

**SANTOS LTD**  
**Appendix 4E**  
**Preliminary Final Report under ASX Listing Rule 4.3A**  
**For the period ended 31 December 2005**

ABN 80 007 550 923
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Previous corresponding period 31 December 2004
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**Results for announcement to the market**

				\$A million
Revenue from ordinary activities	Up	64.1%	to	2.462.8
Net profit after tax before significant items (underlying profit after tax)	Up	107.0%	to	638.7
Profit from ordinary activities after tax attributable to members	Up	114.8%	to	762.1
Net profit for the period attributable to members	Up	114.8%	to	762.1
<b>Dividends</b>		Amount per security		Franked amount per security at 30% tax
Interim Dividends				
Ordinary securities		18.0¢		18.0¢
Preference securities		\$2.6538		\$2.6538
Final Dividends				
Ordinary securities		20.0¢		20.0¢
Preference securities		\$2.5300		\$2.5300
<b>Record date for determining entitlements to the dividends:</b>				
6 March 2006				

This report is based on financial statements which have been audited.

**The 2005 Consolidated Financial Report, Commentary on Results and Media Release dated 23 February 2006 form part of and should be read in conjunction with this Preliminary Final Report (Appendix 4E).**

## **Santos Ltd**

### **Financial Commentary to Appendix 4E**

**The following comments should be read in conjunction with the Financial Report for the Year ended 31 December 2005**

#### **1. Consolidated Income Statement**

##### **Product Sales (\$2,462.8 million up by \$961.9 million +64.1%)**

Total sales revenue for the 12 months to 31 December 2005 was a record \$2,462.8 million, up 64% on the previous record of \$1,500.9 million achieved in 2004. The record revenue reflected higher production, principally resulting from the commencement of production from the Mutineer-Exeter field and higher prices across all products.

Sales of crude oil of \$1,106.8 million were \$605.0 million higher primarily due to a 42% increase in average realised AUD oil prices and a 5.3 mmbœ (55%) increase in sales volumes. Higher sales volumes were primarily as a result of the commencement of production from the Mutineer-Exeter field. The average realised oil price for 2005 was AUD73.83 compared to AUD51.83 for 2004. The favourable impact of higher average USD oil prices was partially offset by a higher realised AUD/USD exchange rate in 2005 of 0.7417 compared to 0.6967 in 2004.

Naphtha revenues of \$345.9 million increased by \$117.4 million due to a 17% increase in average realised AUD prices and a 1.0 mmbœ increase in sales volumes. The increased volume was principally due to a full year of operations from the Bayu-Undan liquids-recycle project and higher Cooper Basin production following the reinstatement of the Moomba Liquids Recovery Plant ("LRP").

Liquefied petroleum gas ("LPG") revenues increased by \$93.9 million to \$184.4 million due to a 1.2 mmbœ increase in sales volumes. This was also due to higher Bayu-Undan and Cooper Basin production.

Sales gas and ethane revenues of \$825.7 million increased by \$145.6 million as a result of a 10% increase in average gas prices and a 3.7 mmbœ increase in sales volumes. Gas prices in 2005 averaged \$3.62/GJ up from \$3.28/GJ in 2004. The increase in average prices reflects higher domestic prices for methane, ethane and winter peak gas sales, higher prices in the USA and higher than average prices for Indonesian gas (for which there was no production in the first half of 2004). The higher sales volume was largely due to higher customer demand in Eastern Queensland, Northern Territory and Carnarvon, higher production due to project start ups at Minerva and John Brookes, improved USA production performance and the acquisitions of additional Patricia Baleen equity, Fairview and Indonesian interests.

##### **Other Income (\$104.7 million down by \$ 84.3 million -44.6%)**

Other income totalled \$104.7 million and comprised principally of insurance recoveries and net gains from sale of non-current assets and controlled entities.

During the second half of 2005 the final amount of the Moomba LRP business interruption and property damage insurance claims was agreed with insurers in the amount of \$150.5 million. The final amount was \$33.9 million more than \$116.6 million recognised in the 2004 financial statements and this has been reported in other income in 2005.

Net gains from sales of non-current assets of \$23.1 million include:

- sale of interest in Golden Beach, and
- sale of shareholding in Paladin Resources

The net gain on the sale of controlled entities of \$16.3 million relates to the sale of JPDA 91-12 which held the Group's interests in the Jahal and Kuda Tasi permits.

**Cost of Sales (\$1,220.2 million up by \$246.0 million +25.2%)**

• **Production Costs**

- Field production costs of \$368.8 million were \$71.1 million higher than in 2004. Volume effects added \$60.1 million to production costs and can be attributed to:
  - new sources of production (\$37.6 million), reflecting the commencement of production from Mutineer-Exeter, Minerva and John Brookes, and Bayu-Undan operating for the full year; volume related costs (\$3.8 million) resulting from higher production in Eastern Queensland, Northern Territory and in the USA; and
  - the net effect of acquisitions and disposals (\$18.7 million);

Cost increases added \$11.0 million to production costs including higher Cooper Basin maintenance, insurance and other costs, offset in part by non-recurring Moomba loss mitigation expenditure, and higher third party operator costs, primarily for Stag workovers.

- Product stocks increased by \$9.9 million during 2005. In the Cooper Basin gas storage inventories were rebuilt following the large draw downs in 2004 due to the Moomba LRP incident. Crude inventories also increased mainly due to the commencement of production at Mutineer-Exeter offset in part by lower levels of liquids inventories at other projects.

• **Royalties, Excise and PRRT**

- PRRT of \$52.5 million is \$17.9 million higher as a result of higher Stag sales revenue offset in part by the shut-in of production from East Spar.

• **Depreciation & Depletion (\$559.0 million up by \$87.4 million +18.5%)**

• **Depletion**

Depletion of \$330.4 million is \$21.9 million higher than in 2004. Higher production volumes, as a result of the commencement of production from Mutineer-Exeter, Minerva and John Brookes, the acquisition of new interests and Bayu-Undan operating for the full year, added \$49.3 million to depletion. Reserves revisions and reductions in future development costs net of impairment reversals reduced depletion by \$27.4 million, principally in USA operations.

• **Depreciation**

Depreciation of \$228.6 million is \$65.5 million higher than in 2004. Higher production volumes as above and the commencement of depreciation of the Moomba LRP rebuild added \$43.9 million to depreciation. Impairment reversals and revisions to the useful lives of some assets added \$15.1 million to 2005 depreciation and spending on production facilities and IT added \$6.5 million.

• **Gas Purchases**

Gas purchases of \$100.9 million are \$86.0 million higher due to higher gas purchases in the Cooper basin to rebuild gas storage levels and meet contracted demand, and for East Spar to provide customer supply following its shut-in in March 2005.

**Exploration and Evaluation Expense (\$204.2 million up by \$86.8 million +73.9%)**

Exploration and evaluation expenditure expensed in 2005 was \$204.2 million (2004: \$117.4 million). The amount expensed relates to studies, seismic and unsuccessful wells principally incurred in offshore exploration areas including Egypt, USA, Indonesia and offshore Australia. Costs incurred in the evaluation of new ventures and exploration opportunities that have either not met Santos' internal investment criteria or not resulted in a successful bid have also been written off.

**Impairment – Reversals (net) (\$131.3 million up by \$123.7 million)**

During the year the Company reversed \$131.3 million (net) of prior years' impairment write downs principally as a consequence of higher expected future oil prices. The majority of the write backs relate to late-life Australian oil assets which suffered impairment write downs in a lower oil price environment.

**Selling and Corporate Administration Expenses (\$80.1 million up by \$23.7 million +42.0%)**

Selling and Corporate Administration expenses are \$23.7 million higher principally due to higher insurance costs, higher selling costs resulting from the increase in sales volumes and the net effect of acquisitions. These increases were offset in part by lower costs associated with the 2004 organisation restructure.

**Financial Expenses (\$79.9 million up by \$28.8 million +56.4%)**

Interest expense has increased due to an increase in average net debt, largely due to 2005 acquisitions, and the higher average interest rate. The weighted average interest rate for the Group (allowing for interest rate swap contracts) as at 31 December 2005 was 5.89% compared to 5.09% in 2004.

**Income tax (\$371.4 million up by \$207.3 million +126.3%)**

Income tax has increased by \$207.3 million in 2005 due to the significantly higher profit before tax. The effective tax rate is 33% which is slightly higher than the 2004 effective tax rate of 32%.

**Profit attributable to shareholders (\$762.1 million up by \$407.4 million +114.8%)**

Net profit after income tax attributable to Santos shareholders has increased by \$407.4 million to \$762.1 million. Earnings per share for 2005 increased by 129.5% to 124.4 cents.

The net profit after tax for the year includes the following significant items:

- \$109.3 million reversal of previous years' impairment write downs net of the impact on depletion and depreciation expense (\$76.5 million after tax)
- \$33.9 million additional insurance recovery relating to the finalisation of the amount of the business interruption and property damage claim resulting from the Moomba incident (\$23.7 million after tax),
- \$18.5 million accelerated depreciation as a result of ceasing production at East Spar (\$12.9 million after tax)
- \$39.4 million gain on the sale of non-current assets (\$39.7 million after tax), and
- \$5.2 million organisation restructure costs (\$3.6 million after tax).

## **Dividends**

During the year Santos Ltd paid fully franked dividends of \$212.4 million on ordinary shares and \$30.6 million on redeemable convertible preference shares for a total of \$243.0 million (2003: \$212.8 million).

The Directors have declared a final dividend for 2005 of 20 cents per ordinary share, fully franked (18 cents fully franked 2004) and a preferential, non cumulative fully franked dividend of \$2.5300 per redeemable convertible preference share payable on 31 March 2005.

## **2. Consolidated Balance Sheet**

### **Overview**

The Group's net assets increased by \$606.2 million or 25.7% during 2005 principally as a result of the record profit earned.

### **Assets**

Current assets of \$912.1 million were \$244.5 million higher than in 2004 mainly as a result of higher cash balances and trade receivables due to the timing of shipments and higher product prices.

Non-current assets were \$5,279.2 compared to \$4,169.0 million at the end of 2004, an increase of \$1,110.2 million. Capital expenditure in 2005 for exploration, delineation and development amounted to \$959.1 million, of which \$197.3 million was expensed in 2005. Acquisitions made during the year increased non-current assets by \$750.9 million.

These increases were offset in part by depreciation, depletion charges of \$561.0 million.

### **Current Liabilities**

Current liabilities of \$667.1 million were \$150.7 million higher mainly due to the high level of current tax liabilities at the end of 2005 as a result of increased profitability and the timing of tax instalment payments.

### **Net Debt**

Net debt of \$1,598.9 million was \$465.6 million higher than at the end of 2004. The increase in net debt was a result of net draw downs of borrowing facilities to fund the amount that the capital programme and acquisitions exceeded increased cash from operations and disposals. Correspondingly, the group's net debt / net debt plus equity ratio has increased from 32.5% in 2004 to 35.0% at the end of 2005.

### **Equity**

Retained profits increased by \$518.8 million to \$930.2 million at year end. This increase primarily reflects the 2005 net profit after tax of \$762.1 million less dividends paid during 2005 of \$243.0 million.

Issued capital at year end 2005 was \$2,212.1 million, an increase of \$70.4 million and comprised:

- 594.3 million fully paid ordinary shares (2004: 585.5 million),
- 0.1 million ordinary shares paid to 1 cent (2004: 0.2 million), and
- 6.0 million redeemable convertible preference shares (2004: 6.0 million).

### **3. Consolidated Cash Flow Statement**

#### **Operating Cash Flows (\$1,457.9 million inflow, higher by \$852.9 million +141.0%)**

Higher operating cash flows are a result of increased sales volumes and higher product prices partly offset by higher payments to suppliers and for royalties, excise and PRRT. Income tax payments are consistent with prior years despite higher 2005 profits due to the timing of income tax instalment payments.

#### **Investing Cash Flows (\$1,521.6 million outflow, higher by \$628.0 million +70.3%)**

Capital expenditure payments increased by \$255.4 million from \$798.9 million in 2004 to \$1,054.3 million in 2005 largely as a result of the timing of the work programme and related payments.

Amounts paid acquiring controlled entities in 2005 totalled \$556.1 million and relates mainly to the acquisitions of Tipperary Corporation, Basin Oil Pty Ltd and Trinity Gas Resources Pty Ltd.

In 2005 the group received proceeds from sale of non-current assets of \$109.7 million (2004: \$39.9 million) principally comprising the sale of the Group's interests in the Jahal and Kuda Tasi fields and the proceeds from the 2004 sale of the Group's interest in the Carpentaria Gas Pipeline.

#### **Financing Activities Flows (\$171.2 million inflow, lower by \$142.7 million)**

The group paid \$200.2 million of fully franked dividends during the year (2004: \$212.8 million) and drew down borrowings of \$343.3 million (2004: \$282.8 million). Proceeds from issues of ordinary shares totalled \$27.6 million (2004: \$6.4 million). During 2004 the Company's redeemed 3.5 million reset convertible preference shares and issued 6.0 million redeemable convertible preference shares raising \$239.5 million (net) additional equity financing.

