



# SANTOS

1996 ANNUAL REPORT

## **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 USA are sponsored and are quoted on the NASDAQ system in the USA.

### **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 Thursday, 15 May 1997 at 11.00 a.m.

### **FINAL DIVIDEND**

The 1996 final ordinary dividend will be paid on 2 May 1997 to shareholders registered in the books of the company at the close of business on 11 April 1997, in respect of fully paid shares held at record date.

### **SHAREHOLDERS' ENQUIRIES**

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

The Secretary  
Santos Ltd  
Santos House  
Level 29  
91 King William Street  
Adelaide  
South Australia 5000

### **DIRECTORS**

J A Uhrig (Chairman)  
N R Adler (Managing Director)  
P C Barnett  
I D F Callinan (appointed  
17 December 1996)  
S Gerlach  
J W McArdle (Executive Director)  
M A O'Leary (appointed  
15 October 1996)  
J Sloan  
Robert Strauss  
I E Webber

### **SECRETARY**

M G Roberts

## **REGISTERED AND HEAD OFFICE**

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Telex AA82716

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New South Wales 2000  
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Facsimile (09) 426 3899

## **SUBSIDIARY COMPANIES**

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Facsimile (07) 3857 7089

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Texas 77063 USA  
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Facsimile (1-713) 975 3711

**United Kingdom**  
Santos Europe Limited  
Connaught House  
Alexandra Terrace  
Guildford, Surrey GU1 3DA UK  
Telephone (44-1-483) 406 000  
Facsimile (44-1-483) 300 266

**Indonesia**  
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Jakarta 12930 Indonesia  
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Facsimile (62-21) 520 4032

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

# SANTOS 1996 ANNUAL REPORT



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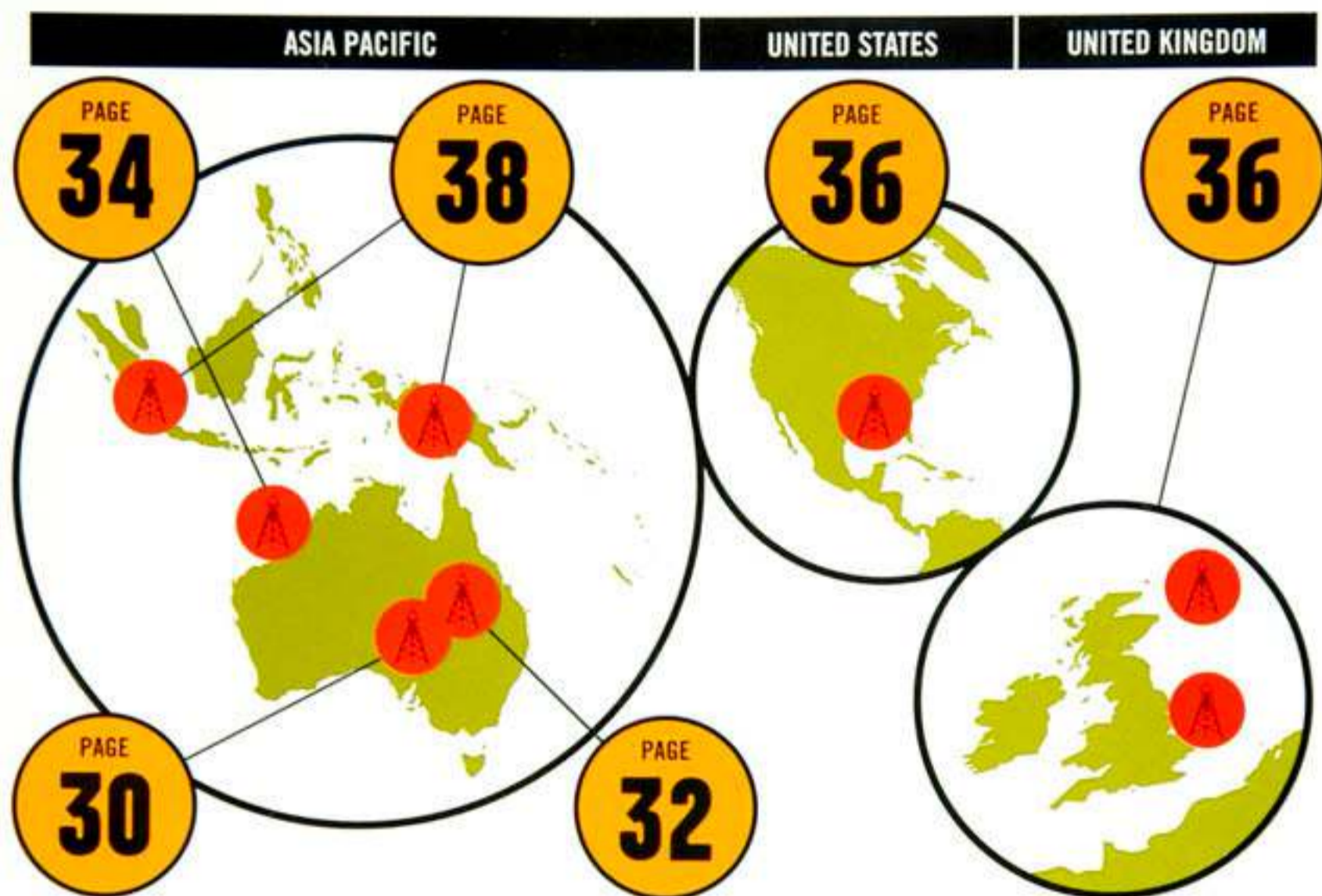
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## HIGHLIGHTS

FEB	SA Cooper Basin exploration doubled	30
MAR	Parker and Parsley Australasia acquisition	7, 34
JUL	First North West Queensland gas contract signed (MIM)	32
	Ethane sales commenced	31
	New South Australian gas contract announced (SAGASCO)	30
AUG	Development of Stag oil field (offshore Australia) announced	7, 34
	Second new South Australian gas contract announced (ETSA)	30
SEP	Acquisition of majority of MIM oil and gas assets announced	7, 38
OCT	Development of Elang oil field (offshore Australia) announced	7, 34
NOV	First Santos gas production in Western Australia (East Spar)	34
DEC	Second North West Queensland gas contract signed (WMC)	32

# COMPANY PROFILE



**SANTOS IS A WORLDSCALE SPECIALIST OIL AND GAS COMPANY WITH ASSETS OF OVER \$3 BILLION AND ANNUAL PRODUCTION OF NEARLY 40 MILLION BARRELS OF OIL EQUIVALENT.**

Its main focus is exploration and production of petroleum products, principally oil and gas, for downstream customers.

On current market capitalisation it is one of the world's top 20 listed specialist oil and gas exploration and production companies and one of the top five listed in the Asia Pacific region.

Santos and its joint venture partners produce one-third of the natural gas consumed in Australia, as well as crude oil, condensate and LPG for Australian and Asian markets. Santos is also

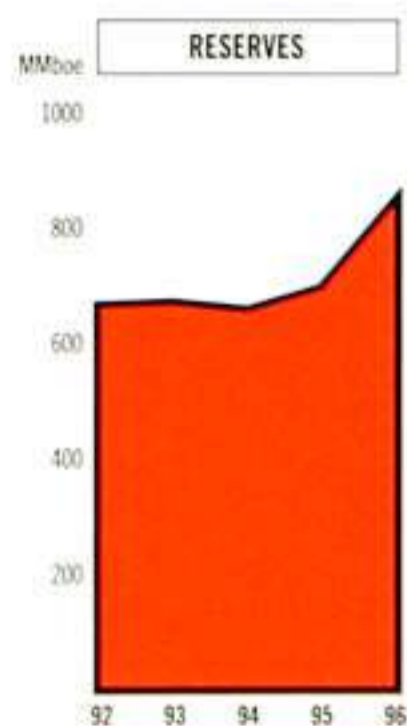
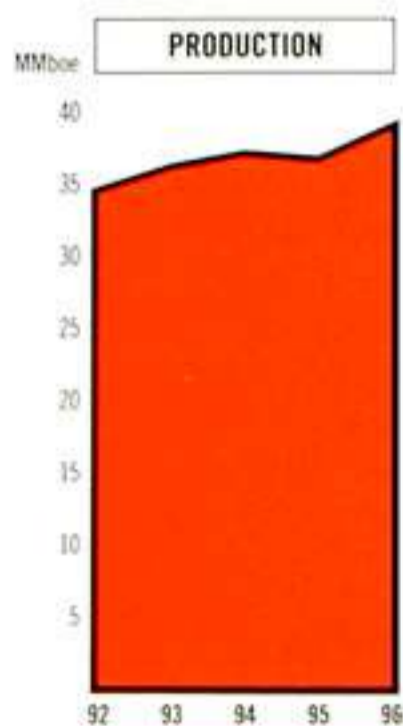
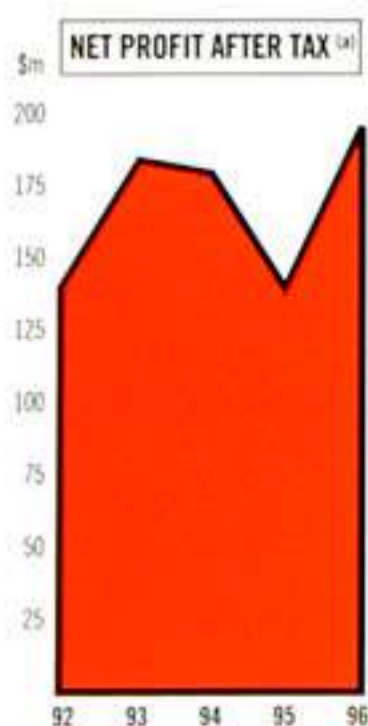
involved in exploration and production in the United States, the United Kingdom, Indonesia and Papua New Guinea.

Santos is currently undergoing a major expansion phase involving a range of development projects, increased business opportunities and the largest exploration program in the company's history.

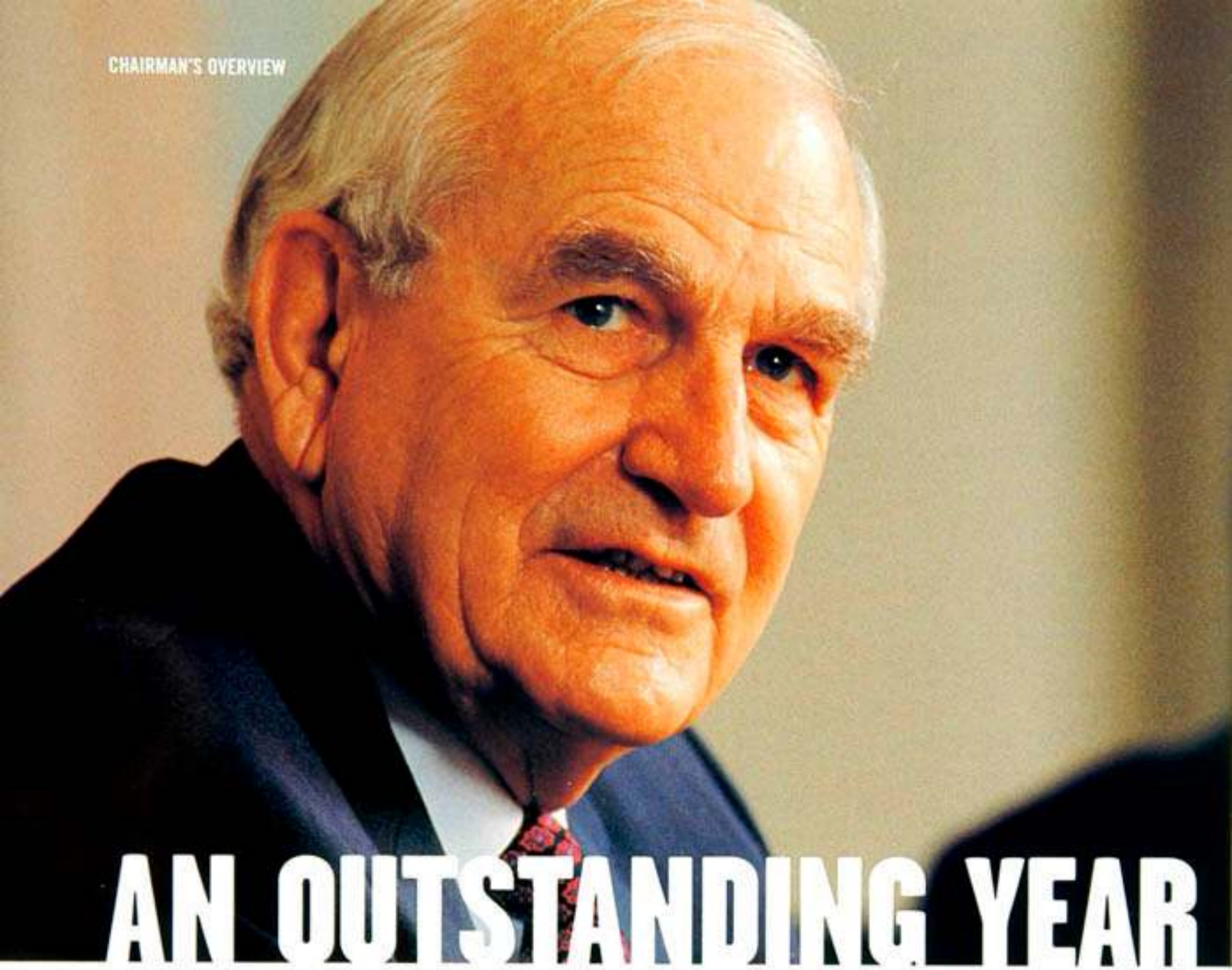
Through its shareholding in coal producer QCT Resources Ltd, Santos also has an interest in the Bowen Basin, one of the world's premier coal producing regions.

# PERFORMANCE HIGHLIGHTS

KEY RESULTS		
	1996	1995
Earnings before interest, tax, and DD & A	\$566.0m	\$475.5m
Earnings before interest and tax	\$374.4m	\$280.1m
Profit after tax before abnormal items	\$195.9m	\$139.9m
Profit attributable to shareholders after tax	\$195.9m	\$110.6m
Cash flow from operations	\$413.1m	\$369.0m
Exploration and development expenditure	\$377.2m	\$181.9m
Earnings per share before abnormal items	36.5 cents	26.0 cents
Dividends per share (fully franked)	24.0 cents	23.0 cents
Total shareholders' equity	\$1,586.3m	\$1,519.3m
Return on shareholders' equity	12.3%	9.2%
Net debt/shareholders' equity	59.2%	42.3%
Net interest cover (times)	8.8	7.2
Production volumes (million boe)	39.2	36.8
Reserves (million boe)	860	703
Average reserve life (years)	22	19
Employees (average)	1,500	1,470



(a) Before abnormal items



# AN OUTSTANDING YEAR

**1996 was an outstanding year for Santos. Profit attributable to shareholders increased by 77.1% to \$195.9 million.**

Production increased by 6.5% to a record 39.2 million barrels of oil equivalent (boe). Reserves increased by 22.3% to a record 860 million boe. Cash flow remained strong.

The company increased spending on exploration, undertook two major acquisitions, commenced two major oil development projects, commenced gas sales contracts in three Australian states and signed contracts for the sale of large volumes of gas. The company strengthened its interests in Queensland, Western Australia, Papua New Guinea and Indonesia. It is also positioned to upgrade our major oil exploration opportunities. Altogether it was an outstanding year.

1997 will also be an eventful year as the company brings projects announced in 1996 closer to fruition and continues a high level of exploration activity.

Many of these projects are likely to be completed in 1998, when they will begin to be reflected in the company's financial results.

Santos' current expansion program is ambitious and involves considerable expenditure. The company's financial strength facilitates this. The world's two major credit rating agencies have recently confirmed the company's credit rating.

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## SHAREHOLDER RETURNS

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Santos, by comparison with other resource companies, pays a relatively high fully franked dividend. The interim 1996 dividend was 11 cents per share. The Directors have declared a final ordinary dividend of 13 cents per share, fully franked. This dividend will be paid on 2 May 1997 to those shareholders registered in the books of the company on 11 April 1997, in respect of fully paid shares held at record date.

The final dividend brings the company's total 1996 dividend to 24 cents per share. The declared dividend is equivalent to a distribution of \$129.0 million.

In recent years, Santos has performed very well against the Australian stock market. In 1996 the total return (capital appreciation plus dividends) to shareholders outperformed the All Resources Accumulation Index by 41%. Over the last three and five years it has outperformed the Index by 36% and 34% respectively.

The Board's aim is to provide superior returns to Santos' shareholders over the long term. The past year has been a major step towards achieving this objective.

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### BOARD OF DIRECTORS

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Issues of corporate governance are receiving increasing attention, both in Australia and other countries. The Santos Board places a high priority on having appropriate corporate governance arrangements in place. A detailed report on our policies and standards commences on page 42.

During the year we farewelled two Directors and welcomed two new Directors to the Board. Mr Richard Mason retired from the Board after 10 years service and Mr Jim Kennedy left the Board after eight years service. I would like to acknowledge their respective contributions.

We welcomed Mr Michael O'Leary and Mr Ian Callinan QC. Michael O'Leary is a director of CRA Limited, RTZ Corporation PLC and a number of other companies, primarily in the resources sector. Michael's long association with the resources industry in Western Australia will be particularly beneficial as Santos expands its interests in that state.

Ian Callinan is a barrister, former President of the Queensland and Australian Bar Associations and a director of QCT Resources Ltd. His extensive knowledge of the gas industry and knowledge of the Queensland resources industry will also be particularly beneficial.

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### OCCUPATIONAL HEALTH AND SAFETY

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Occupational health and safety is a matter of particular importance for the Board. Santos is committed to providing a safe working environment for all our employees. During the year the number of lost time injuries increased slightly from seven to 10, but the company maintains a good safety record. Our priority is to ensure that all Santos workplaces are safe for all employees.

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### ENVIRONMENT

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The Board takes its environmental responsibilities very seriously. The Environmental Committee of the Board regularly reviews the company's environmental policies and management. Santos' environmental practices are further discussed on page 26 of this Report.

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### SANTOS' NATIONAL CONTRIBUTION

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As an Australian company, the Board is proud of the broader contribution which Santos makes to Australia. The most obvious aspects of this include employment, taxes and royalties paid, expenditure on locally produced goods and services, and exports.

However, the role of natural gas in replacing imports is another aspect of the company's national contribution which is less well known. During 1996 Santos commenced ethane sales to ICI and signed contracts to supply natural gas for the proposed WMC Phosphate Hill fertiliser project in Queensland. These projects are estimated to reduce Australian imports by approximately \$330 million per annum. This is only possible because Santos produces gas at world competitive prices.

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### CONCLUSION

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As noted, 1996 has been a record year for Santos. 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 support of the company's 57,000 shareholders. The outlook for Santos for the rest of the decade is encouraging, particularly in 1998 and beyond.

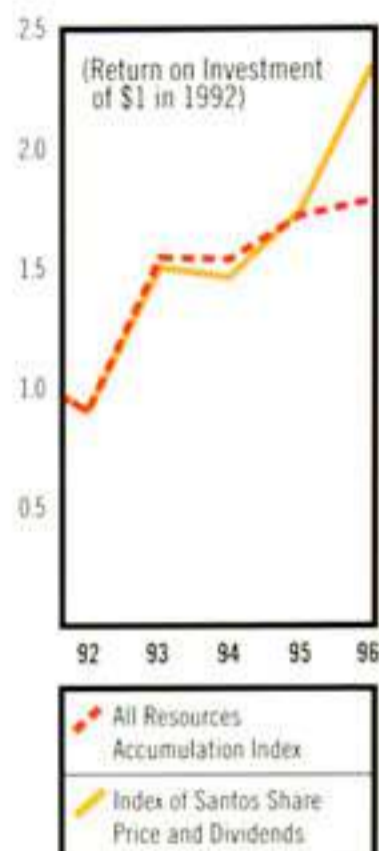


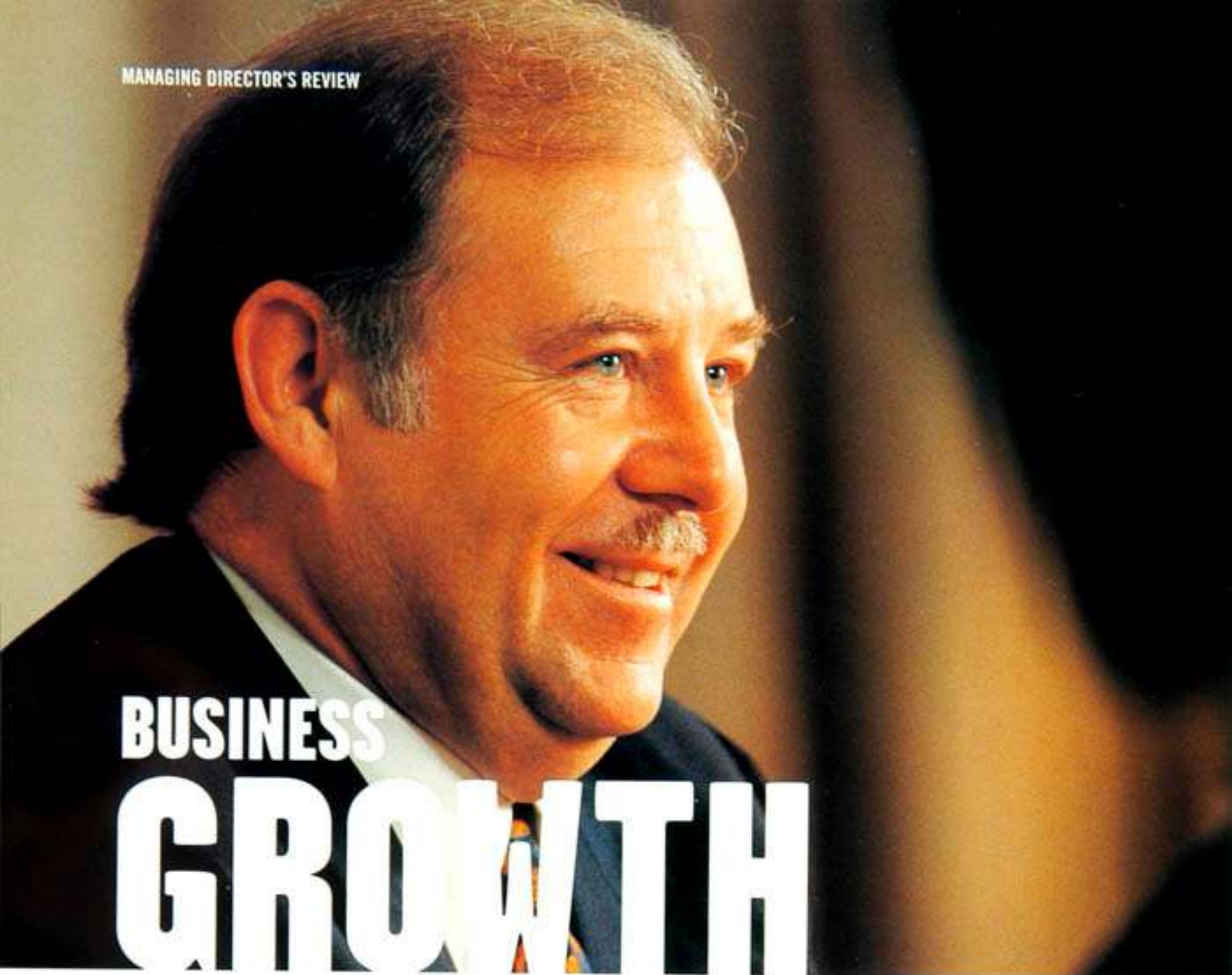
JA Uhrig **Chairman**

12 March 1997

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### SHAREHOLDER RETURNS





# BUSINESS GROWTH

During 1996 Santos came a long way towards achieving its strategic objectives. We achieved a very good financial result. Our growth program for the next five years is firmly in place. We also have an expanded range of opportunities for the future.

## GAS CONTRACTS UP 23%

During the year 675 petajoules (PJ) gross (400 PJ Santos' interest) of gas was contracted in Santos' Australian acreage, an increase of 23%. Most of this growth occurred in Queensland and South Australia. Gas prices applying in the contracts signed maintained existing price levels.

These contracts contribute towards maximising the value of the company's core acreage located in the Cooper Basin.

## SUCCESSFUL EXPLORATION

Exploration spending increased by almost 40% during the year. Santos has doubled exploration in the South Australian sector of the Cooper Basin and exploration is also being increased in Queensland and offshore.

In recent years, Santos' exploration program has been very successful. This continued in 1996 with an exploration success rate of 57%. Total reserves increased to a record 860 million boe at the end of the year.

Reserves added during the year were equivalent to five times current production levels. This compares favourably with international benchmarks.

Total reserves now represent almost 22 years production, up from 19 years in 1995.

Finding costs during the year averaged \$0.95 per boe, with a worldclass five-year average of \$1.61 per boe<sup>(a)</sup>.



## OIL FIELD DEVELOPMENTS

Santos announced development approvals for the Stag and Elang oil fields on the North West Shelf. Santos' oil production has been declining in recent years. This will be reversed in 1998 when these fields come into production and production also commences from the Banff and Pierce oil fields in the United Kingdom and the South East Gobe field in Papua New Guinea.

The Stag field in particular is the first significant offshore field in which Santos has a major interest and it represents an important new development for the company.

## ACQUISITIONS

Santos made two acquisitions during the year. These acquisitions represent cost-effective acquisition of reserves, a strategic fit with our existing businesses and future opportunities.

### Parker and Parsley Australasia

The acquisition of Parker and Parsley Australasia (PPA) for approximately \$200 million (measured on an ungeared basis) added to our existing petroleum interests in the Cooper and Surat Basins and broadened our interests offshore Western Australia and in Indonesia.

Early indicators are that the acquisition has been very successful. At the time of acquisition Santos estimated PPA's reserves as being 41 million boe at the end of 1995. They are now estimated to have been 48 million boe at this date. The acquisition cost averaged \$4.17 per boe. Expected cost savings have also been realised.

