SANTOS LTD

(INCORPORATED IN SOUTH AUSTRALIA ON 18 MARCH 1954)

AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2004

		CONSOLIDATED		SANTOS LTD	
		2004	2003	**2004**	2003
	Note	**$million**	$million	**$million**	$million
Product sales	2	1,500.9	1,465.0	568.8	616.3
Cost of sales	3	(1,049.8)	(974.4)	(414.5)	(356.6)
Gross profit		451.1	490.6	154.3	259.7
Other revenue	2	252.3	154.4	858.0	126.2
Other expenses	3	(129.0)	(179.5)	(221.0)	(108.3)
Borrowing costs	4	(33.6)	(34.6)	(91.1)	(84.0)
Profit from ordinary activities before income tax expense		540.8	430.9	700.2	193.6
Income tax expense relating to ordinary activities	6	(160.9)	(103.9)	(57.1)	(10.7)
Net profit after income tax attributable to the shareholders of Santos Ltd		379.9	327.0	643.1	182.9
Net exchange differences relating to self-sustaining foreign operations	19	(0.2)	(4.7)	-	-
Total changes in equity from non-owner related transactions attributable to the shareholders of Santos Ltd		379.7	322.3	643.1	182.9
Earnings per share (cents)					
Basic	21	58.6	52.1		
Diluted	21	58.5	51.5		

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

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004

		CONSOLIDATED		SANTOS LTD	
		2004	2003	**2004**	2003
	Note	**$million**	$million	**$million**	$million
Current assets					
Cash		128.0	111.1	39.3	52.9
Receivables	7	409.1	171.7	1,917.7	1,410.3
Inventories	8	117.3	112.4	58.8	53.2
Other	9	21.5	14.3	10.0	7.4
Total current assets		675.9	409.5	2,025.8	1,523.8
Non-current assets					
Exploration and development expenditure	10	3,210.3	2,945.3	905.8	903.6
Land and buildings, plant and equipment	11	2,058.7	1,840.8	665.4	673.1
Other financial assets	12	1.2	11.7	2,530.7	2,295.9
Intangibles	13	4.0	8.5	-	-
Deferred tax assets		3.0	1.4	2.4	0.8
Other	9	2.9	1.1	-	-
Total non-current assets		5,280.1	4,808.8	4,104.3	3,873.4
Total assets		5,956.0	5,218.3	6,130.1	5,397.2
Current liabilities					
Payables	14	371.6	291.3	436.3	655.0
Deferred income		5.8	8.9	1.5	2.0
Interest-bearing liabilities	15	49.9	45.4	1,686.4	1,411.7
Current tax liabilities		11.2	29.3	9.9	23.5
Provisions	16	52.8	55.3	48.7	47.5
Other	17	14.7	10.6	-	-
Total current liabilities		506.0	440.8	2,182.8	2,139.7
Non-current liabilities					
Deferred income		16.3	18.8	-	-
Interest-bearing liabilities	15	1,209.5	963.3	-	-
Deferred tax liabilities		560.4	535.8	462.5	454.2
Provisions	16	131.6	116.0	46.0	38.3
Other	17	33.9	55.7	-	-
Total non-current liabilities		1,951.7	1,689.6	508.5	492.5
Total liabilities		2,457.7	2,130.4	2,691.3	2,632.2
Net assets		3,498.3	3,087.9	3,438.8	2,765.0
Equity					
Contributed equity	18	2,139.0	1,893.1	2,139.0	1,893.1
Foreign currency translation reserve	19	(9.0)	(8.8)	-	-
Retained profits	20	1,368.3	1,203.6	1,299.8	871.9
Total equity		3,498.3	3,087.9	3,438.8	2,765.0

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

SANTOS LTD AND CONTROLLED ENTITIES

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million
Cash flows from operating activities					
Receipts from customers		1,544.3	1,637.3	644.4	683.0
Dividends received		-	0.4	251.7	0.4
Interest received		3.5	2.5	45.1	36.9
Overriding royalties received		14.5	17.0	19.0	22.1
Pipeline tariffs and other receipts		19.9	28.2	18.0	1.6
Payments to suppliers and employees		(583.6)	(439.9)	(279.0)	(186.4)
Royalty, excise and PRRT payments		(169.6)	(118.7)	(78.4)	(39.8)
Borrowing costs paid		(65.2)	(60.9)	(90.6)	(83.6)
Income taxes paid		(158.8)	(168.6)	(137.5)	(65.1)
Net cash provided by operating activities	24	605.0	897.3	392.7	369.1
Cash flows from investing activities					
Payments for:					
Exploration		(126.0)	(149.8)	(65.7)	(30.6)
Delineation		(73.7)	(75.0)	(6.1)	(29.5)
Development		(256.1)	(188.1)	(124.4)	(68.7)
Land and buildings, plant and equipment		(343.1)	(337.8)	(127.7)	(91.7)
Acquisitions of oil and gas assets		(14.5)	(7.6)	-	(1.5)
Acquisitions of controlled entities		(112.3)	(22.7)	(93.6)	(22.7)
Share subscriptions in controlled entities		-	-	(151.7)	(469.9)
Restoration		(7.3)	(2.6)	(0.1)	(0.3)
Proceeds from disposal of non-current assets		39.9	108.0	430.0	62.7
Proceeds from disposal of controlled entities		-	22.6	-	3.9
Other investments		(0.5)	-	(0.5)	-
Net cash used in investing activities		(893.6)	(653.0)	(139.8)	(648.3)
Cash flows from financing activities					
Dividends paid		(212.8)	(198.0)	(212.8)	(198.0)
Proceeds from issues of ordinary shares		6.4	8.3	6.4	8.3
Proceeds from issue of redeemable convertible preference shares	18	589.5	-	589.5	-
Redemption of reset convertible preference shares	18	(350.0)	-	(350.0)	-
Net drawdowns/(repayments) of borrowings		282.8	(20.4)	-	-
Net (payments to)/receipts from controlled entities		-	-	(297.0)	494.1
Premium paid on buy-back of reset convertible preference shares	20	(2.4)	-	(2.4)	-
Other		0.4	-	-	-
Net cash (used in)/provided by financing activities		313.9	(210.1)	(266.3)	304.4
Net increase/(decrease) in cash		25.3	34.2	(13.4)	25.2
Cash at the beginning of the year		111.1	84.8	52.9	26.6
Effects of exchange rate changes on the balances of cash held in foreign currencies		(8.4)	(7.9)	(0.2)	1.1
Cash at the end of the year		128.0	111.1	39.3	52.9

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

1. Statement of Accounting Policies

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

(a) Basis of preparation

The financial report is a general purpose financial report prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 collectively referred to as Australian Generally Accepted Accounting Principles ("Australian GAAP"). The financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of assets.

The accounting policies have been consistently applied by each entity in the Santos Group and are consistent with those adopted in the previous financial year.

(b) Principles of consolidation

The consolidated financial statements of the Santos Group include the financial statements of the Company, Santos Ltd being the parent entity, and its controlled entities.

The balances and effects of all transactions between controlled entities are eliminated in full on consolidation.

Interests in unincorporated joint ventures are recognised by including in the financial statements the Santos Group's proportion of the joint venture costs, assets and liabilities.

(c) Non-current assets

With the exception of exploration expenditure carried forward pertaining to areas of interest in the exploration stage (refer note 1(l)), the carrying amounts of non-current assets are reviewed to determine whether they are in excess of their estimated recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the lower value. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(d) Acquisition of assets

All assets acquired are recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

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

Assets transferred between entities within the Santos Group are recognised by the acquiring entity at fair value.

1. Statement of Accounting Policies (continued)

(e) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange in effect at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rate of exchange existing on that date. Exchange differences relating to amounts receivable or payable in foreign currencies are brought to account in the statements of financial performance in the period in which they arise.

Monetary assets and liabilities of integrated foreign operations are translated at the exchange rate existing at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on the translation of monetary assets and liabilities are brought to account in the statement of financial performance.

Assets and liabilities of self-sustaining foreign operations are translated at the exchange rate existing at balance date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(f) Derivative financial instruments

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

Gains and losses on derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposures they are hedging.

The gains and losses on derivative financial instruments hedging specific purchase or sale commitments are deferred and included in the measurement of the purchase or sale.

Where hedge transactions are designated as a hedge of an anticipated specific purchase or sale, the gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statements of financial performance. The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statements of financial position from the inception of the hedge transaction.

Exchange differences relating to amounts payable in foreign currencies designated as a hedge of a self-sustaining foreign operation, together with any related income tax expense/benefit, are transferred on consolidation to the foreign currency translation reserve.

1. Statement of Accounting Policies (continued)

(g) Revenue

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

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”), except where the amount of GST incurred is not recoverable from the Australian Tax Office (“ATO”). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statements of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(i) Cash

For the purposes of the statements of cash flows, cash includes cash on hand, cash at bank and short-term deposits at call.

(j) Receivables

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

(k) 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; and

(ii) petroleum products, which comprise extracted crude oil, liquefied petroleum gas, 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.

1. Statement of Accounting Policies (continued)

(l) Exploration and development expenditure

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

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

(ii) the exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

When either an area of interest is abandoned or the 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.

(m) Borrowings

Borrowings are carried on the statements of financial position at their principal amount. Interest is accrued at the contracted rate.

(n) Leases

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are expensed on a straight line basis over the term of the lease.

(o) Capitalisation of borrowing costs

Borrowing costs, including interest, finance charges and foreign currency exchange gains and losses relating to major plant and equipment projects under development and construction up to the date of commencement of commercial operations, are capitalised and amortised over the expected useful lives of the facilities. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate, which for the year ended 31 December 2004 was 5.09% (2003: 4.91%).

Borrowing costs incurred in respect of completed projects are expensed.

(p) 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)

(q) Depreciation and depletion

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

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

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

Depreciation of offshore plant and equipment is calculated using a unit of production method which will proportionately depreciate the assets over the life of the Proven plus Probable ("2P") reserves on a field by field basis.

Depletion charges are calculated using a unit of production method which will amortise, over the life of the 2P reserves, exploration and development expenditure together with future costs necessary to develop the reserves in the respective areas of interest.

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

(r) Restoration

Provisions are made for environmental restoration of areas of interest where gas and petroleum production is undertaken. Such provisions recognise the estimated future restoration obligations incrementally over the life of the 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.

(s) Employee benefits

The provisions for employee benefits for wages, salaries and annual leave expected to be settled within twelve months of the balance date represent present obligations resulting from employees services provided to balance date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Santos Group expects to pay as at balance date including related on-costs.

1. Statement of Accounting Policies (continued)

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 balance date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at balance date which most closely match the terms of maturity of the related liabilities.

The Company and several controlled entities contribute to a number of defined benefit and cash accumulation superannuation plans. Contributions are recognised as an expense as they are made.

(t) Employee share ownership plans

The Company operates a number of share ownership plans.

Shares issued under the Santos Executive Share Plan, Santos Executive Share Option Plan and the Santos Employee Share Purchase Plan are recorded as contributed equity at the fair value of the consideration received, if any.

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

(u) Income tax

Tax effect accounting is applied whereby the income tax charged in the statements of financial performance 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 statements of financial position as a deferred tax asset or deferred tax liability. Future income tax benefits relating to entities which incur losses are brought to account where realisation of the benefits is considered to be virtually certain.

Santos Ltd is the head entity in the tax-consolidated group comprising all the Australian resident wholly-owned controlled entities set out in note 22. The implementation date for the tax-consolidated group was 1 January 2003.

The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group.

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for tax liabilities and deferred tax balances arising from external transactions occurring after implementation of tax consolidation. The contributions are calculated as a percentage of profit from ordinary activities before income tax expense. Contributions are payable following payment of the liabilities by Santos Ltd. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense or revenue.

The tax-consolidated group has also entered into a tax sharing agreement pursuant to which the wholly-owned controlled entities may be required to contribute to the tax liabilities of Santos Ltd in the event of default by Santos Ltd or upon leaving the group.