Santos Ltd  
ABN 80 007 550 923

# Santos

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**SANTOS LTD**  
**(INCORPORATED IN SOUTH AUSTRALIA ON 18 MARCH 1954)**  
**AND CONTROLLED ENTITIES**  
**FINANCIAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

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**SANTOS LTD AND CONTROLLED ENTITIES**  
**INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Product sales	2	2,462.8	1,500.9	721.2	568.8
Cost of sales	3	(1,220.2)	(974.2)	(412.8)	(405.2)
<b>Gross profit</b>		<b>1,242.6</b>	<b>526.7</b>	<b>308.4</b>	<b>163.6</b>
Other revenue	2	13.1	14.3	19.9	270.4
Other income	2	104.7	189.0	42.7	416.0
Other expenses	3	(155.6)	(163.6)	306.7	(67.7)
<b>Operating profit before net financing costs</b>		<b>1,204.8</b>	<b>566.4</b>	<b>677.7</b>	<b>782.3</b>
Financial income	5	8.6	3.5	52.1	45.1
Financial expenses	5	(79.9)	(51.1)	(108.9)	(97.8)
<b>Net financing costs</b>		<b>(71.3)</b>	<b>(47.6)</b>	<b>(56.8)</b>	<b>(52.7)</b>
<b>Profit before tax</b>		<b>1,133.5</b>	<b>518.8</b>	<b>620.9</b>	<b>729.6</b>
Income tax expense	6	(371.4)	(164.1)	(102.2)	(74.2)
<b>Net profit after income tax attributable to equity holders of Santos Ltd</b>		<b>762.1</b>	<b>354.7</b>	<b>518.7</b>	<b>655.4</b>
<b>Earnings per share (cents)</b>					
Basic	23	124.4	54.2		
Diluted	23	117.7	54.2		
<b>Dividends per share (\$)</b>					
Ordinary shares	22	0.36	0.30		
Redeemable preference shares	22	5.1035	5.00		
Reset preference shares	22	-	6.5880		

The income statements are to be read in conjunction with the notes to the consolidated financial statements.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2005**

	Note	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
		<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>Current assets</b>					
Cash and cash equivalents	7	229.2	126.1	65.5	39.3
Trade and other receivables	8	511.7	420.8	1,376.2	1,656.3
Inventories	9	144.0	117.5	67.3	58.8
Other	10	27.2	3.2	-	2.3
<b>Total current assets</b>		<b>912.1</b>	<b>667.6</b>	<b>1,509.0</b>	<b>1,756.7</b>
<b>Non-current assets</b>					
Exploration and evaluation assets	11	339.1	272.0	17.7	15.0
Oil and gas assets	12	4,792.5	3,736.4	1,727.4	1,138.2
Other land, buildings, plant and equipment	13	73.5	66.9	52.4	42.0
Other investments	15	14.8	1.2	2,995.3	2,071.6
Deferred tax assets	16	57.4	89.6	-	-
Other	10	1.9	2.9	-	-
<b>Total non-current assets</b>		<b>5,279.2</b>	<b>4,169.0</b>	<b>4,792.8</b>	<b>3,266.8</b>
<b>Total assets</b>		<b>6,191.3</b>	<b>4,836.6</b>	<b>6,301.8</b>	<b>5,023.5</b>
<b>Current liabilities</b>					
Trade and other payables	17	392.2	372.9	379.6	451.9
Deferred income		4.9	5.8	1.1	1.5
Interest-bearing loans and borrowings	18	11.1	49.9	2,450.9	1,686.2
Current tax liabilities		184.7	11.7	176.6	9.9
Employee benefits	19	49.7	45.3	48.2	44.4
Provisions	20	22.7	16.2	6.6	1.1
Other	21	1.8	14.6	1.3	-
<b>Total current liabilities</b>		<b>667.1</b>	<b>516.4</b>	<b>3,064.3</b>	<b>2,195.0</b>
<b>Non-current liabilities</b>					
Deferred income		13.8	16.3	-	-
Interest-bearing loans and borrowings	18	1,817.0	1,209.5	-	-
Deferred tax liabilities	16	512.9	521.8	165.6	133.3
Employee benefits	19	11.3	12.5	11.3	12.5
Provisions	20	198.9	168.5	59.7	34.4
Other	21	6.3	33.8	-	-
<b>Total non-current liabilities</b>		<b>2,560.2</b>	<b>1,962.4</b>	<b>236.6</b>	<b>180.2</b>
<b>Total liabilities</b>		<b>3,227.3</b>	<b>2,478.8</b>	<b>3,300.9</b>	<b>2,375.2</b>
<b>Net assets</b>		<b>2,964.0</b>	<b>2,357.8</b>	<b>3,000.9</b>	<b>2,648.3</b>
<b>Equity</b>					
Issued capital	22	2,212.1	2,141.7	2,212.1	2,141.7
Reserves	22	(178.3)	(195.3)	4.4	-
Retained profits	22	930.2	411.4	784.4	506.6
<b>Total equity attributable to equity holders of Santos Ltd</b>		<b>2,964.0</b>	<b>2,357.8</b>	<b>3,000.9</b>	<b>2,648.3</b>

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

**SANTOS LTD AND CONTROLLED ENTITIES**  
**STATEMENTS OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

		<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	Note	<b>2005</b>	2004	<b>2005</b>	2004
		<b>\$million</b>	\$million	<b>\$million</b>	\$million
Adjustment on initial adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", net of tax, to:					
Retained profits	37	(2.4)	-	-	-
Reserves	37	(6.7)	-	(7.9)	-
Change in fair value of equity securities available for sale, net of tax		4.9	-	4.5	-
Foreign exchange translation differences		57.1	(52.7)	-	-
Net gain/(loss) on hedge of net investment in foreign subsidiaries		(46.1)	12.1	-	-
Cash flow hedges:					
Gains taken to equity		7.8	-	7.8	-
Share based payment transactions		2.4	0.1	2.4	0.1
Actuarial (loss)/gain on defined benefit plan, net of tax	19	(0.3)	3.3	(0.3)	3.3
<b>Net (expense)/income recognised directly in equity</b>		16.7	(37.2)	6.5	3.4
<b>Profit for the period</b>		762.1	354.7	518.7	655.4
<b>Total recognised income and expense for the period attributable to equity holders of Santos Ltd</b>	22	778.8	317.5	525.2	658.8

Other movements in equity arising from transactions with owners as owners are set out in note 22.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	CONSOLIDATED 2005 \$million	2004 \$million	SANTOS LTD 2005 \$million	2004 \$million
<b>Cash flows from operating activities</b>					
Receipts from customers		2,474.7	1,544.3	729.9	644.4
Dividends received		0.1	-	0.1	251.7
Interest received		8.6	3.5	52.1	45.1
Overriding royalties received		12.8	14.5	19.7	19.0
Insurance proceeds received		55.9	-	35.8	-
Pipeline tariffs and other receipts		53.8	19.9	16.8	18.0
Payments to suppliers and employees		(696.3)	(583.6)	(259.5)	(279.0)
Royalty, excise and PRRT payments		(209.3)	(169.6)	(110.8)	(78.4)
Borrowing costs paid		(86.3)	(65.2)	(99.9)	(90.6)
Income taxes paid		(156.1)	(158.8)	(113.8)	(137.5)
<b>Net cash provided by operating activities</b>	27	<b>1,457.9</b>	<b>605.0</b>	<b>270.4</b>	<b>392.7</b>
<b>Cash flows from investing activities</b>					
Payments for:					
Exploration and evaluation expenditure		(187.3)	(126.0)	(91.3)	(65.7)
Oil and gas assets expenditure		(843.8)	(664.4)	(228.1)	(249.7)
Other land, buildings, plant and equipment		(23.2)	(8.5)	(24.6)	(8.5)
Acquisitions of oil and gas assets		(9.3)	(14.5)	(451.9)	-
Acquisitions of controlled entities		(556.1)	(112.3)	(108.1)	(93.6)
Acquisitions of other investments		(5.0)	-	(5.0)	-
Restoration expenditure		(9.7)	(7.3)	(0.3)	(0.1)
Share subscriptions in controlled entities		-	-	(426.5)	(151.7)
Other investing activities		3.1	(0.5)	0.7	(0.5)
Proceeds from disposal of non-current assets		80.7	39.9	32.3	430.0
Proceeds from disposal of other investments		29.0	-	29.0	-
<b>Net cash used in investing activities</b>		<b>(1,521.6)</b>	<b>(893.6)</b>	<b>(1,273.8)</b>	<b>(139.8)</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(200.2)	(212.8)	(200.2)	(212.8)
Proceeds from issues of ordinary shares		27.6	6.4	27.6	6.4
Proceeds from issue of redeemable convertible preference shares		-	589.5	-	589.5
Redemption of reset convertible preference shares		-	(350.0)	-	(350.0)
Net drawdowns/(repayments) of borrowings		343.3	282.8	(1.0)	-
Net receipts from/(payments to) controlled entities		-	-	1,204.7	(297.0)
Premium paid on buy-back of reset convertible preference shares		-	(2.4)	-	(2.4)
Other financing activities		0.5	0.4	-	-
<b>Net cash provided by/(used in) financing activities</b>		<b>171.2</b>	<b>313.9</b>	<b>1,031.1</b>	<b>(266.3)</b>
<b>Net increase/(decrease) in cash</b>		<b>107.5</b>	<b>25.3</b>	<b>27.7</b>	<b>(13.4)</b>
<b>Cash and cash equivalents at the beginning of the year</b>					
Effects of exchange rate changes on the balances of cash held in foreign currencies		126.1	111.1	39.3	52.9
		(4.4)	(10.3)	(1.5)	(0.2)
<b>Cash and cash equivalents at the end of the year</b>	7	<b>229.2</b>	<b>126.1</b>	<b>65.5</b>	<b>39.3</b>

The cash flow statements are to be read in conjunction with the notes to the consolidated financial statements.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies**

Santos Ltd ("the Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 December 2005 comprises the Company and its controlled entities ("the consolidated entity").

The financial report was authorised for issue by the Directors on 23 February 2006.

**(a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRSs ("AIFRSs").

This is the consolidated entity's first financial report prepared in accordance with AIFRS and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 36.

**(b) Basis of preparation**

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as available-for-sale are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by Class Order 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimated quantities of proven and probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(b) Basis of preparation (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The consolidated entity has elected to early adopt revised accounting standard AASB 119 "Employee Benefits" and AASB 2004-3 "Amendments to Australian Accounting Standards" in these financial statements. All other recently issued or amended Australian Accounting Standards which are not yet effective have not been early adopted for the year ended 31 December 2005, and they are not expected to result in significant accounting policy or disclosure changes.

Except for the change in accounting policy relating to classification and measurement of financial instruments (refer note 37), the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report, and in preparing an opening AIFRS balance sheet at 1 January 2004 for the purpose of transition to Australian Accounting Standards – AIFRS. The policies applied to financial instruments for 2004 and 2005 are disclosed in notes 1(e), 1(k) and 1(r).

The accounting policies have been consistently applied by the consolidated entity.

**(c) Basis of consolidation**

**Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

**Jointly controlled operations**

The interests of the Company and of the consolidated entity in unincorporated joint ventures are brought to account by recognising in its financial statements the assets it controls, the expenses and liabilities it incurs, and the income from the sale or use of its share of the production of the joint venture.

**(d) Foreign currency**

**Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(d) Foreign currency (continued)**

Foreign exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation are recognised in equity in the consolidated financial statements.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

**Financial statements of foreign operations**

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve.

**Net investment in foreign operations**

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to the foreign currency translation reserve. They are released into the income statement upon disposal of the foreign operation.

**(e) Derivative financial instruments**

**Current accounting policy**

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

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged, otherwise the gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of commodity swap and option contracts is their quoted market price at the balance sheet date.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(e) Derivative financial instruments (continued)**

**Comparative accounting policy**

The consolidated entity uses derivative financial instruments to hedge its exposure to changes in foreign exchange rates, commodity prices and interest rates arising in the normal course of business. The principal derivatives used are forward foreign exchange contracts, foreign currency 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 consolidated entity does not trade in derivative financial instruments for speculative purposes.

The quantitative effect of the change in accounting policy is set out in note 37.

**(f) Hedging**

**Current accounting policy**

**Fair value hedge**

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in the income statement.

**Cash flow hedge**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**Hedge of monetary assets and liabilities**

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(f) Hedging (continued)**

**Hedge of net investment in foreign operation**

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement.

**Comparative accounting policy**

**Cash flow hedge**

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 income statements. The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the balance sheets from the inception of the hedge transaction.

**Hedge of net investment in foreign operation**

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.

**(g) Acquisition of assets**

All assets acquired are recorded at their cost of acquisition, being the amount of cash or cash equivalents paid and the fair value of any other consideration given. The cost of an asset comprises the purchase price including any incidental costs directly attributable to the acquisition; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating; and the estimate of the costs of dismantling and removing the asset and restoring the site on which it is located determined in accordance with note 1(p).

**Business combinations**

All business combinations are accounted for by applying the purchase method.

The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 have not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 January 2004.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(h) Exploration and evaluation expenditure**

Exploration and evaluation expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditure to be expensed in the period it is incurred, except the costs of successful wells and the costs of acquiring interests in new exploration assets, which are capitalised as intangible exploration and evaluation. The costs of wells are initially capitalised pending the results of the well.

An area of interest refers to an individual geological area where the presence of oil or a natural gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual oil or gas field.

Exploration and evaluation expenditure is recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either:

- (i) such expenditure is expected to be recovered 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 an oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to Oil and Gas Assets – Assets in Development.

**(i) Oil and gas assets**

**Assets in Development**

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets in the development phase are separately accounted for as tangible assets and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment and any associated land and buildings.

When commercial operation commences the accumulated costs are transferred to Oil and Gas Assets – Producing Assets.

**Producing Assets**

The costs of oil and gas assets in production are separately accounted for as tangible assets and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

These costs are subject to depreciation and depletion in accordance with the following policy.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(k) Investments (continued)**

**Comparative accounting policy**

Investments in other listed entities are measured at the lower of cost and recoverable amount. The quantitative effect of the change in accounting policy is set out in note 37.

**(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined as follows:

- (i) drilling and maintenance stocks, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted 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 in a manner which approximates specific identification.

**(m) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.

**(n) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits.

Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(o) Impairment**

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Where an indicator of impairment exists a formal estimate of the recoverable amount is made.

Oil and gas assets, land, buildings, plant and equipment are assessed for impairment on a cash generating unit ("CGU") basis. A cash generating unit is the smallest grouping of assets that generates independent cash flows, and generally represents an individual oil or gas field. Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Where a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(o) Impairment (continued)**

**Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

For oil and gas properties the estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating cost and any future development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available.

**Reversals of impairment**

An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognised.

**(p) Provisions**

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the true value of money and, where appropriate, the risks specific to the liability.

**Restoration**

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(q) Employee benefits**

**Wages, salaries and annual leave**

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

**Long-term service benefits**

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 obligation 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 the balance sheet date which have maturity dates approximating the terms of the consolidated entity's obligations.

**Defined contribution plans**

The Company and several controlled entities contribute to a number of defined contribution superannuation plans. Obligations for contributions are recognised as an expense in the income statement as incurred.

**Defined benefit plan**

The consolidated entity has early adopted the revised AASB 119 "Employee Benefits".

The consolidated entity's net obligation in respect of the defined benefit superannuation plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses as at 1 January 2004, the date of transition to AIFRS, were recognised in retained earnings. Actuarial gains or losses that arise subsequent to 1 January 2004 in calculating the consolidated entity's obligation in respect of the plan are recognised directly in retained earnings.

When the calculation results in plan assets exceeding liabilities to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(q) Employee benefits (continued)**

**Share-based payment transactions**

The Santos Executive Share Option Plan allows eligible executives to acquire shares in the capital of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive becomes unconditionally entitled to the options. The fair value of the options granted during 2005 is measured using the Monte Carlo Simulation Method, which takes into account the performance hurdles that form part of the vesting conditions. The fair value of the options granted during 2004 is measured using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is only adjusted when the options do not vest due to non-market related conditions.

The fair value of Share Acquisition Rights ("SARs") issued to eligible executives under the Executive Long Term Incentive Program is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the executive becomes unconditionally entitled to the SARs. The fair value of the SARs granted is measured using the Monte Carlo Simulation Method, which takes into account the performance hurdles that form part of the vesting conditions. The amount recognised as an expense is only adjusted when the SARs do not vest due to non-market related conditions.

The fair value of shares issued to eligible employees under the Santos Employee Share Acquisition Plan, and to eligible executives and employees under the Santos Employee Share Purchase Plan, is recognised as an increase in issued capital on grant date.

**(r) Interest-bearing borrowings**

**Current accounting policy**

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Fixed rate notes that are hedged by an interest rate swap are recognised at fair value (refer note 1(f)).

**Comparative accounting policy**

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

**(s) Capitalisation of borrowing costs**

Borrowing costs, including preproduction interest, finance charges and foreign currency gains and losses on the interest costs of foreign currency borrowings, relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. 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.

Borrowing costs incurred after commencement of commercial operations are expensed.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(t) 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.

