following committed revolving facilities at 31 December 1995:

Maturity date	Currency	Amount A$million	Amount drawn at 31 December 1995 A$million
27 August 1996	US dollars	134.3	-
15 July 1998	Australian dollars	5.0	-
15 July 1998	Multi option	280.8	76.2
31 October 1998	Multi option	100.0	-
15 July 2000	Multi option	280.8	76.3
		800.9	152.5

In addition to the revolving facilities the economic entity has fully drawn a US$100.0 million (1995 – A$134.0 million, 1994 – A$128.8 million) syndicated term loan which matures in March 1996.

In February 1996, the economic entity accepted offers to refinance the US$100.0 million syndicated term loan maturing in March 1996 and revolving facilities maturing on 27 August 1996 and 31 October 1998. These bank loans will be replaced with A$350.0 million of revolving facilities with terms ranging from three to seven years. Consequently, the US$100.0 million syndicated term loan outstanding at balance date has been classified as non-current.

(ii) **Long term notes**

US$170.0 million (1995 – A$228.2 million, 1994 – A$218.9 million) of long term notes were issued in December 1993 and are repayable in five annual instalments commencing in December 2001.

(iii) **Commercial paper**

The economic entity has commercial paper programs based in Hong Kong and Australia. The programs which total US$200.0 million (Euro Commercial Paper) and A$400.0 million (Promissory Notes) are supported by the revolving facilities referred to in (i) above. At 31 December 1995, A$199.5 million (1994 – A$202.0 million) equivalent of commercial paper was on issue.

All facilities are unsecured and arranged through a wholly-owned controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd.

13 Provisions

	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
Current				
Dividends	64.5	59.1	64.5	59.1
Employee entitlements	26.9	22.0	21.2	18.2
Income tax	43.0	54.4	32.6	38.2
	134.4	135.5	118.3	115.5
Non-current				
Deferred income tax	406.7	361.1	235.8	212.5
Future restoration costs	57.8	52.4	25.2	23.8
Non-executive Directors' retirement benefits	0.9	0.8	0.9	0.8
	465.4	414.3	261.9	237.1

14 Other Liabilities

	Consolidated 1995	Consolidated 1994	Santos Ltd 1995	Santos Ltd 1994
Current				
Amounts owing to wholly-owned controlled entities	-	-	1,085.7	1,091.2

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

12 Creditors and Borrowings continued

Details of major credit facilities

(i) **Bank loans**

The economic entity has access to the following committed revolving facilities at 31 December 1995:

Maturity date	Currency	Amount A$million	Amount drawn at 31 December 1995 A$million
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All facilities are unsecured and arranged through a wholly-owned controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd.

13 Provisions

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Current				
Dividends	64.5	59.1	64.5	59.1
Employee entitlements	26.9	22.0	21.2	18.2
Income tax	43.0	54.4	32.6	38.2
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Non-current				
Deferred income tax	406.7	361.1	235.8	212.5
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Non-executive Directors' retirement benefits	0.9	0.8	0.9	0.8
	465.4	414.3	261.9	237.1

14 Other Liabilities

Current				
Amounts owing to wholly-owned controlled entities	-	-	1,085.7	1,091.2

15 Share Capital

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	**1995 $million**	1994 $million
Authorised capital				
1,999,900,000 unclassified shares of 25¢ each	**500.0**	500.0	**500.0**	500.0
100,000 'B' class shares of 25¢ each	**–**	–	**–**	–
	500.0	500.0	**500.0**	500.0
Issued capital				
537,131,918 (1994 – 536,844,418) ordinary shares of 25¢ each	**134.3**	134.2	**134.3**	134.2
100,000 (1994 – 100,000) 'B' class shares of 25¢ each	**–**	–	**–**	–
2,345,500 (1994 – 2,633,000) ordinary shares of 25¢ each paid to 1¢	**–**	–	**–**	–
	134.3	134.2	**134.3**	134.2

Movement in share capital

During the year, 287,500 ordinary shares (paid to 1 cent) issued to senior executives of the Company under the Santos Executive Share Plan were fully paid.

Upon performance of the conditions of an escrow agreement between the company and The Australian Gas Light Company, the special rights attaching to the 'B' Class Shares will expire, at 5.00 p.m. on the day of the company's Annual General Meeting to be held during 1996. Upon expiry of those rights, the 'B' Class Shares convert into, and carry the rights attaching to, ordinary shares of the company.

Santos Executive Share Plan

The Company operates the Santos Executive Share Plan ("the Plan"), the establishment of which 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 of $0.25 each 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 total number of Plan Shares, together with any other share incentive scheme, is subject to a limitation of 5% of the aggregate number of issued fully paid shares in the Company from time to time.

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 119,750 Plan 0 and 167,750 Plan 2 Shares were fully paid and as at 31 December, 1995 there were 51 holders of the outstanding 1,254,500 Plan 0 Shares and 43 holders of the outstanding 1,091,000 Plan 2 Shares.

The Company's accounting policy in respect of the Plan is that no amount is recognised upon issue, apart from the capital paid up on the Plan Shares, as the amount of the call payable is not quantifiable at the time of issue. Once a call has been made upon the Plan Shares and paid, the Company recognises the increase in paid up capital and share premiums. The following amounts were recognised in the financial statements of the Company in relation to calls paid during the financial year: Share Capital $69,000 and Share Premium $778,235. The Company did not recognise any other amounts in the financial statements in respect of the Plan, other than the cost of administering the Plan which is expensed as incurred.