At the time of the acquisition, the Australian Competition and Consumer Commission (ACCC) raised concerns about a possible breach of the Trade Practices Act. The company's advice was that there was no breach and the ACCC has subsequently advised that it will take no action in respect of this acquisition.

### MIM Petroleum

Santos also announced its intention to acquire the major petroleum interests of MIM for \$45.1 million. This acquisition was settled early in 1997. It provides expanded opportunities in Papua New Guinea, which are discussed later in this report. The average cost of reserves acquired (which will be incorporated in 1997) was \$2.95 per boe.

These developments all lay the basis for future growth in both oil and gas production.

## 1996 OUTCOME AGAINST 1995 OUTLOOK

1996 earnings significantly exceed 1995 levels.

The planned exploration program was 90 wells and 91 wells were drilled.

Development decisions were made on both the Stag and Elang oil fields as planned, with production expected to commence in 1998, slightly later than expected last year.

The Undan gas/condensate field was further appraised as planned.

Two horizontal wells were drilled onshore compared with the four planned. An increased focus was placed on air drilling.

The slim hole drilling program did not commence, but was rescheduled to begin in the first quarter of 1997.

Ethane gas sales commenced on target.

Gas sales to AGL for Sithe Energies commenced as planned.

Gas sales to South East Queensland commenced slightly later than planned, on 1 January 1997.

## INCREASED EXPLORATION AND DEVELOPMENT

The company's existing growth plans require significant capital expenditure.

Total development spending in 1995 was \$94.0 million. In 1996 this increased to \$256.1 million. Additionally, the company significantly increased exploration spending. In 1995 exploration spending was \$87.9 million, increasing to \$121.1 million in 1996.

## GOOD FINANCIAL RESULTS

The company achieved good financial results in 1996 underpinned by record production and sales revenue. Net profit after tax attributable to shareholders increased by 77.1% to \$195.9 million. There were no abnormal items in 1996. This compares with a net profit after tax before abnormal items in 1995 of \$139.9 million and \$110.6 million after abnormal items. Earnings per share before abnormal items increased to 36.5 cents from 26.0 cents in 1995.

The company maintained a strong cash flow from operations, increasing by 12.0% to \$413.1 million in 1996.

## BUSINESS GROWTH

COMPANY MANAGEMENT	
<b>Managing Director</b>	Ross Adler
<b>Commercial</b>	Executive General Manager John McArdle
<b>Accounting</b>	General Manager Don Priestley
<b>Finance and Investor Relations</b>	General Manager Graeme Bethune
<b>Exploration</b>	General Manager Michael Frost
<b>Group General Counsel and Company Secretary</b>	Michael Roberts
<b>Human Resources and Corporate Affairs</b>	General Manager Winnie Pelz
<b>Liquids Marketing</b>	General Manager Jeremy Lawrance
<b>Petroleum Development and Planning</b>	General Manager Peter Goode

BUSINESS UNIT MANAGEMENT	
<b>Americas and Europe</b>	President John Armstrong
<b>Offshore Australia</b>	General Manager Lloyd Taylor
<b>Queensland and Northern Territory</b>	General Manager Rod McArdle
<b>South Australia</b>	General Manager Mike Hannell Manager, Production Denis Dare
<b>South East Asia</b>	General Manager Bob Hall

### INVESTMENTS

#### QCT Resources Limited

Santos has a significant interest in Australia's premier listed coal producer QCT Resources Limited (QRL). QRL has a 29.58% interest in the Central Queensland Coal Associates (CQCA) and Gregory Joint Ventures, and 100% of the South Blackwater mines. During the year QRL purchased additional 1.80% interests in the CQCA and Gregory Joint Ventures from Pancontinental Mining Limited. QRL produces coking coal, which is sold principally to integrated steel mills around the world for use in steelmaking, and thermal coal sold to electricity utilities for power generation and to other industrial users.

In 1996 QRL's share of coal shipments from CQCA and Gregory Joint Ventures, and South Blackwater was 11.9 million tonnes. QRL's coal shipments are expected to increase materially over the next few years as a result of the purchase of the additional 1.80% interests in the CQCA and Gregory Joint Ventures, and the commissioning of two new major underground development projects. The Kenmare underground mine at South Blackwater was commissioned in November 1996 and is expected to produce 2.5 million tonnes per annum (QRL share 100%) and the Crinum underground mine is being developed by the Gregory Joint Venture and is expected to be commissioned in March/April 1997. The Crinum underground mine is expected to produce 2.5 million tonnes per annum (QRL share 29.58%).

During the year Santos increased its shareholding in QRL from 32.0% to 34.9%.

#### Other Investments

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

### ORGANISATIONAL STRUCTURE

In recent years there have been significant changes in Santos' organisational structure. In 1993 the company was reorganised into four business units. Early in 1997 a fifth business unit was created – South East Asia – with General Manager Mr Bob Hall, and based around the acquisition of MIM's petroleum assets.

The business unit structure provides clear focus and accountability. Accountability for commercial results is particularly important.

With the company growing, strengthening senior management has been a particularly important priority during 1996. At the General Manager level, we have appointed Mr Michael Frost as General Manager Exploration and Ms Winnie Pelz as General Manager Human Resources and Corporate Affairs.

In addition, we have undertaken significant recruitment across most areas of the company's activities.

### COMMUNITY RELATIONSHIPS

As a leading public company, Santos recognises the importance of maintaining relationships with the broader communities in the geographic areas in which it has significant business interests.

This is largely achieved through the company's sponsorship and donations program. The program includes support for cultural, educational and environmental activities in South Australia, Queensland and the Northern Territory.

The highlights of the cultural activities Santos supported during 1996 were the temporary exhibition program at the Art Gallery of South Australia, the Australian Opera's performance of *The Magic Flute* at the Adelaide Festival, and the Arthur Streeton 1867–1943 exhibition at the Queensland Art Gallery.

Contributions to educational programs and institutions continued which benefit both current employees and potential future employees.

The Australian Minerals and Energy Environment Foundation and the Lincoln Marine Science Centre also received support from Santos for their work in environmental research and education.

## STRATEGY

In my review last year I wrote that the three major components of Santos' strategy for growth in oil and gas are exploration, technology and marketing. These remain central to our core objectives of increasing production and earnings.

They are important in maximising the value of our existing assets, primarily our interests in the Cooper, Amadeus and Surat Basins and in developing our presence in new focus areas such as offshore Australia, Papua New Guinea and Indonesia.

In implementing these strategies we have a number of distinguishing features, including:

- A focus on areas with good prospectivity and good fiscal terms.
- A disciplined, commercially focused approach to exploration.
- The ability to take advantage of emerging opportunities in Australian gas.

These will support initiatives for further growth.

## PRODUCTION AND EARNINGS OUTLOOK

1996 production was an all-time record, generating an excellent level of profit.

At this stage of the year it is expected that production volumes in 1997 will be similar to 1996 levels.

Operating profit after tax in 1997 is expected to be comparable to the 1996 result, subject to no material change in oil prices, exchange rates and interest rates.

### SANTOS GROWTH PROJECTS TIMETABLE

	Projects	Page	1997	1998	1999	2000	2001+
FIRM	SE Qld Gas	33	Δ				
	MIM Gas	32		Δ			
	Stag Oil	34		Δ			
	Banff Oil	37		Δ			
	Elang Oil	34		Δ			
	SE Gobe Oil	38		Δ			
	WMC Gas	32				Δ	
PROBABLE	Pierce Oil	37		Δ			
	Minerva	34			Δ		
	Bayu/Undan Cond.	35					Δ
POSSIBLE	NW Qld Expansion	32			Δ		
	NSW Cogeneration	30				Δ	
	NSW IPP	30				Δ	
	Bentu	39				Δ	
	Qld Peak Power	32				Δ	
	Olympic Dam Power	30				Δ	
	Bonaparte Gas	35					Δ
	Bayu/Undan Gas	34					Δ
Qld Magnesium	32					Δ	

Δ Projected or possible commencement date.

## GROWTH PROJECTS OUTLOOK

The company has before it a range of growth projects and opportunities, many of which will contribute to sales and earnings during 1998. These are shown in the table on this page.

A major objective in 1997 is to ensure that the Stag, SE Gobe, Elang, Banff and Pierce oil fields commence production as scheduled (and within budget) in 1998.

## EXPLORATION OUTLOOK

With an increased proportion of gas reserves contracted and oil development projects being brought into production, 1997 will be a major year for exploration.

Approximately 109 wells are planned to be drilled compared with 91 wells in 1996.

Field development studies will continue on the Bayu/Undan gas and condensate field with a view to achieving the earliest possible production.

## TECHNOLOGY OUTLOOK

Major developments planned during 1997 include:

- Increased use of high resolution bio-stratigraphy.
- Further development of computer-assisted exploration technology.
- A focus on drilling in the Cooper/Eromanga Basins.
- Significant 3D seismic work to be undertaken in the Cooper/Eromanga Basins.
- Two high angle wells to be drilled in 1997 in South Australia.

## MARKETING OUTLOOK

After the large number of gas contracts signed in 1996, there is expected to be less activity in 1997. However, a number of opportunities exist and further progress is expected.

Development work will continue in South West Queensland to provide gas to South East Queensland customers and MIM Holdings Limited from 1997 and 1998 respectively. The completion of the Ballera Gas Plant will represent a major component of this work.

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

*N. R. Adler*

NR Adler Managing Director  
12 March 1997



# ENHANCED FINANCIAL PERFORMANCE

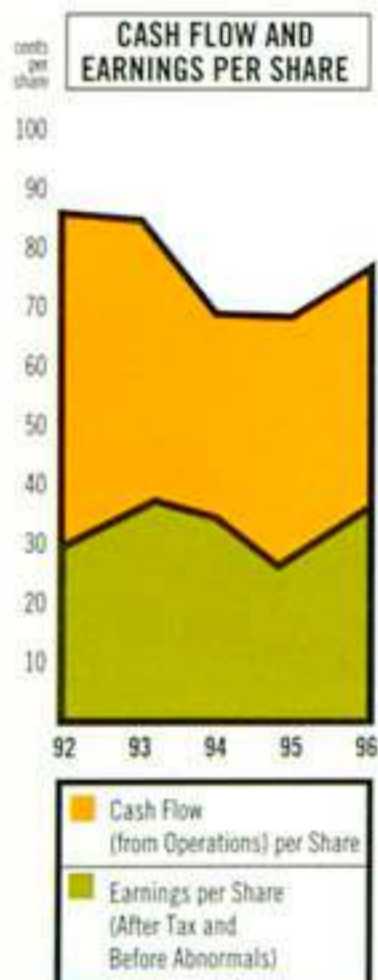
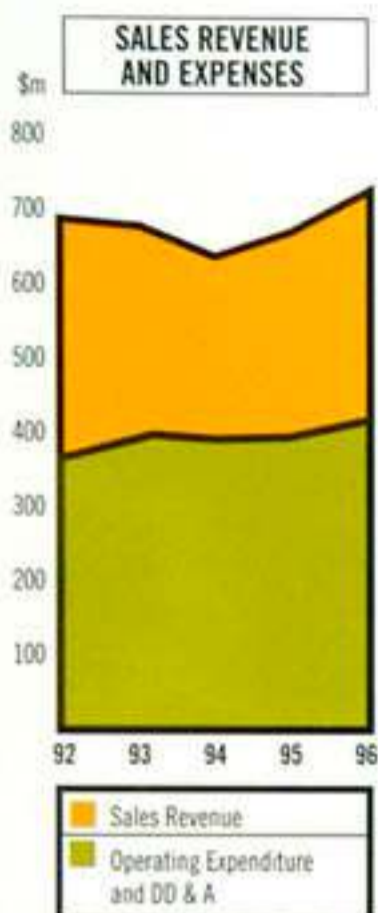


**"WHILE HIGHER OIL PRICES BENEFITED SANTOS DURING 1996, THE START OF SANTOS' NEW GROWTH PROJECTS ALSO PAID DIVIDENDS FOR SHAREHOLDERS."**

JOHN McARDLE, EXECUTIVE GENERAL MANAGER — COMMERCIAL

**FINANCE**

## ENHANCED FINANCIAL PERFORMANCE



### RECORD SALES REVENUE

Sales revenue increased by 8.6% to \$729.2 million. This resulted from record sales volumes and increased prices received for all products. Sales volumes increased by 4.1% to 38.3 million boe.

Crude oil revenues fell slightly due to natural field decline and maintenance shutdowns. This was more than offset by increased revenues for other petroleum liquids.

Gas sales volumes were a record 151 PJ, an increase of 8.5%. This increase resulted from the commencement of ethane sales in mid-1996, the first sales of gas through AGL to Sithe Energies and commencement of production from East Spar.

Average prices received for gas increased, reflecting increases under contract terms.

The strengthening of the Australian dollar against the US dollar reduced revenues by \$23.2 million below those which would have been received had the exchange rate remained at the same level as at the beginning of 1996. This was offset by gains of \$25.0 million (\$16.0 million loss)<sup>(a)</sup> on US dollar denominated debt of which \$14.1 million was realised. Santos' US dollar borrowings act as a natural hedge to its US dollar denominated sales revenue.

### OPERATING EXPENSES

Operating costs increased by 4.2% as a result of increased production. Average operating costs per boe produced fell to \$4.58 (\$4.68).

Total royalties paid increased by 27.5% to \$50.5 million due to increased sales revenue (including Parker and Parsley Group royalties).

Depreciation, depletion and amortisation of plant and equipment (DD & A) fell to \$191.6 million (\$195.4 million). Average DD & A per boe produced fell to \$4.89 (\$5.31).

The 1996 results include \$11.2 million for the writedown of exploration expenditure, predominantly in Malaysia and the Timor Sea (\$23.9 million).

### EARNINGS BEFORE INTEREST AND TAX UP BY 33.7%

Earnings before interest and tax increased by 33.7% to \$374.4 million (\$280.1 million).

The net interest expense was \$42.5 million (\$39.1 million). Interest on higher borrowings to finance the increased exploration and development programs and the Parker and Parsley Australasia acquisition resulted in the gross interest expense increasing by \$14.2 million to \$67.8 million. Capitalisation of interest of \$17.5 million on the financing of development projects and increased interest income of \$7.8 million reduced the net expense to \$42.5 million.

Operating profit before income tax increased by 37.7% to \$331.9 million (\$241.0 million). Income tax on operating profit increased by \$34.9 million to \$136.0 million due to the higher operating profit.

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### OPERATING PROFIT AFTER TAX UP BY 40%

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A net profit after tax result of \$195.9 million was achieved. This compares with a net profit of \$139.9 million before abnormal items (an increase of 40%) and \$110.6 million after abnormal items in 1995.

There were no abnormal items in 1996. Foreign exchange gains and losses arising from the company's foreign debt are treated as a normal item in this year's results and last year's results have been restated on a comparable basis.

Before taking account of foreign exchange movements, net profit after tax was \$179.9 million (\$150.1 million), an increase of 19.8%.

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### STRONG CASH FLOW MAINTAINED

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Cash flow from operations increased by 12.0% to \$413.1 million. Average operating cash flow per boe produced increased to \$10.54 (\$10.03).

Dividends of \$123.6 million (\$118.2 million) were paid to shareholders.

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### CAPITAL EXPLORATION PROJECTS

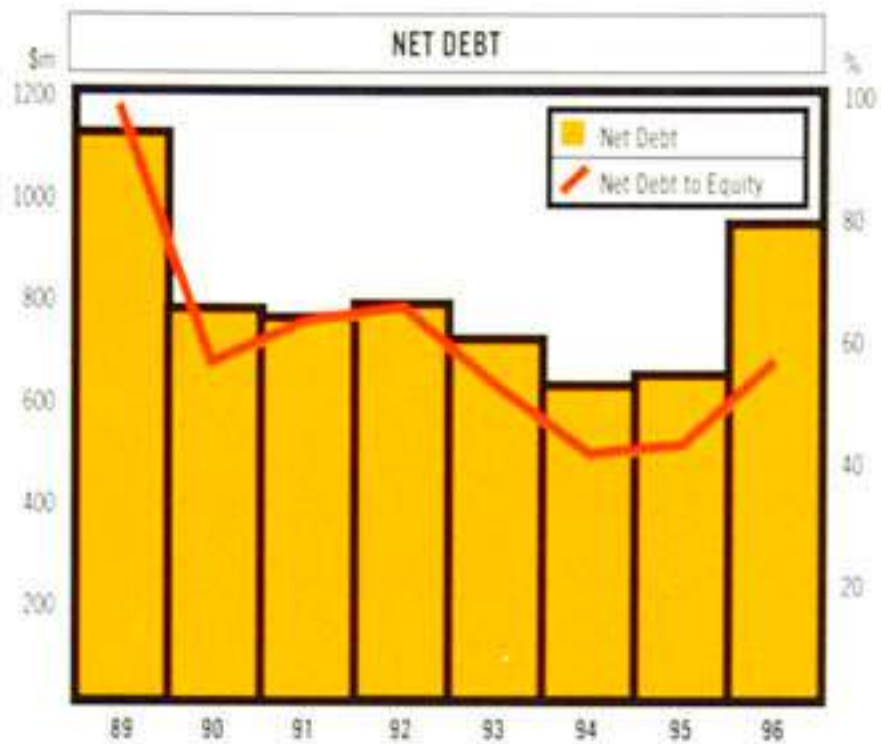
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Investment in a range of activities vital for the future growth of the company increased during the year.

Development expenditure was higher at \$256.1 million (\$94.0 million).

The major development projects which were advanced during the year are discussed elsewhere in this report.

Expenditure on exploration increased to \$121.1 million (\$87.9 million) and the net cash expenditure on asset acquisitions was \$155.6 million.



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### BORROWINGS INCREASE

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The level of net debt increased during 1996 to \$938.6 million (\$642.0 million). The net debt to equity ratio at the end of the year was 59.2% (42.3%). While the company's gearing has increased during the current year, gearing is below historic levels but a little above the company's target of 50% over time.

Interest cover during 1996 increased to 8.8 times (7.2 times).

During 1996 the company's debt facilities were reviewed and arrangements entered into with a number of major Australian and international banks.

The credit rating agency, Standard and Poor's, maintained Santos' long-term credit rating at A-. Early in 1997 Moody's Investors Service upgraded Santos' short-term rating from P3 to P2.

# SUCCESSFUL EXPLORATION AND DEVELOPMENT

“EXPLORATION IS FUNDAMENTAL TO GROWTH IN THE OIL AND GAS BUSINESS. SUCCESSFUL EXPLORATION IS A MOST EFFICIENT MEANS OF ADDING SHAREHOLDER VALUE. SANTOS IS IN A STRONG POSITION WITH SOLID CORE ACREAGE AND GREATLY ENHANCED OPPORTUNITIES IN PAPUA NEW GUINEA, INDONESIA AND OFFSHORE AUSTRALIA.”

MICHAEL FROST, GENERAL MANAGER – EXPLORATION





**"STATE-OF-THE-ART TECHNOLOGY PROVIDES MANY OPPORTUNITIES FOR SANTOS. IT IS BEING USED TO ENHANCE RECOVERY FROM EXISTING FIELDS, TO KEEP DEVELOPMENT COSTS DOWN AND TO IMPROVE OUR CHANCES OF EXPLORATION SUCCESS."**

PETER GOODE, GENERAL MANAGER — PETROLEUM DEVELOPMENT AND PLANNING

## SUCCESSFUL EXPLORATION AND DEVELOPMENT

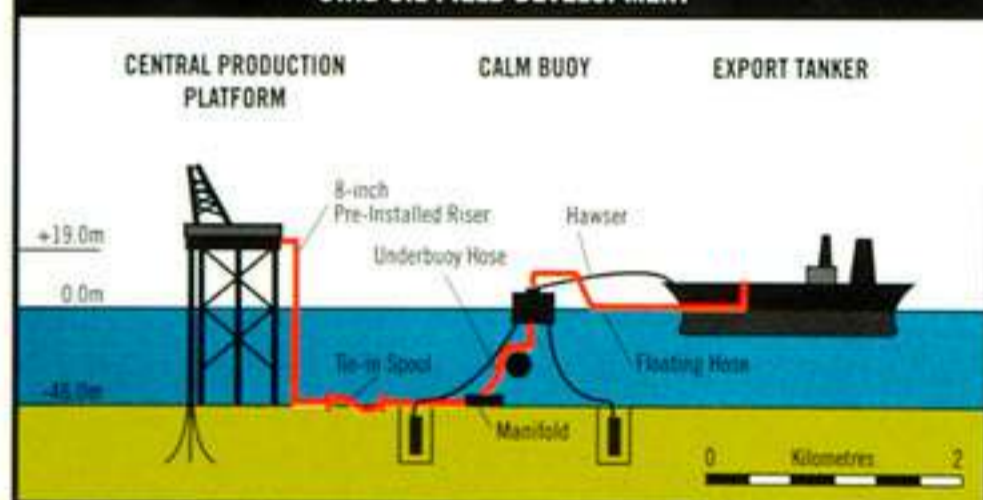
### 1996 BUILDS ON THE SUCCESS OF 1995

Exploration results in 1996 exceeded the record results achieved in 1995. Expenditure of \$121.1 million generated 128 million boe of proved and probable reserves for a worldclass finding cost of \$0.95/boe. Santos' five-year average finding cost is \$1.61/boe. The program achieved an overall success rate of 57%, 52% on exploratory wells and 67% on appraisal wells.

### 1996 EXPLORATION RESULTS

	Wells Drilled		Successful Wells		Success Rate
	Gas	Oil	Gas	Oil	%
South Australia	31	6	13	3	43
Queensland and Northern Territory	20	4	14	3	71
Offshore Australia	3	8	2	3	45
Americas & Europe	14	5	11	3	74
<b>Total</b>	<b>68</b>	<b>23</b>	<b>40</b>	<b>12</b>	<b>57</b>

### STAG OIL FIELD DEVELOPMENT



During the year Santos announced the development of the Stag oil field located in the Carnarvon Basin offshore Western Australia. This schematic illustrates the field development proposal.

### 1996 EXPLORATION HIGHLIGHTS

The highlights of the 1996 program were:

- An accelerated drilling program in the South Australian portion of the Cooper/Eromanga Basins, with the number of exploration rigs increasing from two to six by the end of the year. Initial success was achieved with six gas and two oil fields being discovered.
- A successful South West Queensland gas exploration program. Eight gas fields were discovered.

- High success rates achieved in the Thompson Barrow and JM O'Brien areas in the onshore area of the Texas Gulf Coast. The use of 3D seismic is now producing beneficial results.
- Two further appraisal wells, Undan-4 and Trulek-1, drilled in the Timor Gap which improved the level of understanding of the giant Bayu/Undan gas and condensate field.

### SANTOS' EXPLORATION STRATEGY

Key elements of Santos' Exploration Strategy include:

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

### 1997 EXPLORATION PROGRAM

	Wells	\$m
Onshore Australia		
Cooper/Eromanga	70	79
Other	6	7
Offshore Australia	10	37
SE Asia	3	16
US	20	7
UK	(a)	9
New Projects	(b)	18
<b>Total</b>	<b>109</b>	<b>173</b>

(a) To be determined (predominantly farm-in wells).  
 (b) To be determined on a project opportunity basis.

## 1997 EXPLORATION PROGRAM

Consistent with the company's growth strategy, exploration expenditure is budgeted to increase to \$173 million in 1997. This increase is the result of several factors:

- A further increase of the gas exploration program in South West Queensland.
- The continuation of the accelerated exploration program in the South Australian section of the Cooper/Eromanga Basins.
- An increase in offshore exploration activity.
- Exploration in acreage acquired through the MIM acquisition, particularly in Papua New Guinea and Indonesia.

The exploration program will feature the drilling of approximately 109 wells, with 87 of these wells forming part of the 1997 gas program.

Approximately 10% of the budget is held in reserve pending new exploration venture opportunities. These funds will be preferentially allocated on an economic basis and in response to competition amongst business units to growth areas such as Papua New Guinea, Indonesia, US Gulf Coast and the UK North Sea.

## TECHNOLOGY

The introduction and innovative use of modern technology is an important and necessary facet of the modern oil and gas industry. Santos has highly skilled staff who are able to exploit state-of-the-art technology to extract maximum value from the company's assets. As an example, the company has been very successful at revitalising and adding significant value to many declining fields which have been obtained through acquisitions.

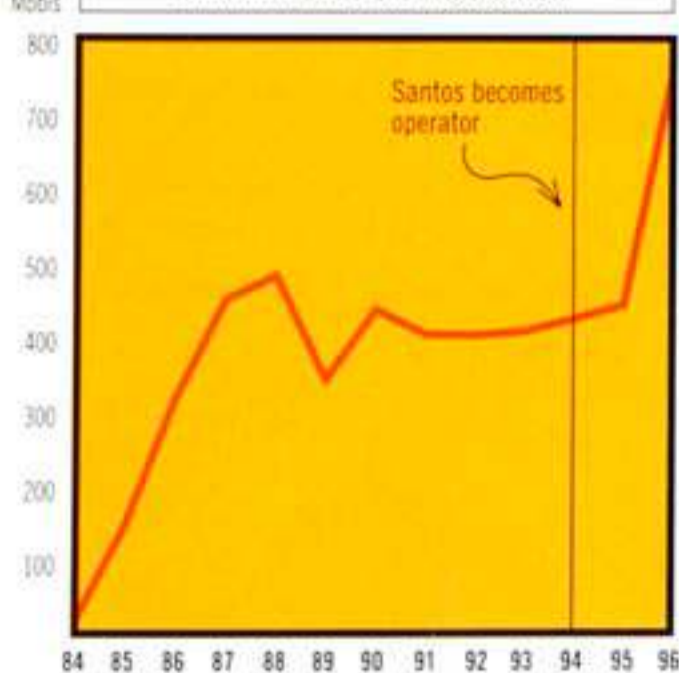
Two examples are the Mereenie oil field interests acquired and the Tarbat/Ipundu field. Santos' expertise in fracture stimulation technology was introduced into the Mereenie field in 1991 and has led to a doubling of the rate of production and reserves.