**(u) Share capital**

**Preference Share Capital**

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or it is redeemable only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

**Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**Transaction Costs**

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

**(v) Revenue**

Product sales and overriding royalties are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Dividend revenue from controlled entities is recognised as the dividends are declared and from other parties as the dividends are received.

**(w) Other Income**

Equipment rentals, pipeline tariffs and other income are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer or when the service has been performed.

The gain or loss arising on disposal of a non-current asset is included as other income at the date control of the asset passes to the buyer. 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.

**(x) Expenses**

**Government royalties and petroleum resource rent tax**

Government royalties and petroleum resource rent tax ("PRRT") are recognised as an operating expense on an accruals basis when the related sales are recognised or related production takes place. The amount is recognised in accordance with government legislative requirements.

Some oil and gas industry participants are of the view that PRRT is more appropriately accounted for as an income tax by applying AASB 112 "Income Taxes". The Company is of the view that there has been no definitive guidance from any of the relevant accounting standards setting bodies and that there remains uncertainty as to what constitutes an income tax. Accordingly, the Company will continue to account for PRRT under the accruals basis described above until such time as this uncertainty is resolved or a clear industry practice develops.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(x) Expenses (continued)**

**Government royalties and petroleum resource rent tax (continued)**

Had PRRT been accounted for as an income tax, a deferred tax asset of \$95.3 million would be recognised on transition to AIFRS at 1 January 2004 with a corresponding increase in retained earnings. At 31 December 2005 the balance of the deferred tax asset would have been \$108.9 million (2004: \$33.1 million). Profit before tax would have increased by \$52.5 million (2004: \$34.6 million), the PRRT income tax benefit in 2005 would have been \$39.0 million (2004: \$86.5 million expense), and profit after tax would have increased by \$75.8 million (2004: \$62.3 million decrease).

**Operating lease payments**

Operating lease payments, where the lessor effectively retains substantially all the risks and rewards incidental to ownership of the leased items, are recognised in the income statement on a straight line basis over the term of the lease.

**Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, the unwinding of the effect of discounting on provisions, and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

**(y) 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 balance sheet.

Cash flows are included in the cash flow statement 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.

**(z) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the amount of income tax payable on the taxable profit or loss for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Significant Accounting Policies (continued)**

**(z) Income tax (continued)**

Deferred tax is determined using the balance sheet approach, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the appropriate tax bases. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Santos Ltd is the head entity in the tax-consolidated group. Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated among the members of the tax-consolidated group using a 'stand-alone taxpayer' approach in accordance with UIG 1052 "Tax Consolidation Accounting" and are recognised in the separate financial statements of each entity. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The Company and the other entities in the tax-consolidated group have entered into a tax funding agreement. Tax contribution amounts payable under the tax funding agreement are recognised as payable to or receivable by the Company and each other member of the group. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period under the tax funding agreement is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period assumed by the Company, the difference is recognised as a contribution from (or distribution to) equity participants.

The Company and the other entities in the tax-consolidated group have also entered into a tax sharing agreement pursuant to which the other entities may be required to contribute to the tax liabilities of the Company in the event of default by the Company or upon leaving the Group.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>2. Revenue and Other Income</b>				
Product sales:				
Gas and ethane	825.7	680.1	333.4	294.6
Crude oil	1,106.8	501.8	237.4	198.5
Condensate and naphtha	345.9	228.5	84.8	44.2
Liquefied petroleum gas	184.4	90.5	65.6	31.5
	<u>2,462.8</u>	<u>1,500.9</u>	<u>721.2</u>	<u>568.8</u>
Other revenue:				
Overriding royalties	13.0	14.3	19.8	18.7
Dividends from other entities	0.1	-	0.1	-
Dividends from controlled entities	-	-	-	251.7
	<u>13.1</u>	<u>14.3</u>	<u>19.9</u>	<u>270.4</u>
Total revenue	<u>2,475.9</u>	<u>1,515.2</u>	<u>741.1</u>	<u>839.2</u>
Other income:				
Insurance recovery	33.9	116.6	23.7	73.8
Equipment rentals, pipeline tariffs and other	15.6	11.2	(1.2)	5.4
Sole-risk buy-back premium	15.8	-	-	-
Net gain on sale of non-current assets	23.1	61.2	5.1	336.8
Net gain on sale of controlled entities	16.3	-	15.1	-
	<u>104.7</u>	<u>189.0</u>	<u>42.7</u>	<u>416.0</u>
<b>3. Expenses</b>				
Cost of sales:				
Production costs:				
Production expenses	330.1	270.1	95.0	99.8
Production facilities operating leases	38.7	27.6	15.0	12.9
	<u>368.8</u>	<u>297.7</u>	<u>110.0</u>	<u>112.7</u>
Other operating costs:				
Pipeline tariffs and tolls	33.7	32.6	9.2	7.4
Royalty and excise	115.2	119.4	49.1	73.1
PRRT	52.5	34.6	-	-
	<u>201.4</u>	<u>186.6</u>	<u>58.3</u>	<u>80.5</u>
Cash cost of production	<u>570.2</u>	<u>484.3</u>	<u>168.3</u>	<u>193.2</u>
Depreciation and depletion	559.0	471.6	187.8	201.0
Third party gas purchases	100.9	14.9	66.9	12.2
(Increase)/decrease in product stock	(9.9)	3.4	(10.2)	(1.2)
Total cost of sales	<u>1,220.2</u>	<u>974.2</u>	<u>412.8</u>	<u>405.2</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>3. Expenses (Continued)</b>				
Other expenses:				
Selling, general and administrative expenses:				
Operating expenses	78.1	53.1	48.6	46.2
Depreciation	2.0	3.3	0.2	0.3
	80.1	56.4	48.8	46.5
Foreign exchange losses/(gains)	3.8	(2.6)	-	0.1
Hedge ineffectiveness losses/(gains)	(1.2)	-	1.9	-
Exploration and evaluation expensed	204.2	117.4	31.5	46.0
Net impairment reversal of oil and gas assets (refer note 14)	(131.3)	(7.6)	(50.5)	(34.4)
Net impairment (reversal)/loss of investment in controlled entities	-	-	(338.4)	9.5
	155.6	163.6	(306.7)	67.7
<b>Profit before tax includes the following items:</b>				
Depreciation and depletion:				
Depletion of exploration and development expenditure	330.4	308.5	104.6	114.7
Depreciation of plant and equipment	228.1	164.4	82.1	85.6
Depreciation of buildings	2.5	2.0	1.3	1.0
	561.0	474.9	188.0	201.3
Employee benefits expense	126.5	130.9	105.2	116.8
Share-based payments expense	2.4	0.1	2.4	0.1
Write-down of inventories	4.0	5.0	2.4	3.1
Operating lease rentals	53.2	38.9	21.0	19.1
<b>Included in expenses are the following items:</b>				
Accelerated depreciation due to East Spar shut-in included in depreciation and depletion	18.5	-	-	-
Costs associated with Moomba liquids recovery plant fire included in production expenses	-	17.5	-	11.9
Organisation restructure costs included in selling, general and administrative expenses	5.2	21.6	5.2	21.6
	23.7	39.1	5.2	33.5

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>4. Earnings</b>				
Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") is calculated as follows:				
Profit before tax	1,133.5	518.8	620.9	729.6
Add back:				
Net financing costs	71.3	47.6	56.8	52.7
Earnings before interest and tax ("EBIT")	1,204.8	566.4	677.7	782.3
Add back:				
Depreciation and depletion	561.0	474.9	188.0	201.3
Exploration and evaluation expensed	204.2	117.4	31.5	46.0
Net impairment reversal of oil and gas assets	(131.3)	(7.6)	(50.5)	(34.4)
Net impairment (reversal)/loss of investment in controlled entities	-	-	(338.4)	9.5
EBITDAX	1,838.7	1,151.1	508.3	1,004.7
<b>5. Net Financing Costs</b>				
Interest income:				
Controlled entities	-	-	48.9	42.8
Other entities	8.6	3.5	3.2	2.3
Financial income	8.6	3.5	52.1	45.1
Interest expense:				
Controlled entities	-	-	99.5	90.7
Other entities	89.7	65.7	0.5	0.4
Less borrowing costs capitalised	(28.0)	(32.1)	-	-
	61.7	33.6	100.0	91.1
Unwind of the effect of discounting on provisions (refer note 1(p))	14.5	14.0	5.2	3.2
Interest expense on defined benefit obligation	3.7	3.5	3.7	3.5
Financial expenses	79.9	51.1	108.9	97.8
Net financing costs	71.3	47.6	56.8	52.7
<b>6. Income Tax Expense</b>				
<b>Recognised in the income statement</b>				
<b>Current tax expense</b>				
Current year	320.7	157.2	58.4	53.4
Adjustments for prior years	5.5	(10.0)	14.2	19.6
	326.2	147.2	72.6	73.0
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	36.6	9.3	29.6	1.2
Benefit of tax losses recognised	8.6	7.6	-	-
	45.2	16.9	29.6	1.2
Total income tax expense	371.4	164.1	102.2	74.2

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>6. Income Tax Expense (continued)</b>				
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>				
Profit before tax	1,133.5	518.8	620.9	729.6
Prima facie income tax at 30% (2004: 30%)	340.1	155.6	186.2	218.9
Increase/(decrease) in income tax expense due to:				
Non-deductible depletion and depreciation	3.4	16.6	6.6	0.6
Abandonment of exploration	1.2	1.1	(0.6)	(0.6)
Net impairment (reversal)/loss of investments in controlled entities	-	-	(101.5)	2.9
Foreign losses not recognised	18.9	-	-	-
Gain on sale of oil and gas assets	(7.1)	-	-	-
Tax benefit arising from deferred tax balances upon entering into tax consolidation regime	-	(20.0)	-	(20.0)
Dividends from controlled entities	-	-	-	(75.5)
Non-deductible interest	-	-	-	14.2
Gain on sale of oil and gas assets	-	-	-	(76.8)
Under/(over) provided in prior years	5.5	(10.0)	14.2	19.6
Other	9.4	20.8	(2.7)	(9.1)
Income tax expense on pre-tax net profit	371.4	164.1	102.2	74.2
<b>Deferred tax recognised directly in equity</b>				
Hedges of investments in foreign operations	(15.7)	5.2	-	-
Change in available-for-sale financial assets	2.6	-	1.9	-
Foreign exchange translation differences	7.1	(2.2)	-	-
Equity raising costs	-	(3.3)	-	(3.3)
Actuarial (loss)/gain on defined benefit plan	(0.2)	1.4	(0.2)	1.4
	(6.2)	1.1	1.7	(1.9)
<b>7. Cash and Cash Equivalents</b>				
Bank balances	229.2	126.0	65.5	39.3
Call deposits	-	0.1	-	-
	229.2	126.1	65.5	39.3

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>8. Trade and Other Receivables</b>				
Trade receivables	294.9	179.3	134.8	72.3
Receivables due from controlled entities:				
Non-interest-bearing	-	-	402.1	393.0
Interest-bearing	-	-	549.8	990.0
Tax related balances owing by controlled entities	-	-	138.9	62.3
Prepayments	2.8	18.5	2.5	7.6
Insurance proceeds receivable	95.4	116.6	36.0	73.8
Other	118.6	106.4	112.1	57.3
	<u>511.7</u>	<u>420.8</u>	<u>1,376.2</u>	<u>1,656.3</u>
<p>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.</p>				
<b>9. Inventories</b>				
Petroleum products	99.1	82.4	55.7	44.8
Drilling and maintenance stocks	44.9	35.1	11.6	14.0
	<u>144.0</u>	<u>117.5</u>	<u>67.3</u>	<u>58.8</u>
Inventories stated at fair value less costs to sell	21.0	21.4	11.6	14.0
<b>10. Other Assets</b>				
<b>Current</b>				
Interest rate swap contracts	27.2	-	-	-
Deferred loss on commodity hedges	-	3.2	-	2.3
	<u>27.2</u>	<u>3.2</u>	<u>-</u>	<u>2.3</u>
<b>Non-current</b>				
Other	1.9	2.9	-	-

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**11. Exploration and Evaluation Assets**

	CONSOLIDATED			SANTOS LTD		
	Sub-surface Assets	Plant and Equipment	Total	Sub-surface Assets	Plant and Equipment	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Balance at 31 December 2004	271.8	0.2	272.0	14.6	0.4	15.0
<b>Balance at 31 December 2005</b>	<b>333.4</b>	<b>5.7</b>	<b>339.1</b>	<b>17.1</b>	<b>0.6</b>	<b>17.7</b>
<b>Reconciliation of movements</b>						
Balance at 1 January 2004	277.5	0.2	277.7	13.5	0.4	13.9
Acquisitions	0.7	-	0.7	-	-	-
Additions	216.5	-	216.5	47.6	-	47.6
Exploration expensed	(117.4)	-	(117.4)	(46.0)	-	(46.0)
Net impairment (losses)/reversals	-	-	-	(0.5)	-	(0.5)
Transfer to oil and gas assets	(102.7)	-	(102.7)	-	-	-
Foreign currency translation	(2.8)	-	(2.8)	-	-	-
Balance at 31 December 2004	271.8	0.2	272.0	14.6	0.4	15.0
Balance at 1 January 2005	271.8	0.2	272.0	14.6	0.4	15.0
Acquisitions	24.9	4.7	29.6	1.2	-	1.2
Additions	168.2	0.6	168.8	19.2	-	19.2
Exploration expensed	(153.5)	-	(153.5)	(19.1)	-	(19.1)
Net impairment (losses)/reversals	6.3	-	6.3	1.2	0.2	1.4
Transfer to oil and gas assets	-	-	-	-	-	-
Foreign currency translation	15.7	0.2	15.9	-	-	-
<b>Balance at 31 December 2005</b>	<b>333.4</b>	<b>5.7</b>	<b>339.1</b>	<b>17.1</b>	<b>0.6</b>	<b>17.7</b>



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**12. Oil and Gas Assets**

	CONSOLIDATED			SANTOS LTD		
	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million
<b>2005</b>						
Cost at 31 December 2005	6,040.7	4,397.1	10,437.8	2,093.4	1,924.7	4,018.1
Less accumulated depreciation, depletion and impairment	(3,451.9)	(2,193.4)	(5,645.3)	(1,163.0)	(1,127.7)	(2,290.7)
<b>Balance at 31 December 2005</b>	<b>2,588.8</b>	<b>2,203.7</b>	<b>4,792.5</b>	<b>930.4</b>	<b>797.0</b>	<b>1,727.4</b>
<b>Reconciliation of movements</b>						
<b>Assets in development</b>						
Balance at 1 January 2005	208.7	341.3	550.0	25.8	17.5	43.3
Additions	70.0	134.6	204.6	5.0	78.3	83.3
Transfer from exploration and evaluation assets	-	-	-	-	-	-
Transfer to producing assets	(152.3)	(142.0)	(294.3)	-	-	-
Exploration expensed	(2.5)	-	(2.5)	(2.5)	-	(2.5)
Foreign currency translation	2.6	12.7	15.3	-	-	-
Balance at 31 December 2005	126.5	346.6	473.1	28.3	95.8	124.1
<b>Producing Assets</b>						
Balance at 1 January 2005	1,670.7	1,515.7	3,186.4	489.8	605.1	1,094.9
Acquisitions	597.4	95.1	692.5	360.2	101.4	461.6
Additions	336.3	242.0	578.3	115.7	64.7	180.4
Transfer from assets in development	152.3	142.0	294.3	-	-	-
Disposals	-	(0.4)	(0.4)	-	-	-
Depreciation and depletion expense	(330.4)	(213.2)	(543.6)	(104.6)	(68.2)	(172.8)
Exploration expensed	(48.2)	-	(48.2)	(9.9)	-	(9.9)
Net impairment (losses)/reversals	62.4	62.6	125.0	50.9	(1.8)	49.1
Foreign currency translation	21.8	13.3	35.1	-	-	-
Balance at 31 December 2005	2,462.3	1,857.1	4,319.4	902.1	701.2	1,603.3
<b>Total oil and gas assets</b>	<b>2,588.8</b>	<b>2,203.7</b>	<b>4,792.5</b>	<b>930.4</b>	<b>797.0</b>	<b>1,727.4</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**12. Oil and Gas Assets (continued)**