The market price of the Company's shares as at 31 December 1995 was $3.93.

15 Share Capital

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Authorised capital				
1,999,900,000 unclassified shares of 25¢ each	**500.0**	500.0	**500.0**	500.0
100,000 'B' class shares of 25¢ each	**–**	–	**–**	–
	500.0	500.0	**500.0**	500.0
Issued capital				
537,131,918 (1994 – 536,844,418) ordinary shares of 25¢ each	**134.3**	134.2	**134.3**	134.2
100,000 (1994 – 100,000) 'B' class shares of 25¢ each	**–**	–	**–**	–
2,345,500 (1994 – 2,633,000) ordinary shares of 25¢ each paid to 1¢	**–**	–	**–**	–
	134.3	134.2	**134.3**	134.2

Movement in share capital

During the year, 287,500 ordinary shares (paid to 1 cent) issued to senior executives of the Company under the Santos Executive Share Plan were fully paid.

Upon performance of the conditions of an escrow agreement between the company and The Australian Gas Light Company, the special rights attaching to the 'B' Class Shares will expire, at 5.00 p.m. on the day of the company's Annual General Meeting to be held during 1996. Upon expiry of those rights, the 'B' Class Shares convert into, and carry the rights attaching to, ordinary shares of the company.

Santos Executive Share Plan

The Company operates the Santos Executive Share Plan ("the Plan"), the establishment of which 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 of $0.25 each 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 total number of Plan Shares, together with any other share incentive scheme, is subject to a limitation of 5% of the aggregate number of issued fully paid shares in the Company from time to time.

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 119,750 Plan 0 and 167,750 Plan 2 Shares were fully paid and as at 31 December, 1995 there were 51 holders of the outstanding 1,254,500 Plan 0 Shares and 43 holders of the outstanding 1,091,000 Plan 2 Shares.

The Company's accounting policy in respect of the Plan is that no amount is recognised upon issue, apart from the capital paid up on the Plan Shares, as the amount of the call payable is not quantifiable at the time of issue. Once a call has been made upon the Plan Shares and paid, the Company recognises the increase in paid up capital and share premiums. The following amounts were recognised in the financial statements of the Company in relation to calls paid during the financial year: Share Capital $69,000 and Share Premium $778,235. The Company did not recognise any other amounts in the financial statements in respect of the Plan, other than the cost of administering the Plan which is expensed as incurred.

The market price of the Company's shares as at 31 December 1995 was $3.93.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

16 Reserves

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Share premium	1,148.4	1,148.2	1,148.4	1,148.2
Asset revaluation	14.9	14.9	14.9	14.9
Capital	5.9	5.9	5.7	5.7
Foreign currency translation	(1.0)	(2.1)	-	-
	1,168.2	1,166.9	1,169.0	1,168.8
Movement during the year:				
Share premium				
Balance at beginning of the year	1,148.2	1,073.1	1,148.2	1,073.1
Dividend reinvestment plan	-	74.5	-	74.5
Share issues and agreed conversions	0.2	0.6	0.2	0.6
Balance at end of the year	1,148.4	1,148.2	1,148.4	1,148.2
Foreign currency translation				
Balance at beginning of the year	(2.1)	-	-	-
Transfers to/(from) foreign currency translation reserve arising from exchange rate fluctuations on:				
- overseas net assets	6.1	(18.4)	-	-
- foreign currency borrowings	(5.0)	16.3	-	-
Balance at end of the year	(1.0)	(2.1)	-	-

17 Earnings per share

	1995	1994
Basic earnings per share (cents):		
- before abnormal items	27.9	25.9
- after abnormal items	20.6	36.4
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (million)	537.2	523.5

Santos Ltd has potential ordinary shares on issue, being 2,345,500 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.

18 Foreign Currency Exposure

The Australian dollar equivalents of foreign currency monetary items included in the Balance Sheet to the extent that they are not effectively hedged through currency exchange contracts or other financial instruments are:

		1995 $million	1994 $million	1995 $million	1994 $million
Current assets	- United States dollars	43.9	39.5	15.9	10.6
	- United Kingdom pounds	22.1	9.5	-	-
Current liabilities	- United States dollars	9.5	9.5	-	-
	- United Kingdom pounds	5.0	3.1	-	-
Non-current liabilities	- United States dollars	437.4	455.0	-	-
	- United Kingdom pounds	67.4	65.1	-	-

The economic entity benefits, in respect to its natural hedges of foreign currency exposure, through its net investments in United States and United Kingdom based assets and through United States dollar receipts from sales of liquid petroleum products and United Kingdom pound receipts from sales of gas. The impact of these natural hedges is not reflected in the above table.