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million

2. Revenue from Ordinary Activities

Product sales:				
Gas and ethane	680.1	720.8	294.6	306.1
Crude oil	501.8	477.7	198.5	175.7
Condensate and naphtha	228.5	150.0	44.2	63.8
Liquefied petroleum gas	90.5	116.5	31.5	70.7
	1,500.9	1,465.0	568.8	616.3
Other:				
Overriding royalties	14.3	13.3	18.7	18.4
Equipment rentals, pipeline tariffs and other	19.0	7.6	6.6	3.9
Interest revenue:				
Controlled entities	-	-	42.8	35.5
Other entities	3.5	2.5	2.3	1.4
Dividends from other entities	-	0.4	-	0.4
Dividends from controlled entities	-	-	251.7	-
Insurance recovery	116.6	-	73.8	-
Proceeds from sale of non-current assets	98.9	108.0	462.1	62.7
Proceeds from sale of controlled entities	-	22.6	-	3.9
	252.3	154.4	858.0	126.2

3. Expenses from Ordinary Activities

Cost of sales:				
Production costs	308.5	263.6	113.8	95.2
Pipeline tariffs and tolls	32.6	33.3	7.4	3.2
Royalty, excise and PRRT	154.0	131.4	73.1	41.6
Depreciation, depletion and amortisation	536.4	528.8	209.2	194.7
Third party gas purchases	14.9	5.4	12.2	12.4
	1,046.4	962.5	415.7	347.1
Decrease/(increase) in product stock	3.4	11.9	(1.2)	9.5
	1,049.8	974.4	414.5	356.6
Other:				
Selling, general and administrative expenses:				
Operating expenses	57.1	41.6	50.3	34.1
Depreciation and amortisation	3.3	2.8	1.7	1.1
Write-down of investment in controlled entities	-	-	-	40.8
Write-down of investment in listed shares	-	4.4	-	4.4
	60.4	48.8	52.0	80.4
Book value of non-current assets sold	46.5	52.9	164.4	16.9
Book value of controlled entities sold	-	18.1	-	4.9
Write-down of exploration and development expenditure	22.1	59.7	4.6	6.1
	129.0	179.5	221.0	108.3

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
4. Borrowing Costs				
Interest expense:				
Controlled entities	-	-	90.7	83.6
Other entities	65.7	57.2	0.4	0.4
Less interest capitalised	(32.1)	(22.6)	-	-
	33.6	34.6	91.1	84.0
5. Profit from Ordinary Activities				
(a) Profit from ordinary activities before tax includes the following items				
Depreciation, depletion and amortisation:				
Depletion of exploration and development expenditure	344.3	333.8	116.5	119.7
Depreciation of plant and equipment	169.1	168.7	85.8	69.1
Depreciation of buildings	2.0	3.3	1.0	1.8
Future restoration costs	19.8	16.8	7.6	5.2
Amortisation of goodwill	4.5	9.0	-	-
	539.7	531.6	210.9	195.8
Charges to provisions:				
Doubtful debts	(0.6)	0.2	(0.2)	0.1
Stock obsolescence	6.4	1.0	3.1	0.2
Employee entitlements and non-executive Directors' retirement benefits	(0.3)	6.7	(0.3)	6.2
Operating lease rentals	42.2	45.6	21.4	22.5
Profit on disposal of non-current assets	(52.4)	(55.1)	(297.7)	(45.8)
(Profit)/loss on disposal of controlled entities	-	(4.5)	-	1.0
(b) Individually significant expenses/(gains) included in profit from ordinary activities before income tax				
Insurance recovery	(116.6)	-	(73.8)	-
Costs associated with Moomba liquids recovery plant fire included in cost of sales	17.5	-	11.9	-
Profit on sale of oil and gas assets	(43.9)	-	(298.4)	-
Write-down of exploration and development expenditure	22.1	59.7	4.6	6.1
Organisation restructure costs included in selling, general and administrative expenses	21.6	-	21.6	-
Accelerated depreciation – Heytesbury plant	-	20.2	-	-
Profit on sale of investment in listed shares	-	(45.8)	-	(45.8)

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
6. Taxation				
Income tax attributable to profit from ordinary activities				
The prima facie income tax attributable to profit from ordinary activities differs from income tax expense and is calculated as follows:				
Prima facie income tax at 30% (2003: 30%)	162.2	129.3	210.1	58.1
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Non-deductible depletion, depreciation and amortisation	17.9	18.9	2.4	2.5
Write-down of investment in controlled entities	-	-	-	12.2
Other	0.8	10.7	6.2	(14.5)
Impact of the tax consolidation system				
Income tax expense allocated to wholly-owned controlled entities under tax funding agreement	-	-	(64.0)	(131.1)
Income tax expense relating to transactions, events and balances of wholly-owned controlled entities in the tax-consolidated group	-	-	60.5	138.5
Transactions within the tax-consolidated group:				
Dividends from controlled entities	-	-	(75.5)	-
Non deductible interest	-	-	14.2	-
Profit on sale of oil and gas assets	-	-	(76.8)	-
Tax benefit arising from reduced deferred tax balances upon entering into Australian tax consolidation regime	(20.0)	(55.0)	(20.0)	(55.0)
	160.9	103.9	57.1	10.7
Income tax comprises amounts set aside to:				
Provision for current income tax	143.1	144.7	120.9	126.1
Deferred tax liability	24.6	(16.5)	0.2	15.7
Deferred tax asset	(1.6)	12.8	-	-
Foreign currency translation reserve	(5.2)	(37.1)	-	-
Tax related receivable from wholly-owned controlled entities	-	-	(64.0)	(131.1)
	160.9	103.9	57.1	10.7

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million

7. Receivables

Trade debtors	181.5	144.3	72.8	88.1
Sundry debtors	228.2	29.1	131.1	12.6
Less provision for doubtful debts	(0.6)	(1.7)	(0.5)	(0.7)
Amounts owing by controlled entities:				
Non-interest-bearing	-	-	455.2	359.1
Interest-bearing	-	-	990.0	636.4
Tax related balances owing by controlled entities	-	-	269.1	314.8
	409.1	171.7	1,917.7	1,410.3

The interest-bearing amounts owing by controlled entities are for loans made in the ordinary course of business on normal market terms and conditions for an indefinite period.

8. Inventories

Petroleum products	82.4	73.7	44.8	35.9
Drilling and maintenance stocks	44.4	45.9	16.1	18.9
Less provision for obsolescence	(9.5)	(7.2)	(2.1)	(1.6)
	117.3	112.4	58.8	53.2

9. Other Assets

Current				
Prepayments	18.3	14.3	7.7	7.4
Deferred loss on commodity hedges	3.2	-	2.3	-
	21.5	14.3	10.0	7.4
Non-current				
Other	2.9	1.1	-	-

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
10. Exploration and Development Expenditure				
At cost	6,175.3	5,613.1	1,950.7	1,859.4
Less accumulated depletion	(2,965.0)	(2,667.8)	(1,044.9)	(955.8)
	3,210.3	2,945.3	905.8	903.6
Movements during the year				
Areas in which production has commenced				
Cost at the beginning of the year	5,190.6	5,108.8	1,752.4	1,624.3
Expenditure incurred during the year	399.2	277.5	161.7	92.6
Acquisitions	146.0	19.5	-	1.6
Disposals	(53.1)	(16.0)	(99.8)	-
Foreign currency translation	(34.2)	(231.6)	-	-
Expenditure transferred from areas in the exploration and development stage	107.2	36.3	38.8	33.9
Expenditure transferred from plant and equipment	60.7	-	17.6	-
Expenditure written off during the year	(16.3)	(3.9)	-	-
Cost at the end of the year	5,800.1	5,190.6	1,870.7	1,752.4
Less accumulated depletion	(2,965.0)	(2,667.8)	(1,044.9)	(955.8)
	2,835.1	2,522.8	825.8	796.6
Areas in the exploration and development stage				
Cost at the beginning of the year	422.5	424.2	107.0	118.0
Expenditure incurred during the year	66.1	109.6	16.4	29.0
Acquisitions	-	0.4	-	-
Disposals	-	(17.7)	-	-
Foreign currency translation	(0.4)	(1.9)	-	-
Expenditure transferred to areas where production has commenced	(107.2)	(36.3)	(38.8)	(33.9)
Expenditure written off during the year	(5.8)	(55.8)	(4.6)	(6.1)
Cost at the end of the year	375.2	422.5	80.0	107.0
Total exploration and development expenditure	3,210.3	2,945.3	905.8	903.6

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million

11. Land and Buildings, Plant and Equipment

Land and buildings				
At cost	97.2	94.7	55.5	52.3
Less accumulated depreciation	(49.7)	(47.7)	(34.0)	(33.0)
	47.5	47.0	21.5	19.3
Plant and equipment				
At cost	3,938.1	3,576.1	1,711.7	1,642.1
Less accumulated depreciation	(1,926.9)	(1,782.3)	(1,067.8)	(988.3)
	2,011.2	1,793.8	643.9	653.8
Total land and buildings, plant and equipment	2,058.7	1,840.8	665.4	673.1
Movements during the year				
Land and buildings				
Balance at the beginning of the year	47.0	45.2	19.3	18.5
Additions	2.5	5.1	3.2	2.6
Depreciation expense	(2.0)	(3.3)	(1.0)	(1.8)
Balance at the end of the year	47.5	47.0	21.5	19.3
Plant and equipment				
Balance at the beginning of the year	1,793.8	1,627.5	653.8	621.0
Additions	461.7	358.1	188.0	102.2
Acquisitions	12.6	13.5	-	-
Disposals	(26.6)	(32.2)	(94.5)	(0.3)
Depreciation expense	(169.1)	(168.7)	(85.8)	(69.1)
Foreign currency translation	(0.5)	(4.4)	-	-
Expenditure transferred to exploration and development	(60.7)	-	(17.6)	-
Balance at the end of the year	2,011.2	1,793.8	643.9	653.8

12. Other Financial Assets

Investments in controlled entities	-	-	2,530.2	2,284.9
Investments in other entities:				
Listed shares at cost	1.2	1.2	0.5	0.5
Listed shares at recoverable amount	-	10.5	-	10.5
	1.2	11.7	2,530.7	2,295.9
Market value of investments in listed shares	2.7	16.2	0.5	11.7

13. Intangibles

Goodwill, at cost	160.2	160.2	-	-
Less accumulated amortisation	(156.2)	(151.7)	-	-
	4.0	8.5	-	-

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
14. Payables				
Trade creditors	278.9	242.6	109.5	95.3
Sundry creditors and accruals	92.7	48.7	28.4	18.4
Amounts owing to controlled entities	-	-	298.4	541.3
	371.6	291.3	436.3	655.0
15. Interest-Bearing Liabilities				
Current				
Amounts owing to controlled entities	-	-	1,685.4	1,411.7
Long-term notes	43.7	45.4	-	-
Bank loans	5.2	-	-	-
Other	1.0	-	1.0	-
	49.9	45.4	1,686.4	1,411.7

The interest-bearing amounts owing to controlled entities are for loans made in the ordinary course of business on normal market terms and conditions for an indefinite period.

Non-current				
Bank loans	222.7	-	-	-
Commercial paper	209.0	110.0	-	-
Medium-term notes	20.0	20.0	-	-
Long-term notes	757.8	833.3	-	-
	1,209.5	963.3	-	-

Details of major credit facilities

(a) Bank loans

The Santos Group has access to the following committed revolving facilities:

Revolving facilities at 31 December 2004

Year of maturity	Currency	Amount A$million
2005	Multi currency	75.0
2006	Multi currency	125.0
2008	Multi currency	300.0
2009	Multi currency	200.0
		700.0

Revolving bank loans bear interest at the relevant interbank reference rate plus 0.25% to 0.43%. The amount drawn at 31 December 2004 is $nil (2003: $nil).

15. Interest-Bearing Liabilities (continued)

Term facilities at 31 December 2004

Year of maturity	Currency	Amount A$million	Amount Drawn at 31 December 2004 A$million
2005	USD	5.2	5.2
2006	USD	10.5	10.5
2007	USD	20.6	18.6
2008	USD	19.7	18.1
2009	USD	24.5	22.3
2010	USD	25.4	23.0
2011	USD	26.3	23.8
2012	USD	22.6	20.0
2013	USD	19.0	16.2
2014	USD	20.0	17.0
2015	USD	20.4	17.3
2016	USD	20.8	17.5
2017	USD	21.9	18.4
		256.9	227.9

Drawdowns under the term loans are dependent upon expenditure for specific projects.

Term loans bear interest at the relevant interbank reference rate plus a margin of up to 0.75%. The amount drawn at 31 December 2004 is US$177.5 million (A$227.9 million) at a weighted average annual effective interest rate of 2.70%.

(b) Commercial paper

The Santos Group has an A$800.0 million (2003: A$800.0 million) Australian commercial paper program supported by the revolving facilities referred to in (a) above. At 31 December 2004, A$209.0 million (2003: A$110.0 million) of commercial paper is on issue and the weighted average annual effective interest rate is 5.61% (2003: 5.50%).