	CONSOLIDATED			SANTOS LTD		
	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million
<b>2004</b>						
Cost at 31 December 2004	4,976.0	3,875.2	8,851.2	1,562.1	1,682.9	3,245.0
Less accumulated depreciation, depletion and impairment	(3,096.6)	(2,018.2)	(5,114.8)	(1,046.5)	(1,060.3)	(2,106.8)
Balance at 31 December 2004	1,879.4	1,857.0	3,736.4	515.6	622.6	1,138.2
<b>Reconciliation of movements</b>						
<b>Assets in development</b>						
Balance at 1 January 2004	151.7	343.4	495.1	22.4	2.6	25.0
Additions	115.8	246.6	362.4	3.4	14.9	18.3
Transfer from exploration and evaluation assets	102.7	-	102.7	-	-	-
Transfer to producing assets	(159.1)	(236.8)	(395.9)	-	-	-
Foreign currency translation	(2.4)	(11.9)	(14.3)	-	-	-
Balance at 31 December 2004	208.7	341.3	550.0	25.8	17.5	43.3
<b>Producing Assets</b>						
Balance at 1 January 2004	1,488.3	1,274.4	2,762.7	471.7	616.0	1,087.7
Acquisitions	173.5	8.3	181.8	-	-	-
Additions	185.0	155.7	340.7	131.1	141.5	272.6
Transfer from assets in development	159.1	236.8	395.9	-	-	-
Disposals	(21.5)	(13.5)	(35.0)	(27.1)	(88.3)	(115.4)
Depreciation and depletion expense	(308.5)	(146.5)	(455.0)	(114.7)	(70.0)	(184.7)
Net impairment (losses)/reversals	4.8	2.5	7.3	28.8	5.9	34.7
Foreign currency translation	(10.0)	(2.0)	(12.0)	-	-	-
Balance at 31 December 2004	1,670.7	1,515.7	3,186.4	489.8	605.1	1,094.9
<b>Total oil and gas assets</b>	1,879.4	1,857.0	3,736.4	515.6	622.6	1,138.2

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**13. Other Land, Buildings, Plant and Equipment**

	CONSOLIDATED			SANTOS LTD		
	Land and Buildings \$million	Plant and Equipment \$million	Total \$million	Land and Buildings \$million	Plant and Equipment \$million	Total \$million
Cost at 31 December 2004	97.2	54.9	152.1	55.5	60.4	115.9
Less accumulated depreciation, depletion and impairment	(49.7)	(35.5)	(85.2)	(34.0)	(39.9)	(73.9)
<b>Balance at 31 December 2004</b>	<b>47.5</b>	<b>19.4</b>	<b>66.9</b>	<b>21.5</b>	<b>20.5</b>	<b>42.0</b>
Cost at 31 December 2005	100.2	78.6	178.8	57.1	85.3	142.4
Less accumulated depreciation, depletion and impairment	(52.2)	(53.1)	(105.3)	(36.2)	(53.8)	(90.0)
<b>Balance at 31 December 2005</b>	<b>48.0</b>	<b>25.5</b>	<b>73.5</b>	<b>20.9</b>	<b>31.5</b>	<b>52.4</b>
<b>Reconciliation of movements</b>						
Balance at 1 January 2004	47.0	29.1	76.1	19.3	29.1	48.4
Additions	2.5	7.9	10.4	3.2	6.9	10.1
Disposals	-	-	-	-	(0.1)	(0.1)
Depreciation	(2.0)	(17.9)	(19.9)	(1.0)	(15.6)	(16.6)
Net impairment reversals	-	0.3	0.3	-	0.2	0.2
<b>Balance at 31 December 2004</b>	<b>47.5</b>	<b>19.4</b>	<b>66.9</b>	<b>21.5</b>	<b>20.5</b>	<b>42.0</b>
Balance at 1 January 2005	47.5	19.4	66.9	21.5	20.5	42.0
Additions	3.0	20.6	23.6	0.7	24.9	25.6
Depreciation	(2.5)	(14.9)	(17.4)	(1.3)	(13.9)	(15.2)
Foreign currency translation	-	0.4	0.4	-	-	-
<b>Balance at 31 December 2005</b>	<b>48.0</b>	<b>25.5</b>	<b>73.5</b>	<b>20.9</b>	<b>31.5</b>	<b>52.4</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**14. Impairment of Cash Generating Units**

During the year ended 31 December 2005, the consolidated entity reassessed the recoverable amount of its oil and gas assets in light of increased oil prices and \$144.6 million (31 December 2004: \$74.4 million) of previously recognised impairment losses were reversed. The estimates of recoverable amounts were based on the assets value in use, determined using a discount rate of 8.7% (2004: 8.8%).

CGU	2005			2004		
	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million	Sub-surface Assets \$million	Plant and Equipment \$million	Total \$million
<b>CONSOLIDATED</b>						
SWQ Oil	-	-	-	(27.8)	(20.2)	(48.0)
Mereenie	(9.6)	(8.4)	(18.0)	9.6	8.4	18.0
Moonie	(5.3)	(5.3)	(10.6)	-	0.8	0.8
Elang Kakatua	(11.1)	(0.7)	(11.8)	(1.6)	(0.1)	(1.7)
Barrow	(14.1)	(16.8)	(30.9)	9.5	12.2	21.7
East Spar/John Brookes	-	-	-	(5.3)	(4.0)	(9.3)
Thevenard	(12.5)	(42.3)	(54.8)	1.0	3.4	4.4
Other – impairment losses	2.2	11.1	13.3	0.5	-	0.5
Other – impairment reversals	(17.6)	(0.2)	(17.8)	(11.9)	(3.3)	(15.2)
Australia	(68.0)	(62.6)	(130.6)	(26.0)	(2.8)	(28.8)
USA Gulf Coast	(0.7)	-	(0.7)	21.4	-	21.4
Other	-	-	-	(0.2)	-	(0.2)
International	(0.7)	-	(0.7)	21.2	-	21.2
	(68.7)	(62.6)	(131.3)	(4.8)	(2.8)	(7.6)
Impairment losses			13.3			66.8
Impairment reversals			(144.6)			(74.4)
Net impairment reversal			(131.3)			(7.6)
<b>SANTOS LTD</b>						
SWQ Oil	(51.1)	-	(51.1)	(27.8)	(3.7)	(31.5)
Other – impairment losses	2.6	2.1	4.7	1.8	-	1.8
Other – impairment reversals	(3.6)	(0.5)	(4.1)	(2.3)	(2.4)	(4.7)
	(52.1)	1.6	(50.5)	(28.3)	(6.1)	(34.4)
Impairment losses			4.7			1.8
Impairment reversals			(55.2)			(36.2)
Net impairment reversal			(50.5)			(34.4)
<b>CGU</b>	<b>Description</b>					
SWQ Oil	Oil field and pipelines					
Mereenie	Oil and gas field					
Moonie	Oil field					
Elang Kakatua	Oil field					
Barrow	Oil field					
East Spar/John Brookes	Gas field and production facility					
Thevenard	Oil field					
USA Gulf Coast	Gas field					

**SANTOS LTD AND CONTROLLED ENTITIES**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>15. Other Investments</b>				
Equity securities available-for-sale	14.8	-	11.8	-
Investments in other entities at cost	-	1.2	-	0.5
Investments in controlled entities – at cost	-	-	2,983.5	2,071.1
	<u>14.8</u>	<u>1.2</u>	<u>2,995.3</u>	<u>2,071.6</u>

**16. Deferred Tax Assets and Liabilities**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Consolidated</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Exploration, evaluation, oil and gas assets, other land, buildings, plant and equipment	-	-	398.0	362.4	398.0	362.4
Other investments	(2.6)	-	-	-	(2.6)	-
Trade debtors	-	-	3.3	0.8	3.3	0.8
Sundry debtors	-	-	19.1	2.6	19.1	2.6
Inventories	-	-	17.2	11.7	17.2	11.7
Doubtful debts	-	(0.2)	-	-	-	(0.2)
Prepayments	-	-	1.8	1.9	1.8	1.9
Other assets	-	-	8.1	-	8.1	-
Equity raising costs	(2.0)	-	-	-	(2.0)	-
Trade creditors	(5.2)	(1.7)	-	-	(5.2)	(1.7)
Non-trade payables and accrued expenses	-	(1.4)	-	-	-	(1.4)
Interest-bearing loans and borrowings	-	-	68.3	94.7	68.3	94.7
Employee benefits	(16.3)	(15.1)	-	-	(16.3)	(15.1)
Defined benefits provision	(3.4)	(3.7)	-	-	(3.4)	(3.7)
Provisions	(1.5)	(0.8)	-	-	(1.5)	(0.8)
Other liabilities	-	(11.2)	-	-	-	(11.2)
Other items	-	-	1.1	-	1.1	-
Tax value of loss carry-forwards recognised	(30.4)	(7.8)	-	-	(30.4)	(7.8)
Tax (assets)/liabilities	(61.4)	(41.9)	516.9	474.1	455.5	432.2
Set off of tax	4.0	(47.7)	(4.0)	47.7	-	-
Net tax (assets)/liabilities	<u>(57.4)</u>	<u>(89.6)</u>	<u>512.9</u>	<u>521.8</u>	<u>455.5</u>	<u>432.2</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16. Deferred Tax Assets and Liabilities (continued)**

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Santos Ltd</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Exploration, evaluation, oil and gas assets, other land, buildings, plant and equipment	-	-	155.6	145.0	155.6	145.0
Other investments	-	-	1.9	-	1.9	-
Trade debtors	-	-	2.4	-	2.4	-
Sundry debtors	-	-	18.3	-	18.3	-
Inventories	-	-	10.8	8.5	10.8	8.5
Doubtful debts	-	(0.2)	-	-	-	(0.2)
Prepayments	-	-	0.3	0.9	0.3	0.9
Equity raising costs	(2.0)	-	-	-	(2.0)	-
Non-trade payables and accrued expenses	(2.7)	(1.5)	-	-	(2.7)	(1.5)
Employee benefits	(15.6)	(14.6)	-	-	(15.6)	(14.6)
Defined benefits provision	(3.4)	(3.7)	-	-	(3.4)	(3.7)
Provisions	-	(0.8)	-	-	-	(0.8)
Other items	-	(0.3)	-	-	-	(0.3)
Tax (assets)/liabilities	(23.7)	(21.1)	189.3	154.4	165.6	133.3
Set off of tax	23.7	21.1	(23.7)	(21.1)	-	-
Net tax (assets)/liabilities	-	-	165.6	133.3	165.6	133.3

At 31 December 2005, a deferred tax liability of \$465.0 million (2004: deferred tax asset of \$231.1 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Deductible temporary differences	30.4	26.7	-	-
Tax losses	86.3	97.2	39.1	46.7
	116.7	123.9	39.1	46.7

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the consolidated entity can utilise the benefits there from. Unrecognised deductible temporary differences and tax losses of \$45.7 million (2004: \$49.4 million) will expire between 2006 and 2025. The remaining deductible temporary differences and tax losses do not expire under current tax legislation.

**17. Trade and Other Payables**

Trade payables	260.2	286.2	89.6	109.5
Non-trade payables and accrued expenses	132.0	86.7	54.9	29.1
Amounts owing to controlled entities	-	-	235.1	313.3
	392.2	372.9	379.6	451.9

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>18. Interest-Bearing Loans and Borrowings *</b>				
This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 34.				
<b>Current liabilities</b>				
Amounts owing to controlled entities	-	-	2,450.9	1,685.2
Bank loans	11.1	5.2	-	-
Long-term notes	-	43.7	-	-
Other	-	1.0	-	1.0
	<u>11.1</u>	<u>49.9</u>	<u>2,450.9</u>	<u>1,686.2</u>
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.				
<b>Non-current liabilities</b>				
Bank loans	250.4	222.7	-	-
Commercial paper	265.5	209.0	-	-
Medium-term notes	468.5	20.0	-	-
Long-term notes	832.6	757.8	-	-
	<u>1,817.0</u>	<u>1,209.5</u>	<u>-</u>	<u>-</u>

\* Comparative information has been prepared under previous GAAP in accordance with the transition rules in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards".

The consolidated entity 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 5.89% as at 31 December 2005 (2004: 5.09%). All facilities are unsecured and arranged through a controlled entity, Santos Finance Ltd, and are guaranteed by Santos Ltd.

**Details of major credit facilities**

**(a) Bank loans**

The consolidated entity has access to the following committed revolving bank facilities:

**Revolving facilities at 31 December 2005**

<b>Year of maturity</b>	<b>Currency</b>	<b>Amount A\$million</b>
2006	Multi-currency	200.0
2007	Multi-currency	-
2008	Multi-currency	300.0
2009	Multi-currency	200.0
		<u>700.0</u>

Revolving bank facilities bear interest at the relevant interbank reference rate plus 0.25% to 0.43%. The amount drawn at 31 December 2005 is \$nil (2004: \$nil).

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**18. Interest-Bearing Loans and Borrowings (continued)**

**(a) Bank loans (continued)**

**Term bank loans at 31 December 2005**

Year of maturity	Currency	Amount A\$million
2006	USD	11.1
2007	USD	21.4
2008	USD	20.6
2009	USD	25.6
2010	USD	26.5
2011	USD	27.4
2012	USD	23.5
2013	USD	19.7
2014	USD	20.7
2015	USD	21.1
2016	USD	21.5
2017	USD	22.4
		261.5

Term bank loans bear interest at the relevant interbank reference rate plus a margin of up to 0.75%. The amount outstanding at 31 December 2005 is US\$191.5million (A\$261.5 million) at a weighted average annual effective interest rate of 5.02% (2004: 2.70%).

**(b) Commercial paper**

The consolidated entity has an \$800.0 million (2004: \$800.0 million) Australian commercial paper program supported by the revolving bank facilities referred to in (a) above. At 31 December 2005, \$265.5 million (2004: \$209.0 million) of commercial paper is on issue and the weighted average annual effective interest rate is 5.83% (2004: 5.61%).