19 Investments in Controlled Entities

Name	Place of incorporation	Details of Investments in Shares: Beneficial interest 1995 %	1994 %	Book value 1995 $million	1994 $million	Contribution to consolidated profit 1995 $million	1994 $million
Santos Ltd (Chief Entity)	SA					82.5	96.0
Controlled Entities:							
Alliance Oil Development Pty Ltd (formerly Alliance Oil Development Australia N.L.)	VIC	100	100	107.7	107.7	–	2.0
Wholly-owned controlled entities of Alliance Oil Development Australia Pty Ltd							
Alliance Minerals Australia Pty Ltd (formerly Alliance Minerals Australia N.L.)	VIC	100	100	–	–	–	0.5
Alliance Petroleum Australia Pty Ltd (formerly Alliance Petroleum Australia N.L.)	VIC	100	100	–	–	0.1	5.1
Alliance Petroleum International Ltd (refer note (i))	VIC	–	100	–	–	–	–
Alliance Resources Pty Ltd (refer note (i))	VIC	–	100	–	–	–	–
Associated Petroleum Pty Ltd	QLD	100	100	117.1	117.1	7.2	7.6
Wholly-owned controlled entities of Associated Petroleum Pty Ltd							
TMOC Exploration Pty Ltd	QLD	100	100	–	–	(1.2)	(0.2)
Wholly-owned controlled entity of TMOC Exploration Pty Ltd							
TMOC Exploration (PNG) Pty Ltd (in liquidation)*	PNG	100	100	–	–	–	–
Santos Petroleum Marketing Pty Ltd	QLD	100	100	–	–	0.2	0.1
Santos Petroleum Management Pty Ltd	QLD	100	100	–	–	0.2	(0.3)
Santos Petroleum Operations Pty Ltd	QLD	100	100	–	–	4.7	4.4
Santos Petroleum (International) Ltd (refer note (i))	HK	–	100	–	–	–	–
Wholly-owned controlled entity of Santos Petroleum (International) Ltd							
Santos Petroleum (Asia Pacific) Ltd (refer note (i))	HK	–	100	–	–	–	–
Boston Long Hedges Finance Pty Ltd	VIC	100	100	–	–	–	0.1
Moonie Oil Pty Ltd (formerly Moonie Oil N.L.)	QLD	100	100	13.2	13.2	1.0	0.8
Moonie Pipeline Co Pty Ltd	QLD	100	100	24.7	24.7	4.8	9.5
Wholly-owned controlled entities of Moonie Pipeline Co Pty Ltd							
Candolia Pty Ltd	ACT	100	100	–	–	–	–
Australian Interstate Pipeline Co Pty Ltd	NSW	100	100	–	–	0.3	(0.3)
Wholly-owned controlled entity of Australian Interstate Pipeline Co Pty Ltd							
Bridgefield Pty Ltd	QLD	100	100	–	–	0.7	3.3
Petromin Pty Ltd (formerly Petromin N.L.)	QLD	100	100	5.9	5.9	0.6	0.5
Reef Oil Pty Ltd (formerly Reef Oil N.L.)	NSW	100	100	82.7	82.7	0.3	0.9
Santos (299) Pty Ltd (formerly Santos (299) N.L.)	WA	100	100	2.7	2.7	(0.3)	(0.5)
Santos Exploration Pty Ltd	VIC	100	100	28.4	28.4	3.1	2.0
Santos Facilities Pty Ltd	SA	100	100	–	–	–	–
Santos Finance Ltd	NSW	100	100	47.7	47.7	(6.7)	44.7
Santos Gnuco Pty Ltd (formerly Gnuco Pty Ltd)	WA	100	100	4.5	4.5	(0.2)	–

*Entities audited by overseas KPMG member firms.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

19 Investments in Controlled Entities continued

Name	Place of incorporation	Beneficial interest 1995 %	Beneficial interest 1994 %	Book value 1995 $million	Book value 1994 $million	Contribution to consolidated profit 1995 $million	Contribution to consolidated profit 1994 $million
Santos International Holdings Pty Ltd	ACT	100	100	218.7	188.0	(0.4)	0.5
Wholly-owned controlled entities of Santos International Holdings Pty Ltd							
Peko Offshore Ltd	BER	100	100	-	-	0.2	(0.2)
Santos Americas and Europe Corp*	USA	100	100	-	-	-	-
Wholly-owned controlled entities of Santos Americas and Europe Corp							
SAE Management Services Corp*	USA	100	100	-	-	(0.5)	(0.4)
Santos Colombia Exploration Inc*	USA	100	100	-	-	-	(0.1)
Santos USA Corp*	USA	100	100	-	-	(8.6)	(8.2)
Wholly-owned controlled entity of Santos USA Corp							
Santos USA Pipeline Corp*	USA	100	-	-	-	0.1	-
Santos Europe Ltd*	UK	100	100	-	-	9.0	5.4
Santos Exploration (China) Pte Ltd*	SIN	100	100	-	-	-	-
Santos Niugini Exploration Pty Ltd*	PNG	100	100	-	-	(0.2)	(1.3)
Santos Petroleum (Seram) Ltd*	HK	100	100	-	-	1.8	2.4
Santos (N.T.) Pty Ltd	ACT	100	100	42.3	42.3	0.7	3.7
Santos Offshore Pty Ltd (formerly Peko Oil Pty Ltd)	VIC	100	100	223.7	232.3	(8.2)	(7.4)
Santos Oil Exploration (Malaysia) Sdn Bhd*	MAL	100	100	4.6	9.6	(5.0)	(5.0)
Santos Petroleum Pty Ltd	NSW	100	100	69.3	69.3	5.1	3.9
Santos Resources Pty Ltd	QLD	100	100	-	-	-	-
Santos (Zoca 91-01) Pty Ltd	ACT	100	100	5.8	4.2	-	-
Santos (Zoca 91-10) Pty Ltd	ACT	100	100	0.1	0.2	-	-
Santos (Zoca 91-11) Pty Ltd	ACT	100	100	-	-	-	-
Santos (Zoca 91-12) Pty Ltd	ACT	100	100	21.2	8.3	-	-
Transoil Pty Ltd (formerly Transoil N.L.)	QLD	100	100	8.7	8.7	(0.2)	(1.6)
Vamgas Pty Ltd	VIC	100	100	206.1	206.1	16.0	17.7
Worldwide Assets Pty Ltd	NSW	100	100	95.3	95.3	(0.4)	0.9
Wholly-owned controlled entity of Worldwide Assets Pty Ltd							
Western Australian Capital Holdings Pty Ltd	WA	100	100	-	-	-	-
Latec Investments Pty Ltd	NSW	100	100	41.1	41.1	0.9	0.7
Wholly-owned controlled entities of Latec Investments Pty Ltd							
Comserv (No. 37) Pty Ltd (refer note (i))	NSW	-	100	-	-	-	-
Doce Pty Ltd	QLD	100	100	-	-	0.1	0.3
Flinders Petroleum N.L. (refer note (i))	VIC	-	100	-	-	-	-
Wholly-owned controlled entities of Flinders Petroleum N.L.							
Canso Resources Pty Ltd	NSW	100	100	-	-	2.0	2.0
Farmout Drillers Pty Ltd (formerly Farmout Drillers N.L.)	NSW	100	100	-	-	0.9	0.9
				1,371.5	1,340.0	110.6	190.4