(c) Medium-term notes

The Santos Group has a A$500.0 million (2003: A$500.0 million) Australian medium-term note program. At 31 December 2004, A$20.0 million (2003: A$20.0 million) of medium-term notes have been issued at fixed rate and swapped into floating rates of interest of 6.25% (2003: 6.20%), maturing in 2008.

(d) Long-term notes

US$170.0 million of long-term notes were issued to institutional investors in 1993 at an annual effective interest rate of 6.95% and are repayable in five annual US dollar instalments which commenced in December 2001. As at 31 December 2004, US$34.0 million (A$43.7 million) remains outstanding (2003: US$68.0 million equivalent to A$90.8 million). A further US$290.0 million (A$372.5 million) (2003: US$290.0 million equivalent to A$387.3 million) of long-term notes were issued to institutional investors in 2000 at an annual effective interest rate of 8.37% and are repayable at varying maturity dates between 2007 and 2015. In addition US$300.0 million (A$385.3 million) (2003: US$300.0 million equivalent to A$400.6 million) of long-term notes were issued to institutional investors in 2002 at an annual effective interest rate of 6.11% and are repayable at varying maturity dates between 2009 and 2022.

15. Interest-Bearing Liabilities (continued)

The Santos Group has entered into interest rate swap contracts to manage the exposure to interest rates. This has resulted in a weighted average interest rate on interest-bearing liabilities of 5.50% as at 31 December 2004 (2003: 4.72%). All facilities are unsecured and arranged through a controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd.

16. Provisions

	CONSOLIDATED		SANTOS LTD	
	2004 $million	2003 $million	**2004 $million**	2003 $million
Current				
Employee benefits	48.7	47.7	47.6	46.3
Future restoration costs	3.9	7.6	0.9	1.2
Non-executive Directors' retirement benefits	0.2	-	0.2	-
	52.8	55.3	48.7	47.5
Non-current				
Future restoration costs	129.4	113.7	43.8	36.0
Non-executive Directors' retirement benefits	2.2	2.3	2.2	2.3
	131.6	116.0	46.0	38.3

Reconciliations of the carrying amount of the non-executive Directors' retirement benefits are set out below:

	CONSOLIDATED 2004	CONSOLIDATED 2003	SANTOS LTD 2004	SANTOS LTD 2003
Current				
Carrying amount at beginning of year	-	0.6	-	0.6
Transfer from/(to) non-current provision	0.2	(0.3)	0.2	(0.3)
Payments made during the year	-	(0.3)	-	(0.3)
Carrying amount at end of year	0.2	-	0.2	-
Non-current				
Carrying amount at beginning of year	2.3	1.7	2.3	1.7
Provision made during the year	0.1	0.3	0.1	0.3
Transfer from/(to) current provision	(0.2)	0.3	(0.2)	0.3
Carrying amount at end of year	2.2	2.3	2.2	2.3

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million

17. Other Liabilities

Current				
Deferred foreign currency fluctuations on borrowings	3.5	10.6	-	-
Accrued fluctuations on foreign currency swaps	11.2	-	-	-
	14.7	10.6	-	-
Non-current				
Deferred foreign currency fluctuations on borrowings	33.9	55.7	-	-

The deferred foreign currency fluctuations on US dollar borrowings designated as hedges reflect the deferred gains arising from the movement of the Australian dollar against the US dollar from the inception of the drawdown of the borrowings to balance date.

18. Contributed Equity

Share capital				
585,520,675 (2003: 584,475,013) ordinary shares, fully paid	1,557.2	1,550.8	1,557.2	1,550.8
181,000 (2003: 231,000) ordinary shares, paid to one cent	-	-	-	-
Nil (2003: 3,500,000) reset convertible preference shares	-	342.3	-	342.3
6,000,000 (2003: nil) redeemable convertible preference shares	581.8	-	581.8	-
	2,139.0	1,893.1	2,139.0	1,893.1

Movement in fully paid ordinary shares	Note	**2004**	2003	**2004**	2003
		Number of shares		**$million**	$million
Balance at the beginning of the year		584,475,013	582,782,293	1,550.8	1,542.5
Santos Executive Share Plan	(a)	50,000	35,750	0.1	0.1
Santos Employee Share Acquisition Plan	(b)	157,014	254,106	1.3	1.5
Santos Employee Share Purchase Plan	(c)	123,648	152,864	0.9	1.0
Shares issued on exercise of options	(d)	715,000	1,250,000	4.1	5.7
Balance at the end of the year		585,520,675	584,475,013	1,557.2	1,550.8

18. Contributed Equity (continued)

	Note	**2004** Number of shares	2003 Number of shares	**2004 $million**	2003 $million
Movement in reset convertible preference shares					
Balance at the beginning of the year		3,500,000	3,500,000	342.3	342.3
Transfer to redeemable convertible preference shares		-	-	7.7	-
Shares redeemed	(f)	(3,500,000)	-	(350.0)	-
Balance at the end of the year		-	3,500,000	-	342.3
Movement in redeemable convertible preference shares					
Balance at the beginning of the year		-	-	-	-
Shares issued	(g)	6,000,000	-	600.0	-
Share issue cost		-	-	(10.5)	-
Transfer from reset convertible preference shares		-	-	(7.7)	-
Balance at the end of the year		6,000,000	-	581.8	-

The market price of the Company's ordinary shares on 31 December 2004 was $8.48 (2003: $6.87).

(a) Santos Executive Share Plan

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

Under the terms of the Plan, shares were initially issued as partly paid shares, paid to one cent. 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.

Shares were issued principally on: 22 December 1987; 7 February and 5 December 1989; and 24 December 1990. In 1997 the Board determined that the Plan be discontinued and, accordingly, there has been no further issues of shares under the Plan.

At the beginning of the financial year there were 231,000 Plan Shares on issue. During the financial year 50,000 Plan Shares were fully paid and aggregate proceeds of $138,200 received by the Company. As at 31 December 2004 there were 181,000 Plan Shares outstanding.

(b) Santos Employee Share Acquisition Plan

The Santos Employee Share Acquisition Plan was approved by shareholders at the Annual General Meeting on 15 May 1997 and its continuation, with amendment, approved at the Annual General Meeting on 5 May 2000.

18. Contributed Equity (continued)

Broadly, permanent eligible employees with at least a minimum period of service determined by Directors as at the offer date (one year of completed service for issues so far) are entitled to acquire shares under this Plan. Executives participating in the Santos Executive Share Option Plan (refer note 18(d)) or in the Executive Long Term Incentive Plan in 2004, casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

The Plan provides for grants of fully paid ordinary shares in the capital of the Company up to a value determined by the Board which, to date, has been $1,000 per annum per eligible employee. A trustee is funded by the Santos Group to acquire shares directly from the Company or on market. The shares are then held by the trustee on behalf of eligible employees who have made applications under the Plan.

The employee's ownership of shares allocated under the Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of the restriction period determined by the Board (being three years) and the time when he or she ceases to be an employee. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues during the restriction period. Shares are granted to eligible employees at no cost to the employee.

Summary of share movements in the Plan during 2004 (and comparative 2003 information):

	OPENING BALANCE	GRANTED DURING THE YEAR		DISTRIBUTIONS DURING THE YEAR		CLOSING BALANCE	
Grant Dates	**Number**	**Number of Shares**	**Fair value per share**	**Number**	**Fair value aggregate**	**Number**	**Fair value aggregate**
			$		**$**		**$**
2004							
24 August 2001	177,908	-	-	177,908	1,180,728	-	-
2 September 2002	195,624	-	-	32,760	227,623	162,864	1,381,087
2 September 2003	242,991	-	-	42,237	294,081	200,754	1,702,394
22 November 2004	-	157,014	8.14	244	2,089	156,770	1,329,410
	616,523	157,014		253,149	1,704,521	520,388	4,412,891
2003							
25 August 2000	192,950	-	-	192,950	1,163,949	-	-
24 August 2001	196,552	-	-	18,644	111,036	177,908	1,222,228
2 September 2002	216,840	-	-	21,216	126,185	195,624	1,343,937
2 September 2003	-	254,106	5.84	11,115	67,943	242,991	1,669,348
	606,342	254,106		243,925	1,469,113	616,523	4,235,513

Shares are allocated at a price equal to the weighted average sale price of the Company's ordinary shares on the Australian Stock Exchange during the one week period up to and including the Grant Date. This is shown as fair value per share for shares granted during the year. The fair value of shares distributed from the trust during the year and remaining in the trust at the end of the financial year is the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the respective dates.

Distributions during the year occurred at various dates throughout the year and therefore have not been separately listed.

18. Contributed Equity (continued)

The amounts recognised in the financial statements of the Santos Group and the Company in relation to the Santos Employee Share Acquisition Plan during the year were:

	CONSOLIDATED		**SANTOS LTD**	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
Employee expenses	1.2	1.4	1.2	1.4
Issued ordinary share capital	1.3	1.5	1.3	1.5

At 31 December 2004, the total number of shares acquired under the Plan since its commencement was 1,874,287.

(c) Santos Employee Share Purchase Plan

The Santos Employee Share Purchase Plan was approved by shareholders at the Annual General Meeting on 15 May 1997 and its continuation, with amendment, approved at the Annual General Meeting on 5 May 2000.

General Employee Participation
The Plan is open to all employees (other than a casual employee or Director of the Company) determined by the Board who are continuing employees at the date of the offer. However, employees who are not resident in Australia at the time of an offer under the Plan and those who have participated in the Executive Long Term Incentive Plan during the year will not be eligible to participate in that offer unless the Board otherwise decides.
Under the Plan, eligible employees may be offered the opportunity to subscribe for or acquire fully paid ordinary shares in the capital of the Company at a discount to market price, subject to restrictions, including on disposal, determined by the Board (which has been a period of one year for issues so far). The subscription or acquisition price is Market Value (being the weighted average sale price of the Company's ordinary shares on the Australian Stock Exchange during the one week period up to and including the offer date) less any discount determined by the Board (5% for issues so far). Under the Plan, at the discretion of the Board, financial assistance may be provided to employees to subscribe for and acquire shares under the Plan. The 5% discount constitutes financial assistance for these purposes. Participants are entitled to vote, receive dividends and participate in bonus and rights issues while the shares are restricted.

On 26 November 2004, the Company issued 32,400 ordinary shares to 49 eligible employees at a subscription price of $8.14 per share under the Plan. The total market value of those shares on the issue date was $287,064 and the total amount received from employees for those shares was $249,480.

Senior Executive Long Term Incentive
In addition, during the year, selected senior executives of the Company were invited to apply for shares pursuant to the terms of the Santos Employee Share Purchase Plan as part of the Company's long term incentive arrangements (and on different terms from the general employee participation described above). On 27 January 2004 and 1 July 2004, 3,397 and 87,851 (2003: 129,664) shares respectively were allotted to a trustee to hold for senior executives.

The shares allocated pursuant to the Plan were allotted to a trustee at no cost to participants, to be held on their behalf. The allocation price is Market Value (as defined above) and the trustee was funded by the Company to subscribe for the shares.

18. Contributed Equity (continued)

In general the shares are restricted for a period of one year from the date of allotment. If an executive allotted such shares ceased employment during this period, the Board in its discretion may determine that a lesser restriction on transfer and dealing applies, having regard to the circumstances of the cessation. The shares can remain on trust for up to four years, during which time the shares are subject to forfeiture if participants act fraudulently or dishonestly or in breach of their obligations to any Group Company. Participants are entitled to instruct the trustee as to the exercise of voting rights, receive dividends and participate in bonus and rights issues while the shares are restricted.

The fair value of the 3,397 and 87,851 shares allotted on 27 January 2004 and 1 July 2004 respectively to a trustee to hold for senior executives was $773,783 at the end of the financial year, being the market price of the ordinary shares of the Company on the Australian Stock Exchange as at close of trading on that date.

Summary of share movements in the Plan:

	OPENING BALANCE	GRANTED DURING THE YEAR		RESTRICTION CEASED DURING THE YEAR		CLOSING BALANCE
Grant Dates	**Number**	**Number of Shares**	**Fair value per share $**	**Number**	**Date**	**Number**
2004						
7 March 2003	7,800	-	-	7,800	7 March 2004	-
8 September 2003	15,400	-	-	15,400	8 September 2004	-
22 December 2003	129,664	-	-	3,818	3 May 2004	-
				3,548	1 June 2004	-
				7,273	8 June 2004	-
				7,331	2 July 2004	-
				4,364	19 July 2004	-
				103,330	22 December 2004	-
27 January 2004	-	3,397	6.38	-	-	3,397
1 July 2004	-	87,851	6.95	-	-	87,851
26 November 2004	-	32,400	7.70	-	-	32,400
	152,864	123,648		152,864		123,648
2003						
7 March 2002	17,200	-	-	17,200	7 March 2003	-
2 September 2002	40,600	-	-	40,600	2 September 2003	-
7 March 2003	-	7,800	5.61	-	-	7,800
8 September 2003	-	15,400	5.77	-	-	15,400
22 December 2003	-	129,664	6.38	-	-	129,664
	57,800	152,864		57,800		152,864

The fair value per share for shares granted during the year and the consideration received by the Company per share is Market Value (as defined above) less, in the case of General Employee Participation, the discount of 5% referred to above.