**SANTOS LTD AND CONTROLLED ENTITIES**  
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**18. Interest-Bearing Loans and Borrowings (continued)**

**(c) Medium-term notes**

The consolidated entity has an \$1,000.0 million (2004: \$500.0 million) Australian medium-term note program.

**Medium-term notes on issue at 31 December 2005**

Year of issue	Year of maturity	Effective Interest Rate	2005 \$million	2004 \$million
1998	2008	6.61%	20.0	20.0
2005	2011	6.18% *	349.1	-
2005	2015	6.35%	99.4	-
			468.5	20.0

\* Floating rate of interest.

**(d) Long-term notes**

**Long-term notes on issue at 31 December 2005**

Year of issue	Year of maturity	Effective Interest Rate	2005 US\$million	2004 US\$million	2005 A\$million	2004 A\$million
1993	2005	6.95%	-	34.0	-	43.7
2000	2007 to 2015	8.37%	308.4	290.0	421.0	372.5
2002	2009 to 2022	6.11%	301.5	300.0	411.6	385.3
			609.9	624.0	832.6	801.5

<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>

**19. Employee Benefits**

**Current**

Liability for annual leave	18.6	16.0	17.9	15.5
Liability for long service leave	31.1	29.3	30.3	28.9
	49.7	45.3	48.2	44.4

**Non-Current**

Liability for defined benefit obligations	11.3	12.5	11.3	12.5
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**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>19. Employee Benefits (continued)</b>				
<b>(a) Liability for defined benefit obligations</b>				
Defined benefit members of the Santos Superannuation Plan receive a lump sum benefit on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.				
<b>Movements in the net liability for defined benefit obligations recognised in the balance sheet</b>				
Net liability at start of year	12.5	19.1	12.5	19.1
Expense recognised in income statement	2.9	4.3	2.9	4.3
Amount recognised in retained earnings	0.5	(6.0)	0.5	(6.0)
Employer contributions	(4.6)	(4.9)	(4.6)	(4.9)
Net liability at end of year	<u>11.3</u>	<u>12.5</u>	<u>11.3</u>	<u>12.5</u>
<b>Defined benefit plan</b>				
Amount recognised in the balance sheet:				
Liabilities	<u>11.3</u>	<u>12.5</u>	<u>11.3</u>	<u>12.5</u>
The consolidated entity has recognised a liability in the balance sheet in respect of its defined benefit superannuation arrangements. However, the Santos Superannuation Plan does not impose a legal liability on any of its employer sponsors to cover any deficit that exists in the Plan.				
<b>Historical information for the current and previous period *</b>				
Present value of defined benefit obligation	90.7	88.6	90.7	88.6
Fair value of Plan assets	(79.4)	(76.1)	(79.4)	(76.1)
Deficit in Plan	<u>11.3</u>	<u>12.5</u>	<u>11.3</u>	<u>12.5</u>
Experience adjustments on Plan assets	(5.6)	(3.9)	(5.6)	(3.9)
Experience adjustments on Plan liabilities	(0.1)	(3.2)	(0.1)	(3.2)

\* Comparative information has been provided for only one year in accordance with the transition rules in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards".

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>19. Employee Benefits (continued)</b>				
<b>(a) Liability for defined benefit obligations (continued)</b>				
<b>Reconciliation of the present value of the defined benefit obligation</b>				
Opening defined benefit obligation	88.6	99.3	88.6	99.3
Service cost	4.1	5.0	4.1	5.0
Interest cost	3.7	4.5	3.7	4.5
Contributions by Plan participants	4.1	4.3	4.1	4.3
Actuarial losses/(gains)	6.1	(2.1)	6.1	(2.1)
Benefits paid	(10.5)	(23.2)	(10.5)	(23.2)
Transfers (out)/in	(5.4)	0.8	(5.4)	0.8
Closing defined benefit obligation	<u>90.7</u>	<u>88.6</u>	<u>90.7</u>	<u>88.6</u>
<b>Reconciliation of the fair value of Plan assets</b>				
Opening fair value of Plan assets	76.1	80.2	76.1	80.2
Expected return on Plan assets	4.9	5.1	4.9	5.1
Actuarial gains	5.6	3.9	5.6	3.9
Employer contributions	4.6	5.0	4.6	5.0
Contributions by Plan participants	4.1	4.3	4.1	4.3
Benefits paid	(10.5)	(23.2)	(10.5)	(23.2)
Transfers (out)/in	(5.4)	0.8	(5.4)	0.8
Closing fair value of Plan assets	<u>79.4</u>	<u>76.1</u>	<u>79.4</u>	<u>76.1</u>

**Plan assets**

The percentage invested in each class of Plan assets at the balance sheet date are as follows:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Australian equity	35	38	35	38
International equity	29	25	29	25
Fixed income	15	17	15	17
Property	7	7	7	7
Cash	14	13	14	13

**Fair value of Plan assets**

The fair value of Plan assets does not include any amounts relating to any of Santos' own financial instruments, property, or any other assets owned or used by the consolidated entity.

**Expected rate of return on Plan assets**

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax, investment fees and asset based administration fees.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**19. Employee Benefits (continued)**

**(a) Liability for defined benefit obligations (continued)**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	%	%	%	%
<b>Principal actuarial assumptions at the balance sheet date (expressed as weighted average)</b>				
Discount rate	4.5	4.4	4.5	4.4
Expected rate of return on Plan assets	6.9	6.4	6.9	6.4
Expected salary increase rate:				
2004	N/A	4.5	N/A	4.5
2005	9.0	4.5	9.0	4.5
2006	7.0	4.5	7.0	4.5
2007	7.0	4.5	7.0	4.5
Later than 2007	5.0	4.5	5.0	4.5

The expected rate of return on Plan assets includes a reduction to allow for asset based administrative expenses of the Plan.

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	\$million	\$million	\$million	\$million
<b>Expense recognised in the income statement</b>				
Service cost	4.1	5.0	4.1	5.0
Interest cost	3.7	4.5	3.7	4.5
Expected return on Plan assets	(4.9)	(5.1)	(4.9)	(5.1)
	<u>2.9</u>	<u>4.4</u>	<u>2.9</u>	<u>4.4</u>

The expense is recognised in the following line items in the income statement:

Other expenses	(0.8)	(0.1)	(0.8)	(0.1)
Financial expenses	3.7	4.5	3.7	4.5
	<u>2.9</u>	<u>4.4</u>	<u>2.9</u>	<u>4.4</u>

**Amount recognised in the statement of recognised income and expense**

Actuarial (losses)/gains	(0.5)	4.8	(0.5)	4.8
Tax effect	0.2	(1.5)	0.2	(1.5)
Actuarial (losses)/gains	<u>(0.3)</u>	<u>3.3</u>	<u>(0.3)</u>	<u>3.3</u>

**Summary of the most recent financial position of the Plan**

	<b>31 Dec 04</b>	<b>1 Jan 04</b>	<b>31 Dec 04</b>	<b>1 Jan 04</b>
	\$million	\$million	\$million	\$million
Net market value of plan assets	98.6	114.5	98.6	114.5
Accrued benefits	98.9	113.5	98.9	113.5
Net (deficit)/surplus	<u>(0.3)</u>	<u>1.0</u>	<u>(0.3)</u>	<u>1.0</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(a) Liability for defined benefit obligations (continued)**

**Expected contributions**

The consolidated entity expects to contribute \$5.5 million to the defined benefit superannuation plan in 2006.

**Contribution recommendation**

The current contribution recommendation as set out in the most recent actuarial valuation of the Plan as at 31 December 2004, are 15.0% of salaries of defined benefit members and 9.0% of salaries of defined contribution members. The consolidated entity is currently contributing at these rates.

**Funding method**

The method used to determine the employer contribution recommendations at the last actuarial review was the Attained Age Normal method. The method adopted affects the timing of the cost to the consolidated entity.

Under the Attained Age Normal method, a "normal cost" is calculated which is the estimated employer contribution rate required to provide benefits in respect of future service after the review date. The "normal" cost is then adjusted to take into account any surplus (or deficiency) of assets over the value of liabilities in respect of service prior to the review date. Any surplus or deficiency can be used to reduce or increase the "normal" employer contribution rate over a suitable period of time.

**Economic assumptions**

The economic assumptions adopted for the last actuarial review as at 31 December 2004 of the Plan were:

Expected rate of return on plan assets	7.9% in year 1; 7.0% thereafter
Future annual salary increases	9.0%; 7.0%; 7.0%; 5.0% thereafter

**(b) Defined contribution plans**

The consolidated entity makes contributions to several defined contribution plans. The amount recognised as an expense for the year was \$7.2 million (2004: \$6.9 million).

**(c) Share-based payments**

**(i) Current General Employee Share Plans**

The Company currently operates two general employee share plans:

- the Santos Employee Share Acquisition Plan (SESAP); and
- the Santos Employee Share Purchase Plan (SESPP).

Both of these plans have operated since 1997.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(i) Current General Employee Share Plans (continued)**

**SESAP**

Broadly, SESAP provides for 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 Executive Long Term Incentive Program in 2005, 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 consolidated entity 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 SESAP during 2005 (and comparative 2004 information):

Grant Dates	OPENING	GRANTED DURING		DISTRIBUTIONS		CLOSING BALANCE	
	BALANCE	THE YEAR		DURING THE YEAR			
	Number	Number	Fair value per share	Number	Fair value aggregate	Number	Fair value aggregate
		of shares	\$		\$		\$
<b>2005</b>							
2 September 2002	162,864	-	-	162,864	1,854,533	-	-
2 September 2003	200,754	-	-	27,531	287,283	173,223	2,121,982
22 November 2004	156,770	-	-	19,764	208,725	137,006	1,678,323
18 November 2005	-	106,744	11.24	2,288	26,921	104,456	1,279,586
	<u>520,388</u>	<u>106,744</u>		<u>212,447</u>	<u>2,377,462</u>	<u>414,685</u>	<u>5,079,891</u>
<b>2004</b>							
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
	<u>616,523</u>	<u>157,014</u>		<u>253,149</u>	<u>1,704,521</u>	<u>520,388</u>	<u>4,412,891</u>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(i) Current General Employee Share Plans (continued)**

**SESAP (continued)**

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.

The amounts recognised in the financial statements of the consolidated entity and the Company in relation to SESAP during the year were:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>\$million</b>	\$million	<b>\$million</b>	\$million
Employee expenses	1.2	1.2	1.2	1.2
Issued ordinary share capital	1.2	1.3	1.2	1.3

At 31 December 2005, the total number of shares acquired under the Plan since its commencement was 1,981,031.

**SESPP**

The general employee offer under SESPP 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 Program 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 18 November 2005, the Company issued 49,800 ordinary shares to 84 eligible employees at a subscription price of \$10.67 per share under the Plan. The total market value of those shares on the issue date was \$559,254, being the market price at the close of trade on the date of issue and the total amount received from employees for those shares was \$531,366.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(i) Current General Employee Share Plans (continued)**

**SESPP (continued)**

A summary of share movements in the SESPP are set out below:

Grant Dates	OPENING BALANCE	GRANTED DURING THE YEAR		RESTRICTION CEASED DURING THE YEAR		CLOSING BALANCE
	Number	Number of shares	Fair value per share \$	Number	Date	Number
<b>2005</b>						
26 November 2004	32,400	-	-	32,400	26 November 2005	-
18 November 2005	-	49,800	11.24	-	-	49,800
	<u>32,400</u>	<u>49,800</u>		<u>32,400</u>		<u>49,800</u>
<b>2004</b>						
7 March 2003	7,800	-	-	7,800	7 March 2004	-
8 September 2003	15,400	-	-	15,400	8 September 2004	-
26 November 2004	-	32,400	8.14	-	-	32,400
	<u>23,200</u>	<u>32,400</u>		<u>23,200</u>		<u>32,400</u>

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

The amounts recognised in the financial statements of the consolidated entity and the Company in relation to the general employee offer under the SESPP during the year were:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Issued ordinary share capital	<u>0.5</u>	<u>0.3</u>	<u>0.5</u>	<u>0.3</u>

At 31 December 2005, the total number of shares acquired under the general employee offer of the Plan since its commencement was 759,000.

**(ii) Executive Long Term Incentive Program**

The Company's Executive Long Term Incentive Program provides for invitations to be extended 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 Program applying to up to 50 executives.

The Program currently consists of an offer of securities under:

- the Santos Employee Share Purchase Plan ("SESPP"); and
- the Santos Executive Share Option Plan ("SESOP").

SESOP has operated since 1997, the SESPP has been used as a component of executive compensation since 2003.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

**SESPP**

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 below) and the trustee was funded by the Company to subscribe for the shares.

In general the shares were restricted for a period of one year from the date of allotment. If a participating executive ceased employment during this period, the Board in its discretion could determine that a lesser restriction on transfer and dealing applied, having regard to the circumstances of the cessation. The shares can remain on trust for up to four years from the date of allotment, 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 held on trust.

No shares were issued under the executive long term incentive component of the Plan during 2005 (2004: 91,248).

A summary of share movements in the executive long term incentive component of the SESPP are set out below:

Grant Dates	OPENING	GRANTED DURING		RESTRICTION CEASED		CLOSING
	BALANCE	THE YEAR		DURING THE YEAR		BALANCE
	Number	Number	Fair value	Number	Date	Number
		of shares	per share			
			\$			
<b>2005</b>						
27 January 2004	3,397	-	-	3,397	27 January 2005	-
1 July 2004	87,851	-	-	3,496	1 February 2005	-
				5,026	16 March 2005	-
				3,847	4 April 2005	-
				75,482	1 July 2005	-
	<u>91,248</u>	<u>-</u>		<u>91,248</u>		<u>-</u>
<b>2004</b>						
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
	<u>129,664</u>	<u>91,248</u>		<u>129,664</u>		<u>91,248</u>

The fair value per share for shares granted during the year and the consideration received by the Company per share 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).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

The amounts recognised in the financial statements of the consolidated entity and the Company in relation to the executive long term incentive component of the SESPP during the year were:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>\$million</b>	\$million	<b>\$million</b>	\$million
Employee expenses	-	0.6	-	0.6
Issued ordinary share capital	-	0.6	-	0.6

At 31 December 2005, the total number of shares acquired under the executive long term incentive component of the Plan since its commencement was 220,912.

**SARs and Options**

During the year eligible senior executives are invited to acquire SARs or options, at the executive's election. Each SAR and option is a conditional entitlement to a fully paid ordinary share, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.

SARs and options carry no voting or dividend rights until the performance conditions are satisfied and, in the case of options, when the options are exercised or, in the case of SARs, when the SARs vest.

SARs 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. Options have a life of up to ten years.

The Board intends that long term incentive ("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.