*Entities audited by overseas KPMG member firms.

19 Investments in Controlled Entities continued

Notes:

(i) **Disposals of controlled entities**

Entities disposed of by voluntary liquidation:

	Net tangible assets at date of liquidation $
Alliance Petroleum International Ltd	107,409
Alliance Resources Pty Ltd	8,127
Comserv (No 37) Pty Ltd	8,823,845
Flinders Petroleum N.L.	52,749,324
Santos Petroleum (Asia Pacific) Ltd	2
Santos Petroleum (International) Ltd	–

(ii) **Place of incorporation**

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

(iii) **Investment eliminated by rounding**

Investment in Santos Resources Pty Ltd of $2 (1994 – $2) has been eliminated by rounding.

20 Associated Company

Information on investment in an associated company for both the economic entity and chief entity is as follows:

Name of associated company	Country where business carried on	Principal activity	Balance date	Beneficial interest in ordinary shares at 31 December		Ordinary share book value at 31 December (a)		Contribution to Consolidated Profit (b)	
				1995 %	1994 %	**1995 $million**	1994 $million	**1995 $million**	1994 $million
QCT Resources Limited	Australia	Coal mining	30 June	**32.0**	28.4	**292.6**	238.8	**19.0**	15.1

	1995 $million	1994 $million
Supplementary equity accounting information:		
Share of associated company's operating profit after income tax and abnormal items	**15.3**	6.7
Deduct amortisation of excess of fair values of net assets of associated company over its book values of net assets	**(4.4)**	(3.3)
Deduct ordinary share dividend income from associated company	**(16.4)**	(6.0)
Equity adjustment to operating profit after income tax	**(5.5)**	(2.6)
Deduct share of post acquisition decrease in associated company's retained profits at the beginning of the year	**(2.6)**	–
Total of post-acquisition increase/(decrease) in associated company's retained profits at the end of the year	**(8.1)**	(2.6)
Investment in ordinary shares in associated company as included in the consolidated accounts	**292.6**	238.8
Aggregate carrying value of investment in associated company as determined under the equity method of accounting	**284.5**	236.2

(a) In addition to ordinary shares, the economic entity and chief entity hold an investment of $36.3 million (1994 – $36.3 million) in non-maturing subordinated unsecured convertible notes issued by QCT Resources Limited.

(b) Represents dividends received of $16.4 million (1994 – $12.4 million) on holdings of ordinary shares and interest received or receivable after tax of $2.6 million (1994 – $2.7 million) on holdings of non-maturing subordinated unsecured convertible notes.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

21 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 %
Bonaparte Basin	Oil and gas exploration	55
Canning Basin	Oil and gas exploration and production	39
Carnarvon Basin	Oil and gas exploration	28
Cooper Basin Downstream	Liquid hydrocarbon transportation and processing	52
Cooper Basin Unit		
- South Australia	Oil and gas production	54
- Queensland	Oil and gas exploration and production	59
Cooper/Eromanga Basins Block		
- South Australia	Oil and gas exploration and production	57
- Queensland, ATP259P	Oil and gas exploration and production	58
- Other Eromanga	Oil and gas exploration and production	33
Denison Trough	Oil and gas exploration and production	50
Gulf Coast - USA	Oil and gas exploration and production	37
Indonesia	Oil and gas exploration and production	3
Jackson Moonie Pipeline	Oil transportation	83
Malaysia (PM14)	Oil and gas exploration	15
Mereenie	Oil and gas production	65
Mereenie Pipeline	Oil transportation	65
Moonie Oil Fields	Oil and gas exploration and production	51
Otway Basin	Oil and gas exploration	55
Palm Valley	Gas production	37
Papua New Guinea	Oil and gas exploration	20
Roma Gas Fields	Oil and gas exploration and production	85
Surat	Oil and gas exploration and production	40
Timor Gap	Oil and gas exploration	21
Timor Sea	Oil and gas exploration and production	25
United Kingdom	Oil and gas exploration and production	13

(b) The sales revenue received from the economic entity's share of petroleum products produced by the joint ventures was $671.6 million (1994 - $640.0 million) and the contribution of joint venture business undertakings to operating profit before interest and tax of the economic entity was $290.2 million (1994 - $260.8 million).