In the Tarbat/Ipundu field (ATP299P) the production rate has almost doubled and the reserves have increased by 60% through detailed geological assessment, advanced seismic evaluation and petrophysical modelling. There is considerable potential for further production and reserves increases in Santos' existing oil and gas fields as the company introduces further innovation.

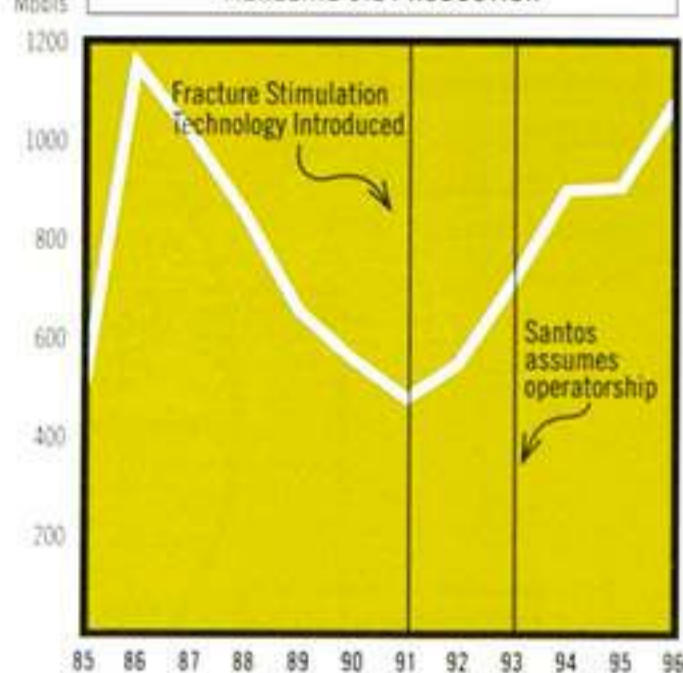
## Prospects and Leads Database

Santos has developed a custom-built prospect evaluation and inventory system which provides real time, worldwide ranking of Santos' exploration prospects. The system is integrated with well, seismic and mapping databases for rigorous and consistent play and prospect assessment. Risks are systematically quantified, and reserves and economic outcomes are more accurately predicted.

### TARBAT/IPUNDU OIL PRODUCTION



### MEREENIE OIL PRODUCTION



# SUCCESSFUL EXPLORATION AND DEVELOPMENT

## Multiwell Pumping Technology

Santos has developed a new methodology for increasing recovery and production from its Eromanga Basin oil fields.

The new method employs a multi-stage Electric Submersible Pump (ESP), which is normally run vertically downhole but in this case is run in a horizontal mode at the surface.

The pumping power generated by the pump is distributed through a computer-controlled manifold to simultaneously pump several wells.

This new pumping configuration provides greater flexibility at lower capital and operating costs than traditional single-well pumps.

## PROVED AND PROBABLE HYDROCARBON RESERVES<sup>(a)</sup>

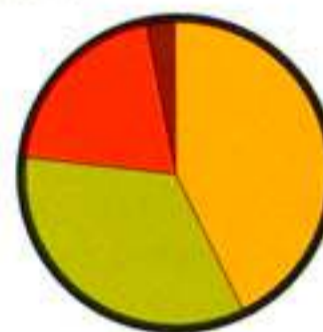
	Sales Gas (inc ethane) PJ	Crude Oil million barrels	Condensate million barrels	LPG thousand tonnes	Total million boe
Estimated reserves at 31 December 1995	3,102	68	59	5,519	703
1996 Production	(157)	(8)	(2)	(275)	(39)
Additions from 1996 Exploration	607	10	9	599	128
Acquisitions	155	6	6	435	42
Field Revisions	155	4	1	(696)	26
Estimated reserves at 31 December 1996	3,862	80	73	5,582	860

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

## RESERVES

Proved and probable reserves increased 157 million boe to a record 860 million boe, after production of 39.2 million boe. This equates to reserve replacement of 501% and is a record for the company.

The exploration program contributed 128 million boe to reserves. Most of this increment came from the successful appraisals of the Bayu/Undan and Stag fields, and the exploration programs in South Australia and Queensland. The company's reserve base continues to diversify. The reserves outside the Cooper/Eromanga Basins now stand at 34% compared with 23% at the end of 1995.

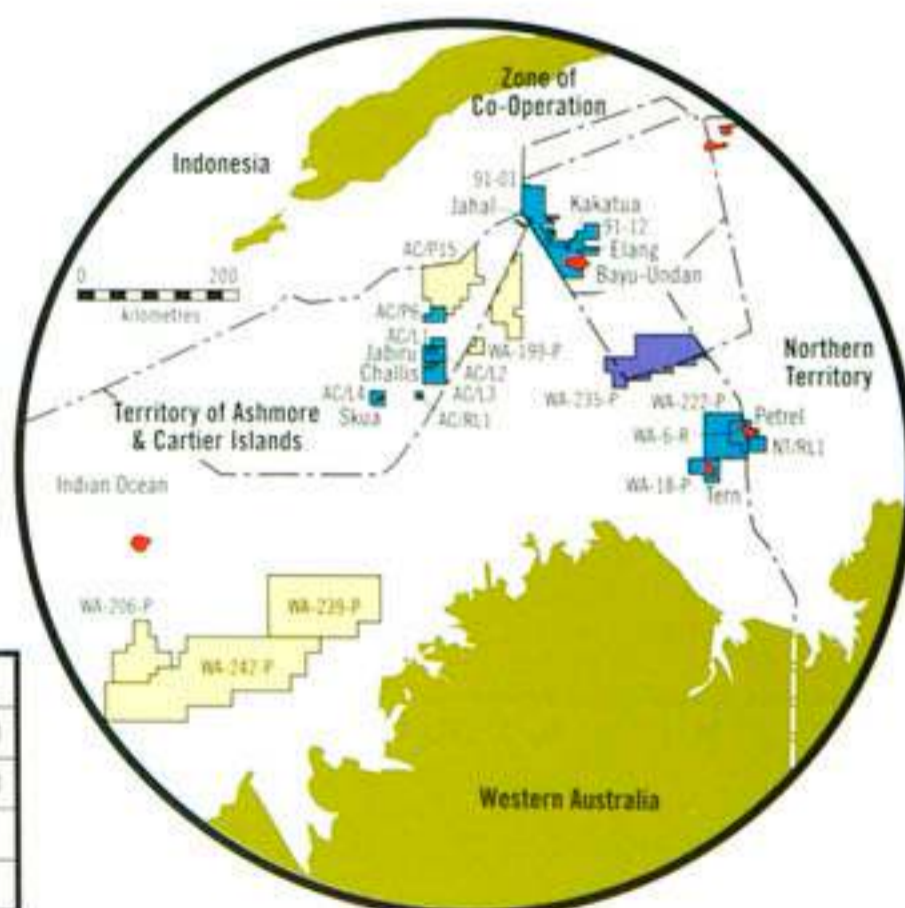


## 1996 BUSINESS UNIT RESERVES

million boe	
South Australia	369
Queensland and NT	293
Offshore Australia	174
US and UK	24

## SANTOS ACREAGE – BONAPARTE BASIN

	Santos Permits
	Santos Permits (ex PPA)
	Santos Permits (ex MIM)
	Oil Field
	Gas Field





## RESOURCES

The year-end reserves exclude oil and gas which fall outside the definition of proved and probable reserves. This exclusion is due to uncertainty about their extent or their ability to be economically recovered. Santos holds interests in a number of oil and gas accumulations which currently fall into this category. Santos estimates that its share of the technically recoverable hydrocarbons in these accumulations is approximately 350 million boe.

## PRODUCTION

Record production of 39.2 million boe was achieved in 1996. Liquids production declined marginally. However, this trend will be reversed over the next two years as several oil projects, which are under development, come on-stream. Gas production will also increase as several new projects are commissioned.

The anticipated production from new fields is summarised in the following table.

Project	1st Calendar Year Production <sup>(a)</sup>	Expected Production Commencement
MIM Gas	1.5	Quarter 2 1998
Stag Oil	3.9	Quarter 2 1998
SE Gobe Oil	0.6	Quarter 2 1998
Banff Oil	0.2	Quarter 2 1998
Elang Oil	1.5	Quarter 3 1998
Pierce Oil	0.1	Quarter 3 1998

(a) million boe

## East Spar

Through the acquisition of the Parker and Parsley Australasian assets Santos became a 15% interest holder in the East Spar gas field. A central feature of the development is the innovative Navigation, Communication and Control (NCC) Buoy. Use of the NCC Buoy provided significant capital savings by eliminating the need for a 63 kilometre electro-hydraulic connection to the Varanus Island gas plant. The Buoy is 53.3 metres tall and 7.5 metres in diameter.

The use of subsea heat exchangers also reduced costs by permitting the use of low-cost carbon steel for the gas/condensate pipeline.

## DEVELOPMENT

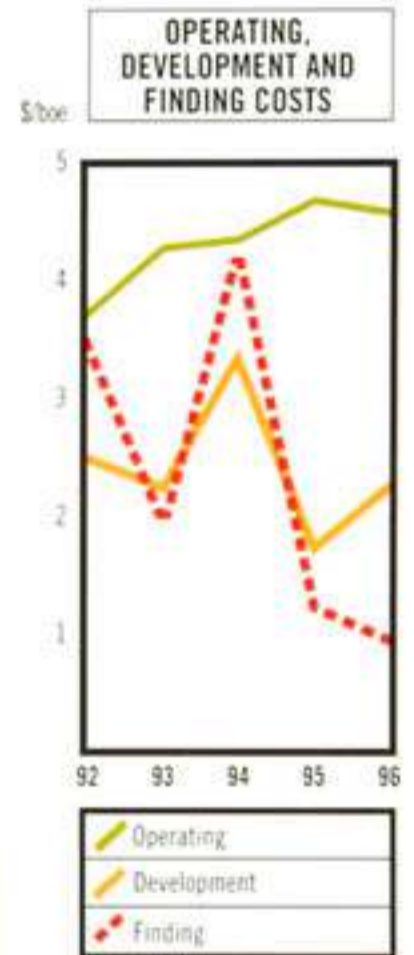
Total expenditure for the 1996 development program was \$256.1 million, compared with \$94.0 million in 1995. Over 60% of the capital spent in 1996 was related to new business projects. In 1997 \$396 million is budgeted, with over 75% going toward new projects.

### Operating Costs

The company has maintained its strong focus on the control of operating costs. The average operating cost of \$4.58/boe is very competitive in the industry and is a significant achievement when the mature state of several of the currently producing assets is considered.



1996 BUSINESS UNIT PRODUCTION	
million boe	
South Australia	23.1
Queensland and NT	12.7
Offshore Australia	1.5
US and UK	2.4



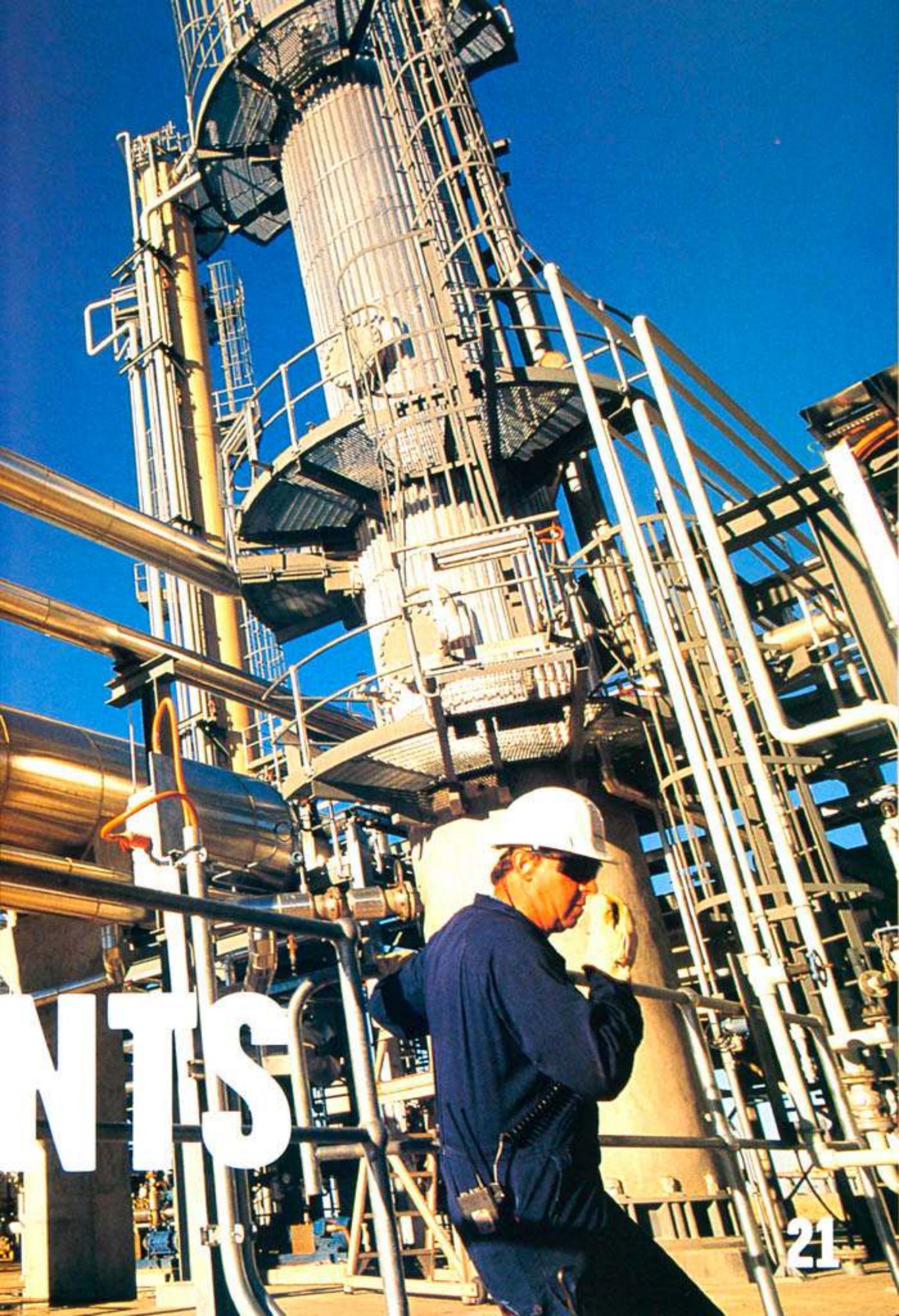
GROUP PRODUCTION		
	1996	1995
P1		
Sales gas	157.0	142.3
million barrels		
Crude oil	7.7	8.1
million barrels		
Condensate	2.3	2.2
thousand tonnes		
LPG	287.2	260.9
million boe		
<b>Total</b>	<b>39.2</b>	<b>36.8</b>

**“SANTOS ETHANE WILL REPLACE IMPORTED RAW MATERIALS, REPRESENTING A \$100 MILLION A YEAR IMPROVEMENT TO AUSTRALIA’S BALANCE OF PAYMENTS.”**

MIKE HANNELL, GENERAL MANAGER – SOUTH AUSTRALIA

**MARKETING**

**ACHIEVEMENT**



NTS

# MARKETING ACHIEVEMENTS

## GAS

In 1994 the Council of Australian Governments (COAG) agreed to introduce a range of reforms designed to increase competition in the gas industry. A significant reform measure was the removal of barriers to permit interstate trade in gas. In the past, producers have generally been restricted to a small number of potential purchasers. This situation is now changing. Removal of these barriers will encourage the growth of gas demand. Santos is well positioned to cope with these changes.

### GAS CONSUMPTION PROJECTIONS TO 2009/10 (PJ)<sup>(a)</sup>

	1995/96 Consumption	Projected Consumption
Western Australia	263.3	726.5
Victoria	258.0	354.4
South Australia	99.2	127.7
New South Wales	104.8	230.6
Queensland	47.3	177.2
<b>Total</b>	<b>772.6</b>	<b>1,616.4</b>

(a) Source: Australian Bureau of Agricultural & Resource Economics.

### AUSTRALIA'S MAJOR PIPELINE NETWORK AND SANTOS' ACTIVITIES



### Gas Industry Growth

The Australian gas industry is experiencing strong development and growth.

The share of natural gas in total energy consumption has risen from 7% to 18% during the past 20 years. The Australian Bureau of Agricultural and Resource Economics estimates that this share will increase to 28% by 2010. The overall trend towards greater gas use has arisen largely due to it being an economic, environmentally friendly and efficient energy source.

Facilitating this growth has been the significant development of infrastructure. The total Australian gas transmission pipeline and distribution system was nearly 77,000 km in September 1996, a 10,000 km increase over the past five years.

### Gas Contracts

Santos will continue to pursue opportunities which maximise the value of its gas reserves. In 1996 Santos and its joint venturers were successful in securing four new major contracts totalling 675 PJ gross. These were with SAGASCO and ETSA in South Australia and with MIM and WMC in Queensland.

### MAJOR NEW GAS CONTRACTS 1996

	Gross <sup>(a)</sup> PJ	Santos <sup>(b)</sup> Share PJ	Term
SAGASCO	180.0	107.6	1999-2013
MIM	247.5	145.7	1998-2013
ETSA	120.0	71.7	2004-2010
WMC	127.5	75.0	2000-2014
<b>Total</b>	<b>675.0</b>	<b>400.0</b>	

(a) Gross joint venture interests.

(b) Incorporates Fixed Factors Agreement.



## MAJOR OPPORTUNITIES

Santos is in a position to capitalise on the strong outlook for gas demand.

The new contracts which were secured in 1996 reflect Santos' ability to successfully negotiate in a competitive environment. Through the gas exploration program in South Australia and Queensland, Santos plans to add to its level of gas reserves, to be in a position to take advantage of future opportunities as they arise.

Inevitably the opening up of the gas sector will bring about greater competition. However, this is preferable to a situation of restricted market opportunities. Santos believes that it is well placed to meet any competition.

## LIQUIDS MARKETING

1996 was a significant year for the marketing of petroleum liquids by Santos.

During the year the company secured a contract to export light naphtha to Hong Kong for use as a feedstock in the production of town gas. This contract is significant for Santos as it was won against strong competition from Asian refiners, further strengthening Santos' reputation in the international market as a competitive and reliable supplier of quality product.

Also during the year Santos identified an opportunity to enter the automotive LPG market in South Australia. A project was initiated at Port Bonython to accommodate the production and sale of this new product which commenced on 31 January 1997.

Santos and its joint venturers will supply approximately 25% of South Australia's automotive LPG demand during 1997.

Prior to this project, product sourced from Santos met very little of South Australia's automotive LPG demand.

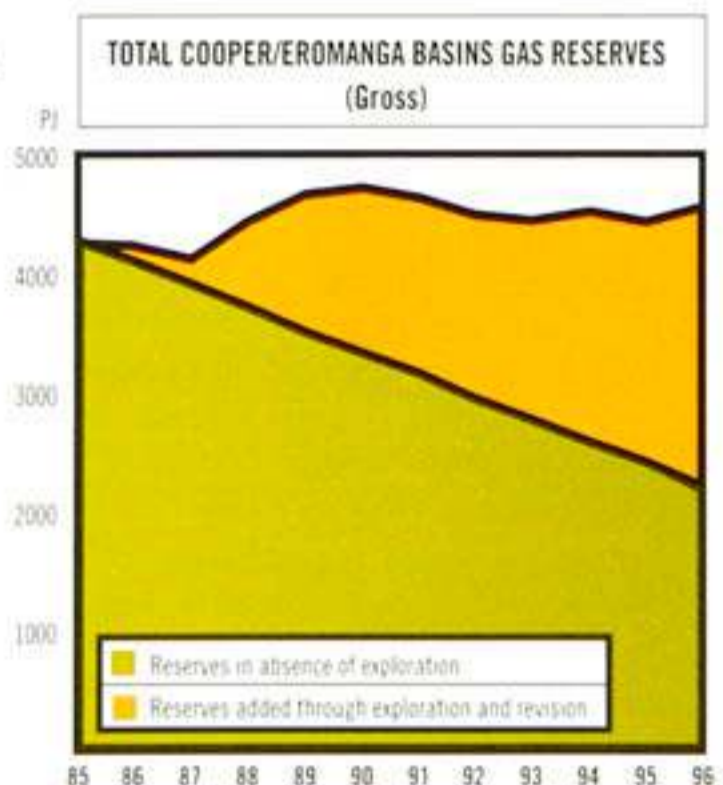
## SANTOS' INTEREST IN UNCONTRACTED GAS RESERVES PJ AS AT DECEMBER 1996<sup>(a)</sup>

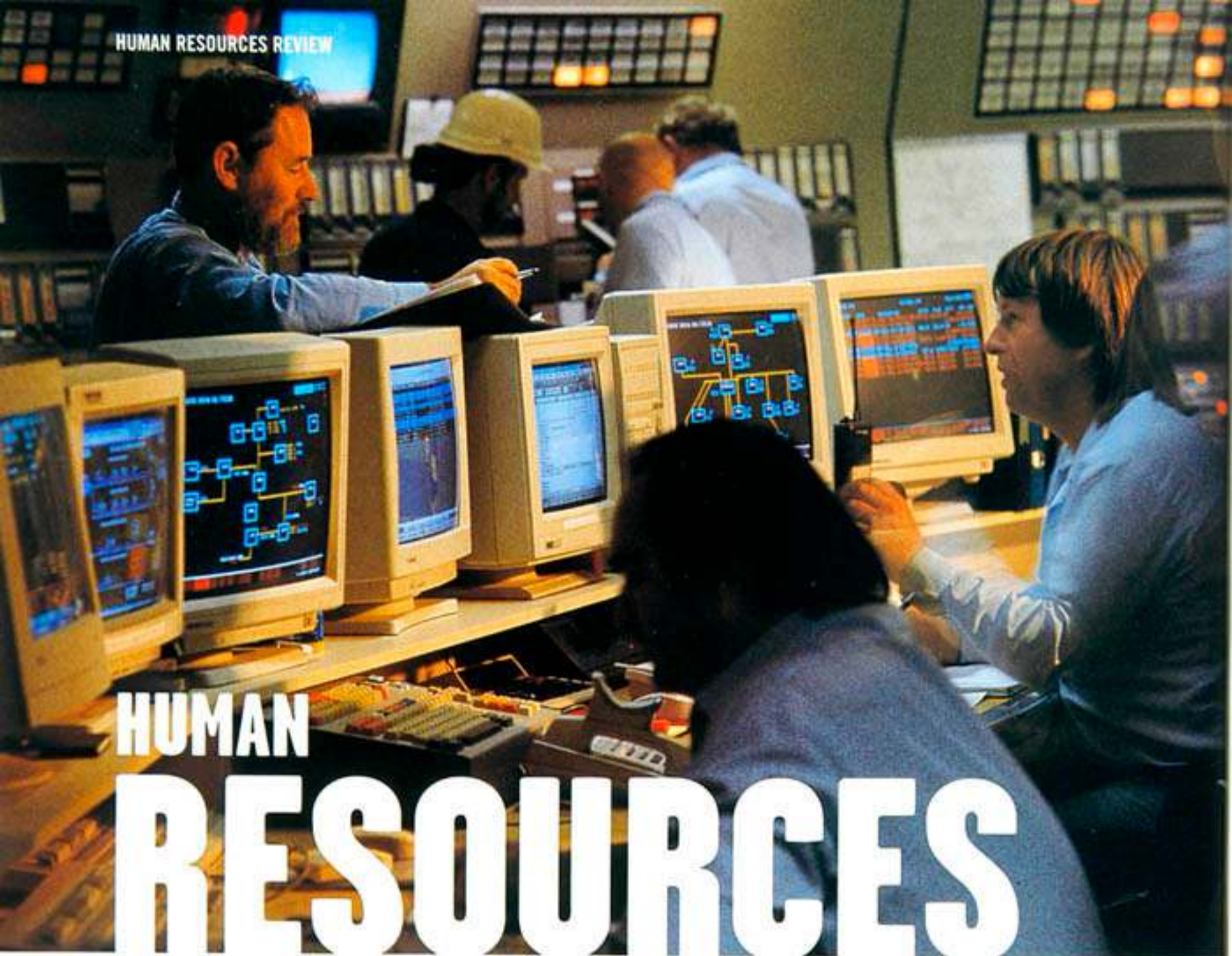
	Total Gas Reserves in Santos' Acreage	Santos' Share of Gas Reserves	Uncontracted Gas in Santos' Acreage	Santos' Share of Uncontracted Gas
SA	2,970	1,780	940	560
SW Qld	1,580	930	610	360
Surat/Bowen	200	110	65	40
Amadeus	700	390	485	290
East Spar	530	80	345	50
Minerva	310	30	310	30
<b>Total</b>	<b>6,290</b>	<b>3,320</b>	<b>2,755</b>	<b>1,330</b>

(a) Includes ethane and incorporates Fixed Factors Agreement.

The company's crude oils continued to generate strong market interest, particularly Cooper Basin crude oil which is viewed by the South East Asian market as a high quality refinery feedstock.

A marketing program was commenced in preparation for the planned production at the Stag oil field in 1998. Due to its unique quality characteristics, Japanese electric power producers have been identified as one of the markets for Stag crude oil. Those utilities will evaluate samples during 1997 leading up to trial shipments after the start-up date.





# HUMAN RESOURCES



The continuous professional development of our employees in providing up-to-date skills is as important as the investment in exploration.

Santos' assistance for training and further study demonstrates our commitment to maintain standards of excellence.

Santos provides a working environment which encourages and rewards endeavour, skills development and performance.

1996 was a very active year with priority given to workplace relations, recruitment and occupational health and safety.

An integrated approach has been adopted for the related issues of performance management, career development and training, and succession planning. This will be a key focus for human resource activities in the future.

As a result of the Parker and Parsley Australasia acquisition, 31 additional positions were acquired by the Queensland and Northern Territory Business Unit, and the accelerated exploration program in South Australia and Queensland resulted in a high level of recruitment within a concentrated timeframe.