The amounts recognised in the financial statements of the Santos Group and the Company in relation to the Santos Employee Share Purchase Plan during the year were:

	CONSOLIDATED		**SANTOS LTD**	
	2004 $million	2003 $million	**2004 $million**	2003 $million
Issued ordinary share capital	0.9	1.0	0.9	1.0

At 31 December 2004, the total number of shares acquired under the Plan since its commencement was 930,112.

18. Contributed Equity (continued)

(d) Santos Executive Share Option Plan

The Santos Executive Share Option Plan was approved by shareholders at the Annual General Meeting on 15 May 1997 and its continuation, with amendment, approved at the Annual General Meeting on 5 May 2000.

The Plan provides for the grant of options to subscribe for or purchase ordinary shares in the capital of the Company to eligible executives selected by the Board. Participation will be limited to those executives who, in the opinion of the Board, are able to significantly influence the generation of shareholder wealth. Directors envisage the Plan applying to up to 50 executives.

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

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

The exercise price of the options and other conditions, including any performance hurdles, will be determined by the Board. No consideration is provided by Executives for the options. The Plan provides for options with a life of up to 10 years.

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

The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

During the financial year, the Company granted 330,148 options over unissued shares as set out below. The ability to exercise 200,000 of these options is generally conditional on the Company achieving the performance hurdle described above and the balance are subject to the forfeiture provision described in the Senior Executive Long Term Incentive section of the Santos Executive Share Purchase Plan described above.

The amounts recognised in the financial statements of the Santos Group and the Company in relation to executive share options exercised during the financial year were:

	CONSOLIDATED		**SANTOS LTD**	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
Issued ordinary share capital	4.1	5.7	4.1	5.7

18. Contributed Equity (continued)

Summary of options over unissued ordinary shares
Consolidated and the Company

2004

Grant date	Date first exercisable	Expiry date	Exercise price per share $	Number of options at beginning of year	Options granted	Options lapsed	Options exercised	Number of options at end of year On issue	Number of options at end of year Vested	Proceeds received $	Number of shares issued [1]	Fair value aggregate [2] $
15 June 1999	15 June 2002	14 June 2004	5.12	215,000	-	-	215,000	-	-	1,100,800	215,000	1,420,550
18 April 2000	18 April 2003	17 April 2005	3.92	150,000	-	-	100,000	50,000	50,000	392,000	100,000	607,000
26 August 2000	26 August 2003	25 August 2010	5.83	3,000,000	-	-	-	3,000,000	2,000,000	-	-	-
6 June 2001	6 June 2004	5 June 2006	6.69	700,000	-	50,000	100,000	550,000	-	669,000	100,000	735,000
19 October 2001	19 October 2004	18 October 2006	6.52	925,000	-	-	200,000	725,000	725,000	1,304,000	200,000	1,522,000
18 June 2002	18 June 2005	17 June 2007	6.20	700,000	-	50,000	100,000	550,000	-	620,000	100,000	739,000
12 December 2003	22 December 2004	22 December 2007	6.38	208,314	-	-	-	208,314	208,314	-	-	-
12 December 2003	12 December 2006	22 December 2008	6.38	100,000	-	-	-	100,000	-	-	-	-
15 June 2004	15 June 2007	14 June 2009	6.95	-	200,000	-	-	200,000	-	-	-	-
15 June 2004	1 July 2005	1 July 2008	6.95	-	130,148	-	-	130,148	-	-	-	-
				5,998,314	330,148	100,000	715,000	5,513,462	2,983,314	4,085,800	715,000	5,023,550

[1] Shares issued on the exercise of options have occurred at varying dates throughout the financial year.

[2] The fair value of shares issued as a result of exercising options during the reporting period has been determined using the market price of the Company's ordinary shares on the Australian Stock Exchange as at close of trading on the respective issue dates.

18. Contributed Equity (continued)

2003

Grant date	Date first exercisable	Expiry date	Exercise price per share $	Number of options at beginning of year	Options granted	Options lapsed	Options exercised	Number of options at end of year: On issue	Number of options at end of year: Vested	Proceeds received $	Number of shares issued [1]	Fair value aggregate [2] $
16 June 1998	16 June 2001	15 June 2003	4.84	280,000	-	-	280,000	-	-	1,355,200	280,000	1,532,500
15 June 1999	15 June 2002	14 June 2004	5.12	685,000	-	-	470,000	215,000	215,000	2,406,400	470,000	2,895,850
18 April 2000	18 April 2003	17 April 2005	3.92	650,000	-	-	500,000	150,000	150,000	1,960,000	500,000	2,920,500
26 August 2000	26 August 2003	25 August 2010	5.83	3,000,000	-	-	-	3,000,000	1,000,000	-	-	-
6 June 2001	6 June 2004	5 June 2006	6.69	700,000	-	-	-	700,000	-	-	-	-
19 October 2001	19 October 2004	18 October 2006	6.52	1,075,000	-	150,000	-	925,000	-	-	-	-
18 June 2002	18 June 2005	17 June 2007	6.20	750,000	-	50,000	-	700,000	-	-	-	-
12 December 2003	22 December 2004	22 December 2007	6.38	-	208,314	-	-	208,314	-	-	-	-
12 December 2003	12 December 2006	22 December 2008	6.38	-	100,000	-	-	100,000	-	-	-	-
				7,140,000	308,314	200,000	1,250,000	5,998,314	1,365,000	5,721,600	1,250,000	7,348,850

[1] Shares issued on the exercise of options have occurred at varying dates throughout the 2003 financial year.

[2] The fair value of shares issued as a result of exercising options during the 2003 financial year has been determined using the market price of the Company's ordinary shares on the Australian Stock Exchange as at close of trading on the respective issue dates.

18. Contributed Equity (continued)

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

The aggregate number of:

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

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

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

(f) Reset convertible preference shares redemption and buy-back

On 30 September 2004, through a redemption and buy-back arrangement, the Company cancelled its entire 3,500,000 reset convertible preference shares on issue at that date. 2,865,821 shares were redeemed at face value and reinvested in redeemable convertible preference shares, 489,774 shares were bought back for $105 each and cancelled, and 144,405 shares were redeemed at face value. This redemption and buy-back resulted in an amount of $350,000,000 being debited against the Company's capital account and an amount of $2,448,870 being debited against retained profits representing the $5.00 premium paid over the issue price in the buy-back of the 489,774 reset convertible preference shares.

(g) Redeemable convertible preference shares

On 30 September 2004, the Company issued 6,000,000 redeemable convertible preference shares at $100 each, which resulted in an amount of $600,000,000 being credited to the Company's capital account before deducting the costs of issue.

Under the terms of the redemption and buy-back, those shareholders whose reset convertible preference shares were redeemed at face value and reinvested in redeemable convertible preference shares were entitled to a $5.00 per share special dividend which was paid on 7 October 2004.

Redeemable convertible preference shareholders receive a floating preferential, non-cumulative dividend which incorporates the value of franking credits (i.e. it is on a grossed up basis), set at the Bank Bill Swap Rate for 180 day bills plus a margin. Dividends on redeemable convertible preference shares are in priority to any dividend declared on ordinary class shares. Redeemable convertible preference shareholders are not entitled to vote at any general meetings, except in the following circumstances:

(a) on a proposal:

  (i) to reduce the share capital of the Company;

  (ii) that affects rights attached to the redeemable convertible preference shares;

  (iii) to wind up the Company; or

  (iv) for the disposal of the whole of the property, business and undertaking of the Company;

(b) on a resolution to approve the terms of a buy-back agreement;

(c) during a period in which a dividend or part of a dividend on the redeemable convertible preference shares is in arrears; or

(d) during the winding up of the Company.

In the event of the winding up of the Company, redeemable convertible preference shares will rank for repayment of capital behind all creditors of the Company, but ahead of the ordinary class shares.

The redeemable convertible preference shares may, at the sole discretion of the Company, be converted into ordinary class shares and/or exchanged.

18. Contributed Equity (continued)

(h) Restricted shares

On his appointment as Chief Executive Officer on 13 December 2000, 1,000,000 Restricted Shares were issued to Mr J C Ellice-Flint. The Restricted Shares were issued for nil consideration and are held under a trust structure. The Restricted Shares carry rights to dividends and bonus issues and allow Mr Ellice-Flint to instruct the trustee as to the exercise of voting rights. Legal title in the Restricted Shares will not pass to Mr Ellice-Flint until he has completed five years continuous service with the Group or his employment is earlier terminated by the Company (other than for cause).

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
19. Foreign Currency Translation Reserve	(9.0)	(8.8)	-	-
Movements during the year				
Balance at the beginning of the year	(8.8)	(4.1)	-	-
Exchange difference on net investment in foreign operations and related hedges:				
- gross	17.3	123.5	-	-
- related income tax (revenue)	(5.2)	(37.1)	-	-
Overseas net assets	(12.3)	(91.1)	-	-
Net translation adjustment	(0.2)	(4.7)	-	-
Balance at the end of the year	(9.0)	(8.8)	-	-

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
20. Retained Profits	1,368.3	1,203.6	1,299.8	871.9
Movements during the year				
Balance at the beginning of the year	1,203.6	983.2	871.9	795.5
Effect of initial adoption of revised AASB 1028 "Employee Benefits"	-	(1.9)	-	(1.8)
Effect of initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	93.3	-	93.3
Net profit after income tax attributable to the shareholders of Santos Ltd	379.9	327.0	643.1	182.9
Dividends recognised during the year	(212.8)	(198.0)	(212.8)	(198.0)
Premium paid on buy-back of reset convertible preference share	(2.4)	-	(2.4)	-
Balance at the end of the year	1,368.3	1,203.6	1,299.8	871.9

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million

20. Retained Profits (continued)

Dividends provided for and paid by the Company				
Special dividend of $5.00 per redeemable convertible preference share paid on 7 October 2004 on 2,865,821 shares, fully franked	14.3	-	14.3	-
Preferential, non-cumulative dividend of $3.2940 per reset convertible preference share paid on 31 March 2004, fully franked (2003: $3.2760 per share provided and paid on 31 March 2003, fully franked)	11.5	11.5	11.5	11.5
Preferential, non-cumulative dividend of $3.2940 per reset convertible preference share paid on 30 September 2004, fully franked (2003: $3.2940 per share paid on 30 September 2003, fully franked)	11.5	11.5	11.5	11.5
Final 2003 dividend of 15.0 cents per ordinary share paid on 31 March 2004, fully franked (2003: 15.0 cents per share, fully franked)	87.7	87.4	87.7	87.4
Interim dividend of 15.0 cents per ordinary share paid on 30 September 2004, fully franked (2003: 15.0 cents per share, fully franked)	87.8	87.6	87.8	87.6
	212.8	198.0	212.8	198.0

Subsequent to reporting date

Since the end of the financial year, the Directors have declared the following dividends payable on 31 March 2005:

Final 2004 dividend of 18 cents per ordinary share, fully franked	105.4		105.4	
Preferential, non-cumulative floating rate dividend of $2.4497 per redeemable convertible preference share, fully franked	14.7		14.7	
	120.1		120.1	

The financial effect of these dividends has not been brought to account in the consolidated financial statements for the year ended 31 December 2004.