21 Interests in Joint Ventures continued

(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:

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Current assets				
Cash	11.4	20.0	2.4	8.3
Receivables	22.9	16.6	2.5	1.7
Inventories	16.2	21.8	7.9	10.8
Total current assets	50.5	58.4	12.8	20.8
Non-current assets				
Buildings, plant and equipment	767.4	818.4	464.0	493.2
Exploration, evaluation and development expenditure	1,355.5	1,315.1	554.2	527.9
Receivables	18.4	19.7	12.9	13.8
Total non-current assets	2,141.3	2,153.2	1,031.1	1,034.9
Total assets	2,191.8	2,211.6	1,043.9	1,055.7
Current liabilities				
Creditors and borrowings	48.6	43.6	44.6	37.3
Non-current liabilities				
Provisions	56.3	52.4	25.2	23.8
Total liabilities	104.9	96.0	69.8	61.1
Net investments in joint ventures	2,086.9	2,115.6	974.1	994.6
(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures is:				
Capital expenditure commitments	71.0	13.5	35.2	3.7
Minimum exploration commitments	83.1	82.7	25.2	37.0
Contingent liabilities	7.6	7.1	6.2	5.7

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

22 Notes to Statements of Cash Flows

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	110.6	190.4	100.2	182.7
Add/(deduct) non-cash items:				
Depreciation, depletion and amortisation of property, plant and equipment	195.4	198.2	82.3	84.3
Amortisation of goodwill	9.0	9.0	-	-
Decrease in income taxes payable	(11.4)	(10.6)	(5.6)	(9.8)
Net increase in deferred taxes payable and future income tax benefits	47.4	63.8	22.7	4.5
Increase/(decrease) in provisions	8.1	(11.9)	2.5	(10.4)
Interest capitalised	(9.2)	-	(3.1)	-
Foreign currency exchange losses/(gains)	16.0	(66.3)	-	-
Write-down of exploration expenditure	23.9	20.0	-	3.8
Write-down of investments in controlled entities	-	-	14.4	27.3
Deduct items classified as investing activities:				
Profit on sale of non-current assets	-	-	(0.2)	(0.1)
Compensation for release of contractual rights	-	(10.7)	-	(8.1)
Net cash provided by operating activities before change in assets or liabilities	389.8	381.9	213.2	274.2
Add/(deduct) change in assets or liabilities:				
Decrease/(increase) in receivables	(17.1)	(25.2)	(3.7)	1.7
Decrease/(increase) in inventories	(9.8)	(2.7)	(5.6)	0.5
Decrease/(increase) in other assets	-	-	85.6	(85.6)
Increase/(decrease) in creditors	6.1	9.5	6.7	(5.0)
Net cash provided by operating activities	369.0	363.5	296.2	185.8

23 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 — appointed 31 October 1995
CLARK Neil Rex — retired during the year
GERLACH Stephen
KENNEDY James Joseph
MASON Richard Chapman Hope
McARDLE John Walter — appointed 5 September 1995
SLOAN Judith
STRAUSS Robert
WEBBER Ian Ernest

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

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

Note 2 as to dividends received from wholly-owned controlled entities

Note 3 as to interest paid to wholly-owned controlled entities

Note 8 as to amounts owing by wholly-owned controlled entities

Note 14 as to amounts payable to wholly-owned controlled entities

Note 13 as to non-executive directors' retirement benefits

Note 19 as to investments in wholly-owned controlled entities

Note 20 as to investments in associated company and interest, dividends and other payments received from associated company

Note 24 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. The amount provided for the year was $227,115 (1994 – $261,703).

(ii) Included in other loans is an amount of $506,000 (1994 – $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 (1994 – $32,890).

(iii) The aggregate number of shares acquired from Santos Ltd by Directors of Santos Ltd and their director-related entities was Nil (1994 comparative – 1,879). No shares were disposed of to Santos Ltd and no share options were acquired or disposed of.

(iv) The aggregate number of shares and share 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 382,887 fully paid ordinary shares (1994 – 203,134) and 930,000 Executive Share Plan Shares paid to 1 cent (1994 – 610,000).

	Santos Ltd	
	1995 $million	1994 $million
(v) All amounts owing by or to wholly-owned controlled entities are for loans made on interest free terms for an indefinite period with the exception of:		
Amounts owing to wholly-owned controlled entities	**669.4**	941.7

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

(vi) Mr I D F Callinan QC a director of associated company QCT Resources Limited has been engaged on normal commercial terms and conditions by the South West Queensland gas producers, of which Santos Ltd, Santos Petroleum Pty Ltd and Vamgas Pty Ltd are participants, to conduct an arbitration on their behalf.