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## HEALTH AND SAFETY

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Strong emphasis was placed on improving occupational health and safety programs in all business units.

Safety Management Plans were developed for all sites. These plans emphasise involvement of field-based personnel in the preparation of standard procedures and systems.

Initiatives are being implemented to address key areas:

### Legislation

Where possible Santos has participated with relevant governments in the formulation of legislation that is considered appropriate and relevant for the oil and gas industry.

During 1997 a number of regulations under the South Australian Occupational Health, Safety and Welfare Act 1986 will come into operation and Santos will implement the following actions to ensure compliance:

#### **Management Systems**

Establish effective occupational health and safety procedures that are integrated with the various facets of the company's management system and designed to ensure compliance with legislative and WorkCover requirements.

#### **Safety Awareness**

During 1997 appropriate actions will be taken to foster a continuing awareness of safety on the job and to provide regular reinforcement of the need to adopt safe practices.

#### **Training**

A number of critical safety topics have been identified for which training will be provided for employees during 1997. This training will assist in the development of both the skills and awareness of all employees.

#### **Auditing**

An auditing program is being established to ensure the effectiveness of and compliance with occupational health and safety procedures.

The South Australia Business Unit maintained its WorkCover self-insurance status at the maximum level.

1996 saw an intensive safety training program conducted for the Cooper Basin which featured:

- the "Back to Basics" program for Santos employees which focused on safety awareness; and
- the "Icebreaker" program, an induction safety program, for new drilling contract personnel.

At Moomba the largest and most complex shutdown in the history of the operation was completed without serious safety incidents.

In the Queensland and Northern Territory Business Unit, the incidence of serious injuries in 1996 was reduced to less than 50% of the rate of each of the previous two years. This achievement reflected the increased emphasis placed on safety and the strategic approach to planning and systems enhancement.

Safety Management Systems were also developed for the Truscott and Winnellie bases during 1996, and are being implemented during 1997.

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## **EMPLOYEE RELATIONS**

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1996 was a year of stable and harmonious employee relations across the company.

In the South Australia Business Unit the focus was on implementation of the 1995 Santos Ltd Enterprise Bargaining Agreement, with particular emphasis on identified and agreed productivity improvements.

Continuous improvement committees were established at Moomba and Port Bonython to identify and implement further opportunities for improvement.

Similarly, the Queensland and Northern Territory Business Unit proceeded with implementation of efficiency improvements agreed to in the Santos Ltd Enterprise Bargaining Agreement.

Continuous improvement work teams addressed operational efficiencies and significant reductions in call-out hours were achieved, in addition to other improvements.

Negotiations which commenced at the end of 1996 have resulted in a successful second Enterprise Agreement with employees covered by the Santos Petroleum Management Award.

Award-covered office staff in the South Australia and Offshore Australia Business Units were offered the opportunity to transfer to salaried staff status. The acceptance of this offer was very high with 95% of South Australia Business Unit staff and all Offshore Australia Business Unit staff taking up the opportunity.

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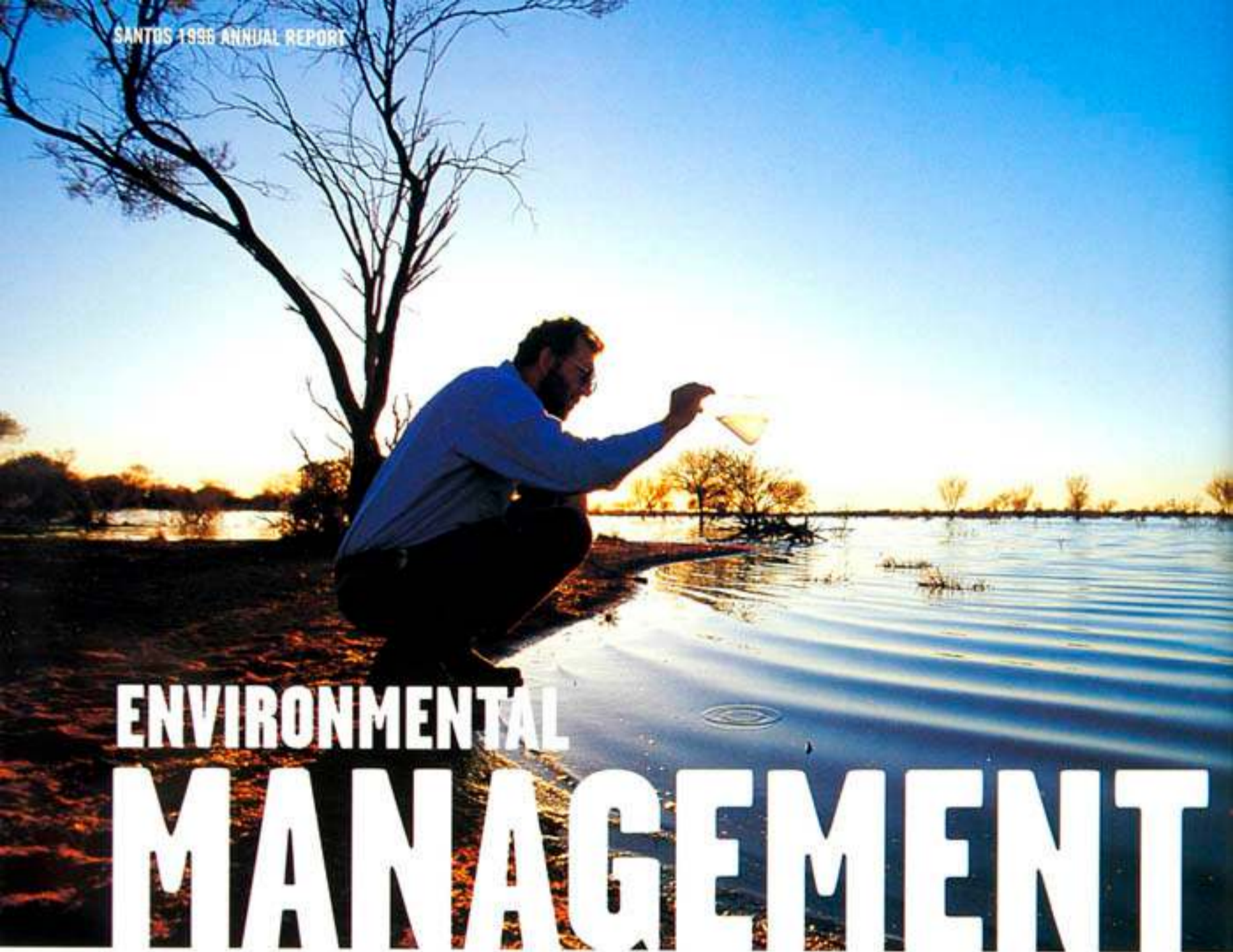
## **EMPLOYEE DEVELOPMENT AND TRAINING**

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First steps have been taken in developing and implementing an integrated Personnel Management System. Covering a full range of activities from performance assessment and counselling to career development and succession planning, it is a valuable strategic tool to ensure that individual development and accountability is linked to business objectives.

The establishment of a skills database for the industry professional staff will greatly enhance the company's ability to identify career development opportunities such as staff rotation across business units.

Santos employees were assisted to attend 885 courses in occupational health and safety, technical and para-professional, information technology, and general management.



# ENVIRONMENTAL MANAGEMENT



Santos' Environmental Management Program includes thorough monitoring of water quality in the areas in which we operate.

Santos is committed to conducting all its onshore and offshore exploration and production activities in an environmentally responsible manner.

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## FOCUS ON CULTURAL HERITAGE

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For many years, as part of its comprehensive approach to managing exploration and production activities in an environmentally responsible manner, Santos has also paid close attention to the recognition and avoidance of disturbance to areas of cultural heritage significance.

This has meant that the planning and construction of field facilities (including infrastructure such as pipelines) has involved the participation of both specialist archaeological consultants and Aboriginal people with knowledge of the areas in question.

To aid the planning process, specific environmental sensitivity maps were created (in 1983) for key areas of the company's operation. These maps detail all the known and

recorded sites of cultural, heritage, scientific and environmental significance and are updated regularly.

Santos' staff and contractors mandatorily attend environmental induction programs on environmental issues as well as briefing sessions on cultural heritage issues.

These induction and information sessions provide an opportunity for those attending to pose questions to the environmental officers, archaeologists and the company's Cultural Heritage Officer. They also allow the distribution of Santos Codes of Environmental Practice, Handbooks and Guidelines.

One of these, the Procedures Manual – Archaeology (1990), is currently being expanded and updated. It provides simple, illustrated guidelines for the identification and avoidance



A seismic line (exploration track) in a Cooper Basin floodplain, 11 months after its establishment and the passage of vibrators and seismic recording vehicles. The swift regrowth of vegetation has been enhanced by the environmentally responsible development techniques which include weaving around major vegetation stands and trimming of branches, leaving rootstock intact.



Hazel McKellar – author of "Matya-Munda: A History of the Aboriginal People of South West Queensland". Hazel has worked closely with Santos since 1983, assisting in the process of Cultural Heritage Induction and, where appropriate, site identification.

of potential sites, indicates where sites are most likely to occur, and details the types of sites likely to be found. A more detailed (250 page) Cultural Heritage Law and Procedures Manual is designed to assist managers and the company's environmental and cultural heritage staff in dealing knowledgeably and sensitively with these complex issues.

The total effect of this important process results in a workforce which is both knowledgeable of and sensitive to the natural and cultural aspects of the environments in which it works. It also provides a sound foundation for Santos' dealings with Aboriginal people and their representative groups.

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### ENVIRONMENTAL HARMONY

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Santos' philosophy underlying its approach to environmental management has always centred around having detailed knowledge of the environments in which it works, and then using that knowledge to avoid (or minimise to the greatest degree possible) any impacts that the company's activities may have on the environment. This is considerably more cost effective and environmentally sensitive than the 'operate first repair the impact later' approach.

An example of this approach is the method used for the preparation of seismic access routes where 'walking' bulldozers (travelling with the blade raised) and using towed rollers create minimum levels of ground compaction. These techniques have made the process of seismic line construction a much more environmentally benign operation than has been the case in the past (before the mid 1980s).

Treading lightly on the landscape has allowed natural regeneration from seeds, nutrients and rootstock left intact during the process of seismic acquisition.

Informing and educating staff and contractors in such techniques has proven to be not only an environmentally responsible but also a very cost effective approach.

# BUSINESS UNIT OVERVIEW



## SOUTH AUSTRALIA BUSINESS UNIT

Mike Hannell General Manager South Australia	Exploration	Production					
		Sales Gas	Ethane	Crude Oil	Condensate	LPG	
Location							
Cooper/Eromanga Basins (South Australian Section)	✓	✓	✓	✓	✓	✓	Gas supply to Natural Gas Authority of South Australia and AGL in New South Wales and the Australian Capital Territory. Ethane concentrate supply to ICI in New South Wales. Gas supply to SAGASCO (contract to commence 1999). Gas supply to ETSA (contract to commence 2004).
Otway Basin	✓						
Port Bonython Liquids Processing Plant and Marine/Road Terminal				✓	✓	✓	Liquids processing to produce LPG, crude oil and naphtha products. Products sold to domestic and international customers.



## QUEENSLAND AND NORTHERN TERRITORY BUSINESS UNIT

Rod McArdle General Manager Queensland	Exploration	Production					
		Sales Gas	Ethane	Crude Oil	Condensate	LPG	
Location							
Cooper/Eromanga Basins (Queensland Section)	✓	✓		✓	✓	✓	Gas supply to Natural Gas Authority of South Australia. Gas supply to Incitec Limited, Allgas Energy Ltd., Gas Corporation of Queensland Limited in Brisbane (contract to commence 1997). Gas supply to MIM Holdings Limited (contract to commence 1999). Gas supply to WMC Fertilizers Ltd (contract to commence 2000).
Surat Basin – Roma Shelf – Southern Section	✓ ✓	✓ ✓		✓ ✓	✓ ✓	✓	Gas supply to Brisbane and Gladstone.
Denison Trough	✓	✓			✓		Gas supply to Queensland Alumina Limited's refinery at Gladstone.
Amadeus Basin/Northern Territory – Mereenie – Palm Valley		✓ ✓		✓			Gas supply to Northern Territory Power and Water Authority.

## OFFSHORE AUSTRALIA BUSINESS UNIT

Lloyd Taylor General Manager Offshore Australia	Exploration	Production					
		Sales Gas	Ethane	Crude Oil	Condensate	LPG	
Location							
Timor Sea - Jabiru - Challis - Skua	✓			✓ ✓ ✓			Four well exploration program in 1997-98. Floating production, storage and offloading technology.  Skua field (production ceased 31 January 1997).
Timor Gap - Elang - Bayu/Undan	✓						Ongoing exploration program through 1997-98. Oil field development project. Production to commence mid 1998. Gas and condensate field development studies underway.
Bonaparte Gulf - Tern	✓						Field to be appraised in 1997. Targeting domestic gas supply for the Northern Territory.
Carnarvon Basin - Stag - East Spar - Arlie	✓	✓		✓	✓		Up to six exploration wells planned in 1997. Oil field development project. Production expected to commence 1998. Production commenced November 1996.
Browse Basin	✓						One exploration well planned to be drilled in 1997.
Otway Basin - Minerva	✓						Development studies underway for potential gas production for Victoria.
Indonesia - Seram PSC-Bula	✓			✓			Oseil oil discovery to be appraised in 1997.



## AMERICAS AND EUROPE BUSINESS UNIT

John Armstrong President Americas and Europe	Exploration	Production					
		Sales Gas	Ethane	Crude Oil	Condensate	LPG	
Location							
USA - Gulf of Mexico	✓	✓		✓			Participation with Murphy Exploration and Production in Gulf of Mexico bidding group.
- Texas/Louisiana Gulf Coast - Arkoma Basin	✓	✓ ✓		✓			
UK - Anglia - Banff - Pierce		✓			✓		Oil field development project. Production to commence mid-1998. Oil field development project. Production likely to commence late 1998.



## SOUTH EAST ASIA BUSINESS UNIT

Bob Hall General Manager South East Asia	Exploration	Production					
		Sales Gas	Ethane	Crude Oil	Condensate	LPG	
Location							
Papua New Guinea Various interests	✓						SE Gobe oil field development project. Production to commence first-half 1998.
Indonesia - Bentu PSC - Bangko PSC	✓						Assessing potential gas market opportunities.
New Zealand - Taranaki Basin (PEP38712)	✓						



## SOUTH AUSTRALIA BUSINESS UNIT

1996 was a positive year for the South Australia Business Unit. Performance highlights included the successful exploration and development program undertaken and the success achieved in securing additional gas contracts. Total production increased for the first time since 1993.



PRODUCTION		
	1996	1995
PJ		
Sales gas	101.0	92.4
million barrels		
Crude oil	2.6	2.7
million barrels		
Condensate	1.4	1.6
thousand tonnes		
LPG	208.3	201.5
million boe		
<b>Total</b>	<b>23.1</b>	<b>21.7</b>

### COMMERCIAL

#### Gas Contracts (South Australia)

In September 1994 a commitment was made by the South Australian Cooper Basin Producers to the South Australian Government to reserve up to 400 PJ of gas for South Australian customers. This commitment was fulfilled in 1996 with the signing of two major gas contracts with SAGASCO and ETSA. Gas contracts are now in place for the supply of gas to South Australian customers to the year 2013.

Opportunities exist for further gas sales in South Australia. One possibility is use of gas to provide the energy required in the expansion of WMC's Olympic Dam mining project.

#### Gas Contracts (New South Wales)

The ability to negotiate with interstate gas users presents significant opportunities for Santos. Further effort was made during the year to expand the volume and value of the company's gas business in interstate markets.

There are a number of opportunities for use of gas by proposed cogeneration projects and independent power plants.

#### Fixed Factors Agreement

In the South Australian Cooper Basin, Santos is the operator of 13 Joint Ventures for those blocks contained within Petroleum Exploration Licences 5 and 6. Santos is also the operator of the South Australian Cooper Basin Unit Joint Venture, which is a production Joint Venture, primarily for the production of sales gas, and the operator of the Downstream Agreement which governs the transport, processing and storage of liquids downstream of Moomba. Each Joint Venture comprises a number of different companies.

The shares or participation factors of each of the companies involved in the Unit or Downstream Joint Ventures have historically varied depending on factors such as reserves and the level of production from different Joint Venture blocks or the Unit Areas.

The share of each Joint Venture company has been established historically by a process called Review and Adjustment. During 1996 the Joint Venture companies agreed to streamline this process and to adopt fixed factors for the Unit and Downstream Joint Ventures and also for each of 12 Joint Venture blocks contained within Petroleum Exploration Licences 5 and 6. The remaining block, Patchawarra East Block, remains unaltered at its historic fixed factor.

The agreement removed the cost of legal proceedings in respect of Review and Adjustments and will bring about future operational cost savings.

### EXPLORATION

In February 1996, the company announced a significant increase in its South Australian exploration activity.

Approximately 142 exploration and appraisal wells are planned to be drilled by the end of 1998. The objectives of this program are to establish new oil production and to book substantial gas reserves to support existing and future contractual obligations.

The proposed exploration effort represents a doubling in exploration levels over those which have prevailed in recent years and will require an investment of approximately \$200 million for the joint venture.

Approximately 80% of the exploration activity will be devoted to gas and will be complemented by active commercial and marketing activity.



## 1997 OUTLOOK

<p>In 1997 significant emphasis will be placed on extracting full potential out of Santos' operations within the Cooper Basin. The Company will remain focused on:</p>	<p>Implementing the comprehensive gas development program in a timely and cost-effective manner.</p>	<p>Meeting both operating cost containment targets and productivity enhancement schedules in all areas.</p>
	<p>Minimising capital investment through the utilisation of cost-effective technology (for example slim hole drilling) and through the implementation of improved contracting and materials procurement procedures.</p>	<p>Improving the already high standards of safety and environmental performance.</p>
		<p>Optimising the contribution of people to the business.</p>
<p>Maximising the commercial opportunities afforded by the deregulation of the Australian gas market.</p>		
<p>Meeting exploration targets in both the Cooper Basin and Otway Basin.</p>		

The incentive to accelerate exploration efforts has arisen due to:

- The deregulation of energy markets and the associated projected increase in gas demand on the eastern and southern seaboard of Australia which is expected to provide Santos with the opportunity to realise potential new gas sales.
- The expiry of Petroleum Exploration Licences 5 and 6 in February 1999. (Petroleum Production Licences remain unaffected.)

The Cooper/Eromanga Basins, although mature, are still considered to have ongoing exploration potential.

### DEVELOPMENT

#### Ethane Treatment Plant

The Ethane Treatment Plant at Moomba was completed ahead of schedule and within cost estimates in July 1996. The completion of the Ethane Treatment Plant marked a further milestone in the development of the Cooper Basin.

Completion of the plant allowed Santos to commence supply of ethane concentrate to ICI Australia's petrochemical plant in New South Wales. The total value of the contract to Santos and its joint venturers is expected to exceed \$400 million. The use of Santos' ethane concentrate will replace imported raw materials, representing a \$100 million a year improvement to Australia's balance of payments.

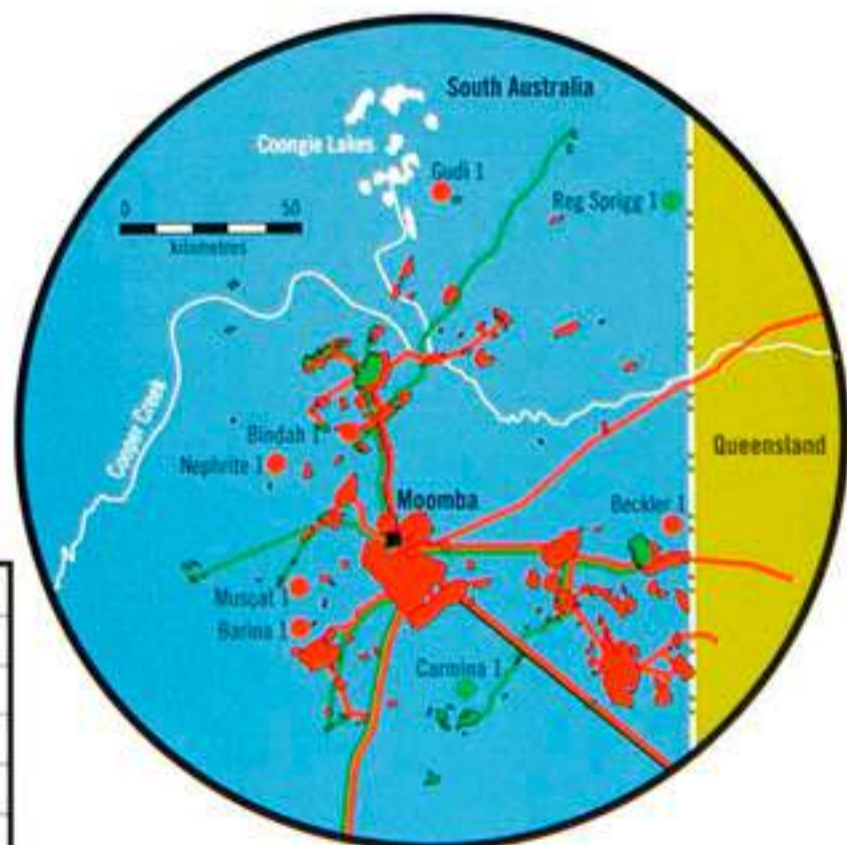
	Santos Permits
	Oil Field
	Gas Field
	Oil Pipeline
	Gas Pipeline
	Ethane Pipeline
	1996 Oil Discovery
	1996 Gas Discovery

Santos was presented with an Engineering Excellence Award (Resource Development Category) by the Institution of Engineers Australia – South Australia Division for the Moomba Ethane Treatment Plant project. The award recognised the high standards achieved in the execution of the project, from conception through to commissioning.

#### Field Development Program

Significant field development was undertaken during the year to meet contractual delivery requirements. Field development will continue to be a major focus in 1997.

### SOUTH AUSTRALIA ACREAGE



## QUEENSLAND AND NORTHERN TERRITORY BUSINESS UNIT

In 1996 the Queensland and Northern Territory Business Unit undertook an extensive exploration program combined with major field and infrastructure development. Two major gas contracts were signed reflecting the rapid growth of industry in Queensland, with Santos well placed to take advantage of further demand for gas.



### COMMERCIAL

#### Gas Contracts

Two major contracts were signed during 1996. The contracts with MIM Holdings Limited and WMC Fertilizers Limited are indicative of the growing gas demand in Queensland. These contracts are detailed below:

- **MIM Holdings Limited (MIM)**
  - 247.5 PJ (Gross);
  - 145.7 PJ (Santos' share);
  - Term 1998-2013;
  - 15 year contract to supply gas to the Mica Creek Power Station at Mt Isa.

As part of the arrangements for the supply of gas to Mt Isa, the Producers will hold 30% equity in the Ballera to Mt Isa pipeline which is being constructed by AGL.

The contract will involve further expansion of the Ballera Gas Plant.

- **WMC Fertilizers Limited (WMC)**
  - 127.5 PJ (Gross);
  - 75.0 PJ (Santos' share);
  - Term 2000-2014;
  - 15 year contract to supply gas to WMC's Phosphate Hill fertilizer project.

Gas will be supplied via the Ballera to Mt Isa pipeline.

#### Gas Opportunities

Santos will actively seek further contracts for the sale of South West Queensland gas. There is potential demand for other projects in North West Queensland such as the Cannington silver/lead and the Century zinc mines. Other projects for the sale of gas include possible use for peak power generation and the proposed magnesium metal project.

#### Price Arbitration

A decision was handed down during 1996 by arbitrators on the price of South West Queensland gas sold to South Australia. The contract for the supply of gas by the South West Queensland Gas Producers (SWQGP) to the Natural Gas Authority of South Australia (NGASA) represents approximately 25% of the gas consumed in South Australia and 10% of the gas supplied from the Cooper Basin.

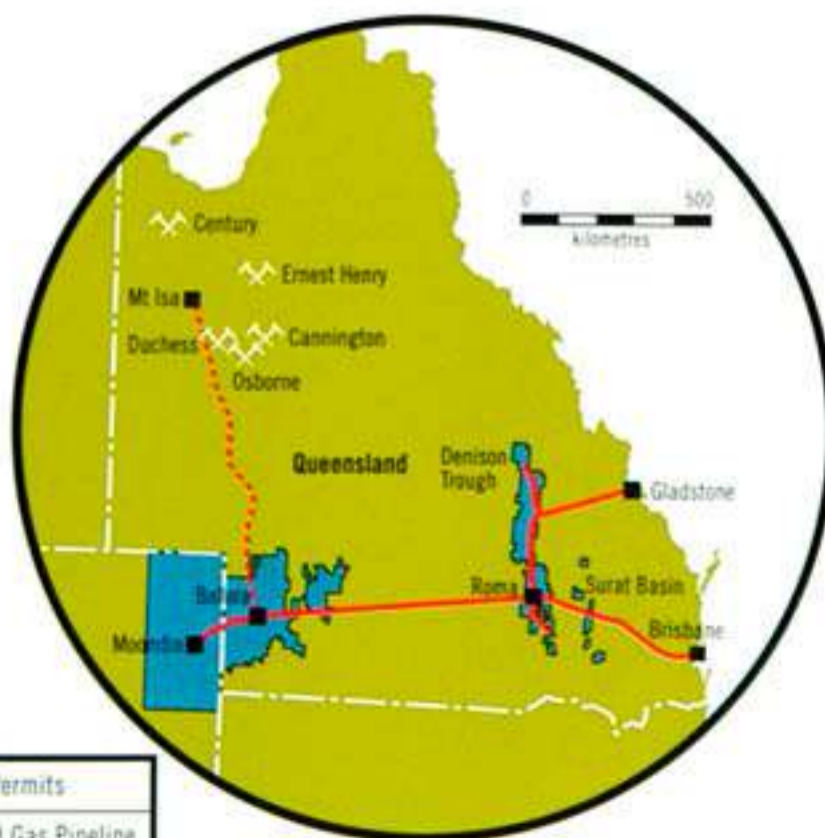
The price awarded by the arbitrators is approximately 7.5% lower than that which previously applied under the SWQGP-NGASA contract but is still greater than the prices paid under other South Australian Cooper Basin sales contracts (which were not affected by the decision).