Franking credits

Balance of franking account credits at 30% available for future distribution, after adjusting for franking credits which will arise from the payment of the current income tax provision at 31 December 2004			394.7	358.3

	CONSOLIDATED	
	2004	2003
	$million	$million

21. Earnings per Share

Earnings used in the calculation of basic earnings per share reconciles to the net profit after tax in the statement of financial performance as follows:

	2004 $million	2003 $million
Net profit after income tax	379.9	327.0
Less special dividend on redeemable convertible preference shares	(14.3)	-
Earnings used in the calculation of diluted earnings per share	365.6	327.0
Less dividends paid on reset convertible preference shares	(23.0)	(23.0)
Earnings used in the calculation of basic earnings per share	342.6	304.0

The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

	2004 Number of shares	2003 Number of shares
Basic earnings per share	584,924,130	583,432,623
Partly paid shares	100,722	112,876
Executive share options	755,897	164,841
Reset convertible preference shares	39,367,128	50,946,143
Diluted earnings per share	625,147,877	634,656,483

Partly paid shares outstanding issued under the Santos Executive Share Plan; options outstanding issued under the Santos Executive Share Option Plan; and reset convertible preference shares have been classified as potential ordinary shares and included in the calculation of diluted earnings per share. The number of shares included in the calculation are those assumed to be issued for no consideration, being the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

During the year, 715,000 (2003: 1,250,000) options and 50,000 (2003: 35,750) partly paid shares were converted to ordinary shares.

6,000,000 redeemable convertible preference shares were not dilutive and were excluded from the calculation of diluted earnings per share.

22. Investments in Controlled Entities

Name	Place of Incorporation
Santos Ltd (Parent Entity)	SA
Controlled entities[1]:	
Alliance Petroleum Australia Pty Ltd	VIC
Boston L.H.F. Pty Ltd	VIC
Bridgefield Pty Ltd	QLD
Bridge Oil Developments Pty Limited	NSW
Canso Resources Pty Ltd	NSW
Coveyork Pty Ltd	NSW
Doce Pty Ltd	QLD
Farmout Drillers Pty Ltd	NSW
Kipper GS Pty Ltd	WA
Controlled entity of Kipper GS Pty Ltd	
Crusader (Victoria) Pty Ltd	VIC
Moonie Pipeline Company Pty Ltd	QLD
Novus Australia Resources NL [2]	VIC
Reef Oil Pty Ltd	NSW
Santos Asia Pacific Pty Ltd	QLD
Controlled entities of Santos Asia Pacific Pty Ltd	
Santos (Sampang) Pty Ltd	SA
Santos (Warim) Pty Ltd	SA
Santos Australian Hydrocarbons Pty Ltd	QLD
Santos (BOL) Pty Ltd	NSW
Controlled entity of Santos (BOL) Pty Ltd	
Bridge Oil Exploration Pty Limited	ACT
Santos Darwin LNG Pty Ltd	ACT
Santos Direct Pty Ltd [3]	SA
Santos Facilities Pty Ltd	SA
Santos Finance Ltd	NSW
Santos Globe Pty Ltd (*formerly Globex Far East Pty Ltd*)	WA
Santos International Holdings Pty Ltd	ACT
Controlled entities of Santos International Holdings Pty Ltd	
Barracuda Limited	PNG
Lavana Limited	PNG
Novus UK (Kakap 2) Limited [2]	UK
Peko Offshore Ltd	BER
Sanro Insurance Pte Ltd	SING
Santos Americas and Europe Corporation	USA
Controlled entity of Santos Americas and Europe Corporation	
Santos USA Corp	USA
Santos (Bawean) Pty Ltd	SA
Santos Brantas Pty Ltd [3]	VIC
Santos (Donggala) Pty Ltd [3]	VIC
Santos Egypt Pty Ltd [3]	VIC
Santos Hides Ltd	PNG
Santos International Operations Pty Ltd	QLD
Santos (Madura Offshore) Pty Ltd	WA
Santos Niugini Exploration Limited	PNG
Santos (Nth Bali 1) Pty Ltd	SA
Santos (Papalang) Pty Ltd	SA
Santos (Popodi) Pty Ltd	SA
Santos (JPDA 91-01) Pty Ltd	ACT
Santos (JPDA 91-12) Pty Ltd	ACT
Santos (NGA) Pty Ltd	VIC
Santos (N.T.) Pty Ltd	ACT
Controlled entity of Santos (N.T.) Pty Ltd	
Bonaparte Gas & Oil Pty Limited	NSW
Santos Offshore Pty Ltd	VIC
Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
Santos Petroleum Pty Ltd	NSW
Santos QNT Pty Ltd	QLD
Controlled entities of Santos QNT Pty Ltd	
Santos QNT (No. 1) Pty Ltd	QLD
Controlled entities of Santos QNT (No. 1) Pty Ltd	
Santos Petroleum Management Pty Ltd	QLD
Santos Petroleum Operations Pty Ltd	QLD
TMOC Exploration Proprietary Limited	QLD
Santos QNT (No. 2) Pty Ltd	QLD
Controlled entities of Santos QNT (No. 2) Pty Ltd	
Associated Petroleum Pty Ltd	QLD
Moonie Oil Pty Ltd	QLD
Petromin Pty Ltd	QLD
Santos (299) Pty Ltd	QLD
Santos Exploration Pty Ltd	VIC
Santos Gnuco Pty Ltd	QLD
Transoil Pty Ltd	QLD
Santos Resources Pty Ltd	QLD
Santos Timor Sea Pipeline Pty Ltd	NSW
Sesap Pty Ltd [2]	VIC
Vamgas Pty Ltd	VIC

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

22. Investments in Controlled Entities (continued)

Notes

(a) Place of incorporation

ACT	- Australian Capital Territory	BER	- Bermuda
NSW	- New South Wales	MAL	- Malaysia
QLD	- Queensland	PNG	- Papua New Guinea
SA	- South Australia	SING	- Singapore
VIC	- Victoria	UK	- United Kingdom
WA	- Western Australia	USA	- United States of America

(b) Disposal of controlled entities

During the financial year Santos Petroleum (NZ) Limited was removed from the New Zealand Companies Register.

(c) Acquisition of controlled entities

During the financial year the following controlled entities were acquired and their operating results have been included in the statement of financial performance from the date of acquisition:

Name of entity	Date of acquisition	Beneficial interest acquired	Purchase Consideration	Fair value of net assets at time of acquisition
		%	$million	$million
Sesap Pty Ltd	12 February 2004	100	-	-
Novus Australia Resources NL	1 September 2004	100	92.2	92.2
Novus UK (Kakap 2) Ltd	1 September 2004	100	35.1	35.1

The financial impacts of the acquisitions on the Santos Group and the Company are summarised below:

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
Fair value of net assets acquired				
Cash	(1.7)	1.3	(1.4)	1.3
Other	(2.4)	10.3	(2.3)	10.3
Exploration and development expenditure	131.4	12.4	95.9	12.4
	127.3	24.0	92.2	24.0
Purchase consideration				
Cash consideration paid	110.6	24.0	92.2	24.0
Amount payable after balance date	16.7	-	-	-
	127.3	24.0	92.2	24.0

During the financial year the following controlled entities were registered:

Santos Direct Pty Ltd	Santos Brantas Pty Ltd
Santos Egypt Pty Ltd	Santos (Donggala) Pty Ltd

23. Interests in Joint Ventures

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

Joint venture/area	Principal activities	Average interest %
Amadeus Basin		
Mereenie	Oil and gas production	65
Mereenie Pipeline	Oil transportation	65
Palm Valley	Gas production	48
Browse Basin	Oil and gas exploration	74
Carnarvon Basin	Oil and gas exploration and production	32
Cooper Basin Downstream	Liquid hydrocarbon transportation and processing	65
Cooper Basin Unit		
South Australia	Oil and gas production	65
Queensland	Oil and gas production	60
Cooper/Eromanga Basins		
South Australia	Oil and gas exploration and production	65
Queensland, ATP 259P	Oil and gas exploration and production	60
Other Eromanga	Oil and gas exploration and production	74
Jackson Moonie Pipeline	Oil transportation	83
Eastern Queensland		
Bowen Basin	Gas exploration and production	50
Surat Basin	Oil and gas exploration and production	48
Egypt		
Gulf of Suez	Oil and gas exploration	50
Gippsland Basin	Oil and gas exploration and production	35
Indonesia		
East Java Basin	Oil and gas exploration and production	42
Kutei Basin	Oil and gas exploration	35
West Natuna Basin	Oil and gas exploration and production	6
West Papua	Oil and gas exploration	20
Offshore Northern Australia		
Bonaparte Basin	Oil and gas exploration	95
Houtman Basin	Oil and gas exploration	42
Timor Gap	Oil and gas exploration and production	17
Timor Sea	Oil and gas exploration and production	22
Otway Basin	Oil and gas exploration and production	36
Papua New Guinea		
PDL1 (Part Hides Field)	Oil and gas exploration	31
Other interests	Oil and gas exploration and production	31
Sorell Basin	Oil and gas exploration	58
USA		
Gulf Coast	Oil and gas exploration and production	39
Rocky Mountains	Oil and gas exploration and production	50

(b) The sales revenue received from the Santos Group's share of petroleum products produced by the joint ventures is $1,493.5 million (2003: $1,451.2 million) and the contribution of joint venture business undertakings to profit from ordinary activities before interest and tax of the Santos Group is $581.3 million (2003: $496.7 million).

23. Interests in Joint Ventures (continued)

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

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
Current assets				
Cash	89.3	72.1	32.2	36.3
Receivables	63.8	26.8	29.3	9.1
Inventories	20.0	27.3	13.5	17.8
Total current assets	173.1	126.2	75.0	63.2
Non-current assets				
Exploration and development expenditure	2,916.9	2,738.9	858.4	866.6
Land and buildings, plant and equipment	1,971.9	1,684.0	645.9	640.9
Other	1.2	1.2	-	-
Total non-current assets	4,890.0	4,424.1	1,504.3	1,507.5
Total assets	5,063.1	4,550.3	1,579.3	1,570.7
Current liabilities				
Payables	237.6	190.5	76.0	60.2
Provisions	3.9	7.6	0.9	1.6
Total current liabilities	241.5	198.1	76.9	61.8
Non-current liabilities				
Provisions	129.4	113.7	43.8	36.0
Total liabilities	370.9	311.8	120.7	97.8
Net investments in joint ventures	4,692.2	4,238.5	1,458.6	1,472.9

(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures are:

Capital expenditure commitments	266.9	270.9	102.1	84.5
Minimum exploration commitments	172.5	347.3	71.5	107.4
Contingent liabilities	13.4	15.1	6.1	4.8

24. Notes to Statements of Cash Flows

Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million
Profit from ordinary activities after income tax	379.9	327.0	643.1	182.9
Add/(deduct) non-cash items:				
Depreciation, depletion and amortisation	539.7	531.6	210.9	195.8
Write-down of controlled entities	-	-	-	40.8
Write-down of exploration and development expenditure	22.1	59.7	4.6	6.1
Write-down of investment in listed shares	-	4.4	-	4.4
(Decrease)/increase in income taxes payable	(18.1)	(24.5)	12.4	(7.4)
Net increase/(decrease) in deferred tax asset and deferred tax liability	23.0	14.8	5.1	(8.3)
Tax benefit upon entering into Australian tax consolidation regime	(20.0)	(55.0)	(20.0)	(47.6)
Capitalised interest	(32.1)	(22.6)	-	-
Foreign currency fluctuations	(38.4)	13.3	(2.3)	(1.1)
Net profit on sale of non-current assets	(52.4)	(55.1)	(297.7)	(45.8)
Net (profit)/loss on sale of controlled entities	-	(4.5)	-	1.0
Net cash provided by operating activities before change in assets or liabilities	803.7	789.1	556.1	320.8
Add/(deduct) change in operating assets or liabilities net of acquisitions of businesses:				
Decrease/(increase) in receivables	(157.9)	100.1	(117.4)	19.6
Decrease/(increase) in inventories	(1.7)	11.7	(5.6)	9.0
Decrease/(increase) in other assets	(6.7)	2.4	0.7	2.3
(Decrease)/increase in payables	(32.0)	(2.4)	(23.3)	21.0
(Decrease)/increase in provisions	(0.4)	(3.6)	(17.8)	(3.6)
Net cash provided by operating activities	605.0	897.3	392.7	369.1

25. Related Parties

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.

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

Note 2 as to interest received from controlled entities;
Note 4 as to interest paid to controlled entities;
Note 7 as to tax related balances and other amounts owing by controlled entities;
Notes 14 and 15 as to amounts owing to controlled entities;
Note 15 as to guarantees by Santos Ltd of the financing facilities of controlled entities;
Note 16 as to non-executive Directors' retirement benefits;
Notes 12 and 22 as to investments in controlled entities;
Note 26 as to disclosures relating to Specified Directors and Specified Executives.

In addition:

(i) The spouse of a director of a Santos Group company is an employee of a subsidiary of that company and each of those persons is also a director of that subsidiary company.

(ii) Mr J W McArdle, who retired as a Director on 14 July 2001, entered into a consultancy agreement with the Company pursuant to which he will provide consultancy services to the Santos Group. The amount paid pursuant to this agreement during the financial year was $30,000 (2003: $70,000).