SARs and options vest where the Company achieves 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 three-year performance period is compared to the following comparator groups:

- as to 50% of each grant - the ASX 100 at the beginning of the relevant performance period; and
- as to the other 50% of each grant – the Energy and Petroleum companies in the ASX Energy Index with market capitalisation above \$400 million, plus international Energy and Petroleum companies.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

The following table sets out the vesting Schedule for the SARs and options:

<b>Performance – Santos TSR ranking against TSR ranking of each company in the comparator group</b>	<b>% of SARs that vest or options which become exercisable</b>
TSR < 50 <sup>th</sup> percentile of comparator group	0%
TSR = 50 <sup>th</sup> percentile of comparator group	50%
TSR between 51 <sup>st</sup> & 74 <sup>th</sup> percentile of comparator group	Progressive vesting from 52% to 98% pro-rata vesting (2% increase for each percentile improvement)
TSR ≥ 75 <sup>th</sup> percentile of comparator group	100%

SARs which have not vested and options which are not exercisable at the time of an executive ceasing employment will, in general, lapse and be forfeited. If cessation is due to death, redundancy or where the Board consents, a proportionate number of SARs may vest or options may be exercised, at the Board's discretion, or otherwise based on pro rata performance.

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.

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

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>\$million</b>	\$million	<b>\$million</b>	\$million
Issued ordinary share capital	25.6	4.1	25.6	4.1

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

During the financial year, the Company granted 1,166,000 options over unissued shares as set out below.

	Weighted average exercise price	Number of Options 2005						Weighted average exercise price	Number of Options
		2005	A	B	C	Type 1	Type 2		
Outstanding at the beginning of the period	\$6.12	-	-	-	338,462	5,175,000	5,513,462	\$6.04	5,998,314
Granted during the period	\$8.46	139,800	342,900	683,300	-	-	1,166,000	\$6.95	330,148
Forfeited during the period	-	-	-	-	-	-	-	\$6.45	(100,000)
Exercised during the period	\$6.00	-	-	-	(136,134)	(4,125,000)	(4,261,134)	\$5.71	(715,000)
Outstanding at the end of the period	\$7.47	139,800	342,900	683,300	202,328	1,050,000	2,418,328	\$6.12	5,513,462
Exercisable at the end of the period	\$6.48	-	-	-	202,328	750,000	952,328	\$6.00	2,983,314

The options outstanding at 31 December 2005 have an exercise price in the range of \$6.20 to \$8.46, and a weighted average contractual life of seven years.

During the year 4,261,134 options were exercised (2004: 715,000). The weighted average share price at the dates of exercise was \$9.91 (2004: \$7.03).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

**SARs and Options (continued)**

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Monte Carlo Simulation Method (2004: Black Scholes model). The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the models.

Option Grant	2005			2004	
	A	B	C	Type 1*	Type 2*
Fair value at measurement date	\$0.59	\$0.90	\$1.15	\$0.67	\$0.73
Share price	\$8.48	\$8.48	\$8.48	\$6.95	\$6.95
Exercise price	\$8.461	\$8.461	\$8.461	\$6.95	\$6.95
Expected volatility (weighted average)	21%	21%	21%	16.13%	16.13%
Option life (weighted average)	1 year	2years	3years	Medium	3-5years
Expected dividends	3.5%	3.5%	3.5%	5.22%	5.22%
Risk free interest rate (based on national government bonds)	5.33%	5.06%	5.11%	5.99%	5.99%

\* Type 1 options have a one year vesting period with no performance hurdle.

Type 2 options have a performance hurdle which requires the TSR growth of the Company during the time period of measurement to have at least equalled 10% per annum calculated on a compound basis for that period. The time period of measurement commences 3 years from the grant date of the options and ceases 59 months and one day from the grant date of the options.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The amounts recognised in the income statements of the consolidated entity and the Company during the financial year in relation to executive share options granted were:

	CONSOLIDATED		SANTOS LTD	
	2005	2004	2005	2004
	\$million	\$million	\$million	\$million
Employee expenses	0.5	0.1	0.5	0.1

During the financial year, the Company granted 862,600 SARs as set out below. Shares allocated on vesting of SARs will be subject to further restrictions on dealing for a maximum of ten years after the original grant date. No amount is payable on grant or vesting of the SARs.

	Number of SARs				2004
	2005				
	A	B	C	Total	
Outstanding at the beginning of the period	-	-	-	-	-
Granted during the period	286,500	270,100	306,000	862,600	-
Forfeited during the period	(17,700)	(17,700)	(17,700)	(53,100)	-
Outstanding at the end of the period	268,800	252,400	288,300	809,500	-
Exercisable at the end of the period	268,800	-	-	268,800	-

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(ii) Executive Long Term Incentive Program (continued)**

**SARs and Options (continued)**

The fair value of services received in return for SARs granted are measured by reference to the fair value of SARs granted. The estimate of the fair value of the services received is measured based on the Monte Carlo Simulation Method. The contractual life of the SARs is used as an input into this model. Expectations of early exercise are incorporated into the Monte Carlo Simulation Method.

	<b>2005</b>			<b>2004</b>
	<b>A</b>	<b>B</b>	<b>C</b>	
SARs Grant				
Fair value at measurement date	\$3.59	\$4.17	\$4.63	-
Share price	\$8.48	\$8.48	\$8.48	-
Exercise price	-	-	-	-
Expected volatility (weighted average)	21%	21%	21%	-
Right life (weighted average)	1 year	2 years	3 years	-
Expected dividends	3.5%	3.5%	3.5%	-
Risk free interest rate (based on national government bonds)	5.33%	5.06%	5.11%	-

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share rights), adjusted for any expected changes to future volatility due to publicly available information.

The amounts recognised in the income statements of the consolidated entity and the Company in relation to SARs granted during the financial year were:

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
Employee expenses	1.9	-	1.9	-

**(iii) Legacy Plan - Santos Executive Share Plan**

The Santos Executive Share Plan operated between 1987 and 1997, when it was discontinued.

Under the terms of the Plan, shares were issued as partly 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. After a "vesting" period, calls could be made for the balance of the issue price of the shares, which varied between \$2 and the market price of the shares on the date of the call being made.

Shares were issued principally on: 22 December 1987; 7 February and 5 December 1989; and 24 December 1990.

At the beginning of the financial year there were 181,000 Plan shares on issue. During the financial year 93,000 Plan shares were fully paid and aggregate proceeds of \$295,985 received by the Company. As at 31 December 2005 there were 88,000 Plan Shares outstanding.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. Employee Benefits (continued)**

**(c) Share-based payments (continued)**

**(iv) 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 held by a trustee subject to Mr Ellice-Flint completing 5 years service with the Company. As Mr Ellice-Flint satisfied the condition on 12 December 2005, legal title of the shares passed unrestricted to him on that date.

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>20. Provisions</b>				
<b>Current</b>				
Restoration	20.5	16.0	4.4	0.9
Non-executive Directors' retirement benefits	2.2	0.2	2.2	0.2
	<u>22.7</u>	<u>16.2</u>	<u>6.6</u>	<u>1.1</u>
<b>Non-current</b>				
Restoration	198.9	166.3	59.7	32.2
Non-executive Directors' retirement benefits	-	2.2	-	2.2
	<u>198.9</u>	<u>168.5</u>	<u>59.7</u>	<u>34.4</u>
	<b>Total Restoration</b>	<b>Total Non-Executive Directors' Retirement Benefits</b>	<b>Total</b>	
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	
<b>Consolidated</b>				
Balance at 1 January 2005	182.3	2.4	184.7	
Provisions made during the year	32.3	-	32.3	
Provisions used during the year	(9.7)	(0.2)	(9.9)	
Unwind of discount	14.5	-	14.5	
<b>Balance at 31 December 2005</b>	<u>219.4</u>	<u>2.2</u>	<u>221.6</u>	
<b>Santos Ltd</b>				
Balance at 1 January 2005	33.1	2.4	35.5	
Provisions made during the year	26.1	-	26.1	
Provisions used during the year	(0.3)	(0.2)	(0.5)	
Unwind of discount	5.2	-	5.2	
<b>Balance at 31 December 2005</b>	<u>64.1</u>	<u>2.2</u>	<u>66.3</u>	
<b>Restoration</b>				
Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.				

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**20. Provisions (continued)**

**Non-Executive Directors' Retirement Benefits**

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. Such benefits ceased to accrue with effect from 30 June 2004. These benefits have been fully provided for by the Company.

During the year, a retirement payment was made to Mr F. Conroy who retired as a Director in December 2004. A retirement payment will be made in 2006 to Mr G. McGregor who retired in September 2005.

<b>CONSOLIDATED</b>	<b>SANTOS LTD</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>

**21. Other Liabilities**

**Current**

Deferred foreign currency fluctuations on borrowings

-            3.4            -            -

Accrued fluctuations on foreign currency swaps

-            11.2            -            -

Other

1.8            -            1.3            -

1.8            14.6            1.3            -

**Non-current**

Deferred foreign currency fluctuations on borrowings

-            33.8            -            -

Other

6.3            -            -            -

6.3            33.8            -            -

**22. Capital and Reserves**

Reconciliation of movement in capital and reserves attributable to equity holders of Santos Ltd

<b>Consolidated</b>	<b>Share Capital \$million</b>	<b>Translation Reserve \$million</b>	<b>Hedging Reserve \$million</b>	<b>Fair Value Reserve \$million</b>	<b>Retained Earnings \$million</b>	<b>Total Equity \$million</b>
Balance at 1 January 2004	1,893.1	(154.7)	-	-	268.5	2,006.9
Movement per recognised income and expense statement	-	(40.6)	-	-	358.1	317.5
Share options exercised by employees	4.1	-	-	-	-	4.1
Shares issued	594.5	-	-	-	-	594.5
Share buy-back	(350.0)	-	-	-	(2.4)	(352.4)
Dividends to shareholders	-	-	-	-	(212.8)	(212.8)
<b>Balance at 31 December 2004</b>	<b>2,141.7</b>	<b>(195.3)</b>	<b>-</b>	<b>-</b>	<b>411.4</b>	<b>2,357.8</b>
Balance at 1 January 2005	2,141.7	(195.3)	-	-	411.4	2,357.8
Movement per recognised income and expense statement	-	11.0	-	6.0	761.8	778.8
Share options exercised by employees	25.6	-	-	-	-	25.6
Shares issued	44.8	-	-	-	-	44.8
Dividends to shareholders	-	-	-	-	(243.0)	(243.0)
<b>Balance at 31 December 2005</b>	<b>2,212.1</b>	<b>(184.3)</b>	<b>-</b>	<b>6.0</b>	<b>930.2</b>	<b>2,964.0</b>



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**22. Capital and Reserves (continued)**

<b>Santos Ltd</b>	<b>Share Capital \$million</b>	<b>Translation Reserve \$million</b>	<b>Hedging Reserve \$million</b>	<b>Fair Value Reserve \$million</b>	<b>Retained Earnings \$million</b>	<b>Total Equity \$million</b>
Balance at 1 January 2004	1,893.1	-	-	-	63.0	1,956.1
Movement per recognised income and expense statement	-	-	-	-	658.8	658.8
Share options exercised by employees	4.1	-	-	-	-	4.1
Shares issued	594.5	-	-	-	-	594.5
Share buy-back	(350.0)	-	-	-	(2.4)	(352.4)
Dividends to shareholders	-	-	-	-	(212.8)	(212.8)
<b>Balance at 31 December 2004</b>	<b>2,141.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>506.6</b>	<b>2,648.3</b>
Balance at 1 January 2005	2,141.7	-	-	-	506.6	2,648.3
Movement per recognised income and expense statement	-	-	-	4.4	520.8	525.2
Share options exercised by employees	25.6	-	-	-	-	25.6
Shares issued	44.8	-	-	-	-	44.8
Dividends to shareholders	-	-	-	-	(243.0)	(243.0)
<b>Balance at 31 December 2005</b>	<b>2,212.1</b>	<b>-</b>	<b>-</b>	<b>4.4</b>	<b>784.4</b>	<b>3,000.9</b>

<b>Share capital</b>	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
594,301,771 (2004: 585,520,675) ordinary shares, fully paid	1,627.6	1,557.2	1,627.6	1,557.2
88,000 (2004: 181,000) ordinary shares, paid to one cent	-	-	-	-
6,000,000 (2004: 6,000,000) redeemable convertible preference shares	584.5	584.5	584.5	584.5
	<b>2,212.1</b>	<b>2,141.7</b>	<b>2,212.1</b>	<b>2,141.7</b>

<b>Movement in fully paid ordinary shares</b>		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>Note</b>	<b>Number of shares</b>		<b>\$million</b>	<b>\$million</b>
Balance at the beginning of the year		585,520,675	584,475,013	1,557.2	1,550.8
Santos Executive Share Plan	19	93,000	50,000	0.3	0.1
Santos Employee Share Acquisition Plan	19	106,744	157,014	1.2	1.3
Shares issued on exercise of options	19	4,261,134	715,000	25.6	4.1
Dividend Reinvestment Plan	(a)	4,270,418	-	42.8	-
Santos Employee Share Purchase Plan	19	49,800	123,648	0.5	0.9
<b>Balance at the end of the year</b>		<b>594,301,771</b>	<b>585,520,675</b>	<b>1,627.6</b>	<b>1,557.2</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. Capital and Reserves (continued)**

**Share capital (continued)**

	Note	2005 Number of shares	2004	2005 \$million	2004 \$million
<b>Movement in reset convertible preference shares</b>					
Balance at the beginning of the year		-	3,500,000	-	342.3
Transfer to redeemable convertible preference shares		-	-	-	7.7
Shares redeemed	(b)	-	(3,500,000)	-	(350.0)
Balance at the end of the year		-	-	-	-
<b>Movement in redeemable convertible preference shares</b>					
Balance at the beginning of the year		6,000,000	-	584.5	-
Shares issued	(c)	-	6,000,000	-	600.0
Share issue cost		-	-	-	(7.8)
Transfer from reset convertible preference shares		-	-	-	(7.7)
Balance at the end of the year		6,000,000	6,000,000	584.5	584.5

The market price of the Company's ordinary shares on 31 December 2005 was \$12.25 (2004: \$8.48). Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the reset convertible preference shares.

**(a) Dividend reinvestment plan**

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of seven business days commencing on the business day after the Dividend Record Date. At this time, the Board has determined that no discount will apply.

**(b) 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. Capital and Reserves (continued)**

**Share capital (continued)**

**(c) 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:

- (i) on a proposal:
  - (1) to reduce the share capital of the Company;
  - (2) that affects rights attached to the redeemable convertible preference shares;
  - (3) to wind up the Company; or
  - (4) for the disposal of the whole of the property, business and undertaking of the Company;
- (ii) on a resolution to approve the terms of a buy-back agreement;
- (iii) during a period in which a dividend or part of a dividend on the redeemable convertible preference shares is in arrears; or
- (iv) 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.

**Translation Reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and exchange differences that arise on the translation of monetary items that form part of the net investment in a foreign operation.

**Hedging Reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**22. Capital and Reserves (continued)**

**Dividends**

	Dollars Per Share	Total \$million	Franked/ Unfranked	Payment Date
Dividends recognised in the current year by the Company are:				
<b>2005</b>				
Interim 2005 redeemable preference	\$2.6538	15.9	Franked	30 Sep 2005
Final 2004 redeemable preference	\$2.4497	14.7	Franked	31 Mar 2005
Interim 2005 ordinary	\$0.18	106.6	Franked	30 Sep 2005
Final 2004 ordinary	\$0.18	105.8	Franked	31 Mar 2005
		<u>243.0</u>		
<b>2004</b>				
Special 2004 redeemable preference	\$5.00	14.3	Franked	7 Oct 2004
Interim 2004 reset preference	\$3.2940	11.5	Franked	30 Sep 2004
Final 2003 reset preference	\$3.2940	11.5	Franked	31 Mar 2004
Interim 2004 ordinary	\$0.15	87.8	Franked	30 Sep 2004
Final 2003 ordinary	\$0.15	87.7	Franked	31 Mar 2004
		<u>212.8</u>		

Franked dividends paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences.