The new price was phased in from 1 July 1996 and fully applied from 11 October 1996.

#### PRODUCTION

	1996	1995
PJ		
Sales gas	44.2	36.2
million barrels		
Crude oil	3.3	3.3
million barrels		
Condensate	0.7	0.6
thousand tonnes		
LPG	78.8	59.4
million toe		
<b>Total</b>	<b>12.2</b>	<b>10.6</b>

#### QUEENSLAND RESOURCE PROJECTS



	Santos Permits
	Proposed Gas Pipeline
	Gas Pipeline
	Mining Projects

## 1997 OUTLOOK

Further exploration and development work will be undertaken in 1997 with a primary focus on field and infrastructure development and increasing the level of gas reserves. Activities to be undertaken in 1997 include:

Ballera Gas Plant expansion and field development.

An expanded exploration program focused on gas exploration. Gas exploration will be intensified to provide sufficient security of supply for customers in Eastern, Central and

North West Queensland well into the next century and also to cater for the potential increased demand associated with new gas contracts.

Major field and infrastructure development.

### EXPLORATION

An expanded exploration program was undertaken in 1996. The program focused on gas exploration in South West Queensland with 20 wells drilled and a success rate of 70% achieved. Gas exploration will remain the primary focus in the 1997 exploration program.

### DEVELOPMENT

#### South East Queensland

Development work continued to supply gas to customers in South East Queensland under the contracts signed in 1995. The pipeline between Ballera and Wallumbilla was completed during the year linking Ballera with the transmission network to Brisbane. First gas was provided under transitional arrangements from 1 January 1997 with long-term contracts to commence in mid-1997.

#### Ballera Gas Plant

The Ballera Gas Plant located in South West Queensland should be completed by July 1997 at a cost of approximately \$125 million to the joint venture. The plant will produce sales quality gas and is being constructed to meet the contracted future demand for gas in Queensland. The expected initial capacity is 79 terajoules (TJ) per day.

Further expansion of the Ballera Gas Plant is planned to meet future gas demand in both North West Queensland and South East Queensland. Expansion will increase production as follows:

- 120 TJ/day by end 1997.
- 155 TJ/day by end 1998.

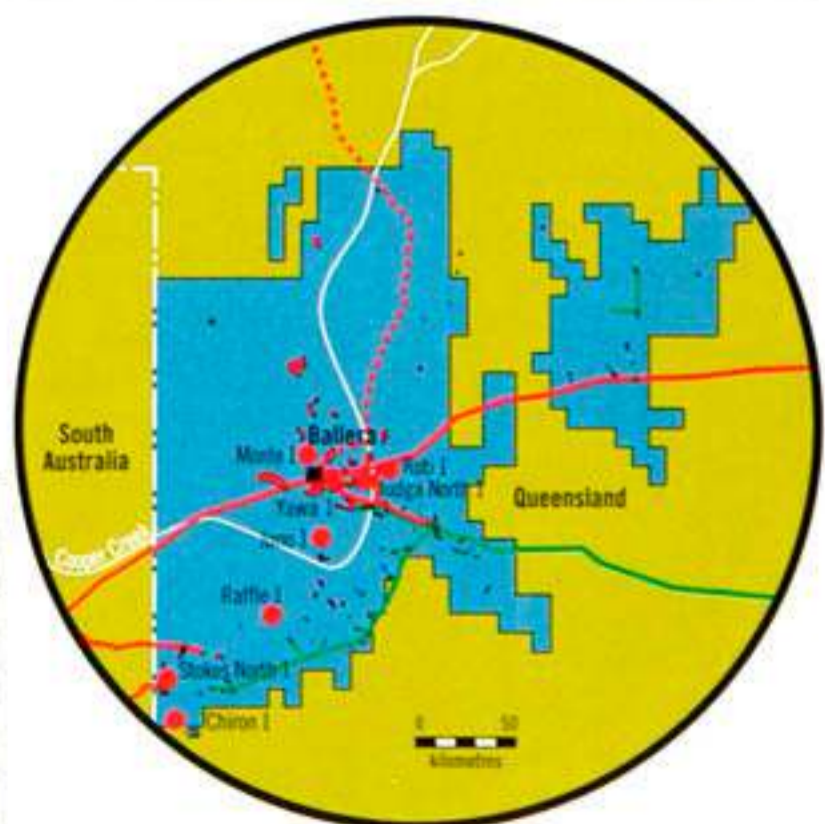
<span style="color: blue;">■</span>	Santos Permits
<span style="color: green;">■</span>	Oil Field
<span style="color: red;">■</span>	Gas Field
<span style="color: green;">—</span>	Oil Pipeline
<span style="color: red;">—</span>	Gas Pipeline
<span style="color: red;">- - -</span>	Proposed Gas Pipeline
<span style="color: red;">●</span>	1996 Gas Discovery

#### Major Field and Infrastructure Development

Field and infrastructure development represented a core component of the work undertaken by the Queensland and Northern Territory Business Unit. The major activities undertaken included:

- Completion of Chookoo field development and processing facility to supply gas to South East Queensland customers from 1 January 1997.
- Initiation of the Stokes and other field developments to satisfy the existing and new gas supply contracts.
- Successful development of oil fields in ATP299P by drilling 15 wells, resulting in a significant increase in crude oil production and reserves.
- Completion of a detailed Mereenie field study which has identified a significant increase in reserves.

#### QUEENSLAND ACREAGE



## OFFSHORE AUSTRALIA BUSINESS UNIT

The Offshore Australia Business Unit expanded its operations during 1996 providing a solid foundation for exploration and development in 1997 and beyond. To maintain the requisite regional focus on growth, the expanded asset portfolio was divided in two to create a fifth business unit (the South East Asia Business Unit) which commenced its operations in January 1997.



PRODUCTION		
	1996	1995
Pf		
Sales gas	0.2	0.0
million barrels		
Crude oil	1.5	1.7
million barrels		
Condensate	0.0	0.0
thousand tonnes		
LPG	0.0	0.0
million boe		
<b>Total</b>	<b>1.5</b>	<b>1.7</b>

### COMMERCIAL

#### Parker and Parsley Australasia Acquisition

The petroleum assets of PPA were acquired by Santos in March 1996. The acquisition encompassed a portfolio of interests including significant offshore acreage in the Carnarvon, Browse, Bonaparte and Otway Basins.

### DEVELOPMENT

Development projects represented an integral component of the Offshore Australia Business Unit's activities. In late 1996 the East Spar development project was completed, with production commencing in November.

Announcements were made regarding the development of the Stag and Elang oil fields. Development of the Bayu/Undan gas and condensate project will be progressed with a target for commitment of development by the end of 1997, whilst the Minerva gas field is currently the subject of development studies. Details of all these projects follow.

#### Stag

**Description:** Oil field development, Carnarvon Basin.

**Interest:** 54.17% equity.

**Reserves:** Estimated oil reserves 43.8 MMbbls (23.7 MMbbls Santos share).

**Production:** To commence second quarter 1998 26,200 bopd (14,190 bopd Santos share).

**Capital Exp.:** \$200 million (\$118 million Santos share).

**Field Life:** 13 plus years field life.

#### Minerva

**Description:** Dry gas field development, Otway Basin.

**Interest:** 10% (acquired with PPA).

**Reserves:** 54 MMboe (gross)  
5.4 MMboe (Santos share).

**Production:** Targeted first production 1999–2001. Field subject to development studies and marketing effort.

**Capital Exp.:** \$160 million. Net development cost (post acquisition) \$16 million (preliminary estimate).

**Possible Development:** Unmanned offshore development with onshore gas processing plant.

#### Elang

**Description:** Oil field development, Timor Gap.

**Interest:** 21.43% equity.

**Reserves:** 17 MMbbls economically recoverable (3.6 MMbbls Santos share).

**Production:** To commence mid 1998. 30,000 bopd (6,400 bopd Santos share) first 12 months.

**Capital Exp.:** \$90 million (\$19 million Santos share).

**Field Life:** Approximately 2–3 years.

## Bayu/Undan

<b>Description:</b>	Gas and condensate discovery. Timor Gap.
<b>Interest:</b>	21.43% equity (pre-unitisation).
<b>Reserves:</b>	29.8 MMboe liquids (Santos share). 400 bcf gas (Santos share).
<b>Production:</b>	Development to commence 1998 or 1999. Production estimated to commence approximately 2001.
<b>Capital Exp.:</b>	Approximately \$250 million net.
<b>Possible Development:</b>	Liquids stripping/gas recycling and/or LNG development.

A reversal of trend of declining production in 1997 is expected with a major increase in oil production during 1998 from the Stag and Elang fields (both current development projects) and gas and condensate production from the Bayu/Undan field expected to commence 2001–2002.

### EXPLORATION

Successful exploration was undertaken during the year. A significant highlight was the drilling of the Undan-4 and Trulek-1 appraisal wells which further developed the company's knowledge of the giant Bayu/Undan accumulation. Successful exploration appraisal in the Stag area extended the field, increasing the reserves by 5.5 million barrels net to Santos.

	Santos Permits
	Santos Permits (ex PPA)
	Santos Permits (ex MIM)
	Oil Field
	Gas Field
	Oil Pipeline
	Gas Pipeline

## 1997 OUTLOOK

Exploration and development will be a focus in 1997. The commencement of development projects plus the increased exploration activity will further Santos' commitment within offshore acreage.

Active exploration program of 12 wells including new exploration prospects.

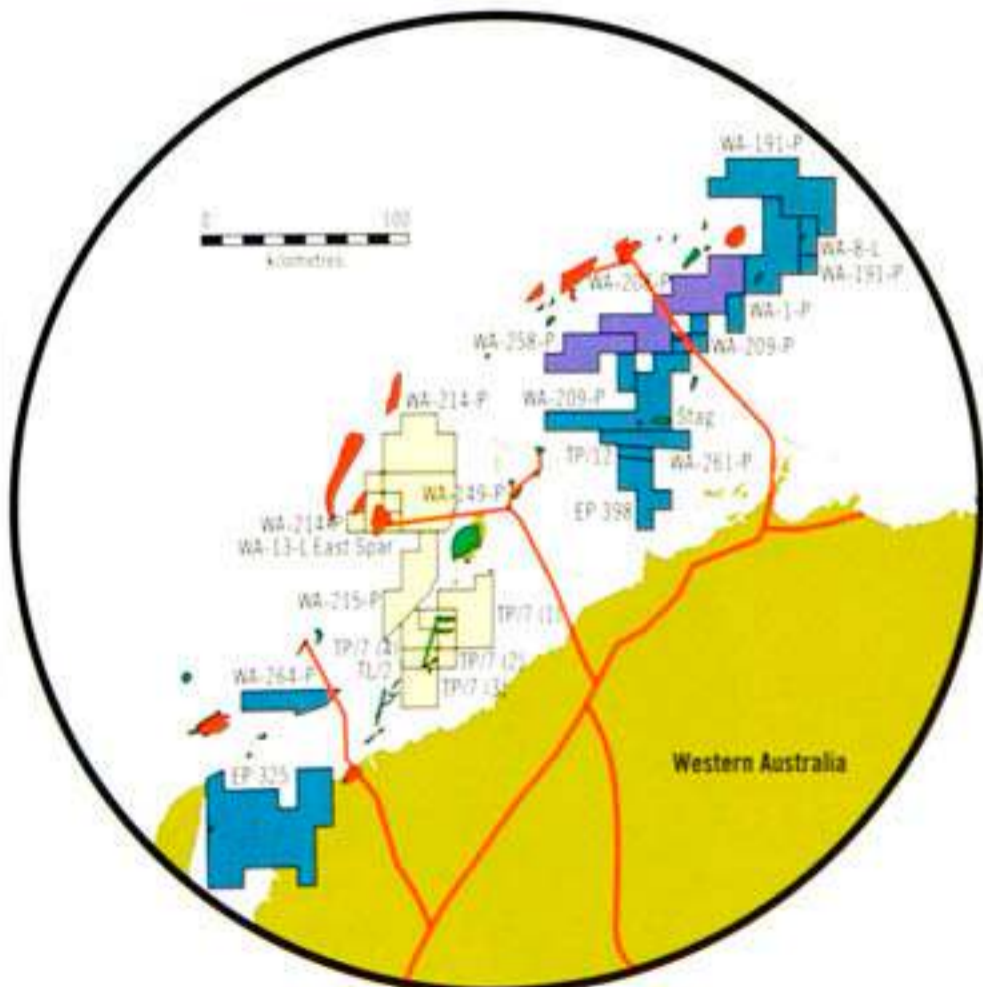
Gas resource commercialisation in respect of East Spar.

Progress on Stag and Elang development projects to achieve 1998 commencement targets. Progress on Bayu/Undan development project to achieve target start up.

An increase in offshore exploration activity is planned for 1997 with 12 wells scheduled to be drilled.

This program includes a further well to appraise the extent of the Tern field which is part of Santos' Bonaparte Basin gas resource. Following the results of this well the commercial potential of the field will be assessed.

### SANTOS ACREAGE – CARNARVON BASIN



# AMERICAS AND EUROPE BUSINESS UNIT

The operations of the Americas and Europe Business Unit during 1996 were characterised by growth and exploration success. The focus of this Business Unit has been to develop the core areas of its business as part of its broadly-based intention to build Santos' international activities. 1996 was a positive year in this regard.



PRODUCTION		
	1996	1995
PJ		
Sales gas	11.6	13.7
million barrels		
Crude oil	0.3	0.4
million barrels		
Condensate	0.1	0.1
thousand tonnes		
LPG	0.0	0.0
million boe		
<b>Total</b>	<b>2.4</b>	<b>2.8</b>

## UNITED STATES

### Overview

Significant activities were undertaken by Santos' wholly-owned subsidiary, Santos USA Corporation, during the year. An overview of these activities is detailed below.

- Growth was targeted through the acquisition and exploitation of oil and gas properties in the primary focus areas of the Texas/Louisiana Gulf Coast and the Gulf of Mexico, and secondarily in the Arkoma Basin in Oklahoma.
- Participation took place in 22 drilling projects of which 18 were completed for production and one (MC357) is awaiting subsea development.
- Reserves acquired and discovered, together with revisions to existing reserves and 1996 production, resulted in year-end reserves being approximately 25% above those at the completion of 1995.
- A positive contribution was made to Group profitability.

### Exploration

Exploration drilling in 1996 took place in two areas:

	Drilled	Successful	Planned for 1997
WD152/MC357	4	3	1
Thomson-Barrow/O'Brien	11	9	16
Arkoma Basin	-	-	3
<b>Totals</b>	<b>15</b>	<b>12</b>	<b>20</b>

### Development

Development drilling during 1996 occurred in the following areas:

	Drilled	Successful	Planned for 1997
WD152	5	5	2
MC357	-	-	1
Arkoma Basin	2	2	1
<b>Totals</b>	<b>7</b>	<b>7</b>	<b>4</b>

An additional planned project for 1997 includes the possible subsea completion of the MC357 discovery and connection to WD152.

## SANTOS USA CORPORATION INTERESTS



<span style="color: blue;">■</span>	Counties in which permits are held with Santos interests
<span style="color: red;">P</span>	Production
<span style="color: red;">○</span>	Offshore production

## UNITED KINGDOM

### Overview

The activities of Santos' wholly-owned subsidiary, Santos Europe Ltd, were focused on growth.

The highlights are detailed below.

- Positive results were achieved from the extended well tests at Banff and Pierce which indicate likely development of both fields.
- A technical review of the Anglia Field was completed, identifying additional drilling opportunities.
- The Central North Sea exploration well drilled had encouraging results and is subject to further evaluation.

## 1997 OUTLOOK

United States	United Kingdom
Santos USA Corporation's strategy is to grow through acquisitions and exploration. The activities will concentrate on gas and oil in the primary focus area of the Texas/Louisiana Gulf Coast and the Gulf of Mexico.	The focus areas of Santos Europe Ltd in the UK are the Southern Gas Basin and the Central North Sea (oil and gas).
The Corporation also intends to participate in the March 1997 Central Gulf of Mexico Lease Sale in a bidding group operated by Murphy Oil.	Santos Europe Ltd is targeting short-term production growth through the acquisition of existing or near to producing assets in these core areas. Preferred projects will have significant reserves net to Santos Europe Ltd and provide follow-up potential in terms of future increased activity.

- The year end 1996 reserve position is 30% above the year end 1995 reserve level.
- A positive contribution was made to Group profitability.
- Mr Stuart Gibson was appointed General Manager – Santos Europe Ltd.

### EXPLORATION

Exploration activity continued during the year with further projects planned for 1997.

Highlights of the 1996 program included:

- A 50% success rate from four wells drilled.
- A successful appraisal of the Pierce field.
- A well to evaluate a possible extension of the Anglia gas field was suspended pending further evaluation following indications of the presence of gas.
- An exploration well and sidetrack was suspended for further evaluation following indications of hydrocarbons in the Tay sand objective in Block 22/22c in the Central North Sea.
- An entry position has been secured in a group bidding in the 17th round of applications for licences in the UK.

### DEVELOPMENT

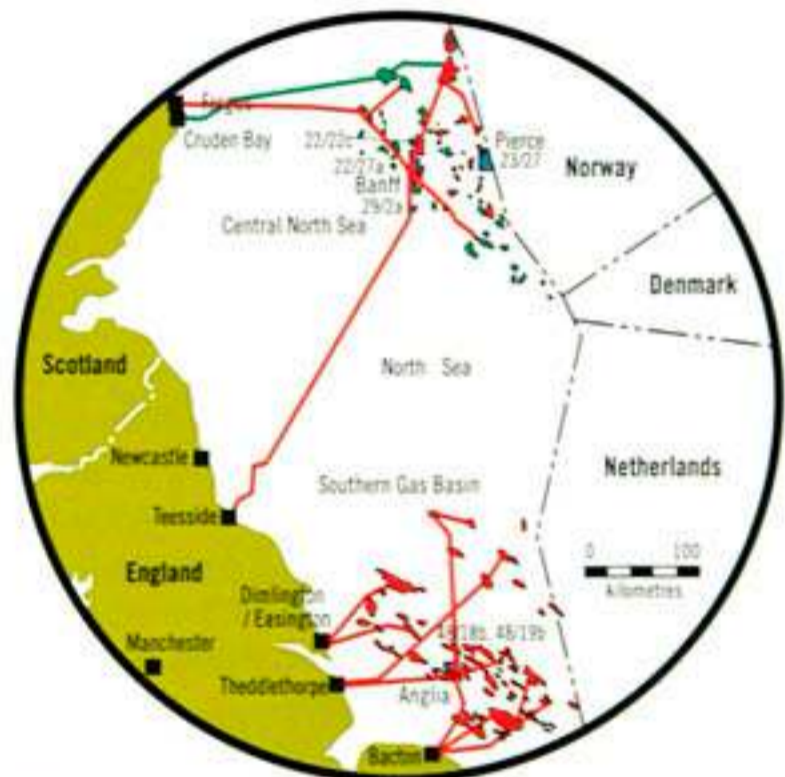
Development work represents an integral part of operations within the UK and forms an important part of the overall long-term strategy. Development activity is detailed below.

#### Anglia

Gas sales from Anglia declined during 1996. This reflected declining production from existing wells and the buyer taking a disproportionate amount of gas early in the contract year (fourth quarter 1995).

A complete technical review incorporating full field simulation has identified infill drilling locations predicted to contribute to production and improve recovery. The first of these wells is a firm 1997 project targeted for the third quarter.

### SANTOS EUROPE LTD INTERESTS



#### Banff

Production commenced in September 1996 through the Early Production System (EPS). Scheduled to last for six months, production from the two wells has been limited to the EPS capacity of 40,000 bopd. Cumulative production to year end was 2.85 MMboe (0.05 MMboe net). The early results from the EPS are positive and there is every indication that the project will proceed to full development. Full production is targeted for the second half of 1998 through a Floating Production, Storage and Offloading Unit (FPSO) designed to handle a planned rate of 60,000 bopd (1,200 bopd net).

#### Pierce

The 1996 Extended Well Test (EWT) produced 1.17 million barrels of oil (34,000 bbls net) at an average rate of 15,000 bopd (440 bopd net). Based on the encouraging results, an engineering contract was awarded for front end engineering. Full project sanction is expected early in 1997 and anticipated first oil in second half of 1998. The floating production system is being designed to handle production of 45,000 bopd (1,300 bopd net) with future gas production and sales capability.

## SOUTH EAST ASIA BUSINESS UNIT

The South East Asia Business Unit is a newly created business unit which will focus on Santos' interests in Papua New Guinea, Indonesia and New Zealand. The interests acquired in Papua New Guinea, in particular, have significant potential.



The requirement for a fifth Business Unit followed the acquisition of petroleum assets from MIM Holdings Ltd. This acquisition was finalised in January 1997. Significant offshore interests were acquired in Papua New Guinea, Indonesia and New Zealand.

### PAPUA NEW GUINEA

The acquisition has provided expanded opportunities in Papua New Guinea. The Papua New Guinea oil and gas industry has had increasing success in recent years. Exploration and development potential remain high with large areas still relatively unexplored. The acquisition provided the Santos Group with producing assets and exploration potential. It provided a meaningful presence in the prospective Papuan Basin, the only basin known to contain commercial volumes of hydrocarbons in Papua New Guinea.

The Papua New Guinea interests included a 7% interest in the unitised SE Gobe oil field which was discovered in 1991.

### SE Gobe

**Description:** Oil field. Papua New Guinea.

**Interest:** Approximately 7% after unitisation and government participation.

**Reserves:** Estimated oil reserves 60+ MMbbls recoverable (4.2 MMbbls Santos share).

**Production:** To commence first half 1998.

**Capital Exp.:** Santos Group share from mid-1996 – \$22 million.

### INTERESTS MANAGED BY THE SOUTH EAST ASIA BUSINESS UNIT<sup>(a)</sup>

Location	MIM Acquired Interest %	PPA <sup>(b)</sup> Acquired Interest %	Santos' Existing Interest %	Total Interests %	Status of Interest %
Papua New Guinea					
PPL189	40.404	–	–	40.404	Operator
PPL190	30.101	–	–	30.101	Operator
PDL3	20.0	–	–	20.0	Operator
PPL106	35.0	–	20.0	55.0	Operator
PPL155	43.825	–	–	43.825	Operator
PPLA191	87.0	–	–	87.0	Operator
PPL157	–	–	100.0	100.0	Operator
PPL158	–	–	100.0	100.0	Operator
Indonesia					
Bentu PSC	33.33	27.78	–	61.11	Non-Operator
Bangka PSC	–	15.0	–	15.0	Non-Operator
New Zealand					
PEP38712	66.66	–	–	66.66	Operator

(a) as at 31 December 1996.

(b) Parker and Parsley Australasia.



## 1997 OUTLOOK

Exploration and development will be the focus of the South East Asia Business Unit's operations in 1997:

Two wells are planned in the Bentu and Bangko PSC's.

One well is to be drilled in Papua New Guinea.

Work will proceed on the SE Gobe development to achieve target commencement dates.

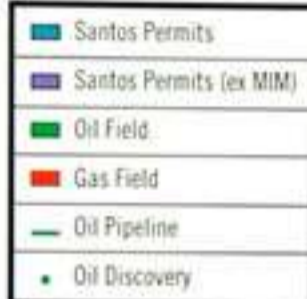
### INDONESIA

The acquisition of Parker and Parsley Australasia provided a 28% interest in the Bentu Production Sharing Contract (PSC) and a 15% interest in the Bangko PSC, both in Sumatra. The Bentu PSC contains four gas fields with good potential for additional gas finds. The gas is relatively easy to develop with the field well located with respect to possible markets, including independent power generation, petroleum development or pulped paper.

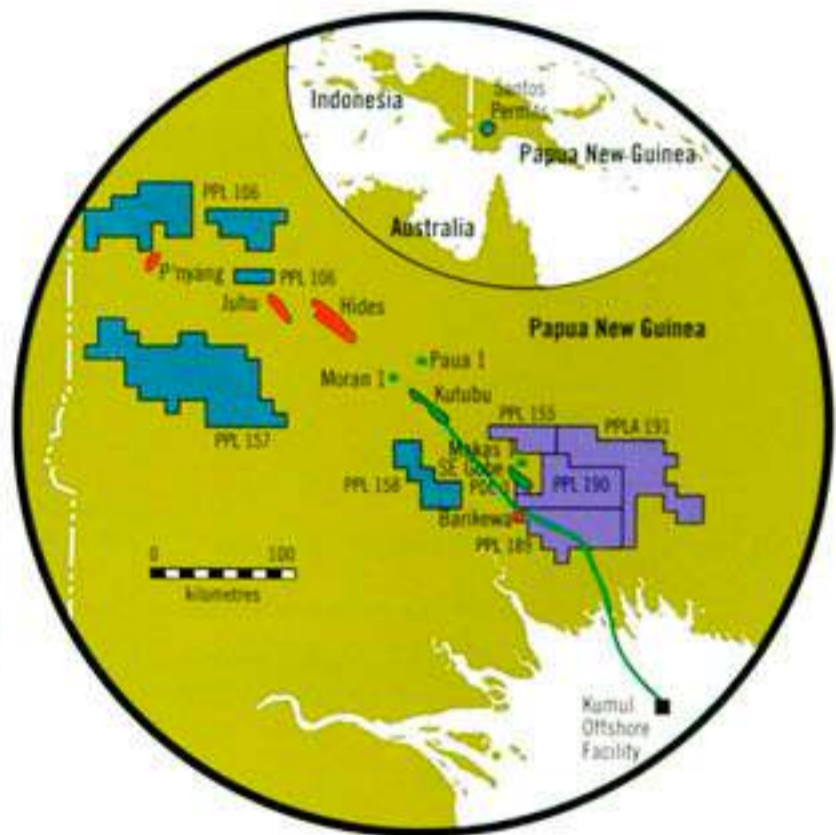
The MIM acquisition provided a further 33% interest in Bentu, together with a further interest in the contiguous Korinci-Baru application area.