(vii) The aggregate amount of each different type of transaction with Directors and their director-related entities were as follows:

	Consolidated		Santos Ltd	
	1995 $000	1994 $000	1995 $000	1994 $000
Provision of Management Services	–	70	–	–
Provision of Legal Services (net of reimbursement of external costs)	**80**	7	**44**	–

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

24 Executives' and Directors' Remuneration

	Consolidated		Santos Ltd	
	1995 $000	1994 $000	1995 $000	1994 $000
Executives				
Amounts received from Santos Ltd or its controlled entities by executive officers domiciled in Australia whose income is $100,000 or greater	8,656	5,097	8,656	5,097

Number of executive officers whose remuneration was within the following bands:

$000	No.	No.	No.	No.
100-110	2	7	2	7
110-120	6	3	6	3
120-130	9	3	9	3
130-140	9	5	9	5
140-150	5	1	5	1
150-160	3	-	3	-
160-170	3	2	3	2
170-180	1	2	1	2
200-210	-	1	-	1
210-220	-	1	-	1
220-230	2	-	2	-
230-240	1	-	1	-
250-260	1	1	1	1
260-270	1	-	1	-
270-280	-	1	-	1
300-310	1	-	1	-
330-340	1	-	1	-
340-350	-	1	-	1
370-380	1	-	1	-
440-450	1	-	1	-
830-840	-	1	-	1
910-920	1	-	1	-

24 Executives' and Directors' Remuneration continued

	Consolidated		Santos Ltd	
	1995 $000	1994 $000	1995 $000	1994 $000
Directors				
Amounts received or due and receivable from Santos Ltd and its controlled entities by the Directors of Santos Ltd and Directors of each of its controlled entities	**1,541**	1,326	**1,541**	1,210

Number of Directors whose remuneration was within the following bands:

$000	No.	No.
0- 10	**1**	-
10- 20	**-**	2
20- 30	**-**	1
30- 40	**2**	4
40- 50	**3**	1
50- 60	**2**	1
80- 90	**-**	1
140-150	**2**	-
830-840	**-**	1
910-920	**1**	-

Pursuant to an ASC Class Order dated 27 June 1995, relief was granted from complying with Accounting Standard AASB1017 paragraphs 11 to 18. As a result, all payments which do not require shareholder approval which were made to superannuation plans in connection with the retirement of the Directors and the Executive Directors of Santos Ltd and entities in the Economic Entity are included in the above bands for Executive Directors' and Directors' Remuneration.

	1995 $000	1994 $000	1995 $000	1994 $000
Superannuation and retirement benefits				
Superannuation contributions provided and retirement benefits paid in respect of Directors, being amounts that have been previously approved by shareholders in a general meeting. The Directors believe that the provision of full particulars would be unreasonable	**143**	475	**143**	475

25 Remuneration of Auditors

	1995 $million	1994 $million	1995 $million	1994 $million
Amounts received or due and receivable by the auditors of Santos Ltd for:				
– audit services	**0.4**	0.4	**0.2**	0.2
– other services	**0.5**	0.4	**0.3**	0.2
	0.9	0.8	**0.5**	0.4
Amounts received or due and receivable by auditors other than the auditors of Santos Ltd for:				
– audit services	**0.1**	0.1	**-**	-
– other services	**0.2**	0.1	**-**	-
	0.3	0.2	**-**	-

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

26 Segment Reporting

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

27 Commitments for Expenditure

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	1995 $million	1994 $million
(a) Capital commitments				
Capital expenditure contracted for at balance date for which no amounts have been provided in the accounts:				
Due not later than one year	**67.4**	13.5	**33.2**	3.7
Due later than one year but not later than two years	**3.6**	-	**2.0**	-
	71.0	13.5	**35.2**	3.7
(b) Minimum exploration commitments				
Minimum exploration commitments for which no amounts have been provided in the accounts or capital commitments:				
Due not later than one year	**19.9**	16.1	**5.1**	5.2
Due later than one year but not later than two years	**41.0**	21.3	**13.7**	11.7
Due later than two years but not later than five years	**22.2**	45.3	**6.4**	20.1
	83.1	82.7	**25.2**	37.0

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

The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.

	Consolidated 1995 $million	Consolidated 1994 $million	Santos Ltd 1995 $million	Santos Ltd 1994 $million
(c) Lease commitments				
Finance leases:				
Due not later than one year	**1.8**	2.4	**0.3**	0.5
Due later than one year but not later than two years	**1.5**	2.7	**0.1**	0.7
Due later than two years but not later than five years	**4.5**	14.2	**0.2**	-
Due later than five years	**14.6**	-	**-**	-
Total commitments under finance leases	**22.4**	19.3	**0.6**	1.2
Less future finance charges	**(6.8)**	(2.8)	**(0.1)**	(0.1)
Lease liabilities	**15.6**	16.5	**0.5**	1.1
Operating leases:				
Due not later than one year	**5.8**	5.5	**4.2**	3.2
Due later than one year but not later than two years	**4.2**	4.9	**3.5**	2.7
Due later than two years but not later than five years	**7.6**	9.3	**6.7**	4.6
Due later than five years	**4.4**	0.1	**4.4**	-
Total commitments under operating leases	**22.0**	19.8	**18.8**	10.5