Final 2005 preference	\$2.5300	15.2	Franked	31 Mar 2006
Final 2005 ordinary	\$0.20	118.9	Franked	31 Mar 2006
		<u>134.1</u>		

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 31 December 2005 and will be recognised in subsequent financial reports.

<b>SANTOS LTD</b>	
2005	2004
\$million	\$million

**Dividend franking account**

30% franking credits available to shareholders of Santos Ltd for future distribution, after adjusting for franking credits which will arise from the payment of the current tax liability at 31 December 2005

<u>570.8</u>	<u>394.7</u>
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The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$57.5 million (2004: \$51.6 million).

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>	
	<b>2005</b>	2004
	<b>\$million</b>	\$million
<b>23. Earnings per Share</b>		
Earnings used in the calculation of basic earnings per share reconciles to the net profit after tax in the income statement as follows:		
Net profit after income tax	762.1	354.7
Less:		
Special dividend on redeemable convertible preference shares	-	(14.3)
Dividends paid on reset convertible preference shares	-	(23.0)
Earnings used in the calculation of diluted earnings per share	762.1	317.4
Less:		
Dividends paid on redeemable convertible preference shares	(30.6)	-
Earnings used in the calculation of basic earnings per share	731.5	317.4
	<b>2005</b>	2004
	Number of shares	

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:

Basic earnings per share	587,935,245	584,924,130
Partly paid shares	79,299	109,843
Executive share options	1,337,318	779,536
Share acquisition rights	524,650	-
Redeemable convertible preference shares	57,450,099	-
Diluted earnings per share	647,326,611	585,813,509

Partly paid shares outstanding issued under the Santos Executive Share Plan; options outstanding issued under the Santos Executive Share Option Plan; share acquisition rights issued to eligible executives, and redeemable 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, 4,261,134 (2004: 715,000) options and 93,000 (2004: 50,000) partly paid shares were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options and partly paid shares assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number included is 707,164 (2004: 20,101).

No options lapsed during the year (2004: 100,000). The diluted earning per share calculation includes that portion of these options assumed to be issued for nil consideration, weighted with reference to the date the options lapsed. The weighted average number included is nil (2004: 7,405).

The redeemable convertible preference shares and reset convertible preference shares on issue in 2004 were not included in the calculation of diluted earnings per share in 2004 as they were antidilutive for that period.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. Consolidated Entities**

Name	Country of incorporation	Name	Country of incorporation
<b>Santos Ltd (Parent Entity)</b>	AUST	Santos (Bawean) Pty Ltd	AUST
<b>Controlled entities<sup>1</sup>:</b>		Santos (BBF) Pty Ltd <sup>3</sup>	AUST
Alliance Petroleum Australia Pty Ltd	AUST	Santos Brantas Pty Ltd	AUST
Basin Oil Pty Ltd <sup>2</sup>	AUST	Santos (Donggala) Pty Ltd	AUST
Boston L.H.F. Pty Ltd	AUST	Santos Egypt Pty Ltd	AUST
Bridgefield Pty Ltd	AUST	Santos Hides Ltd	PNG
Bridge Oil Developments Pty Limited	AUST	Santos International Operations Pty Ltd	AUST
Canso Resources Pty Ltd	AUST	Santos (Madura Offshore) Pty Ltd	AUST
Coveyork Pty Ltd	AUST	Santos Niugini Exploration Limited	PNG
Doce Pty Ltd	AUST	Santos (Nth Bali 1) Pty Ltd	AUST
Farmout Drillers Pty Ltd	AUST	Santos (Papalang) Pty Ltd	AUST
Kipper GS Pty Ltd	AUST	Santos (Popodi) Pty Ltd	AUST
<i>Controlled entity of Kipper GS Pty Ltd</i>		Santos (SPV) Pty Ltd <sup>3</sup>	AUST
Crusader (Victoria) Pty Ltd	AUST	Santos (JPDA 91-12) Pty Ltd	AUST
Moonie Pipeline Company Pty Ltd	AUST	Santos (NGA) Pty Ltd	AUST
Reef Oil Pty Ltd	AUST	Santos (NARNL Cooper) Pty Ltd ( <i>formerly</i> <i>Novus Australia Resources NL</i> )	AUST
Santos Asia Pacific Pty Ltd	AUST	Santos (N.T.) Pty Ltd	AUST
<i>Controlled entities of Santos Asia Pacific Pty Ltd</i>		<i>Controlled entity of Santos (N.T.) Pty Ltd</i>	
Santos (Sampang) Pty Ltd	AUST	Bonaparte Gas & Oil Pty Limited	AUST
Santos (Warim) Pty Ltd	AUST	Santos Offshore Pty Ltd	AUST
Santos Australian Hydrocarbons Pty Ltd	AUST	Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
Santos (BOL) Pty Ltd	AUST	Santos Petroleum Pty Ltd	AUST
<i>Controlled entity of Santos (BOL) Pty Ltd</i>		Santos QNT Pty Ltd	AUST
Bridge Oil Exploration Pty Limited	AUST	<i>Controlled entities of Santos QNT Pty Ltd</i>	
Santos Darwin LNG Pty Ltd	AUST	Santos QNT (No. 1) Pty Ltd	AUST
Santos Direct Pty Ltd	AUST	<i>Controlled entities of Santos QNT (No. 1) Pty Ltd</i>	
Santos Facilities Pty Ltd	AUST	Santos Petroleum Management Pty Ltd	AUST
Santos Finance Ltd	AUST	Santos Petroleum Operations Pty Ltd	AUST
Santos Globe Pty Ltd	AUST	TMOC Exploration Proprietary Limited	AUST
Santos International Holdings Pty Ltd	AUST	Santos QNT (No. 2) Pty Ltd	AUST
<i>Controlled entities of Santos International</i> <i>Holdings Pty Ltd</i>		<i>Controlled entities of Santos QNT (No. 2) Pty Ltd</i>	
Barracuda Limited	PNG	Associated Petroleum Pty Ltd	AUST
Lavana Limited	PNG	Moonie Oil Pty Ltd	AUST
Novus Nominees Pty Ltd <sup>4</sup>	AUST	Petromin Pty Ltd	AUST
Santos UK (Kakap 2) Limited ( <i>formerly</i> <i>Novus UK (Kakap 2) Limited</i> )	UK	Santos (299) Pty Ltd	AUST
Peko Offshore Ltd (in liquidation)	BER	Santos Exploration Pty Ltd	AUST
Sanro Insurance Pte Ltd	SING	Santos Gnuco Pty Ltd	AUST
Santos Americas and Europe Corporation	USA	Transoil Pty Ltd	AUST
<i>Controlled entities of Santos Americas and</i> <i>Europe Corporation</i>		Santos Resources Pty Ltd	AUST
Santos USA Corp	USA	Santos (TGR) Pty Ltd ( <i>formerly Trinity Gas</i> <i>Resources Pty Ltd</i> ) <sup>2</sup>	AUST
Tipperary Corporation <sup>2</sup>	USA	Santos Timor Sea Pipeline Pty Ltd	AUST
<i>Controlled entities of Tipperary Corporation</i>		Sesap Pty Ltd	AUST
Burro Pipeline Inc <sup>2</sup>	USA	Vamgas Pty Ltd	AUST
Tipperary Qld Inc <sup>2</sup>	USA		
Tipperary Oil & Gas Corporation <sup>2</sup>	USA		
<i>Controlled entities of Tipperary Oil &amp; Gas</i> <i>Corporation</i>			
Tipperary CSG Inc <sup>2</sup>	USA		
Tipperary Oil & Gas (Australia) Pty Ltd <sup>2</sup>	AUST		
<i>Controlled entity of Tipperary Oil &amp; Gas</i> <i>(Australia) Pty Ltd</i>			
Tipperary Pastoral Company Pty Ltd <sup>2</sup>	AUST		

1. Beneficial interests in all controlled entities are 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. Refer Note 25.
3. Company incorporated during the year.
4. Company acquired as part of Novus UK (Kakap 2) Ltd acquisition in 2004.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. Consolidated Entities (continued)**

**Notes**

**Country of incorporation**

AUST -	Australia
BER -	Bermuda
MAL -	Malaysia
PNG -	Papua New Guinea
SING -	Singapore
UK -	United Kingdom
USA -	United States of America

In the financial statements of the Company, investments in controlled entities are measured at cost.

**25. Acquisitions of Subsidiaries**

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

Name of entity	Date of acquisition	Beneficial interest acquired	Purchase consideration	Contribution to consolidated profit since acquisition
		%	\$million	\$million
Basin Oil Pty Ltd	17 February 2005	100	89.6	8.5
Santos (TGR) Pty Ltd	31 August 2005	100	18.5	3.6
Tipperary Corporation	1 July 2005	100	450.9	(7.0)

Basin Oil Pty Ltd holds interests in the Patricia Baleen gas field and associated processing facilities (40%); Sole Gas field (40%); Golden Beach gas field (33%), VIC/P55 exploration block (55%); and the South Australian Cooper Basin (2.1%). This acquisition resulted in Santos holding a 100% interest in the Golden Beach gas field and, as part of its strategy to sell non-core assets, in July 2005 Santos entered into an agreement with Cape Energy Group to sell its 100% working interest in permit VIC/RL1 which contained the Golden Beach gas field.

Santos (TGR) Pty Ltd (formerly Trinity Gas Resources Pty Ltd) holds a 10% interest in the Patricia Baleen gas field and production facilities and the Sole gas field.

The acquisition of Tipperary Corporation provided Santos with an approximately 72% revenue interest in the producing Fairview coal seam methane field, and approximately 4,000 km<sup>2</sup> of additional exploration acreage in the Bowen Basin. This acquisition has been provisionally accounted because at balance date the fair value of the net assets acquired has not been finally determined. The amount of deferred tax liabilities to be recognised requires each of the assets and liabilities acquired to have their relevant tax base for income tax purposes assigned. This is subject to a valuation process, which at balance date is incomplete.

If the acquisitions had occurred on 1 January 2005, consolidated entity revenue would have been approximately \$2,535.7 million and net profit would have decreased to \$757.8 million.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**25. Acquisitions of Subsidiaries (continued)**

The acquisitions had the following effect on the consolidated entity's assets and liabilities.

	<b>Carrying amounts \$million</b>	<b>Fair value adjustments \$million</b>	<b>Recognised values \$million</b>
Cash and cash equivalents	19.6	-	19.6
Trade and other receivables	7.8	-	7.8
Inventories	2.2	1.9	4.1
Exploration and evaluation assets	29.6	-	29.6
Oil and gas assets	706.7	(14.2)	692.5
Deferred tax assets	28.6	0.2	28.8
Trade and other payables	(41.8)	-	(41.8)
Interest-bearing loans and borrowings	(154.7)	-	(154.7)
Provisions	(26.9)	-	(26.9)
Net identifiable assets and liabilities	571.1	(12.1)	559.0
Cash paid			552.5
Acquisition costs			6.5
Total consideration			559.0
Cash acquired			(19.6)
Payment made relating to 2004 acquisition			16.7
Net cash outflow			556.1



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26. 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	70
Carnarvon Basin	Oil and gas exploration and production	34
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	67
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	58
Surat Basin	Oil and gas exploration and production	50
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	9
West Papua	Oil and gas exploration	20
Offshore Northern Australia		
Bonaparte Basin	Oil and gas exploration	95
Houtman Basin	Oil and gas exploration	33
Timor Gap	Oil and gas exploration and production	17
Timor Sea	Oil and gas exploration and production	25
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	34
Sorell Basin	Oil and gas exploration	58
USA		
Gulf Coast	Oil and gas exploration and production	31
Rocky Mountains	Oil and gas exploration and production	32

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>26. Interests in Joint Ventures (continued)</b>				
(b)	The consolidated entity's interest in assets employed in unincorporated joint ventures are included in the balance sheet under the following asset categories:			
	<b>Current assets</b>			
	113.2	87.2	33.0	32.2
	34.9	32.1	12.0	8.5
	22.2	18.6	11.8	13.5
	<b>170.3</b>	<b>137.9</b>	<b>56.8</b>	<b>54.2</b>
	<b>Non-current assets</b>			
	130.9	78.6	7.2	6.3
	4,105.1	3,423.6	1,727.4	1,138.2
	1.5	1.2	-	-
	<b>4,237.5</b>	<b>3,503.4</b>	<b>1,734.6</b>	<b>1,144.5</b>
	<b>4,407.8</b>	<b>3,641.3</b>	<b>1,791.4</b>	<b>1,198.7</b>
(c)	The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures are:			
	214.3	266.9	90.8	102.1
	169.5	172.5	48.8	71.5
	15.2	13.4	4.0	6.1

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>27. Reconciliation of Cash Flows from Operating Activities</b>				
<b>Profit after income tax</b>	762.1	354.7	518.7	655.4
Add/(deduct) non-cash items:				
Depreciation and depletion	561.0	474.9	188.0	201.3
Net impairment (reversal)/loss of investment in controlled entities	-	-	(338.4)	9.5
Exploration and evaluation expensed	204.2	117.4	31.5	46.0
Net impairment reversal of oil and gas assets	(131.3)	(7.6)	(50.5)	(34.4)
Foreign exchange debt hedging gains/(losses)	(1.8)	-	0.5	-
Share-based payments expense	2.4	0.1	2.4	0.1
Increase/(decrease) in income taxes payable	173.5	(18.1)	(42.1)	12.4
Net increase in deferred tax asset and deferred tax liability	41.5	26.2	30.7	29.6
Tax benefit upon entering into Australian tax consolidation regime	-	(20.0)	-	(20.0)
Borrowing costs capitalised	(28.0)	(32.1)	-	-
Unwind of the effect of discounting on provisions	14.5	14.0	5.2	3.2
Foreign currency fluctuations	(81.9)	(38.4)	5.1	(2.3)
Net gain on sale of non-current assets	(23.1)	(61.2)	(5.1)	(336.8)
Net gain on sale of controlled entities	(16.3)	-	(15.1)	-
<b>Net cash provided by operating activities before changes in assets or liabilities</b>	<b>1,476.8</b>	<b>809.9</b>	<b>330.9</b>	<b>564.0</b>
Add/(deduct) change in operating assets or liabilities net of acquisitions of businesses:				
Increase in receivables	(151.2)	(157.9)	(107.7)	(117.4)
Increase in inventories	(17.6)	(1.7)	(8.5)	(5.6)
Decrease/(increase) in other assets	10.5	(6.7)	5.2	0.7
Increase/(decrease) in payables	135.1	(27.5)	51.2	(23.3)
Increase/(decrease) in provisions	4.3	(11.1)	(0.7)	(25.7)
<b>Net cash provided by operating activities</b>	<b>1,457.9</b>	<b>605.0</b>	<b>270.4</b>	<b>392.7</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures**

**(a) Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity and the Company, directly or indirectly, including the Directors of the Company.