The Indonesian Government is encouraging increased gas consumption. A lack of infrastructure has prevented this from happening in the past, but significant developments are taking place which will facilitate increased gas consumption. The proposed Asamera Duri pipeline with a spur to Batam Island near Singapore is one such development.

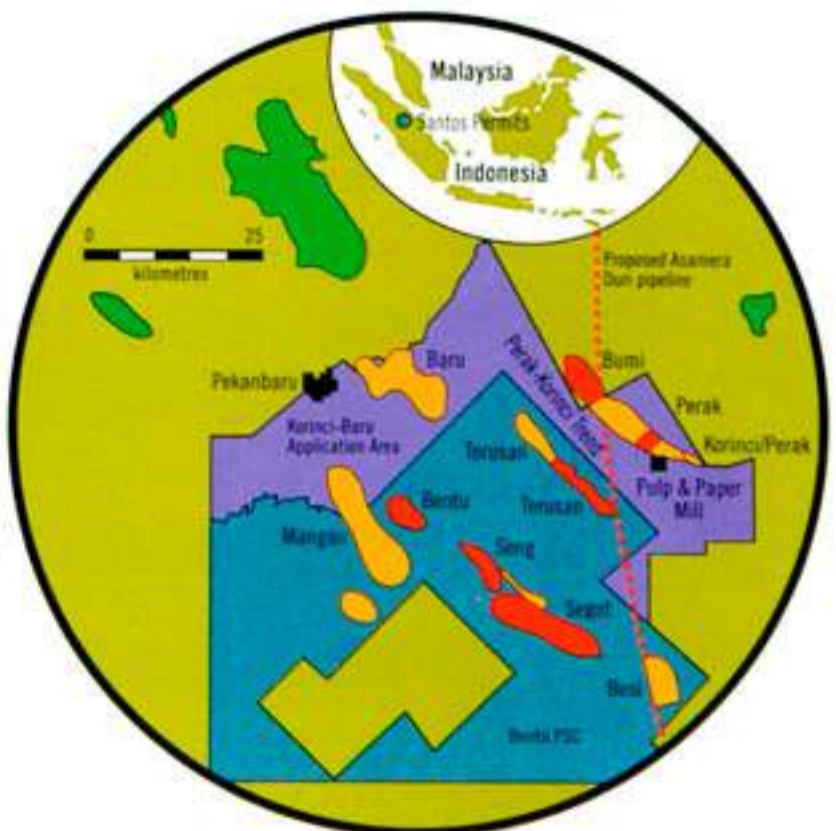
These interests represent medium-term rather than immediate opportunities. However, they are strategically important. Despite the fact that Indonesia is one of the world's major oil producers, energy shortages are common in many parts of the country. Gas still represents a challenging commercial proposition as the domestic industry grows and infrastructure is expanded. However, the medium-term outlook for the domestic gas business in Indonesia is excellent.



### PAPUA NEW GUINEA INTERESTS








### INDONESIA INTERESTS



# SANTOS GROUP INTERESTS

as at 12 March 1997

Licence Area	% Interest	Licence Area	% Interest
<b>SOUTH AUSTRALIA</b>			
 PELs 5 & 6	59.7500	SA Unit and Downstream	59.7500
Patchawarra East	69.3522	PEP 119	60.0000
<b>QUEENSLAND</b>			
 ATP 259P		PL 71 (Redcap)	10.0000
PL 55	60.0000	ATP 267P (Nockatunga)	59.0640
Naccowlah	55.5000	ATP 269P (Bodalla)	5.8060
Total 66	70.0000	PLs 31, 32 and 47	5.2500
Wareena	59.2000	ATP 299P (Tintaburra)	89.0000
Innamincka	65.0000	ATP 336P (Waldegrave)	46.2500
Aquitaine A	52.5000	ATP 378P (Burunga)	84.3750
Aquitaine B	55.0000	ATP 470P (Redcap)	10.0000
Alkina	60.0000	ATP 471P (Weribone)	5.9100
Aquitaine C	47.8000	ATP 512P	66.6700
Jackson Moonie Pipeline	82.7500	ATP 552P-GN	30.0000
SWQ Unit	58.8625	ATP 552P-RM	5.0000
PL 1 (Cabawin)	100.0000	ATP 577P	7.0000
PL 1 (Cabawin Farm-out)	50.0000	ATP 212P	15.0000
PL 1 (Moonie)	100.0000	ATP 471W	66.6700
PL 2 (Alton)	100.0000	PL 15 (Boxleigh)	15.0000
PL 2 (Kooroon)	52.5000	PL 17	70.0000
PL 2 (Alton Farm-out)	51.0000	PL 70 (Leichardt Exclusion)	70.0000
ATP 336P (Roma)	85.0000	PL 70 (Bennett Exclusion)	100.0000
PL 5 (Mascotte)	46.2500	ATP 471N	50.0000
PL 5 (Drillsearch/Pickanjinne #10)	21.2500	ATP 471-RCE (Rocky Creek East - Expl)	41.6670
PL 5 (Barcoo/Wingnut/Caneon)	85.0000	ATP 471-M (Myall)	69.4500
PL 11 (Snake Creek East)	25.0000	ATP 471-O (Onerry)	72.5000
Moonie Brisbane Pipeline	100.0000	ATP 471-D (Dalkeith)	66.6700
ATP 244P (D Block)	20.0000	ATP 471-B (Bainbilla)	16.6670
PLs 21, 22, 27 and 64 (Balonne)	12.5000	PL 49 (Rocky Creek East-Taylor)	50.0000
PL 58 (Broadway)	15.0000	Denison Trough	50.0000
<b>VICTORIA</b>			
 PEP 108	50.0000	VIC/P31 (Minerva)	10.0000
PEP 132	50.0000	VIC/RL1	33.3334
VIC/P30 (Minerva)	10.0000	VIC/RL3 (Sole)	25.0000
<b>TASMANIA</b>			
 T/RL1 (Yolla)	27.1385	T/18P (Bass)	15.0000
<b>NORTHERN TERRITORY</b>			
 OL 3 (Palm Valley)	47.9770	RL2 (Dingo)	65.6635
OLs 4 and 5 (Mereenie)	65.0000	Mereenie-Brewer Estate Pipeline	65.0000

Licence Area

% Interest

Licence Area

% Interest

**OFFSHORE NORTHERN AUSTRALIA**

EP 325	25.0000	AC/RL1 (Talbot)	47.7478
EP 398	100.0000	AC/L 1 (Jabiru)	10.3125
TL/2	15.0000	AC/L2 (Challis)	10.3125
TP/12	100.0000	AC/L3 (Cassini)	10.3125
TP/7 (1-3)	43.7110	AC/L4 (Skua)	30.5887
TP/7 (4)	18.7110	WA-261-P	52.0833
WA-149-P	18.7110	WA-264-P	33.3300
WA-199-P	27.0878	WA-258-P	20.8300
WA-206-P	43.0000	NT/RL1 (Petrel)	50.4900
WA-13-L	15.0000	WA-1-P	22.5600
WA-208-P	30.0000	WA-8-L (Talisman)	39.1000
WA-214-P	15.0000	WA-18-P (Tern)	70.0000
WA-215-P	10.0000	WA-191-P	39.1000
WA-235-P	35.5000	WA-209-P	54.1660
WA-239-P	10.0000	WA-222-P	50.4900
WA-242-P	20.0000	WA-6-R (West Petrel)	50.4900
AC/P5 (Oliver)	38.0000	ZOCA 91-01	20.0000
AC/P15	30.3334	ZOCA 91-12	21.4260

**AMERICAS AND EUROPE**

United Kingdom		United States of America	Avg interest
North Sea		Texas Onshore Tertiary Trend	
- Anglia (48/18b, 48/19b)	32.8000	- Sublime	87.0400
- Banff (22/27a Development)	1.8000	- Birdie Porter Green	50.0000
- Pierce (23/27 Development)	2.9300	- SW Nordheim	34.0000
- Block 23/27	3.7500	- Thomson Barrow/O'Brien Ranch	10.2500
- Block 22/27a	11.7500	Gulf of Mexico	
- Block 22/22c	13.3400	- WD 152	13.0000
Irish Blocks		- ST 80-5	50.0000
50/9, 10	10.0000	Arkoma Basin	26.4000
		Mississippi Smackover	33.0000

**NEW ZEALAND**

PEP 38712	46.6600
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**PAPUA NEW GUINEA**

PPL 106	55.0000	PDL 3	20.0000
PPL 157	100.0000	reducing to	15.5000
PPL 158	100.0000	SE Gobe Field Unit	9.0000
PPL 189	40.4040	reducing to	6.9750
PPL 190	30.1010	PPL 155	43.8250
PPL 191	87.0000		

**INDONESIA**

Seram	2.5000	Bangka	15.0000
Bula	100.0000	Bentu	61.1100





# BOARD OF DIRECTORS

Pictured from left to right:  
Mr MA O'Leary  
Mr I E Webber, Mr P C Barnett,  
Prof J Sloan, Mr N R Adler  
(Managing Director),  
Mr J W McAuley,  
Mr I D F Callinan,  
Mr J A Uhrig (Chairman),  
Mr Robert Strauss,  
Mr S Gerlach

## CORPORATE GOVERNANCE

### Board Composition

Under the Company's Articles of Association, the number of directors is such number (exclusive of the Managing Director), being not less than five nor more than ten, as the Board may determine from time to time. Currently the Board 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, in February 1996, formalised its existing policy and practice by the establishment of a Nomination and Remuneration Committee. The Committee comprises all non-executive directors and its main responsibilities are to devise criteria for, and review membership of, and nominations to, the Board and to review the remuneration policies and practices of the Company, including the compensation arrangements for executive directors and senior management, the Company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. Under the Company's Articles of Association the aggregate remuneration of non-executive directors is determined from time to time by shareholders at a general meeting of the Company and

an amount not exceeding the amount so determined is divided amongst the non-executive directors as they agree. Non-executive directors also have entitlements to retirement benefits in accordance with agreements entered into with shareholders' approval in 1989. The current members of the Nomination and Remuneration Committee are: Mr J A Uhrig (Chairman), Mr P C Barnett, Mr I D F Callinan, Mr S Gerlach, Mr M A O'Leary, Professor J Sloan, Mr R Strauss and Mr I E Webber.

### Appointment and Retirement of Directors

Under the Company's Articles of Association approximately one-third of directors retire by rotation each year and directors appointed during the year are required to submit themselves for election by shareholders at the Company's next Annual General Meeting. 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. The primary criteria adopted in selection of suitable board candidates is their capacity to contribute to the ongoing development of the Company having regard to their experience and age and to the location of the Company's significant business interests and to the age and diversity of experience of existing Board members. It is the Board's policy that, under normal circumstances, directors should retire at the first Annual General Meeting after reaching the age of seventy-two years.

## BOARD OF DIRECTORS

### **John Allan Uhrig**

AO, DLW, BSc, FAIM

Age 68. Director since 3 December 1991 and Chairman since 15 February 1994. Chairman of the Environmental Committee of the Board and also Chairman of Santos Finance Ltd. Chairman of CRA Ltd, Westpac Banking Corporation 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 52. Managing Director since 7 November 1984, member of the Audit and Environmental Committees of the Board and also Chairman of other Santos Ltd subsidiary companies. Director of the Commonwealth Bank of Australia, QCT Resources Ltd Group, Telstra Corporation Ltd 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 56. Director since 31 October 1995 and member of the Audit Committee of the Board. Chairman of Norwich Union Financial Services Group. Director of Mayne Nickless Ltd, Australian Media & Communications Investments Limited, Ericsson Australia Pty Ltd and the Institute of Public Affairs. Former Managing Director and Chief Executive Officer of Pasminco Ltd and Chief Executive Officer of EZ Industries Ltd.

### **Ian David Francis Callinan** QC, LLB

Age 59. Director since 17 December 1996. Barrister and former President of the Queensland and Australian Bar Associations. Chairman of the Queensland Art Gallery. Director of QCT

Resources Ltd and an Honorary member of the Incorporated Council of Law Reporting. Former Chairman of the Barristers Board of Queensland and a former Chairman of the Queensland Totalisator Administration Board.

### **Stephen Gerlach** LLJ

Age 51. Director since 5 September 1989. Chairman of the Audit Committee and member of the Environmental Committee of the Board. Chairman of Amdel Ltd, Equitorial Mining N.L. and Aser Nominees Pty Ltd. Director of AMP Australia, Southcorp Holdings Ltd, Futuris Corporation Ltd, Australian Agricultural Company Limited, Beston Pacific Corporation Limited, Riverland Water Pty Ltd and Riverland Water Holding Pty Ltd. Former Managing Partner of the Adelaide legal firm, Finlaysons.

### **John Walter McArdle** FCPA

Age 50. 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.

### **Michael Anthony O'Leary**

DLW, BSc, FAusIMM, FAIM

Age 61. Director since 15 October 1996. Chairman of Hamersley Iron, Argyle Diamonds, Dampier Salt and Director of CRA Limited, The RTZ Corporation PLC, Century Zinc Limited and Bank of Western Australia Ltd.

### **Professor Judith Sloan**

BA (Hons), MA, MSc

Age 42. Director since 5 September 1994. 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, FCS

Age 71. Director since 4 October 1983. Mr Strauss is a Chartered Accountant. Chairman of John Kaldor Fabricmaker Ltd Group and Director of Gibson Holdings Inc and Chairman of the Council of the Australian Simon University. Former Executive Chairman of Bridge Oil Limited.

### **Ian Ernest Webber**

AO, BE, AFS, FCI, FAIM

Age 61. Director since 16 February 1993 and member of the Audit Committee of the Board. Chairman of Mayne Nickless Ltd Group, 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.

### **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. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant expert and, under normal circumstances, the provision of the expert's advice to the Board.

### **Audit**

It is Board policy to continue in existence an Audit Committee, comprising three non-executive directors together with the Managing Director. The main responsibilities and rights of the Committee are to: review the terms and conditions of engagement of internal and external auditors; determine the appropriateness of internal and external audit procedures; review the interim and annual financial statements; and provide auditors with access to the Board. The Committee formally reports to the Board after each of its meetings.

The current members of the Audit Committee are: Mr S Gerlach (Chairman), Mr PC Barnett, Mr IE Webber and Mr NR Adler.

### **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 established and maintained various internal standards which extend beyond requirements prescribed by law and include additional disclosure of interests by directors and guidelines relating to the dealing in securities by directors and managers.

# TEN YEAR SUMMARY

as at 31 December

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>PROFIT AND LOSS (\$million)</b>										
Sales revenue	530.7	436.1	560.6	709.5	655.9	689.8	680.2	640.0	671.6	729.2
Total operating revenue	589.2	465.6	603.0	812.9	705.9	752.0	943.2	728.3	751.3	814.5
Crude oil price (A\$/bbl)	29.61	19.26	23.44	30.72	28.00	28.65	27.64	23.64	24.96	27.43
Operating profit before abnormal items										
Operating profit before tax	217.4	162.0	123.0	254.8	223.5	245.1	289.2	295.9	241.0	331.9
Income tax on operating profit	95.3	66.3	52.6	112.0	106.8	104.9	104.8	116.2	101.1	136.0
Operating profit after tax	122.1	95.7	70.4	142.8	116.7	140.2	184.4	179.7	139.9	195.9
Abnormal items after tax	–	(87.8)	48.4	18.5	(224.9)	(27.5)	34.9	10.7	(29.3)	–
Operating profit/(loss) after tax and abnormal items	122.1	7.9	118.8	161.3	(108.2)	112.7	219.3	190.4	110.6	195.9
Outside equity interest in operating profit/(loss)	5.0	5.7	1.7	5.3	2.7	–	–	–	–	–
Profit/(loss) attributable to shareholders	117.1	2.2	117.1	156.0	(110.9)	112.7	219.3	190.4	110.6	195.9
<b>BALANCE SHEET (\$million)</b>										
Total shareholders' equity	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	1,586.3
Total assets	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	3,443.4
Net debt	864.7	919.3	1,116.1	772.4	755.0	797.4	711.2	619.9	642.0	938.6
<b>EXPLORATION</b>										
Wells drilled	97	120	133	119	80	41	66	63	66	91
Expenditure (\$million)	55.6	90.9	109.2	97.5	79.8	76.7	79.6	91.9	87.9	121.1
Reserves (MMBOE)	552	623	671	646	623	670	675	663	703	860
Production (MMBOE)	30.6	30.6	35.6	36.0	34.2	34.6	36.3	37.2	36.8	39.2
<b>CAPITAL EXPENDITURE (\$million)</b>										
Field developments	13.6	20.1	54.9	88.9	51.9	33.2	40.0	52.2	53.9	105.8
Buildings, plant and equipment	63.4	40.4	59.7	60.9	69.1	75.6	80.6	30.5	40.1	150.3
<b>SHARE INFORMATION</b>										
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)	273.8	403.3	404.3	450.4	473.0	498.6	517.9	539.6	539.6	539.6
Weighted average number of shares (million)	301.7	330.3	415.1	425.3	463.6	481.3	503.7	523.5	537.2	537.3
Dividends per share – ordinary (¢)	19.0	19.0	19.0	19.0	19.0	21.0	22.0	22.0	23.0	24.0
– special (¢)	–	–	–	–	–	–	5.0	–	–	–
Dividends – ordinary (\$million)	55.7	68.9	76.0	85.5	88.5	102.7	112.3	117.2	123.6	129.0
– special (\$million)	–	–	–	–	–	–	25.8	–	–	–
<b>RATIOS AND STATISTICS</b>										
Earnings per share										
– before abnormal items (¢)	38.8	27.8	16.6	32.3	24.6	29.1	36.6	34.3	26.0	36.5
– after abnormal items (¢)	38.8	0.7	28.2	36.7	(23.9)	23.4	43.5	36.4	20.6	36.5
Return on total income (%)	20.7	20.6	11.7	17.6	16.5	18.6	23.9	24.7	18.6	24.1
Return on shareholders' equity (%)	15.4	9.0	6.6	10.6	9.7	11.4	13.4	11.7	9.2	12.3
Net debt/equity (%)	100.5	83.1	99.3	56.0	62.1	64.7	51.5	40.5	42.3	59.2
Net interest cover (times)	4.9	3.1	1.9	3.2	4.1	5.9	8.6	8.3	7.2	8.8
<b>GENERAL</b>										
Number of employees	1,561	1,547	1,655	1,683	1,570	1,468	1,526	1,492	1,471	1,461
Number of shareholders	25,267	27,113	26,499	26,251	29,706	35,492	42,068	50,595	55,684	55,482
Market capitalisation (\$million)	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	2,741.1

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

# 1996 FINANCIAL STATEMENTS

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# 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 1996 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		Surname	Other Names	Shareholdings in Santos Ltd	
		Beneficial Interest	Non-beneficial Interest			Beneficial Interest	Non-beneficial Interest
Uhrig	John Allan (Chairman)	15,000	—	McArdle	John Walter (Executive Director)	459,317**	33,700
Adler	Norman Ross (Managing Director)	760,000*	—	O'Leary	Michael Anthony	4,200	—
Barnett	Peter Charles	10,000	—	Sloan	Judith	1,000	—
Callinan	Ian David Francis	—	—	Strauss	Robert	10,000	—
Gerlach	Stephen	—	3,826	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 43 of this Annual Report.

Mr Richard Chapman Hope Mason retired, and Mr James Joseph Kennedy resigned, as Directors of the Company during the year.

Mr Michael Anthony O'Leary was appointed a Director of the Company on 15 October 1996.

Mr Ian David Francis Callinan was appointed a Director of the Company on 17 December 1996.

### 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		Nomination and Remuneration 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*	No. of Meetings Attended	No. of Meetings Held*
Uhrig	John Allan	11	11			3	3	2	2
Adler	Norman Ross	11	11	4	4	3	3		
Barnett	Peter Charles	11	11	2	2			2	2
Callinan	Ian David Francis	—	—						
Gerlach	Stephen	11	11	4	4	3	3	2	2
Kennedy	James Joseph	8	9			2	2	1	1
Mason	Richard Chapman Hope	4	4					1	1
McArdle	John Walter	10	11						
O'Leary	Michael Anthony	3	3					1	1
Sloan	Judith	10	11					2	2
Strauss	Robert	9	11					2	2
Webber	Ian Ernest	10	11	3	4			1	2

\* 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 pages 42 and 43 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 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 1996 after providing for income tax and abnormal items was \$195.9 million.



#### 4. DIVIDENDS

In respect of the year ended 31 December 1996:

- (a) the Directors on 12 March 1997 declared a fully franked final dividend of 13 cents per fully paid share to be paid on 2 May 1997 to members registered in the books of the Company as at close of business on 11 April 1997 and declared that such dividend be a Class C franked dividend to the extent of 100%. This final dividend amounts to approximately \$69.9 million; and
- (b) a fully franked interim dividend of \$59.1 million (11 cents per share) was paid to members in November 1996.

A fully franked final dividend of \$64.5 million on the 1995 results (12 cents per share) was paid in May 1996. Indication of this dividend payment was disclosed in the 1995 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 4 to 7, 12, 13, 16, 18, 19 and 30 to 37 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 referred to on pages 1 and 3 of the Report to Shareholders;
- (b) the 1996 results benefited from the inclusion of Australasian Eagle Petroleum Pty Ltd, the holding company of Parker and Parsley Australasia Pty Ltd, as from 1 January 1996 which contributed \$12.8 million before acquisition financing costs;
- (c) net debt stood at \$938.6 million at 31 December 1996, which was 46.2% higher than at the beginning of the year due to funding the acquisition of Australasian Eagle Petroleum Pty Ltd and capital expenditure programmes; and
- (d) with the due satisfaction of the conditions of an escrow agreement entered into during the 1995 financial year between the Company and the Australian Gas Light Company, the special rights attaching to the B Class Shares expired at 5.00 p.m. on 3 May 1996. On the expiry of those rights, the B Class Shares converted into, and carry the rights attaching to, ordinary shares of the Company.

#### 7. SUBSEQUENT EVENTS

Other than as referred to at Note 32 to the Consolidated Accounts 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 1996 are referred to at pages 9, 17, 22, 23, 31, 33, 35, 37, 38 and 39 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 43 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) as disclosed in the Directors' Statutory Report dated 13 March 1996, Mr RCH Mason was, following his ceasing to be a director during the year, paid a retirement benefit pursuant to an agreement entered into with members' approval at the 1989 Annual General Meeting;
  - (ii) Mr JJ Kennedy was, following his resignation during the year, paid a retirement benefit pursuant to an agreement entered into with members' approval at the 1989 Annual General Meeting;
  - (iii) an agreement was entered into on 15 October 1996 with Mr MA O'Leary 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
  - (iv) an agreement was entered into on 18 February 1997 with Mr IDF Callinan in accordance with members' approval at the 1989 Annual General Meeting providing for payment of a sum on retirement from office as a Director.

#### 10. SHARE OPTIONS

There are no unissued shares under option.

#### 11. INDEMNIFICATION

Article 177 of the Company's Articles of Association provides that the Company indemnifies each person who is or who has been an officer (as defined) 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 12 March 1997 in accordance with a resolution of the Directors.