The transactions referred to in paragraphs (i) and (ii) occurred on terms no more favourable than would have been adopted if dealing at arm's length, do not have the potential to adversely affect decisions about the allocation of scarce resources and are trivial in nature.

26. Specified Director and Specified Executive Disclosures

(a) Specified Directors

The following persons were specified directors of Santos Ltd during the financial year:

Barnett, Peter Charles	Non-executive Director
Conroy, Francis John	Non-executive Director *(retired 14 December 2004)*
Ellice-Flint, John Charles	Managing Director
Gerlach, Stephen	Chairman and non-executive Director
Harding, Richard Michael	Non-executive Director *(appointed 1 March 2004)*
McGregor, Graeme William	Non-executive Director
O'Leary, Michael Anthony	Non-executive Director
Sloan, Judith	Non-executive Director

(b) Specified Executives of the Santos Group

The following persons were the six executives with the greatest authority for the strategic direction and management of the Santos Group ("Specified Executives") during the financial year:

Name	**Position**
Gouadain, Jacques Elie	Vice President – Geoscience and New Ventures
Moore, Paul Derek	Vice President – Development Projects and Technical Services
Wasow, Peter Christopher	Chief Financial Officer
Wilkinson, Richard John	Vice President – Gas Marketing and Commercialisation
Wood, Bruce James	Vice President – Strategic Projects
Young, Jonathon Terence	Executive Vice President – Operations

All specified executives are employed by Santos Ltd.

(c) Remuneration of Specified Directors and Specified Executives

The Remuneration Committee of the Board is responsible for reviewing the remuneration policies and practices of the Company including: the compensation arrangements for the Managing Director and senior management; the Company's superannuation arrangements; employee share and option plans; and the fees for non-executive Directors.

Non-executive Directors

Within the aggregate amount (being $1,500,000 per year) approved by shareholders at the Annual General Meeting of the Company held on 7 May 2004, the fees of the Chairman and non-executive Directors are set at levels which represent the responsibilities of and the time commitments provided by those Directors in discharging their duties. Regard is also had to the level of fees payable to non-executive Directors of comparable companies. Non-executive Directors' fees were increased effective 1 July 2004. Non-executive Directors, other than the Chairman, who are members of Board committees receive additional fees. Non-executive Directors may not participate in any of the Company's bonus, share or option plans.

26. Specified Director and Specified Executive Disclosures (continued)

The Directors determined to cease retirement allowances to Non-executive Directors effective from 30 June 2004. Non-executive Directors appointed before 1 January 2004 are entitled to receive benefits accrued to that date, payable upon ceasing to hold office as a Director. The retirement payment (inclusive of superannuation guarantee charge entitlements) is made pursuant to an agreement entered into with each Non-executive Director on terms approved by shareholders at the 1989 Annual General Meeting. These benefits have been fully provided for by the Company.

Executive Directors

The Managing Director, Mr J C Ellice-Flint, is currently the only Executive Director.

Mr J C Ellice-Flint has an executive service agreement with the Company which continues until terminated by either party in accordance with the agreement.

His remuneration comprises a base salary reviewed annually and an annual bonus calculated on a formula that includes components to measure the growth of profitability, exploitable reserves and share price.

He also has an entitlement to 1,000,000 Restricted shares, details of which are described in Note 18(h) to the financial statements and holds 3,000,000 options under the Santos Executive Share Option Plan.

If the Company terminates Mr J C Ellice-Flint’s appointment without cause, the Company may at its option, in lieu of part or all of the notice period of 24 months, pay to him an amount equal to a proportion or multiple of his annual base salary and the current year’s potential bonus (excluding the application of any performance condition) at the time at which notice is given.

Senior Executives

Remuneration Objectives and Principles

The objectives of the Company’s remuneration policy are to attract, retain and motivate appropriately qualified and experienced executives capable of discharging their respective responsibilities to enable the Company to achieve its business strategy.

The principles underlying the remuneration policy are: to realistically reflect the responsibilities of executives and other employees; to be industry competitive and reasonable; that a significant portion of remuneration be at risk against individual and company performance and shareholder wealth creation; that performance, not failure, be rewarded so that the Company’s best performers receive more; and to encourage executives to manage from the perspective of the shareholders by rewarding them for aligning Company and shareholder returns.

26. Specified Director and Specified Executive Disclosures (continued)

Remuneration Structure

The Company's remuneration structure for its non-award employees is based upon Target Total Remuneration ("TTR"), the components of which comprise:

- a fixed component called Fixed Annual Remuneration ("FAR"); and

two variable components, called:

- the Short Term Incentive ("STI") and
- the Long Term Incentive ("LTI").

FAR comprises salary, superannuation and benefits; is quantified by reference to role and experience; and is industry benchmarked.

STI is represented as a percentage of base remuneration which is "at risk", consists of an annual cash bonus paid to reward performance based on a mix of: Company performance and individual performance measured against annual scorecards with target and stretch performance criteria determined in advance each year.

LTI in relation to executive remuneration includes a long term performance based component in the form of equity participation through the Santos Executive Share Option Plan ("SESOP") and the Santos Employee Share Purchase Plan ("SESPP"). Participation is determined by the Board, on recommendation of the Remuneration Committee, and only applies to executives who are in a position to affect shareholder returns.

Options and rights to shares issued under these Plans to senior executives are linked to the longer term performance of the Company and are only exercisable following the satisfaction of performance hurdles that are designed to maximise shareholder wealth.

The amount of the award, and correspondingly the proportion of remuneration at risk, varies between executives according to their respective levels of seniority and responsibility.

The rules of the SESPP and SESOP were both approved by shareholders in 1997 and again in 2000.

Having regard to contemporary best practice, the LTI program is designed to drive superior executive performance and to reward only superior Company performance, linked to an appropriate performance benchmark. The benchmark assesses actual Company performance in terms of long-term comparative growth of the Company and resulting shareholder value.

Company performance is measured over a three year period based on the Company's Total Shareholder Return ("TSR") relative to one or more comparator groups as determined by the Board at the commencement of the performance period including, without limitation, any combination of the ASX100, energy companies in ASX100, the ASX Energy Index and international exploration and production companies. If performance is below the 50th percentile, no award is made. A proportionate award is made for performance between the 50th to 75th percentile and the maximum award is made for performance at or above the 75th percentile.

26. Specified Director and Specified Executive Disclosures (continued)

In relation to the current financial year, awards may be taken only in the form of shares pursuant to SESPP or, at the election of an executive, options pursuant to SESOP, details of which are described in Notes 18(c) and 18(d) of the financial statements. In future periods, awards may be taken in the form of rights over shares pursuant to SESPP or options granted under SESOP, at the election of executives.

Rights to shares and options are granted at no cost to the executives with the number of shares awarded being determined by dividing the amount of the award by the volume weighted average price of the Company's shares over the five business days up to and including the award date. The number of options awarded is of equivalent value calculated by an independent expert based on an acceptable valuation method.

The exercise price of the options is the volume weighted average price of the Company's shares over the five business days up to and including the award date.

The Board intends that LTI awards be made on an annual basis using a three year measurement period for the applicable performance hurdles. However, the Board reserves the right to suspend or modify the LTI program in light of circumstances appropriate to the Company from time to time.

The maximum number of shares that may be issued under all of the Company's executive and employee share and option plans cannot exceed the limit of 5% of the issued capital, as approved by shareholders at the 2000 AGM.

The specified executives are entitled to a termination payment in the event of termination of their service agreement by the Company without cause. They are entitled to three months' notice, excepting for Mr P C Wasow who is entitled to six months' notice, or payment in lieu of that notice, plus three weeks for each year of continuous service, pro rata for part thereof, and capped at a maximum of sixty-five weeks of total fixed remuneration, less notional value of superannuation for that period.

SANTOS LTD AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

26. Specified Director and Specified Executive Disclosures (continued)

Details of remuneration

2004

	Primary Benefits			Post Employment		Equity		Other Compensation		
Name	Salary and fees	Bonus[1]	Non-monetary	Super-annuation	Retirement	Shares	Options	Termination	Other	Total
	$	$	$	$	$	$	$	$	$	$
Specified Directors										
Barnett, Peter Charles	110,500	-	-	9,945	15,569	-	-	-	-	136,014
Conroy, Francis John	104,730	-	-	9,425	15,927	-	-	-	-	130,082
Ellice-Flint, John Charles	1,050,000	1,300,000	-	514,500	-	1,120,000	274,326	-	-	4,258,826
Gerlach, Stephen	285,000	-	31,167	11,293	-	-	-	-	-	327,460
Harding, Richard Michael	92,667	-	-	5,040	-	-	-	-	-	97,707
McGregor, Graeme William	115,500	-	-	10,157	15,716	-	-	-	-	141,373
O'Leary, Michael Anthony	104,000	-	-	9,360	16,842	-	-	-	-	130,202
Sloan, Judith	114,750	-	-	10,090	15,403	-	-	-	-	140,243
Total Specified Directors	1,977,147	1,300,000	31,167	579,810	79,457	1,120,000	274,326	-	-	5,361,907
Specified Executives										
Gouadain, Jacques Elie	371,327	176,600	25,513	24,292	-	58,939	18,731	-	-	675,402
Moore, Paul Derek	311,734	140,600	22,000	40,606	-	58,819	15,674	-	-	589,433
Wasow, Peter Christopher	444,389	307,200	-	49,361	-	79,052	20,000	-	-	900,002
Wilkinson, Richard John	311,875	169,800	-	62,583	-	62,341	-	-	-	606,599
Wood, Bruce James	312,596	128,200	-	29,594	-	18,900	40,583	-	-	529,873
Young, Jonathon Terence	486,306	316,500	-	50,263	-	83,443	30,833	-	-	967,345
Total Specified Executives	2,238,227	1,238,900	47,513	256,699	-	361,494	125,821	-	-	4,268,654

[1] No bonuses were attributable to long-term incentive plans

26. Specified Director and Specified Executive Disclosures (continued)

2003

	Primary Benefits			Post Employment		Equity		Other Compensation		
Name	Salary and fees	Bonus[1]	Non-monetary	Super-annuation	Retirement	Shares	Options	Termination	Other	Total
	$	$	$	$	$	$	$	$	$	$
Specified Directors										
Barnett, Peter Charles	88,835	-	-	7,995	50,565	-	-	-	-	147,395
Conroy, Francis John	93,000	-	-	8,370	40,607	-	-	-	-	141,977
Ellice-Flint, John Charles	1,101,923	1,200,000	-	497,067	-	1,120,000	507,360	-	-	4,426,350
Gerlach, Stephen	240,000	-	63,017	10,760	-	-	-	-	-	313,777
McGregor, Graeme William	97,000	-	-	8,730	40,572	-	-	-	-	146,302
O'Leary, Michael Anthony	88,000	-	-	7,920	45,412	-	-	-	-	141,332
Sloan, Judith	95,500	-	-	8,595	52,890	-	-	-	-	156,985
Webber, Ian Ernest	77,648	-	-	6,988	24,191	-	-	-	-	108,827
Total Specified Directors	1,881,906	1,200,000	63,017	556,425	254,237	1,120,000	507,360	-	-	5,582,945
Specified Executives										
Gouadain, Jacques Elie	319,480	48,300	26,407	3,507	-	941	23,332	-	-	421,967
Moore, Paul Derek	288,567	77,800	22,000	33,079	-	972	16,249	-	-	438,667
Wasow, Peter Christopher	396,757	128,800	-	41,026	-	1,311	20,000	-	-	587,894
Wilkinson, Richard John	307,083	85,100	-	61,417	-	1,061	-	-	-	454,661
Wood, Bruce James	259,683	73,200	-	22,800	-	-	7,998	-	-	363,681
Young, Jonathon Terence	356,511	118,750	56,050	61,805	-	1,355	46,207	-	-	640,678
Total Specified Executives	1,928,081	531,950	104,457	223,634	-	5,640	113,786	-	-	2,907,548

[1] No bonuses were attributable to long-term incentive plans

26. Specified Director and Specified Executive Disclosures (continued)

(d) Share Based Payment Compensation

Options Over Ordinary Shares Granted as Remuneration

During the reporting period, no options over ordinary shares were granted and vested.

Exercise of Options Granted as Remuneration

During the reporting period, no shares were issued on the exercise of options previously granted as remuneration.