28 Superannuation Commitments

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

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

	Santos Petroleum Management Superannuation Fund and Santos Retirement Plan	Santos Superannuation Fund
Type of benefit	Cash accumulation	Defined benefits and cash accumulation
Basis of contributions	Percentage of member's wage contributed by member and employer	Percentage of member's salary contributed by member and employer. The employer's percentage reflects the amount to provide an accumulation and the amount to provide the defined benefit as recommended by the Actuary
Employer's legal obligation to contribute	Enforceable subject to right to cease contributions on written notice to the Trustee	Enforceable subject to right to cease contributions on written notice to the Trustee
Last actuarial assessment		
– date	Not applicable	1 January 1994
– name of valuer and qualifications	Not applicable	G Robinson, BSc, FIAA

	Consolidated		Santos Ltd	
	as at 30 June 1995 $million	as at 1 January 1994 $million	**as at 30 June 1995 $million**	as at 1 January 1994 $million
The Santos Superannuation Fund has employee accrued benefits and assets as follows:				
Present value of employees' accrued benefits	*	50.2	*	50.2
Net market value of net assets held by the Fund to meet future benefit payments	**61.6**	60.8	**61.6**	60.8
Excess of assets held to meet future benefit payments	*	10.6	*	10.6

Vested benefits at 1 January 1995 are $39.2 million. An amount of $0.9 million was charged to operating profit in 1995, representing the amortisation of the previously recorded net surplus of the market value of net assets over the present value of employees' accrued benefits (1994 – credit $3.4 million).

*The last actuarial review of the Santos Superannuation Fund was at 1 January 1994. Upon recommendation of the actuary, the employer contribution to the defined benefits and 3% supplementary accounts were suspended. Suspension of contributions will be reassessed after the next actuarial review, due on 1 January 1997, is completed. The last audited financial statements available are as at 30 June 1995.

Notes to and forming part of the financial statements continued

for the year ended 31 December 1995

29 Contingent Liabilities

	Consolidated		Santos Ltd	
	1995 $million	1994 $million	**1995 $million**	1994 $million
Contingent liabilities arising in respect of other persons:				
(i) Performance guarantees	**6.9**	5.9	**6.1**	5.2
(ii) Employee service agreements	**2.2**	1.5	**2.2**	1.5
(iii) Claims have been lodged including the following:				
(a) claims for breach of contract and public liability	**2.7**	3.2	**1.5**	1.8
(b) miscellaneous claims	**0.3**	-	**-**	-
	12.1	10.6	**9.8**	8.5

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 $730,000 on a consolidated basis.

In June 1991, the Supreme Court of South Australia made an order concerning the validity of an adjustment to the participation factors in the Cooper Basin Joint Venture, as at 1 January 1987, the effect of which is that those participation factors are to be redetermined. As discussed in note 1(o), the Directors believe that the 1 January 1987 participation factors when redetermined will not vary significantly from those factors as previously calculated.

30 Economic Dependency

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

31 Derivative Financial Instruments

The economic entity uses derivative financial instruments from time to time for the purpose of hedging commodity sales price fluctuations and reducing market risks associated with changes in interest rates and foreign exchange rates. Their uses are subject to a comprehensive set of policies, procedures and limits approved by the Board of Directors. The economic entity does not trade in derivatives for speculative purposes.

The principal derivatives used are forward foreign exchange contracts, interest rate swaps and commodity swap contracts.

(a) **Forward foreign exchange contracts**

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 enters into forward foreign exchange contracts, from time to time, that oblige it to exchange specified amounts of United States dollars for Australian dollars in the future at a predetermined exchange rate.

At 31 December the economic entity did not have any significant open forward foreign exchange contracts.

(b) **Interest rate swap contracts**

The economic entity has entered into interest rate swap contracts to manage interest rate risk. Under interest rate swaps, the economic entity agrees with other parties to exchange the difference between fixed and floating rate interest amounts calculated by reference to an agreed notional principal amount. Irrespective of whether the contracts result in the entity obtaining a fixed or floating interest rate, only the net interest is received or paid under these swap contracts and recognised as a component of interest expense.

At 31 December the economic entity had open interest rate swap contracts which if closed would have resulted in a small gain.

(c) **Commodity oil price swap contracts**

The economic entity is exposed to crude oil price fluctuations through the sale of crude oil denominated in US dollars. The economic entity has entered into commodity oil price swap contracts during the year 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. The contracts are not settled by physical delivery but by paying or receiving the difference between the current market price of the product and the fixed contract price at maturity.

At 31 December 1995 the economic entity did not have any open crude oil price swap contracts.

(d) **Credit risk on derivative financial instruments**

Credit risk on the above derivative financial instruments is the potential financial loss if counterparties failed completely to perform as contracted and is limited to amounts due to the economic entity under the contracts.

Swap and forward rate contracts are subject to limits related to the credit worthiness of counterparties, which are banks or financial institutions with a Standard and Poor's rating of A or better.

Statement by Directors

1. In the opinion of the Directors of Santos Ltd:

   (a) the financial statements set out on pages 44 to 68 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 31 December 1995, and the state of affairs at 31 December 1995, of the company and the economic entity;

   (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and

   (c) at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

2. The financial statements have been made out in accordance with applicable Accounting Standards.

Dated at Adelaide this 13th day of March 1996.