JA Uhrig, Director  
12 March 1997



NR Adler, Director

# PROFIT AND LOSS ACCOUNTS

for the year ended 31 December 1996

		Consolidated		Santos Ltd	
	Note	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>Operating revenue</b>	(2)	814.5	751.3	524.8	418.2
<b>Operating profit before abnormal items</b>	(3)	331.9	241.0	257.9	170.4
Income tax attributable to operating profit before abnormal items		(136.0)	(101.1)	(46.2)	(51.3)
Abnormal income tax item		—	(29.3)	—	(18.9)
Income tax attributable to operating profit	(4)	(136.0)	(130.4)	(46.2)	(70.2)
<b>Operating profit after income tax attributable to shareholders of Santos Ltd</b>		195.9	110.6	211.7	100.2
Retained profits at the beginning of the year		216.8	229.8	90.5	113.9
Total available for appropriation		412.7	340.4	302.2	214.1
Dividends provided for or paid	(5)	(129.0)	(123.6)	(129.0)	(123.6)
<b>Retained profits at the end of the year</b>		283.7	216.8	173.2	90.5

**BALANCE SHEETS**

at 31 December 1996

	Note	Consolidated		Santos Ltd	
		1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>Current assets</b>					
Cash		152.0	87.8	7.0	2.3
Receivables	(6)	130.4	120.2	62.1	49.9
Inventories	(7)	72.6	60.7	38.1	31.8
Other	(8)	—	—	162.2	49.3
<b>Total current assets</b>		<b>355.0</b>	<b>268.7</b>	<b>269.4</b>	<b>133.3</b>
<b>Non-current assets</b>					
Receivables	(6)	25.1	18.9	16.5	13.4
Investments	(9)	390.7	357.7	1,911.3	1,729.2
Property, plant and equipment	(10)	2,595.4	2,181.6	1,083.6	1,030.9
Intangibles	(11)	71.6	80.7	—	—
Other	(8)	5.6	7.9	—	—
<b>Total non-current assets</b>		<b>3,088.4</b>	<b>2,646.8</b>	<b>3,011.4</b>	<b>2,773.5</b>
<b>Total assets</b>		<b>3,443.4</b>	<b>2,915.5</b>	<b>3,280.8</b>	<b>2,906.8</b>
<b>Current liabilities</b>					
Creditors and borrowings	(12)	78.4	67.3	35.7	46.9
Provisions	(13)	174.5	134.4	104.5	118.3
Other	(14)	—	—	1,380.5	1,085.7
<b>Total current liabilities</b>		<b>252.9</b>	<b>201.7</b>	<b>1,520.7</b>	<b>1,250.9</b>
<b>Non-current liabilities</b>					
Creditors and borrowings	(12)	1,090.2	729.1	0.1	0.2
Provisions	(13)	508.4	465.4	279.8	261.9
Other	(14)	5.6	—	2.9	—
<b>Total non-current liabilities</b>		<b>1,604.2</b>	<b>1,194.5</b>	<b>282.8</b>	<b>262.1</b>
<b>Total liabilities</b>		<b>1,857.1</b>	<b>1,396.2</b>	<b>1,803.5</b>	<b>1,513.0</b>
<b>Net assets</b>		<b>1,586.3</b>	<b>1,519.3</b>	<b>1,477.3</b>	<b>1,393.8</b>
<b>Shareholders' equity</b>					
Share capital	(15)	134.4	134.3	134.4	134.3
Reserves	(16)	1,168.2	1,168.2	1,169.7	1,169.0
Retained profits		283.7	216.8	173.2	90.5
<b>Total shareholders' equity</b>		<b>1,586.3</b>	<b>1,519.3</b>	<b>1,477.3</b>	<b>1,393.8</b>

# STATEMENTS OF CASH FLOWS

for the year ended 31 December 1996

	Note	Consolidated		Santos Ltd	
		1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>Cash flows from operating activities</b>					
Receipts from customers		721.2	655.6	338.9	340.6
Dividends received		28.2	22.0	28.2	140.4
Interest received		7.9	5.4	0.9	0.8
Overriding royalties received		11.0	10.7	13.4	13.0
Pipeline tariffs and other receipts		36.8	32.9	12.2	9.5
Payments to suppliers and employees		(206.3)	(173.4)	(80.2)	(76.1)
Government royalties and resource rent tax paid		(50.3)	(38.1)	(21.8)	(22.0)
Interest and other costs of finance paid		(65.8)	(51.7)	(66.7)	(56.8)
Income taxes paid		(69.6)	(94.4)	(51.6)	(53.2)
<b>Net cash provided by operating activities</b>	(22)	<b>413.1</b>	<b>369.0</b>	<b>173.3</b>	<b>296.2</b>
<b>Cash flows from investing activities</b>					
Payments for:					
Land and buildings, plant and equipment		(138.0)	(36.2)	(56.3)	(21.1)
Exploration		(120.8)	(89.9)	(44.5)	(40.5)
Development		(88.4)	(42.5)	(39.7)	(16.8)
Fixed factor settlement		(12.6)	—	(22.8)	—
Acquisitions of oil and gas assets		(8.8)	(27.4)	—	(0.3)
Acquisitions of controlled entities	(22)	(155.6)	—	(138.5)	—
Share subscriptions in controlled entities		—	—	(14.9)	(45.9)
Other investments		(46.1)	(67.6)	(42.4)	(67.6)
Proceeds from sale of non-current assets		4.7	9.8	9.8	0.4
<b>Net cash used in investing activities</b>		<b>(565.6)</b>	<b>(253.8)</b>	<b>(349.3)</b>	<b>(191.8)</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(123.6)	(118.2)	(123.6)	(118.2)
Proceeds from issues of shares and agreed conversions		0.3	0.8	0.3	0.8
Repayment of term borrowings		(183.7)	—	—	—
Net drawdown/(repayment) of other borrowings		523.8	(29.0)	—	—
Advances from related entities		—	—	304.0	8.4
<b>Net cash provided by/(used in) financing activities</b>		<b>216.8</b>	<b>(146.4)</b>	<b>180.7</b>	<b>(109.0)</b>
<b>Net increase/(decrease) in cash</b>		<b>64.3</b>	<b>(31.2)</b>	<b>4.7</b>	<b>(4.6)</b>
<b>Cash at the beginning of the year</b>		<b>87.8</b>	<b>118.7</b>	<b>2.3</b>	<b>6.9</b>
Effects of exchange rate changes on the balances of cash held in foreign currencies		(0.1)	0.3	—	—
<b>Cash at the end of the year</b>		<b>152.0</b>	<b>87.8</b>	<b>7.0</b>	<b>2.3</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 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 prepared as a general purpose financial report 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. The accounting policies are consistent with those adopted in the previous year.

### (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(g)), 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.

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) Inventories

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

- (i) Drilling and maintenance stocks, which include plant spares, maintenance and drilling tools used for ongoing operations, are valued at average cost.
- (ii) Petroleum products, which comprise extracted crude oil, LPG, condensate and naphtha stored in tanks and pipeline systems and processed sales gas and ethane stored in subsurface reservoirs, are valued using the absorption cost method.

### (g) 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

## 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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.

### (h) 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.

### (i) 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.

### (j) 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.

### (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

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

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

Contributions to defined benefit superannuation plans sponsored by the economic entity are charged against operating profit. Where the assets of a fund significantly exceed the liabilities and the fund's actuary has so recommended, contributions 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.

### (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.

### (o) Deferred income

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

## 1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### (p) Participation factors – Cooper Basin, South Australia

In 1996, an agreement was reached between Santos Ltd and other South Australian Cooper Basin joint venture participants which results in the Santos Group of companies holding a 59.75% fixed interest in each block in PELs 5 and 6 (other than the Patchawarra East Block) and in the Unit and Downstream Joint Ventures. Revenues and expenditures have been brought to account based on the fixed participation factor as from 1 January 1996. The application of the fixed participation factor does not significantly vary the current year's results from that using the factors previously applied.

### (q) 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.

### (r) Comparatives

Where applicable, comparatives have been adjusted to place them on a comparable basis with current year figures. In the 1995 Annual Financial Statements, net foreign currency exchange losses of \$16.0 million before tax arising from translation of US dollar denominated debt to Australian currency was reported as an abnormal item. These losses have been reclassified to a normal component of operating profit to be consistent with the presentation of the 1996 results.

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>2. OPERATING REVENUE</b>				
Sales revenue	729.2	671.6	338.7	338.3
Other revenue				
Dividends from:				
controlled entities	–	–	122.4	32.7
associated company	26.5	20.4	26.5	20.4
other than related parties	1.7	1.6	1.7	1.6
Interest	7.8	5.3	0.9	0.7
Overriding royalties	11.3	11.3	14.3	13.9
Pipeline tariffs	9.3	8.7	–	–
Proceeds from sale of non-current assets	4.7	6.9	9.8	0.4
Hotel revenue	10.7	11.7	–	–
Other income	13.3	13.8	10.5	10.2
	<b>814.5</b>	<b>751.3</b>	<b>524.8</b>	<b>418.2</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>3. OPERATING PROFIT</b>				
Operating profit before income tax is arrived at after charging/(crediting) the following items:				
Interest paid or due and payable to:				
controlled entities	–	–	66.5	56.7
other than related parties:				
on loans	66.6	52.3	0.2	0.1
on finance leases	1.2	1.3	0.1	0.1
less interest capitalised	(17.5)	(9.2)	(4.5)	(3.1)
Interest expense	50.3	44.4	62.3	53.8
Loss/(profit) from the sale of non-current assets	0.1	–	0.1	(0.2)
Depreciation, depletion and amortisation of property, plant and equipment:				
depreciation	87.5	94.6	49.9	51.5
depletion	103.4	100.1	32.7	30.5
amortisation of capitalised leases	0.7	0.7	0.2	0.3
Write-down of exploration expenditure	11.2	23.9	1.7	–
Amortisation of goodwill	9.0	9.0	–	–
Write-down of investments in controlled entities	–	–	4.5	14.4
Government royalties and resource rent tax	50.5	39.6	22.5	22.3
Increase/(decrease) in provisions:				
doubtful debts	(1.2)	–	–	–
stock obsolescence	0.4	(0.2)	–	(0.3)
non-executive Directors' retirement benefits and employee entitlements	1.6	2.9	1.4	1.4
future restoration costs	3.7	5.4	1.6	1.4
Operating lease rentals	5.1	5.4	3.5	3.7
Net foreign currency (gains)/losses	(25.0)	16.0	–	–

Net foreign exchange gains of \$25.0 million (1995 – \$16.0 million loss) is made up of realised gains of \$14.1 million (1995 – \$0.9 million realised loss) resulting from the repayment of US dollar denominated borrowings and unrealised gains of \$10.9 million (1995 – \$15.1 million unrealised loss) resulting from translation of US dollar denominated borrowings to Australian currency.



	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>4. TAXATION</b>				
<b>Income tax attributable to operating profit</b>				
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%	119.5	86.7	92.8	61.3
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	19.4	17.6	4.4	4.0
Write-down of investments in controlled entities	—	—	1.6	5.2
Amortisation of goodwill	3.2	3.2	—	—
Non-deductible items	0.4	1.3	0.4	0.2
Rebate on dividend income	(8.7)	(6.5)	(52.8)	(18.2)
Income tax under/(over) provided in prior years	2.2	(1.2)	(0.2)	(1.2)
Income tax attributable to operating profit before abnormal items	136.0	101.1	46.2	51.3
<b>Abnormal income tax item</b>				
Restatement of net deferred income tax provisions due to change in income tax rate	—	29.3	—	18.9
<b>Income tax attributable to operating profit</b>	<b>136.0</b>	<b>130.4</b>	<b>46.2</b>	<b>70.2</b>
Income tax attributable to operating profit comprises amounts set aside to:				
Provision for current income tax	101.3	83.0	31.0	46.3
Provision for deferred income tax	25.5	46.4	15.2	23.9
Future income tax benefits	9.2	1.0	—	—
	136.0	130.4	46.2	70.2

#### 5. DIVIDENDS

##### Dividends provided for or paid by Santos Ltd are:

Interim dividend of 11.0 cents per share, fully franked (1995 – 11.0 cents per share, fully franked)

59.1      59.1      59.1      59.1

Final dividend of 13.0 cents per share, fully franked (1995 – 12.0 cents per share, fully franked)

69.9      64.5      69.9      64.5

129.0      123.6      129.0      123.6

##### Franking credits

Santos Ltd has \$244.1 million of franking credits at 36% available as at 12 March 1997. After deducting franking credits to be used in payment of the 1996 final dividend, \$174.2 million of franking credits will be available for future distribution of franked dividends.

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>4. TAXATION</b>				
<b>Income tax attributable to operating profit</b>				
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%	119.5	86.7	92.8	61.3
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	19.4	17.6	4.4	4.0
Write-down of investments in controlled entities	—	—	1.6	5.2
Amortisation of goodwill	3.2	3.2	—	—
Non-deductible items	0.4	1.3	0.4	0.2
Rebate on dividend income	(8.7)	(6.5)	(52.8)	(18.2)
Income tax under/(over) provided in prior years	2.2	(1.2)	(0.2)	(1.2)
Income tax attributable to operating profit before abnormal items	136.0	101.1	46.2	51.3
<b>Abnormal income tax item</b>				
Restatement of net deferred income tax provisions due to change in income tax rate	—	29.3	—	18.9
<b>Income tax attributable to operating profit</b>	<b>136.0</b>	<b>130.4</b>	<b>46.2</b>	<b>70.2</b>
Income tax attributable to operating profit comprises amounts set aside to:				
Provision for current income tax	101.3	83.0	31.0	46.3
Provision for deferred income tax	25.5	46.4	15.2	23.9
Future income tax benefits	9.2	1.0	—	—
	136.0	130.4	46.2	70.2

#### 5. DIVIDENDS

##### Dividends provided for or paid by Santos Ltd are:

Interim dividend of 11.0 cents per share, fully franked (1995 – 11.0 cents per share, fully franked)	59.1	59.1	59.1	59.1
Final dividend of 13.0 cents per share, fully franked (1995 – 12.0 cents per share, fully franked)	69.9	64.5	69.9	64.5
	129.0	123.6	129.0	123.6

##### Franking credits

Santos Ltd has \$244.1 million of franking credits at 36% available as at 12 March 1997. After deducting franking credits to be used in payment of the 1996 final dividend, \$174.2 million of franking credits will be available for future distribution of franked dividends.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>6. RECEIVABLES</b>				
<b>Current</b>				
Trade debtors	87.4	68.9	44.2	34.7
Sundry debtors and prepayments	42.2	52.2	17.3	14.7
Less provision for doubtful debts	(1.0)	(2.2)	(0.4)	(0.4)
Security deposit (refer below)	1.8	1.3	1.0	0.9
	<b>130.4</b>	<b>120.2</b>	<b>62.1</b>	<b>49.9</b>
<b>Non-current</b>				
Sundry debtors and prepayments	4.1	—	4.1	—
Security deposit (refer below)	20.5	18.4	11.9	12.9
Other loans (refer note 23)	0.5	0.5	0.5	0.5
	<b>25.1</b>	<b>18.9</b>	<b>16.5</b>	<b>13.4</b>
<p>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.</p>				
<b>7. INVENTORIES</b>				
Petroleum products	49.5	43.0	27.1	23.9
Drilling and maintenance stocks	24.9	19.1	11.7	8.6
Provision for obsolescence	(1.8)	(1.4)	(0.7)	(0.7)
	<b>72.6</b>	<b>60.7</b>	<b>38.1</b>	<b>31.8</b>
<b>8. OTHER ASSETS</b>				
<b>Current</b>				
Amounts owing by controlled entities	—	—	162.2	49.3
<b>Non-current</b>				
Future income tax benefits	5.6	7.9	—	—
<b>9. INVESTMENTS</b>				
<b>Non-current</b>				
Investments in controlled entities (refer note 19)	—	—	1,520.6	1,371.5
Listed shares and notes in other entities	390.7	357.7	390.7	357.7
	<b>390.7</b>	<b>357.7</b>	<b>1,911.3</b>	<b>1,729.2</b>
Aggregate market value of investments in listed shares and notes in other than controlled entities	487.9	399.1	487.9	399.1

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Land and buildings</b>				
At cost (refer below)	57.6	54.5	33.4	34.7
Less accumulated depreciation	(31.1)	(29.3)	(22.7)	(21.2)
	26.5	25.2	10.7	13.5
<b>Plant and equipment</b>				
At cost	1,900.2	1,681.4	1,111.1	1,054.2
At independent valuation – 1977	35.2	35.2	35.2	35.2
Capitalised leases	20.9	20.6	2.7	3.1
	1,956.3	1,737.2	1,149.0	1,092.5
Less accumulated depreciation	(1,069.7)	(983.2)	(676.9)	(631.8)
	886.6	754.0	472.1	460.7
<b>Total land and buildings, plant and equipment</b>	913.1	779.2	482.8	474.2
<b>Exploration, evaluation and development expenditure</b>				
Areas of interest in which production has commenced:				
At cost	2,733.3	2,337.5	923.9	839.6
Less accumulated depletion and write-downs of carrying value	(1,203.9)	(1,107.8)	(398.2)	(365.5)
	1,529.4	1,229.7	525.7	474.1
Areas of interest in the exploration and/or evaluation stage:				
At cost	152.9	172.7	75.1	82.6
<b>Total exploration, evaluation and development expenditure</b>	1,682.3	1,402.4	600.8	556.7
<b>Total property, plant and equipment</b>	2,595.4	2,181.6	1,083.6	1,030.9
The Directors consider the current value of land and buildings to be at least equal to their carrying value.				
<b>11. INTANGIBLES</b>				
Goodwill, at cost	160.2	160.2	–	–
Less accumulated amortisation	(88.6)	(79.5)	–	–
	71.6	80.7	–	–
<b>12. CREDITORS AND BORROWINGS</b>				
<b>Current</b>				
Trade creditors	62.0	52.4	27.2	21.1
Sundry creditors and accruals	16.0	14.2	8.4	25.5
Lease liabilities	0.4	0.7	0.1	0.3
	78.4	67.3	35.7	46.9
<b>Non-current</b>				
Bank loans	463.8	286.5	–	–
Commercial paper	398.5	199.5	–	–
Long-term notes	213.5	228.2	–	–
Lease liabilities	14.4	14.9	0.1	0.2
	1,090.2	729.1	0.1	0.2

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

## 12. CREDITORS AND BORROWINGS (CONTINUED)

### Details of major credit facilities

#### (i) Bank loans

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

Revolving Facilities at 31 December 1996

Maturity Date	Currency	Amount A\$Million	Amount Drawn at 31 December 1996 A\$Million
15 July 1998	Australian dollars	5.0	—
19 July 2001	Multi option	600.0	118.8
18 March 1999	Multi option	100.0	75.0
22 November 1999	Multi option	100.0	—
2 December 1999	Multi option	50.0	50.0
18 March 2001	Multi option	175.0	150.0
19 March 2003	Multi option	75.0	70.0
		<b>1,105.0</b>	<b>463.8</b>

#### (ii) 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 1996, A\$398.5 million (1995 – A\$199.5 million) equivalent of commercial paper was on issue.

#### (iii) Long-term notes

US\$170.0 million (1996 – A\$213.5 million, 1995 – A\$228.2 million) of long-term notes were issued in December 1993 and are repayable in five annual instalments commencing in December 2001.

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

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>13. PROVISIONS</b>				
<b>Current</b>				
Dividends	69.9	64.5	69.9	64.5
Employee entitlements	29.8	26.9	22.7	21.2
Income tax	74.8	43.0	11.9	32.6
	<b>174.5</b>	<b>134.4</b>	<b>104.5</b>	<b>118.3</b>
<b>Non-current</b>				
Deferred income tax	440.0	406.7	252.2	235.8
Future restoration costs	67.7	57.8	26.9	25.2
Non-executive Directors' retirement benefits	0.7	0.9	0.7	0.9
	<b>508.4</b>	<b>465.4</b>	<b>279.8</b>	<b>261.9</b>

## 14. OTHER LIABILITIES

### Current

Amounts owing to controlled entities

Non-current  
Deferred income

	—	—	1,380.5	1,085.7
	5.6	—	2.9	—

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>15. SHARE CAPITAL</b>				
<b>Authorised capital</b>				
2,000,000,000 unclassified shares of 25¢ each	500.0	500.0	500.0	500.0
<b>Issued capital</b>				
537,472,918 (1995 – 537,131,918) ordinary shares of 25¢ each	134.4	134.3	134.4	134.3
2,104,500 (1995 – 2,345,500) ordinary shares of 25¢ each paid to 1¢	–	–	–	–
	<b>134.4</b>	<b>134.3</b>	<b>134.4</b>	<b>134.3</b>

**Movement in share capital**

During the year 241,000 ordinary shares (paid to 1 cent) issued to senior executives of the Company under the Santos Executive Share Plan were fully paid.

During the year, the special rights attaching to the 100,000 "B" class shares expired and the "B" class shares were converted into fully paid ordinary shares.

**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 152,500 Plan 0 and 88,500 Plan 2 Shares were fully paid and as at 31 December 1996 there were 46 holders of the outstanding 1,102,000 Plan 0 Shares and 38 holders of the outstanding 1,002,500 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 \$57,840 and Share Premium \$737,625. 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 1996 was \$5.10.

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>16. RESERVES</b>				
Share premium	1,149.1	1,148.4	1,149.1	1,148.4
Asset revaluation	14.9	14.9	14.9	14.9
Capital	5.9	5.9	5.7	5.7
Foreign currency translation	(1.7)	(1.0)	–	–
	<b>1,168.2</b>	<b>1,168.2</b>	<b>1,169.7</b>	<b>1,169.0</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>16. RESERVES (CONTINUED)</b>				
<b>Movements during the year:</b>				
<b>Share premium</b>				
Balance at beginning of the year	1,148.4	1,148.2	1,148.4	1,148.2
Share issues	0.7	0.2	0.7	0.2
Balance at end of the year	<u>1,149.1</u>	<u>1,148.4</u>	<u>1,149.1</u>	<u>1,148.4</u>
<b>Foreign currency translation</b>				
Balance at beginning of the year	(1.0)	(2.1)	—	—
Transfers to/(from) foreign currency translation reserve arising from exchange rate fluctuations on:				
overseas net assets	(2.9)	6.1	—	—
foreign currency borrowings	2.2	(5.0)	—	—
Balance at end of the year	<u>(1.7)</u>	<u>(1.0)</u>	<u>—</u>	<u>—</u>

	Consolidated	
	1996	1995
<b>17. EARNINGS PER SHARE</b>		
<b>Basic earnings per share (cents):</b>		
before abnormal items	36.5	26.0
after abnormal items	<u>36.5</u>	<u>20.6</u>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (million)	<u>537.3</u>	<u>537.2</u>

Santos Ltd has potential ordinary shares on issue, being 2,104,500 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 Sheets to the extent that they are not effectively hedged through currency exchange contracts or other financial instruments are:

		Consolidated		Santos Ltd	
		1996 \$million	1995 \$million	1996 \$million	1995 \$million
Current assets	United States dollars	130.5	43.9	21.9	15.9
	United Kingdom pounds	24.7	22.1	—	—
Current liabilities	United States dollars	5.8	9.5	—	—
	United Kingdom pounds	4.4	5.0	—	—
Non-current liabilities	United States dollars	213.5	437.4	—	—
	United Kingdom pounds	<u>68.8</u>	<u>67.4</u>	<u>—</u>	<u>—</u>

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				Contribution to consolidated profit	
		Beneficial interest	Book value	1996	1995	1996	1995
		1996 %	1995 %	\$million	\$million	\$million	\$million
Santos Ltd (Chief entity)	SA					94.6	82.5
<b>Controlled entities:</b>							
Alliance Oil Development Australia Pty Ltd	VIC	100	100	107.7	107.7	(0.1)	-
<i>Controlled entities of Alliance Oil Development Australia Pty Ltd</i>							
Alliance Minerals Australia Pty Ltd	VIC	100	100	-	-	-	-
Alliance Petroleum Australia Pty Ltd	VIC	100	100	-	-	3.4	0.1
Associated Petroleum Pty Ltd	QLD	100	100	117.1	117.1	8.7	7.2
<i>Controlled entities of Associated Petroleum Pty Ltd</i>							
TMOC Exploration Pty Ltd	QLD	100	100	-	-	(0.1)	(1.2)
Santos Petroleum Marketing Pty Ltd	QLD	100	100	-	-	0.1	0.2
Santos Petroleum Management Pty Ltd	QLD	100	100	-	-	0.6	0.2
Santos Petroleum Operations Pty Ltd	QLD	100	100	-	-	6.4	4.7
Australasian Eagle Petroleum Pty Ltd (formerly Kerpars Limited)	NSW	100	-	144.5	-	-	-
<i>Controlled entities of Australasian Eagle Petroleum Pty Ltd</i>							
Castend Pty Ltd	NSW	100	-	-	-	-	-
Santos (BOL) Pty Ltd (formerly Parker and Parsley Australasia Limited)	NSW	100	-	-	-	10.2	-
<i>Controlled entities of Santos (BOL) Pty Ltd</i>							
Bridge Gas Queensland Pty Ltd	QLD	100	-	-	-	0.3	-
Bridge Oil Exploration Pty Ltd	ACT	100	-	-	-	0.4	-
Bridge Oil International Finance Pty Ltd (formerly Bridge Oil International Finance Ltd)	ACT	100	-	-	-	1.9	-
Bridge Oil Investments Pty Ltd	NSW	100	-	-	-	(0.5)	-
<i>Controlled entity of Bridge Oil Investments Pty Ltd</i>							
Santos (Bentu) Pty Ltd (formerly Bridge Oil Bentu Pty Ltd)	NSW	100	-	-	-	-	-
<i>Controlled entity of Santos (Bentu) Pty Ltd</i>							
Santos (Bangko) Pty Ltd (formerly Australasian Eagle Petroleum Bangko Pty Ltd)	WA	100	-	-	-	-	-
Bridge Oil Developments Pty Ltd	NSW	100	-	-	-	0.5	-
Boston Long Hedges Finance Pty Ltd	VIC	100	100	-	-	-	-
Moonie Oil Pty Ltd	QLD	100	100	13.2	13.2	2.6	1.0
Moonie Pipeline Co Pty Ltd	QLD	100	100	24.7	24.7	6.1	4.8
<i>Controlled entities of Moonie Pipeline Co Pty Ltd</i>							
Candolia Pty Ltd	ACT	100	100	-	-	-	-
Australian Interstate Pipeline Co Pty Ltd	NSW	100	100	-	-	(0.2)	0.3
<i>Controlled entity of Australian Interstate Pipeline Co Pty Ltd</i>							
Bridgefield Pty Ltd	QLD	100	100	-	-	1.1	0.7
Petromin Pty Ltd	QLD	100	100	5.9	5.9	1.0	0.6



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

## 19. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

Name	Place of incorporation	Details of investments in shares				Contribution to consolidated profit	
		Beneficial interest	Book value	1996	1995	1996	1995
		1996 %	1995 %	\$million	\$million	\$million	\$million
Reef Oil Pty Ltd	NSW	100	100	82.7	82.7	—	0.3
Santos (299) Pty Ltd	WA	100	100	2.7	2.7	(0.2)	(0.3)
Santos Exploration Pty Ltd	VIC	100	100	28.4	28.4	3.7	3.1
Santos Facilities Pty Ltd	SA	100	100	—	—	—	—
Santos Finance Ltd	NSW	100	100	47.7	47.7	19.6	(6.7)
Santos Gnuco Pty Ltd	WA	100	100	4.5	4.5	0.1	(0.2)
Santos (Halph) Pty Ltd (formerly Santos (Zoca 91-11) Pty Ltd)	ACT	100	100	—	—	—	—
Santos International Holdings Pty Ltd	ACT	100	100	218.7	218.7	—	(0.4)
<i>Controlled entities of Santos International Holdings Pty Ltd</i>							
Peko Offshore Ltd	BER	100	100	—	—	—	0.2
Santos Americas and Europe Corp*	USA	100	100	—	—	—	—
<i>Controlled entities of Santos Americas and Europe Corp</i>							
SAE Management Services Corp*	USA	100	100	—	—	(0.1)	(0.5)
Santos Colombia Exploration Inc*	USA	100	100	—	—	—	—
Santos USA Corp*	USA	100	100	—	—	5.5	(8.6)
<i>Controlled entity of Santos USA Corp</i>							
Santos USA Pipeline Corp*	USA	100	100	—	—	0.2	0.1
Santos Europe Ltd*	UK	100	100	—	—	2.1	9.0
Santos Exploration (China) Pte Ltd*	SIN	100	100	—	—	—	—
Santos Niugini Exploration Pty Ltd*	PNG	100	100	—	—	—	(0.2)
Santos Petroleum (Seram) Ltd*	HK	100	100	—	—	0.6	1.8
Santos (Korinci-Baru) Pty Ltd (formerly Santos (Zoca 91-10) Pty Ltd)	ACT	100	100	0.1	0.1	—	—
Santos (N.T.) Pty Ltd	ACT	100	100	42.3	42.3	0.1	0.7
Santos Offshore Pty Ltd	VIC	100	100	223.7	223.7	1.6	(8.2)
Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL	100	100	0.1	4.6	(4.5)	(5.0)
Santos Petroleum Pty Ltd	NSW	100	100	69.3	69.3	4.9	5.1
Santos Resources Pty Ltd	QLD	100	100	—	—	—	—
Santos (Zoca 91-01) Pty Ltd	ACT	100	100	7.7	5.8	—	—
Santos (Zoca 91-12) Pty Ltd	ACT	100	100	28.4	21.2	—	—
Transoil Pty Ltd	QLD	100	100	8.7	8.7	0.3	(0.2)
Vamgas Pty Ltd	VIC	100	100	206.1	206.1	20.3	16.0
Worldwide Assets Pty Ltd	NSW	100	100	95.3	95.3	(0.4)	(0.4)
<i>Controlled entity of Worldwide Assets Pty Ltd</i>							
Western Australian Capital Holdings Pty Ltd	WA	100	100	—	—	—	—
Latec Investments Pty Ltd	NSW	100	100	41.1	41.1	—	0.9
<i>Controlled entities of Latec Investments Pty Ltd</i>							
Doce Pty Ltd	QLD	100	100	—	—	(0.1)	0.1
Canso Resources Pty Ltd	NSW	100	100	—	—	3.6	2.0
Farmout Drillers Pty Ltd	NSW	100	100	—	—	1.6	0.9
				1,520.6	1,371.5	195.9	110.6

## 19. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

### Notes:

#### (i) Acquisition of controlled entities

The following controlled entities were acquired during the year (refer note 22) at the dates stated and their operating results have been included in the profit and loss account from the relevant date:

Name of entity	Date of acquisition	Beneficial interest acquired	Consideration paid for shares	Fair value of net assets at time of acquisition
		%	\$million	\$million
Australasian Eagle Petroleum Pty Ltd, and its controlled entities	1 January 1996	100	138.5	138.5

#### (ii) Disposals of controlled entities

TMOC Exploration (PNG) Pty Ltd had \$Nil tangible assets and was disposed of by voluntary liquidation.