(e) Equity Holdings

Options

The movement during the reporting period in the number of options of the Company held, directly, indirectly or beneficially, by each Specified Director and Specified Executive, including their personally-related entities, is as follows:

Name	Balance at beginning of the year No.	Granted as remuneration No.	Exercised No.	Other changes No.	Balance at end of the year No.	Vested at end of the year No.	Vested and exercisable No.	Vested but not exercisable No.
Specified Directors								
Ellice-Flint, John Charles	3,000,000	-	-	-	3,000,000	2,000,000	2,000,000	-
Specified Executives								
Gouadain, Jacques Elie	200,000	-	-	-	200,000	200,000	200,000	-
Moore, Paul Derek	125,000	-	-	-	125,000	25,000	25,000	-
Wasow, Peter Christopher	150,000	-	-	-	150,000	-	-	-
Wilkinson, Richard John	-	-	-	-	-	-	-	-
Wood, Bruce James	95,085	-	-	-	95,085	45,085	45,085	-
Young, Jonathon Terence	250,000	-	-	-	250,000	-	-	-

26. Specified Director and Specified Executive Disclosures (continued)

Shares

The movement during the reporting period in the number shares of the Company held, directly, indirectly or beneficially, by each Specified Director and Specified Executive, including their personally-related entities, is as follows:

Name	Balance at beginning of the year No.	Granted as remuneration No.	Received on exercise of options No.	Redeemed No.	Other changes No.	Balance at end of the year No.	Balance held nominally No.
Specified Directors							
Ordinary Shares – Fully Paid							
Barnett, Peter Charles	12,394	-	-	-	-	12,394	-
Conroy, Francis John	5,000	-	-	-	-	5,000	-
Ellice-Flint, John Charles	1,029,900	-	-	-	7,310	1,037,210	-
Gerlach, Stephen	37,305	-	-	-	5,000	42,305	-
Harding, Richard Michael	-	-	-	-	-	-	-
McGregor, Graeme William	10,000	-	-	-	-	10,000	-
O’Leary, Michael Anthony	4,725	-	-	-	-	4,725	-
Sloan, Judith	5,000	-	-	-	-	5,000	-
Reset Convertible Preference Shares							
Conroy, Francis John	-	-	-	(460)	460	-	-
Ellice-Flint, John Charles	225	-	-	(225)	-	-	-
McGregor, Graeme William	200	-	-	(200)	-	-	-
Sloan, Judith	125	-	-	(125)	-	-	-
Redeemable Convertible Preference Shares							
Conroy, Francis John	-	-	-	-	460	460	-
Ellice-Flint, John Charles	-	-	-	-	225	225	-
McGregor, Graeme William	-	-	-	-	1,200	1,200	-
Sloan, Judith	-	-	-	-	195	195	-

26. Specified Director and Specified Executive Disclosures (continued)

Name	Balance at beginning of the year No.	Granted as remuneration No.	Received on exercise of options No.	Redeemed No.	Other changes No.	Balance at end of the year No.	Balance held nominally No.
Specified Executives							
Ordinary Shares – Fully Paid							
Gouadain, Jacques Elie	6,000	6,216	-	-	-	12,216	-
Moore, Paul Derek	6,198	5,827	-	-	-	12,025	-
Wasow, Peter Christopher	8,364	7,770	-	-	-	16,134	-
Wilkinson, Richard John	6,764	5,827	-	-	-	12,591	-
Wood, Bruce James	1,000	5,439	-	-	-	6,439	-
Young, Jonathon Terence	8,636	8,547	-	-	-	17,183	-

26. Specified Director and Specified Executive Disclosures (continued)

(f) Loans and Other Transactions

Loans

There have been no loans outstanding at any time throughout the year with any Specified Director or Specified Executive.

Other Transactions with the Company or its Controlled Entities

Agreements exist with the non-executive Directors appointed prior to 1 January 2004 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. From 30 June 2004 the retirement allowances ceased to accrue.

The transaction referred to above occurred on terms no more favourable than would have been adopted if dealing at arm's length, do not have the potential to affect adversely decisions about the allocation of scarce resources and are trivial in nature.

27. Remuneration of Auditors

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$000	$000	**$000**	$000
Amounts received or due and receivable by the auditors of Santos Ltd for:				
External audit services	715	649	388	363
Other services:				
Taxation	147	112	-	-
Due diligence	3	23	58	-
Other	9	16	6	10
	874	800	452	373

The auditors ceased providing taxation services from 31 December 2004.

28. Segment Information

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise dividend revenue, interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

28. Segment Information (continued)

Geographic Segments

The Santos Group operates primarily in Australia but also has international operations in the United States, Papua New Guinea, Indonesia and Egypt.

	AUSTRALIA		INTERNATIONAL		CONSOLIDATED	
	2004	2003	**2004**	2003	**2004**	2003
Primary Reporting	**$million**	$million	**$million**	$million	**$million**	$million
Geographic segments						
Revenue						
Total segment revenue	1,633.1	1,445.9	120.7	134.6	1,753.8	1,580.5
Other unallocated revenue					(0.6)	38.9
Total revenue					1,753.2	1,619.4
Results						
Earnings before interest, tax and significant items	505.9	529.8	3.8	15.6	509.7	545.4
Significant items:						
Insurance recovery	116.6	-	-	-	116.6	-
Costs associated with Moomba liquids recovery plant fire	(17.5)	-	-	-	(17.5)	-
Profit on sale of oil and gas assets	43.9	-	-	-	43.9	-
Write-down of exploration and development expenditure	(4.7)	(1.3)	(17.4)	(58.4)	(22.1)	(59.7)
Organisation restructure costs	(21.6)	-	-	-	(21.6)	-
Accelerated depreciation - Heytesbury	-	(20.2)	-	-	-	(20.2)
	622.6	508.3	(13.6)	(42.8)	609.0	465.5
Gain on sale of listed investments					0.1	45.8
Unallocated corporate expenses					(34.7)	(45.8)
Earnings before interest and tax					574.4	465.5
Unallocated borrowing costs					(33.6)	(34.6)
Profit from ordinary activities before income tax expense					540.8	430.9
Income tax expense					(160.9)	(103.9)
Net profit after income tax attributable to the shareholders of Santos Ltd					379.9	327.0

28. Segment Information (continued)

	AUSTRALIA		INTERNATIONAL		CONSOLIDATED	
	2004	2003	**2004**	2003	**2004**	2003
	$million	$million	**$million**	$million	**$million**	$million
Primary Reporting						
Geographic segments (continued)						
Non-cash expenses						
Depreciation, depletion and amortisation	434.4	454.9	90.8	65.9	525.2	520.8
Unallocated corporate depreciation, depletion and amortisation					14.5	10.8
Total depreciation, depletion and amortisation					539.7	531.6
Write-down of exploration and development expenditure	4.7	1.3	17.4	58.4	22.1	59.7
Unallocated corporate write-down of listed investment					-	4.4
Total non-cash expenses					561.8	595.7
Acquisition of non-current assets						
Controlled entities	92.2	24.0	35.1	-	127.3	24.0
Oil and gas assets, property, plant and equipment	761.8	587.0	146.4	140.0	908.2	727.0
Unallocated corporate acquisition of oil and gas assets, property, plant and equipment					21.3	23.3
Total acquisition of non-current assets					1,056.8	774.3
Assets						
Segment assets	5,120.1	4,447.8	694.7	602.7	5,814.8	5,050.5
Unallocated corporate assets					141.2	167.8
Consolidated total assets					5,956.0	5,218.3
Liabilities						
Segment liabilities	2,129.1	1,678.3	120.9	174.9	2,250.0	1,853.2
Unallocated corporate liabilities					207.7	277.2
Consolidated total liabilities					2,457.7	2,130.4

Secondary Reporting

Business Segments

The Santos Group operates predominantly in one business, namely the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons and the transportation of crude oil.

	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million

29. Commitments for Expenditure

The Santos Group has the following commitments for expenditure:

(a) Capital commitments

	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million
Capital expenditure contracted for at balance date for which no amounts have been provided in the financial statements:				
Due not later than one year	253.5	237.7	93.9	84.3
Due later than one year but not later than five years	13.4	33.2	8.2	0.2
	266.9	270.9	102.1	84.5

Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 31 for further details).

(b) Minimum exploration commitments

	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million
Minimum exploration commitments for which no amounts have been provided in the financial statement or capital commitments:				
Due not later than one year	42.1	108.2	10.3	36.5
Due later than one year but not later than five years	118.8	207.7	61.2	70.9
Due later than five years	11.6	31.4	-	-
	172.5	347.3	71.5	107.4

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

(c) Lease commitments

	CONSOLIDATED 2004 $million	CONSOLIDATED 2003 $million	SANTOS LTD 2004 $million	SANTOS LTD 2003 $million
Operating leases:				
Due not later than one year	54.7	39.1	8.4	18.7
Due later than one year but not later than five years	102.9	140.1	21.1	115.1
Due later than five years	0.1	19.0	-	18.9
Total commitments under operating leases	157.7	198.2	29.5	152.7

30. Superannuation Commitments

Santos Ltd and certain controlled entities participate in a number of superannuation funds and pension plans in Australia and the United States of America. From 1 February 2002, three of the more significant employee benefit plans were combined into a single plan which provides benefits either on a defined benefit or cash accumulation basis for employees or their dependants on retirement, resignation, temporary or permanent disablement or death. The employers and employee members make contributions as specified in the rules of the plan.

In the case of the defined benefit component of the combined plan, employer contributions are based on the advice of the plan's actuary. The most recent actuarial assessment of the plan was undertaken as at 1 January 2004.

The following is a summary of the Santos Superannuation Plan:

Type of benefit	Defined benefits and cash accumulation
Basis of contributions	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.
Last actuarial assessment:	
Balance date	1 January 2004
Date issued	20 December 2004
Name of valuer and qualifications	Kathryn Daniels FIAA

The Santos Superannuation Plan has employee accrued benefits and assets as disclosed in the most recent financial report of the plan, as follows:

	As at 31 December 2003 $million
Net market value of assets	195.8
Less present value of employees' accrued benefits as determined by actuarial assessment as at 1 January 2004	(194.8)
Excess	1.0

At 31 December 2004 the vested benefits, or the benefits payable in the event of the termination of employment of each plan member, were $198.2 million (2003: $198.8 million) and the net market value of assets was $202.0 million (2003: $194.2 million).

31. Contingent Liabilities

	CONSOLIDATED		SANTOS LTD	
	2004	2003	**2004**	2003
	$million	$million	**$million**	$million
Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of:				
Performance guarantees	9.8	9.6	6.3	6.5
Claims and litigation	8.1	11.0	2.3	2.3
	17.9	20.6	8.6	8.8

Legal advice in relation to the claims and litigation referred to above indicates that on the basis of available information, liability in respect of these claims is unlikely to exceed $1.0 million on a consolidated basis.

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

Guarantees provided by Santos Ltd for borrowings in respect of controlled entities are disclosed in note 15.

Santos Ltd has provided parent company guarantees in respect of :

(a) the funding obligations of its subsidiary companies, Santos Timor Sea Pipeline Pty Ltd and Santos Darwin LNG Pty Ltd, relating to the construction of a pipeline from the Bayu-Undan Field to Wickham Point in Darwin and the construction of the LNG Plant in Darwin respectively, and has provided a funding commitment letter to these subsidiary companies together with Santos (JPDA 91-12) Pty Ltd. As at 31 December 2004 the expenditure commitments of Santos Timor Sea Pipeline Pty Ltd and Santos Darwin LNG Pty Ltd for the above mentioned projects totalled US$41.3 million (2003: US$107.6 million);

(b) payment of Santos Egypt Ltd's financial obligations under a farmout agreement and certain concessions in the Gulf of Suez in the Arab Republic of Egypt up to a maximum of US$46.9 million.

32. Additional Financial Instruments Disclosure

(a) Foreign exchange risk exposure

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

At 31 December 2004 the Santos Group has one open forward foreign currency exchange contract which has expired in January 2005. If closed out at balance date a loss of $0.2 million would have resulted.

US dollar denominated borrowings are either swapped into Australian dollar exposure (2004: US$321.4 million; 2003: US$115.0 million) or designated as a hedge of US dollar denominated investments in self-sustaining overseas controlled entities (2004: US$313.0 million; 2003: US$323.6 million) or as a hedge of future US denominated sales revenues (2004: US$146.4 million; 2003: US$219.4 million). As a result, there were no net foreign currency gains or losses arising from translation of US denominated dollar borrowings recognised in the statements of financial performance in 2004. Accordingly, $37.4 million of unrealised foreign currency gains were deferred as at 31 December 2004 (2003: gains of $66.3 million). The ultimate foreign currency gains or losses will be included in the measurement of the specific hedged US dollar denominated sales revenues to be realised in the years 2005 through 2006.