Signed in accordance with a resolution of the Directors:

J. A. Uhrig

J A Uhrig
Director

N R Adler

N R Adler
Director

Santos Ltd and controlled entities

Statement by Directors

1. In the opinion of the Directors of Santos Ltd:

   (a) the financial statements set out on pages 44 to 68 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 31 December 1995, and the state of affairs at 31 December 1995, of the company and the economic entity;

   (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and

   (c) at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

2. The financial statements have been made out in accordance with applicable Accounting Standards.

Dated at Adelaide this 13th day of March 1996.

Signed in accordance with a resolution of the Directors:

J A Uhrig
Director

N R Adler
Director

Stock Exchange and Shareholder Information continued

B Class Shares: Special Rights
Article 11 set out below confers special rights to the holders of B Class shares – "Notwithstanding any other provision of these Articles upon a poll on any resolution to repeal or to amend any of the following provisions, namely, the provisions of Article 2 which define "AGL" and "AGL Subsidiary" and Articles 8, 9, 10, 11, 12, 13, 14, 74 and 98, the B Class shares shall collectively confer on the holders the right to such number of votes as shall be equal to twenty six seventy fourths of the number of votes at a poll conferred by all the other issued shares on the holders thereof and each holding of B Class shares shall confer the right to a rateable proportion of the votes thus collectively conferred."
Article 12 confers the right on AGL and its subsidiaries while they hold the whole of the issued B Class shares to appoint one person as a Director. It also confers the right to remove or replace the person it appoints as a Director.
Upon performance of the conditions of an escrow agreement between the Company and The Australian Gas Light Company, the special rights attaching to the B Class shares will expire at 5.00 p.m. on the day of the Company's Annual General Meeting to be held during 1996. Upon expiry of those rights, the B Class shares convert into, and carry the rights attaching to, ordinary shares of the Company.

Share Register See listing opposite.

Stock Exchange Listings The Company's issued ordinary shares are listed on The Australian Stock Exchange Limited and the Home Branch is Adelaide. The Company's shares are also listed on the New Zealand Stock Exchange.
American Depository Receipts (ADR) issued by Morgan Guaranty against Santos Ltd shares held are sponsored and quoted on NASDAQ (National Association of Securities Dealers Inc) in USA under the symbol STOSY. Each ADR unit represents four ordinary Santos Ltd shares.

Directory

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Glossary

appraisal well	an exploration well drilled for the purpose of identifying extensions to known fields or discoveries.
ATP	Authority To Prospect.
barrel/bbl	the standard unit of measurement for all production and sales. One barrel equals 159 litres or 35 imperial gallons.
boe	barrels of oil equivalent. The factors used by Santos to convert volume of different hydrocarbon production to barrels of oil equivalent are printed below.
bopd	barrels of oil per day.
the company	Santos Ltd and its subsidiaries.
development well	a well drilled to enable production from a known oil or gas reservoir.
EP	Exploration Permit.
exploration well	a wildcat well or appraisal well drilled to find new reserves of oil or gas.
extended production test	production through a temporary facility to determine performance under producing conditions.
farm-out (farm-in)	an agreement which provides for a party to acquire an interest in a permit by either fully or partially funding an agreed program of work to be conducted in the permit.
fracture stimulation	a technique used to improve hydrocarbon recovery from reserves with poor permeability or porosity. Fracture stimulation involves the fracturing of the reservoir rock to encourage the flow of hydrocarbons.
geo-scientist	scientist who gathers and interprets data pertaining to the subsurface of the earth (eg geologist, geophysicist).
hydrocarbons	solid, liquid or gas compounds of the elements hydrogen and carbon.
LPG	liquefied petroleum gas.
mmboe	million barrels of oil equivalent.
NASDAQ	National Association of Securities Dealers Inc.
PEL	Petroleum Exploration Licence.
PEP	Petroleum Exploration Permit.
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 = 0.9478 BTU.
reserves	proved and probable reserves as defined by the Australian Stock Exchange Ltd (ASX). Proved reserves are those reserves that, to a high degree of certainty, are recoverable, at commercial rates, under presently anticipated production methods, operating conditions, prices and costs. Probable reserves are defined as those reserves that may be reasonably assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves. Reserves reported are based on, and accurately reflect, information compiled by full-time employees of the company who have the requisite qualifications and experience prescribed by the ASX Listing Rules.
reservoir	a rock formation in which hydrocarbons are present.
roughneck	a labourer who works on the floor of a drilling rig.
seismic survey	a survey used to gain an understanding of rock formations beneath the earth's surface. By conducting a seismic survey, oil and gas explorers are able to obtain indications of whether the rock formations would be capable of trapping oil and gas and the depth of formations. Three-dimensional seismic is a relatively new technique which enables the compilation of three-dimensional images of rock formation as opposed to the two-dimensional image provided by conventional seismic.
side track well	drilling of a new section of wellbore from a pre-existing well.
slim hole drilling	the drilling of a well where 90% or more of its length has an open hole diameter of 180mm or less.
spud	to begin drilling, to start the hole.
WA-P	Western Australian Permit.
wellbore	the hole in the formation made by the drilling tool or drill-bit.
wildcat well	an exploration well drilled to identify new accumulations of oil or gas.
ZOCA	Zone of Co-operation Area.

boe Conversion Factors

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

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