#### (iii) Place of incorporation

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

#### (iv) Investment eliminated by rounding

Investment in Santos Resources Pty Ltd of \$2 (1995 – \$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		Book value of ordinary shares at 31 December (a)		Contribution to consolidated profit (b)	
				1996 %	1995 %	1996 \$million	1995 \$million	1996 \$million	1995 \$million
QCT Resources Limited	Australia	Coal mining	30 June	34.9	32.0	325.7	292.6	25.1	19.0
<b>Supplementary equity accounting information:</b>								1996 \$million	1995 \$million
Share of associated company's operating profit after income tax								23.7	15.3
Deduct amortisation of excess of fair values of net assets of associated company over its book values of net assets								(4.6)	(4.4)
Deduct ordinary share dividend income from associated company								(22.5)	(16.4)
Equity adjustment to operating profit after income tax								(3.4)	(5.5)
Deduct share of post-acquisition decrease in associated company's retained profits at the beginning of the year								(8.1)	(2.6)
Total of post-acquisition decrease in associated company's retained profits at the end of the year								(11.5)	(8.1)
Investment in ordinary shares in associated company as included in the consolidated accounts								325.7	292.6
Aggregate carrying value of investment in associated company as determined under the equity method of accounting								314.2	284.5

(a) In addition to ordinary shares, the economic entity and chief entity hold an investment of \$36.3 million (1995 – \$36.3 million) in non-maturing subordinated unsecured convertible notes issued by QCT Resources Limited.

(b) Represents dividends received of \$22.5 million (1995 – \$16.4 million) on holdings of ordinary shares and interest received or receivable after tax of \$2.6 million (1995 – \$2.6 million) on holdings of non-maturing subordinated unsecured convertible notes.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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## 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		
Bonaparte Sea	Oil and gas exploration	48
Timor Gap	Oil and gas exploration	21
Timor Sea	Oil and gas exploration and production	25
Browse Basin	Oil and gas exploration	26
Carnarvon Basin	Oil and gas exploration and production	37
Cooper Basin Downstream	Liquid hydrocarbon transportation and processing	60
Cooper Basin Unit		
South Australia	Oil and gas production	60
Queensland	Oil and gas exploration and production	59
Cooper/Eromanga Basins Block		
South Australia	Oil and gas exploration and production	60
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	39
Indonesia	Oil and gas exploration and production	3
Jackson Moonie Pipeline	Oil transportation	83
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	34
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	43
United Kingdom	Oil and gas exploration and production	13

## 21. INTERESTS IN JOINT VENTURES (CONTINUED)

(b) The sales revenue received from the economic entity's share of petroleum products produced by the joint ventures was \$729.2 million (1995 – \$671.6 million) and the contribution of joint venture business undertakings to operating profit before interest and tax of the economic entity was \$335.2 million (1995 – \$290.2 million).

(c) Santos Ltd and its controlled entities' share of assets and liabilities employed in the joint ventures are included in the Balance Sheets under the following classifications:

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>Current assets</b>				
Cash	5.2	11.4	–	2.4
Receivables	14.5	22.9	3.7	2.5
Inventories	21.5	16.2	10.9	7.9
<b>Total current assets</b>	<b>41.2</b>	<b>50.5</b>	<b>14.6</b>	<b>12.8</b>
<b>Non-current assets</b>				
Buildings, plant and equipment	861.8	725.9	472.0	464.0
Exploration, evaluation and development expenditure	1,685.6	1,397.0	588.5	554.2
Receivables	20.5	18.4	11.9	12.9
<b>Total non-current assets</b>	<b>2,567.9</b>	<b>2,141.3</b>	<b>1,072.4</b>	<b>1,031.1</b>
<b>Total assets</b>	<b>2,609.1</b>	<b>2,191.8</b>	<b>1,087.0</b>	<b>1,043.9</b>
<b>Current liabilities</b>				
Creditors and borrowings	75.9	48.6	37.4	44.6
<b>Non-current liabilities</b>				
Provisions	61.5	56.3	26.9	25.2
<b>Total liabilities</b>	<b>137.4</b>	<b>104.9</b>	<b>64.3</b>	<b>69.8</b>
<b>Net investments in joint ventures</b>	<b>2,471.7</b>	<b>2,086.9</b>	<b>1,022.7</b>	<b>974.1</b>
(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures is:				
Capital expenditure commitments	112.7	71.0	35.8	35.2
Minimum exploration commitments	138.9	83.1	25.8	25.2
Contingent liabilities	9.3	9.6	5.7	7.6

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>22. NOTES TO STATEMENTS OF CASH FLOWS</b>				
Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	195.9	110.6	211.7	100.2
Add/(deduct) non-cash items:				
Depreciation, depletion and amortisation of property, plant and equipment	191.6	195.4	82.8	82.3
Write-down of exploration expenditure	11.2	23.9	1.7	—
Write-down of investments in controlled entities	—	—	4.5	14.4
Amortisation of goodwill	9.0	9.0	—	—
Increase/(decrease) in income taxes payable	31.8	(11.4)	(20.7)	(5.6)
Net increase in deferred taxes payable and future income tax benefits	34.7	47.4	15.2	22.7
Increase in provisions	4.5	8.1	3.0	2.5
Interest capitalised	(17.5)	(9.2)	(4.5)	(3.1)
Foreign currency exchange losses/(gains)	(25.0)	16.0	—	—
Deduct items classified as investing activities:				
Loss/(profit) on sale of non-current assets	0.1	—	0.1	(0.2)
Net cash provided by operating activities before change in assets or liabilities	436.3	389.8	293.8	213.2
Add/(deduct) change in assets or liabilities:				
Decrease/(increase) in receivables	(8.3)	(17.1)	(6.3)	(3.7)
Decrease/(increase) in inventories	(6.5)	(9.8)	(2.6)	(5.6)
Decrease/(increase) in other assets	—	—	(122.4)	85.6
Increase/(decrease) in creditors	(14.0)	6.1	7.9	6.7
Increase/(decrease) in other liabilities	5.6	—	2.9	—
<b>Net cash provided by operating activities</b>	<b>413.1</b>	<b>369.0</b>	<b>173.3</b>	<b>296.2</b>

**22. NOTES TO STATEMENTS OF CASH FLOWS (CONTINUED)****Acquisitions of controlled entities**

In 1996, Santos Ltd acquired controlled entities as disclosed in note 19.

Details of the acquisition are as follows:

**Fair value of net assets acquired**

	1996 \$million	1995 \$million
Property, plant and equipment	225.6	-
Cash	9.4	-
Trade debtors	5.3	-
Security deposits	4.1	-
Sundry debtors and prepayments	3.2	-
Inventories	4.9	-
Future income tax benefits	6.9	-
Intercompany loan with parent and related entities	(26.5)	-
Bank loans	(48.8)	-
Trade creditors	(4.6)	-
Sundry creditors and accruals	(15.5)	-
Provision for deferred income tax	(17.9)	-
Other provisions	(7.6)	-
<b>Total consideration</b>	<b>138.5</b>	<b>-</b>
Add intercompany loan assumed by Santos Ltd and its controlled entities	26.5	-
<b>Cash consideration paid</b>	<b>165.0</b>	<b>-</b>
<b>Outflow of cash to acquire net assets, net of cash acquired</b>		
Cash consideration	165.0	-
Less cash balances acquired	(9.4)	-
<b>Outflow of cash</b>	<b>155.6</b>	<b>-</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

## 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	
CALLINAN Ian David Francis	appointed 17 December 1996
GERLACH Stephen	
KENNEDY James Joseph	resigned 21 October 1996
MASON Richard Chapman Hope	retired 3 May 1996
McARDLE John Walter	
O'LEARY Michael Anthony	appointed 15 October 1996
SLOAN Judith	
STRAUSS Robert	
WEBBER Ian Ernest	

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

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

Note 2 as to dividends received from controlled entities

Note 3 as to interest paid to controlled entities

Note 8 as to amounts owing by controlled entities

Note 12 as to guarantees by Santos Ltd of the financing facilities and lease obligations of controlled entities

Note 13 as to non-executive directors' retirement benefits

Note 14 as to amounts owing to controlled entities

(v) All amounts owing by or to controlled entities are for loans made on interest free terms for an indefinite period with the exception of:

Amounts owing to controlled entities

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

(vi) Mr IDF Callinan QC, who was a director of associated company QCT Resources Limited throughout the financial year, was 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. Subsequently, on 17 December 1996, Mr Callinan was appointed a Director of Santos Ltd.

Note 19 as to investments in 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 \$73,760 (1995 - \$227,115).
- (ii) Included in other loans is an amount of \$506,000 (1995 - \$506,000) being a loan made to an executive Director of Santos Ltd, Mr NR 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 (1995 - \$32,890).
- (iii) The aggregate number of shares acquired from Santos Ltd by Directors of Santos Ltd and their director-related entities was Nil (1995 - Nil). 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 387,043 fully paid ordinary shares (1995 - 382,887) and 930,000 Executive Share Plan Shares paid to 1 cent (1995 - 930,000).

Santos Ltd	
1996 \$million	1995 \$million
963.8	669.4

**23. RELATED PARTIES (CONTINUED)**

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

	Consolidated		Santos Ltd	
	1996 \$thousand	1995 \$thousand	1996 \$thousand	1995 \$thousand
Provision of Legal Services	307	80	170	44

**24. EXECUTIVES' AND DIRECTORS' REMUNERATION**

**Executives**

Amounts received from Santos Ltd or its controlled entities by executive officers domiciled in Australia whose income is \$100,000 or greater

10,527	8,656	10,527	8,656
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Number of executive officers whose remuneration was within the following bands:

\$thousand	No.	No.	No.	No.
100– 110	4	2	4	2
110– 120	3	6	3	6
120– 130	8	9	8	9
130– 140	10	9	10	9
140– 150	7	5	7	5
150– 160	4	3	4	3
160– 170	4	3	4	3
170– 180	2	1	2	1
190– 200	1	–	1	–
210– 220	1	–	1	–
220– 230	–	2	–	2
230– 240	1	1	1	1
240– 250	1	–	1	–
250– 260	–	1	–	1
260– 270	–	1	–	1
270– 280	1	–	1	–
280– 290	1	–	1	–
290– 300	1	–	1	–
300– 310	–	1	–	1
330– 340	1	1	1	1
350– 360	1	–	1	–
370– 380	–	1	–	1
440– 450	–	1	–	1
520– 530	1	–	1	–
620– 630	1	–	1	–
910– 920	–	1	–	1
1210–1220	1	–	1	–



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

24. EXECUTIVES' AND DIRECTORS' REMUNERATION (CONTINUED)	Consolidated		Santos Ltd	
	1996 \$thousand	1995 \$thousand	1996 \$thousand	1995 \$thousand
<b>Directors</b>				
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	2,224	1,541	2,224	1,541

Number of Directors whose remuneration was within the following bands:

\$thousand	No.	No.
0- 10	1	1
10- 20	2	-
30- 40	-	2
40- 50	3	3
50- 60	2	2
60- 70	1	-
140- 150	-	2
160- 170	1	-
520- 530	1	-
910- 920	-	1
1210-1220	1	-

Pursuant to an ASC Class Order dated 25 July 1996, 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.

	1996 \$thousand	1995 \$thousand	1996 \$thousand	1995 \$thousand
<b>Superannuation and retirement benefits</b>				
Superannuation contributions 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.	394	143	394	143

25. REMUNERATION OF AUDITORS	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$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	0.6	0.5	0.4	0.3
	1.0	0.9	0.6	0.5
Amounts received or due and receivable by auditors other than the auditors of Santos Ltd for:				
audit services	0.1	0.1	-	-
other services	0.3	0.2	-	-
	0.4	0.3	-	-

## 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 Indonesia, 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.

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>27. COMMITMENTS FOR EXPENDITURE</b>				
<b>(a) Capital commitments</b>				
Capital expenditure contracted for at balance date for which no amounts have been provided in the accounts:				
Due not later than one year	104.5	67.4	35.8	33.2
Due later than one year but not later than two years	8.2	3.6	—	2.0
	<u>112.7</u>	<u>71.0</u>	<u>35.8</u>	<u>35.2</u>
<b>(b) Minimum exploration commitments</b>				
Minimum exploration commitments for which no amounts have been provided in the accounts or capital commitments:				
Due not later than one year	59.8	19.9	18.1	5.1
Due later than one year but not later than two years	30.7	41.0	4.5	13.7
Due later than two years but not later than five years	48.4	22.2	3.2	6.4
	<u>138.9</u>	<u>83.1</u>	<u>25.8</u>	<u>25.2</u>

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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
<b>27. COMMITMENTS FOR EXPENDITURE (CONTINUED)</b>				
(c) Lease commitments				
Finance leases:				
Due not later than one year	1.3	1.8	0.1	0.3
Due later than one year but not later than two years	1.4	1.5	0.1	0.1
Due later than two years but not later than five years	4.0	4.5	–	0.2
Due later than five years	13.0	14.6	–	–
Total commitments under finance leases	19.7	22.4	0.2	0.6
Less future finance charges	(4.9)	(6.8)	–	(0.1)
Lease liabilities	14.8	15.6	0.2	0.5
Operating leases:				
Due not later than one year	5.0	5.8	3.8	4.2
Due later than one year but not later than two years	4.7	4.2	3.5	3.5
Due later than two years but not later than five years	5.6	7.6	3.8	6.7
Due later than five years	4.4	4.4	2.5	4.4
Total commitments under operating leases	19.7	22.0	13.6	18.8

## 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
<b>Type of benefit</b>	Cash accumulation	Defined benefits and cash accumulation
<b>Basis of contributions</b>	Percentage of member's wage contributed by member and employer	Percentage of member's salary contributed by member and employer. The employer's percentage reflects the amount to provide an accumulation and the amount recommended by the Actuary to provide the defined benefit
<b>Employer's legal obligation to contribute</b>	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
<b>Last actuarial assessment date</b>	Not applicable	1 January 1994
<b>name of valuer and qualifications</b>	Not applicable	G Robinson, BSc, FIAA

## 28. SUPERANNUATION COMMITMENTS (CONTINUED)

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

	Consolidated		Santos Ltd	
	as at 30 June 1996 \$million	as at 1 January 1994 \$million	as at 30 June 1996 \$million	as at 1 January 1994 \$million
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	67.9	60.8	67.9	60.8
Excess of assets held to meet future benefit payments	*	10.6	*	10.6

Vested benefits at 1 January 1996 are \$45.5 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. An amount of \$0.9 million was charged to operating profit in 1996 (1995 - \$0.9 million), representing the amortisation of the previously recorded net surplus of the market value of net assets over the present value of employees' accrued benefits. Suspension of contributions will be reassessed after the next actuarial review as of 1 January 1997, is completed. The last audited financial statements available are as at 30 June 1996.

29. CONTINGENT LIABILITIES	Consolidated		Santos Ltd	
	1996 \$million	1995 \$million	1996 \$million	1995 \$million
Contingent liabilities arising in respect of other persons:				
(i) Performance guarantees	7.6	6.9	4.7	6.1
(ii) Employee service agreements	2.4	2.2	2.4	2.2
(iii) Claims have been lodged including the following:				
(a) claims for breach of contract and public liability	1.7	2.7	1.0	1.5
(b) miscellaneous claims	0.3	0.3	-	-
	12.0	12.1	8.1	9.8

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 \$380,000 on a consolidated basis.

Guarantees provided by Santos Ltd for financing facilities and lease obligations in respect of controlled entities are disclosed in note 12.

A number of the Australian interests of the economic entity are located within areas the subject of one or more claims or applications for native title determination, all of which applications are currently either in the mediation or pre-mediation stage under the Native Title Act. The economic entity is a party to a number of those applications which, if not capable of successful mediation, are referable to the Federal Court for hearing and determination. Whatever the outcome of those applications, it is not believed that they will significantly impact the asset base of the economic entity.

## 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

CONTINUED

## 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 1996 the economic entity did not have any 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 1996 the economic entity had open interest rate swap contracts which if closed would have resulted in a small loss.

### (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 1996 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.

## 32. POST BALANCE DATE EVENTS

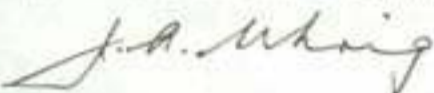
Subsequent to balance date, Santos Ltd and certain of its controlled entities acquired the oil and gas business of MIM Holdings Ltd for \$45.1 million, before adjustments for working capital, capital expenditures and non-current liabilities. The acquisition was effective 21 January 1997 and the final price is subject to adjustment based on completion accounts as at that date.

## STATEMENT BY DIRECTORS


for the year ended 31 December 1996

1. In the opinion of the Directors of Santos Ltd:
  - (a) the financial statements set out on pages 48 to 74 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 1996, and the state of affairs at 31 December 1996, 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.

Signed in accordance with a resolution of the Directors:



JA Uhrig  
Director



NR Adler  
Director

Adelaide, 12 March 1997

## INDEPENDENT AUDITORS' REPORT

to the Members of Santos Ltd

### Scope

We have audited the financial statements of Santos Ltd for the financial year ended 31 December 1996, consisting of the Profit and Loss Accounts, Balance Sheets, Statements of Cash Flows, accompanying notes, and the Statement by Directors set out on pages 48 to 75. The financial statements comprise the accounts of the Company and the consolidated accounts of the economic entity, being the Company and its controlled entities. The Company's Directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

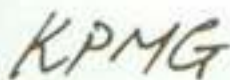
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the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

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

### Audit Opinion

In our opinion, the financial statements of Santos Ltd are properly drawn up:

- (a) so as to give a true and fair view of:
  - (i) the state of affairs of the Company and the economic entity at 31 December 1996 and the results and cash flows of the Company and the economic entity for the year ended on that date; and
  - (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.



KPMG  
Chartered Accountants

Adelaide, 12 March 1997



WJ Stevens  
Partner

# STOCK EXCHANGE AND SHAREHOLDER INFORMATION

Listed on Australian Stock Exchange at 28 February 1997 were 537,472,918 ordinary shares. Unlisted are 1,102,000 partly paid Plan 0 shares and 1,002,500 partly paid Plan 2 shares. There were 57,060 holders of all classes of issued shares (including 46 holders of Plan 0 shares and 38 holders of Plan 2 shares) compared with 55,256 a year earlier.

The listed issued ordinary shares represent all of the voting power in Santos. The holdings of the twenty largest holders of shares represent 47.96% of the total voting power in Santos (last year 49.52%).

The 20 largest shareholders in Santos as shown in the Company's Register of Members at 28 February 1997 were:

Name	Number of fully paid shares	% of voting capital
Westpac Custodian Nominees Limited	60,582,512	11.27
ANZ Nominees Limited	37,280,296	6.94
National Nominees Limited	31,277,077	5.82
Chase Manhattan Nominees Limited	18,982,152	3.53
SAS Trustee Corporation	16,196,062	3.01
Australian Mutual Provident Society	13,929,960	2.59
MLC Limited	11,737,019	2.18
Perpetual Trustees Nominees Limited (MBA Account)	11,496,940	2.14
Perpetual Trustees Nominees Limited	8,926,263	1.66
Queensland Investment Corporation	6,829,998	1.27
Perpetual Trustees Australia Limited (MBA Account)	6,757,858	1.26
Citicorp Nominees Pty Limited	4,944,425	0.92
Pendal Nominees Pty Limited	4,185,247	0.78
Westpac Custodian Nominees Ltd (ADR Account)	4,059,709	0.76
Permanent Trustee Company Limited (BTEQUI Account)	4,001,467	0.74
Permanent Nominees (Aust) Limited	3,984,551	0.74
St George Bank Limited	3,424,657	0.64
Pendal Nominees Pty Limited (Sub Cus Account)	3,338,976	0.62
Commonwealth Superannuation Board of Trustees No 2	3,213,178	0.60
Westpac Securities Administration Limited	2,616,352	0.49
	<b>257,764,699</b>	<b>47.96</b>

Substantial Shareholders, as at 28 February 1997, as disclosed by notices received by the Company:

Name	Address	No. of voting shares held
Maple-Brown Abbott Limited	Level 28, 60 Margaret Street SYDNEY NSW 2000	44,791,051
The Capital Group Inc.	333 South Hope Street LOS ANGELES California 90071 USA	25,001,726

## Analysis of the Listed Shares – range of shares held

	Fully paid ordinary shares	% of holders	% of shares held
	(Holders)		
1– 1,000*	17,463	30.62	1.92
1,001– 5,000	31,347	54.96	14.21
5,001– 10,000	5,272	9.24	7.06
10,001–100,000	2,701	4.74	10.85
100,001 and over	254	0.44	65.96
<b>Total No</b>	<b>57,037</b>	<b>100.00</b>	<b>100.00</b>

\* There were 1,294 shareholders who held less than 100 shares which at the then current market price was deemed to be the minimum marketable parcel.

For Directors' Shareholdings see Directors' Statutory Report as set out on pages 46 and 47 of this Annual Report.

## Voting Rights

Articles 83 to 88 of the Company's Memorandum and Articles of Association detail the voting rights of members. The Articles indicate that on a show of hands, every member present in person or by representative or the attorney of a member shall have one vote and upon a poll subject to certain conditions detailed in the Articles every member present in person or by attorney, proxy or representative shall have one vote for every fully paid share held. Pursuant to the Rules of the Santos Executive Share Plan, Plan 2 and Plan 0 shares do not carry any voting rights except on a proposal to vary the rights attached to Plan shares.

## 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 barrel of oil equivalent are printed below.
bopd	barrels of oil per day.
the company	Santos Ltd and its subsidiaries.
DD & A	depreciation, depletion and amortisation of plant and equipment.
development well	a well drilled to enable production from a known oil or gas reservoir.
downstream customers	refineries, gas utilities and major gas users.
EP	Exploration Permit.
exploration well	a wildcat or appraisal well drilled to find new reserves of oil or gas.
extended well test/ early production system	production through a temporary facility to determine performance under producing conditions.
farm-in (farm-out)	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.
FPSO	floating production, storage and offloading unit. This is a converted oil tanker, permanently moored over a producing subsea oil field which processes and stores the crude oil production prior to offloading into shuttle tankers.
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.
high resolution bio-stratigraphy	detailed statistical analysis of ancient biological communities to assist in resolving fine details of stratigraphy, which is the study of the formation, composition, sequence and correlation of sedimentary rock. It is used to assist in exploration and development.
hydrocarbons	solid, liquid or gas compounds of the elements hydrogen and carbon.
LPG	liquefied petroleum gas.
Mbbbls	thousand barrels.
MMbbbls	million barrels.
MMboe	million barrels of oil equivalent.
NASDAQ	National Association of Securities Dealers Inc.
PDL	Petroleum Development Licence.
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 <sup>12</sup> . The equivalent imperial measure to joules is British Thermal Units (BTU). One kilojoule = 0.9478 BTU.
PL	Petroleum Licence.
PPL	Petroleum Production Licence.
PPLA	Petroleum Production Licence Application.
PSC	production sharing contract.
reserves	proved and probable reserves as defined by the Australian Stock Exchange Ltd (ASX). Proved reserves are those reserves that, to a high degree of certainty, are recoverable, at commercial rates, under presently anticipated production methods, operating conditions, prices and costs. Probable reserves are 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.
Santos	Santos Ltd and its subsidiaries.
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.
TJ	terajoules. Joules are the metric measurement unit for energy. A terajoule is equal to 1 joule x 10 <sup>12</sup> .
WA-P	Western Australian Permit.
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 <sup>9</sup>	Condensate/Naphtha 1 barrel = 0.935 boe	LPG 1 tonne = 8.458 boe
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