The Australian dollar equivalents of foreign currency monetary items included in the statements of financial position to the extent that they are not effectively hedged are:

		CONSOLIDATED		**SANTOS LTD**	
		2004 $million	2003 $million	**2004 $million**	2003 $million
Current assets dollars	- United States	126.4	82.7	32.9	41.3
Current liabilities dollars	- United States	60.5	35.4	6.5	8.5
Non-current liabilities dollars	- United States	26.5	-	-	-

32. Additional Financial Instruments Disclosure (continued)

(b) Interest rate risk exposure

To manage interest rate risk the Santos Group has entered into interest rate swap contracts with maturities ranging from one to eighteen years.

At 31 December 2004 the Santos Group has open interest rate swap contracts which if closed out would have resulted in a gain of $44.2 million (2003: gain of $63.3 million).

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

	Note	Weighted average interest rate*	Floating interest rate $million	Fixed interest repriced or maturing in: 1 year or less $million	Over 1 to 5 years $million	More than 5 years $million	Non interest-bearing $million	Total $million
31 December 2004								
Financial assets								
Cash		4.55%	128.0	-	-	-	-	128.0
Receivables	7	N/A	-	-	-	-	409.1	409.1
Other financial assets	12	N/A	-	-	-	-	1.2	1.2
			128.0	-	-	-	410.3	538.3
Financial liabilities								
Payables	14	N/A	-	-	-	-	371.6	371.6
Deferred income		N/A	-	-	-	-	22.1	22.1
Interest-bearing liabilities	15	5.50%	1.0	480.6	193.4	584.4	-	1,259.4
Interest rate swaps**			-	522.8	(98.3)	(424.5)	-	-
			1.0	1,003.4	95.1	159.9	393.7	1,653.1

* after incorporating the effect of interest rate swaps
** notional principal amounts

	Note	Weighted average interest rate*	Floating interest rate $million	Fixed interest repriced or maturing in: 1 year or less $million	Over 1 to 5 years $million	More than 5 years $million	Non interest-bearing $million	Total $million
31 December 2003								
Financial assets								
Cash		4.36%	111.1	-	-	-	-	111.1
Receivables	7	N/A	-	-	-	-	171.7	171.7
Other financial assets	12	N/A	-	-	-	-	11.7	11.7
			111.1	-	-	-	183.4	294.5
Financial liabilities								
Payables	14	N/A	-	-	-	-	291.3	291.3
Deferred income		N/A	-	-	-	-	27.7	27.7
Interest-bearing liabilities	15	4.72%	-	155.4	202.9	650.4	-	1,008.7
Interest rate swaps**			-	525.6	(84.2)	(441.4)	-	-
			-	681.0	118.7	209.0	319.0	1,327.7

* after incorporating the effect of interest rate swaps

** notional principal amounts

32. Additional Financial Instruments Disclosure (continued)

(c) Commodity price risk exposure

The Santos Group is exposed to commodity price fluctuations through the sale of petroleum products denominated in US dollars. The Santos Group enters into commodity crude oil price swap and option contracts and natural gas swap and option contracts to manage its commodity price risk.

At 31 December 2004 the Santos Group has open oil price swap contracts with settlement expiry dates up to 9 months. If closed out at balance date these contracts would have resulted in a loss of $11.2 million (2003: loss of $1.8 million).

(d) Credit risk exposure

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

The credit risk on financial assets, excluding investments, of the Santos Group which have been recognised on the statements of financial position is indicated by the carrying amount.

The credit risk on off-balance sheet derivatives is the cost of replacing the contract if the counterparty were to default and is measured by their market value at balance date. As at 31 December 2004, counterparty default of foreign currency swaps, foreign currency option contracts, oil price swap contracts and interest rate swap contracts would result in a loss of $37.2 million (2003: loss of $61.9 million).

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

(e) Net fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities including hedges approximate net fair value.

At 31 December 2004 the Santos Group has open derivative financial instruments contracts relating to future operating profit which if closed out at their market rates would have resulted in a gain of $32.8 million (2003: gain of $61.5 million).

33. Economic Dependency

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

34. Post Balance Date Events

The following events occurred subsequent to 31 December 2004, the financial effect of which have not been brought to account in the financial statements for the year ended 31 December 2004:

(a) For dividends declared after 31 December 2004 refer note 20;

(b) On 17 February 2005, the Company entered into a contract to acquire Basin Oil Pty Ltd effective 1 January 2005. Basin Oil Pty Ltd has a 2.1% interest in SA Cooper Basin, 40% interests in Patricia-Baleen and Sole, and 33.3% interests in Golden Beach and Vic/P55.

35. Australian Equivalents to International Financial Reporting Standards

Following the implementation by the Australian Accounting Standards Board ("AASB") of the Financial Reporting Council's policy of adopting the accounting standards issued by the International Accounting Standards Board ("IASB"), the Santos Group must comply with the Australian equivalents to International Financial Reporting Standards ("A-IFRS") from 1 January 2005. Accordingly, the Santos Group will prepare a financial report under A-IFRS for the first time for the half-year ending 30 June 2005. The prior period comparatives in that report will be based on an opening A-IFRS statement of financial position dated 1 January 2004 except for the A-IFRS pertaining to financial instruments described below.

A project team has been in place throughout the year and is well advanced to achieve the transition from Australian GAAP to A-IFRS. At 31 December 2004, the following activities are underway and are expected to be completed by 30 June 2005:

- complete assessment of accounting standard AASB 6 "Exploration for and Evaluation of Mineral Resources" which was issued by the AASB in December 2004 as an A-IFRS with an effective date of 1 January 2005;
- implement changes to information systems and business processes;
- conduct training programmes;
- engage KPMG to audit the Santos Group's A-IFRS compliant accounting policies and submit revised accounting policies to the Board for approval; and
- restate the 2004 half-year and full year operating results and financial position from Australian GAAP to A-IFRS for comparative purposes.

Under current Australian GAAP the financial report is generally prepared on the basis of historical cost while under the IASB conceptual framework there is an emphasis on recording assets and liabilities at their fair values. Accordingly, this will increase the volatility in reported results in future years. The transition to A-IFRS will lead to the derecognition of some assets and the recognition of additional assets and liabilities. Additionally, the transition will lead to increased disclosures in the notes to the financial statements.

The transition to A-IFRS at 1 January 2005 is not expected to change the Santos Group's underlying business operations nor have any impact on either the quantity or the value of its oil and gas reserves; its future cash flows, or its current borrowing facilities. Also, the ability of the Santos Group to raise additional finance for normal business expansion or to pay dividends consistent with past practice is not expected to be impacted.

35. Australian Equivalents to International Financial Reporting Standards (continued)

The differences between current Australian GAAP and A-IFRS which are more likely to have a significant effect on the Santos Group's financial performance and financial position are summarised below:

Financial Instruments	All financial instruments including derivatives will be recognised in the statement of financial position and all derivatives will be carried at fair value. Changes in the fair value of certain financial instruments will be recorded in the statement of financial performance. Where financial instruments satisfy strict hedge criteria, changes in the fair value will be recognised in equity, or will offset the hedged exposure in the statement of financial performance. The A-IFRS relating to financial instruments applies from 1 January 2005. Unlike the majority of other A-IFRS standards which require retrospective application as at 1 January 2004, this accounting standard does not require retrospective application. The effect of the first time application of this standard on the opening statement of financial position at 1 January 2005 will be to recognise additional financial assets and liabilities. Santos intends to continue to align its hedging transactions to underlying exposures to achieve accounting eligibility and thereby reduce profit and loss volatility.
Deferred Tax Assets and Liabilities	Deferred tax assets and liabilities will generally be based on the differences between the accounting and tax basis of assets and liabilities under the "balance sheet" approach which will result in the recognition of additional deferred tax assets and liabilities.
Defined Benefit Superannuation Surplus and Deficits	Defined benefit superannuation plan surpluses and deficits will be recognised in the statement of financial position and the changes in these values each period will be recognised either directly in the statement of financial performance, progressively using a "corridor" approach or directly in retained earnings. The effective date of this standard is 1 January 2006, however the Company is allowed to adopt earlier at 1 January 2005.
Restoration Liabilities	Restoration liabilities will be discounted to present value and capitalised as a component part of capitalised exploration and development expenditure and property, plant and equipment. The capitalised cost is to be amortised over the life of the assets and the provision is accreted periodically to the profit and loss as the discounting of the liability unwinds.
Functional Currency	The majority of the controlled entities within the Santos Group that have petroleum operations in foreign jurisdictions will have the US dollar as their functional currency. The first time application of A-IFRS will result in the net assets of those foreign controlled entities to be translated from their US dollar functional currency to Australian dollars using the spot rate at 1 January 2004. The differences arising from the initial application of this accounting standard will be reflected in the foreign currency translation reserve at 1 January 2004.

35. Australian Equivalents to International Financial Reporting Standards (continued)

<table>
<tr><td>Equity-based Payments</td><td>Under A-IFRS the cost of employee remuneration provided in the form of equity–based remuneration (including shares and options) will be measured based on the fair value of those instruments and amortised to the profit and loss over the vesting period.</td></tr>
<tr><td>Exploration and Evaluation Expenditure</td><td>There is no International Financial Reporting Standard (“IFRS”) which comprehensively deals with the accounting and reporting issues specific to the extractive industries. In the absence of such an industry based IFRS, companies operating in the extractive industries will be required to determine their own accounting policy for accounting for exploration and evaluation expenditure which is compatible with the IFRS conceptual accounting framework definition of assets and expenses. Generally this will require exploration and evaluation expenditures to be expensed unless they lead to a successful discovery of economic value.

Pending the completion of a comprehensive project on accounting for extractive industries, AASB 6 “Expenditure for and Evaluation of Mineral Resources” was issued in December 2004 to facilitate the introduction of A-IFRS in respect of the treatment of exploration and evaluation expenditure. This standard is the Australian equivalent to IFRS 6 issued by the IASB in December 2004, and will require exploration and evaluation expenditure incurred in each area of interest to either be expensed as incurred or to be partially or fully capitalised and recognised as an asset so long as the following conditions are satisfied:
a) the rights to tenure of the area of interest are current; and
b) at least one of the following conditions is also met:
i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

The IASB decided that the effective date of IFRS 6 to be 1 January 2006 to allow affected companies more time to make the transition to IFRS. Despite the lateness of the issuance of the Australian equivalent accounting standard AASB 6, Santos will be required to apply the standard from 1 January 2005.

Santos is currently evaluating this accounting standard and its accounting policy for exploration and evaluation expenditure. At the date of this report, no decision has been made as to how the Santos Group will account for exploration and evaluation expenditure under the IFRS conceptual framework commencing 1 January 2005.</td></tr>
</table>

35. Australian Equivalents to International Financial Reporting Standards (continued)

Impairment	Testing of non-current assets for impairment will be undertaken on the smallest grouping of assets generating cash flows, called cash generating units. Where there is an indication that a cash generating unit is impaired, the impairment is to be measured by reference to either the cash generating unit's discounted future net cash flows, or its estimated fair value less costs to sell. Upon initial application of this standard, such testing is likely to result in write-downs of some non-current assets including exploration, evaluation and development expenditure to their recoverable amount. Any initial impairment write-down may reverse in subsequent periods if there were a change in the estimates used to determine the initial write-down. The impacts of this new requirement will, in part, depend on the accounting policy adopted for accounting for exploration and evaluation expenditure referred to above.

The AASB and IASB have significant ongoing projects including a comprehensive "Extractive Industries" project that could affect the differences between current Australian GAAP and A-IFRS as described above and could further impact the Santos Group's financial reports in future years. The future impacts of any new or amended A-IFRS will depend on the particular circumstances in those years.

DIRECTORS' DECLARATION

for the year ended 31 December 2004

In the opinion of the Directors of Santos Ltd:

(a) the financial statements and notes, set out on pages 1 to 58, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

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

In making this declaration, the Directors declare that declarations which satisfy the requirements of section 295A of the Corporations Act 2001 have been received from the Chief Executive Officer and Chief Financial Officer.

Dated this 23rd day of February 2005.

Signed in accordance with a resolution of the Directors:

Director   Director

Independent audit report to members of Santos Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Santos Ltd (the "Company") and Santos Group (the "Consolidated Entity"), for the year ended 31 December 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

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

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 31 December 2004 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

Peter A Jovic
Partner

Adelaide
23 February 2005