The following were key management personnel of the consolidated entity and the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

**Directors**

Barnett, Peter Charles	Non-executive Director
Dean, Kenneth Alfred	Non-executive Director (appointed 23 February 2005)
Ellice-Flint, John Charles	Managing Director
Gerlach, Stephen	Chairman and Non-executive Director
Harding, Richard Michael	Non-executive Director
McGregor, Graeme William	Non-executive Director (resigned 30 September 2005)
O'Leary, Michael Anthony	Non-executive Director
Recny, Christopher John	Non-executive Director (appointed 23 February 2005)
Sloan, Judith	Non-executive Director

**Executives**

<b>Name</b>	<b>Position</b>
Eames, Martyn Edward James	Vice President – Corporate and People
Gouadain, Jacques Elie	Vice President – Geoscience and New Ventures
Moore, Paul Derek	Vice President – Development Projects and Technical Services (resigned 21 November 2005)
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 Executives are employed by Santos Ltd.

**(b) Key management personnel compensation**

The Remuneration Committee of the Board is responsible for reviewing the compensation 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**

In setting fee levels, the Remuneration Committee, which makes recommendations to the Board, takes into account:

- independent professional advice;
- fees paid to Non-executive Directors by comparable companies;
- the general time commitment required from Non-executive Directors and the risks associated with discharging the duties attaching to the role of director;
- the level of personal responsibility undertaken by a Director; and
- the general commercial expertise, experiences and qualifications of the Directors.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

**Non-executive Directors (continued)**

Fee levels are set 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. 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.

Directors appointed after 1 January 2004 are not entitled to receive a benefit on retirement (other than statutory entitlements) as the Company has ceased this practice.

Non-executive Directors appointed prior to 1 January 2004 are contractually entitled to receive a retirement benefit but the amount of the benefit was "frozen" as at 30 June 2004. The benefit is 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. The Board has determined that these Non-executive Directors may take all or part of their fixed entitlement in the form of a Company contribution into their own nominated superannuation funds.

**Executive Director**

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

The structure of the current year's remuneration package for the Managing Director, Mr J C Ellice-Flint, was agreed at the time of entering into his executive service agreement in December 2000 in order to recruit him and to, in part, compensate him for some of the benefits he gave up in leaving his previous employment.

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 compensation comprises a base salary reviewed annually and an annual bonus potential of between 0% and 150% of his fixed remuneration calculated on a formula that includes components to measure the growth of profitability, exploitable reserves and share price.

On 13 December 2000, Mr Ellice-Flint was granted 1,000,000 Restricted Shares. These shares were granted to him at no cost at the time of his appointment as Chief Executive Officer as part of the total package required to attract Mr Ellice-Flint from the senior position he had held previously. No performance conditions were attached to the shares and legal title in them passed to Mr Ellice-Flint upon his completion of five years of service with Santos on 12 December 2005. Further details regarding the Restricted Shares are set out in note 19 to the financial statements.

In addition, as Mr Ellice-Flint gave up his right to a sizeable potential US pension entitlement to join the Company, the Company has been contributing an actuarially determined amount into the Company's superannuation fund to provide for Mr Ellice-Flint's superannuation benefits. While he was entitled to a much lower accrued benefit until 7 February 2006 (his 55<sup>th</sup> birthday), under the arrangement his benefit was to change to a defined multiple of fixed remuneration after that date to recognise his five years service and to provide a "make up" superannuation benefit. This arrangement however is currently being reviewed in conjunction with a review of his total remunerative arrangements.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

**Executive Director (continued)**

Mr Ellice-Flint was also granted options, each to acquire a fully paid ordinary share in the Company. The exercise price of the options was set at the time of his appointment in 2000 at \$5.83, and vesting of the third and final tranche of 1,000,000 options was subject to the satisfaction of performance conditions, which were tested during 2005. These options were provided essentially on the same terms as those issued to other senior executives 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 compensation 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 compensation policy are: to realistically reflect the responsibilities of executives and other employees; to be industry competitive and reasonable; that a significant portion of compensation 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.

***Compensation Structure***

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

- a fixed component called Total Fixed Remuneration ("TFR"); and

two variable components, called:

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

TFR 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.

The STI is designed to put a proportion of each executive's annual remuneration at risk against meeting targets linked to the Company's annual business objectives, thereby driving both individual and Company performance.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

**Senior Executives**

***Compensation Structure (continued)***

For the specified executives, 70% of the STI is based on Company performance, and the remaining 30% is based on individual performance. For other executives, 50% of the STI is based on Company performance, and the other 50% is based on individual performance.

Company performance is assessed on a range of metrics covering reserves growth, reserve replacement cost, production, margin, new growth options, shareholder value creation, people, environment, health, safety and continuous improvement. Individual performance is assessed against targets set within each executive's area of responsibility.

Each metric is assessed against target and assigned a score on a five point scale. The average of the scores of each metric is used to quantify a bonus pool expressed as a percentage of the sum of maximum bonuses of all eligible employees. The bonus pool may be adjusted after taking into consideration other factors not reflected in the metrics but deemed relative to Company performance.

LTI in relation to executive compensation 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. For 2005, these were:

- BG Group PLC
- Burlington Resources Inc
- Devon Energy Corporation
- Canadian Natural Resources Limited
- Anadarko Petroleum Corporation
- Apache Corporation
- Unocal Corporation

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

**Senior Executives**

***Compensation Structure (continued)***

- Woodside Petroleum Limited
- EOG Resources Inc
- Talisman Energy Inc
- XTO Energy Inc
- Nexan Inc
- Chesapeake Energy Corporation
- Murphy Oil Corporation
- Noble Energy Inc
- Newfield Exploration Co
- Oil Search Limited
- Hardman Resources Limited
- Australian Worldwide Exploration Limited

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.

In relation to the current financial year, awards may be taken in the form of rights over shares pursuant to SESPP or, at the election of an executive, options pursuant to SESOP, details of which are described in note 19(c)(ii) to the financial statements. In the previous period, awards could only be taken in the form of 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 Annual General Meeting.

The 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 65 weeks of total fixed remuneration, less notional value of superannuation for that period.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

2005 Name	Short-term employee benefits				Post employment		Share-based payments <sup>5,6,7</sup>		Other	Termination	Total
	Fees/ Salary <sup>9</sup> \$	Committee fees \$	STI \$	Other <sup>4</sup> \$	Super- annuation <sup>1</sup> \$	Retirement \$	SARs \$	Options \$	long-term benefits \$	\$	
<b>Directors</b>											
Barnett, Peter Charles	110,000	24,000	-	-	11,862	-	-	-	-	-	145,862
Dean, Kenneth Alfred <sup>2</sup>	93,650	8,153	-	-	10,166	-	-	-	-	-	111,969
Ellice-Flint, John Charles	1,300,000	-	1,657,500	5,915	270,878	-	-	-	-	-	3,234,293
Gerlach, Stephen	330,000	-	-	-	11,862	-	-	-	-	-	341,862
Harding, Richard Michael	110,000	12,000	-	-	10,980	-	-	-	-	-	132,980
McGregor, Graeme William <sup>3</sup>	82,500	18,000	-	-	8,807	-	-	-	-	-	109,307
O'Leary, Michael Anthony	110,000	10,000	-	-	10,800	-	-	-	-	-	130,800
Recny, Christopher John <sup>2</sup>	93,650	-	-	-	8,428	-	-	-	-	-	102,078
Sloan, Judith	110,000	24,000	-	-	11,822	-	-	-	-	-	145,822
<b>Executives</b>											
Eames, Martyn Edward James	375,565	-	176,400	5,915	39,434	-	90,748	57,500	-	-	745,562
Gouadain, Jacques Elie	435,387	-	190,000	5,915	34,585	-	247,800	-	-	-	913,687
Moore, Paul Derek <sup>8</sup>	316,009	-	-	5,283	36,748	-	219,303	-	-	41,547	618,890
Wasow, Peter Christopher	500,312	-	330,100	5,915	14,959	-	292,404	-	-	-	1,143,690
Wilkinson, Richard John	328,906	-	156,500	5,915	27,018	-	219,303	-	-	-	737,642
Wood, Bruce James	335,370	-	138,000	5,915	25,868	-	-	145,992	-	-	651,145
Young, Jonathon Terence	549,613	-	424,900	5,915	11,585	-	322,140	-	-	-	1,314,153
<b>Total</b>	<b>5,180,962</b>	<b>96,153</b>	<b>3,073,400</b>	<b>46,688</b>	<b>545,802</b>	<b>-</b>	<b>1,391,698</b>	<b>203,492</b>	<b>-</b>	<b>41,547</b>	<b>10,579,742</b>

<sup>1</sup> Superannuation contributions made on behalf of Non-executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee Charge legislation.

<sup>2</sup> Mr K Dean and Mr C Recny joined the Board on 23 February 2005.

<sup>3</sup> Mr G McGregor retired from the Board on 30 September 2005.

<sup>4</sup> Includes the cost of car parking provided in the Company's head office in Adelaide.

<sup>5</sup> In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of SARs and options as at the date of their grant has been determined in accordance with AASB 124 "Related Party Disclosures" applying the Monte Carlo valuation method. Details of the assumptions underlying the valuation are set out in note 19 to the financial statements.

<sup>6</sup> The Managing Director was granted options at the time his employment with the Company commenced. In respect of senior executives, a range of 20% - 23% of each executive's remuneration for the financial year consists of grants of SARs or options.

<sup>7</sup> The total number of SARs and options granted in 2005 represent three separate grants at the same time. While one of the three was the normal grant for 2005, the other two were necessary as catch-ups for the grants that would ordinarily have taken place in 2003 and 2004. The reason these grants did not take place at the appropriate time was due to the suspension of the LTI program to enable a thorough review of its design, which was completed in late 2004.

<sup>8</sup> Mr P Moore ceased employment with the Company on 21 November 2005 and his 53,100 SARs, at the value of \$219,303, lapsed.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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<sup>9</sup> Each of the Non-executive Directors receives fees and no salary.

**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

2004 Name	Short-term employee benefits				Post employment		Share-based payments <sup>6,7</sup>		Other long-term benefits	Termination	Total
	Fees/ Salary <sup>9</sup>	Committee fees	STI	Other <sup>5</sup>	Super-annuation <sup>1</sup>	Retirement <sup>2</sup>	SARs	Options			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>											
Barnett, Peter Charles	95,000	15,500	-	-	9,945	15,569	-	-	-	-	136,014
Conroy, Francis John <sup>4</sup>	90,041	14,689	-	-	9,425	15,927	-	-	-	-	130,082
Ellice-Flint, John Charles	1,050,000	-	1,300,000	5,399	274,569	-	-	274,326	-	-	2,904,294
Gerlach, Stephen	285,000	-	-	31,167 <sup>3</sup>	11,293	-	-	-	-	-	327,460
Harding, Richard Michael	91,667	1,000	-	-	5,040	-	-	-	-	-	97,707
McGregor, Graeme William	95,000	20,500	-	-	10,157	15,716	-	-	-	-	141,373
O'Leary, Michael Anthony	95,000	9,000	-	-	9,360	16,842	-	-	-	-	130,202
Sloan, Judith	95,000	19,750	-	-	10,090	15,403	-	-	-	-	140,243
<b>Executives</b>											
Eames, Martyn Edward James <sup>8</sup>	50,715	-	-	444	3,286	-	-	-	-	-	54,445
Gouadain, Jacques Elie	371,327	-	176,600	30,912	29,132	-	58,939	18,731	-	-	685,641
Moore, Paul Derek	311,734	-	140,600	27,399	32,657	-	58,819	15,674	-	-	586,883
Wasow, Peter Christopher	444,389	-	307,200	5,399	49,361	-	79,052	20,000	-	-	905,401
Wilkinson, Richard John	311,875	-	169,800	5,399	27,428	-	62,341	-	-	-	576,843
Wood, Bruce James	312,596	-	128,200	5,399	23,581	-	18,900	40,583	-	-	529,259
Young, Jonathon Terence	486,306	-	316,500	5,399	50,263	-	83,443	30,833	-	-	972,744
<b>Total</b>	<b>4,185,650</b>	<b>80,439</b>	<b>2,538,900</b>	<b>116,917</b>	<b>555,587</b>	<b>79,457</b>	<b>361,494</b>	<b>400,147</b>	<b>-</b>	<b>-</b>	<b>8,318,591</b>

<sup>1</sup> Superannuation contributions made on behalf of Non-executive Directors to satisfy the Company's obligations under applicable Superannuation Guarantee Charge legislation.

<sup>2</sup> This shows provisions made in accordance with arrangements previously approved by shareholders, which amounts had been fully provided for.

<sup>3</sup> Payment related to a leasing arrangement for a motor vehicle, which arrangement was terminated on 30 June 2004.

<sup>4</sup> Upon his retirement as a Director on 14 December 2004, Mr F Conroy became entitled to a retirement payment of \$161,447 in accordance with arrangements previously approved by shareholders. Only \$15,927 of this amount had been disclosed as part of Mr Conroy's remuneration for the 2004 reporting period, as the balance of the payment had been provided for in previous reporting periods.

<sup>5</sup> Includes the cost of car parking provided in the Company's head office in Adelaide (excluding Non-executive Directors).

<sup>6</sup> In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of shares and options as at the date of their grant has been determined in accordance with AASB 124 "Related Party Disclosures" applying the modified Black-Scholes or Binomial option pricing model. Details of the assumptions underlying the valuation are set out in note 19 to the financial statements.

<sup>7</sup> The Managing Director was granted options at the time his employment with the Company commenced. In respect of senior executives, 20% – 23% of each executive's remuneration for the financial year consists of grants of shares or options.

<sup>8</sup> Mr M Eames was appointed on 1 December 2004.

<sup>9</sup> Each of the Non-executive Directors receives fees and no salary.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures (continued)**

**(b) Key management personnel compensation (continued)**

The relative proportion of the Managing Director and senior executive total remuneration packages that is performance-based is set out in the table below:

	<b>% of Total Remuneration (annualised)</b>		
	<b>Fixed Remuneration TFR</b>	<b>Performance-based Remuneration STI</b>	<b>LTI</b>
Managing Director <sup>1</sup>	44%	56%	0% <sup>2</sup>
Executive VP Operations	52%	27%	21%
Chief Financial Officer	52%	27%	21%
Other specified Executives	57%	20%	23%
Other senior executives	66%	14%	20%

<sup>1</sup> On appointment the Managing Director was granted 1,000,000 Restricted Shares subject to completion of a service condition. The Managing Director is also entitled to an annual bonus depending upon performance measured in terms of growth of profitability, exploitable reserves and share price.

<sup>2</sup> At the time of the Managing Director's appointment in 2000 he was granted 3,000,000 options in three tranches each of 1,000,000 options at an exercise price of \$5.83 per option. As the grant date preceded 7 November 2002 no value is attributed to them for 2005 in accordance with AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards".

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures (continued)**

**(c) Equity Instruments**

**Rights and Options holdings**

The movement during the reporting period in the number of rights and options over ordinary shares of the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Name	Balance at beginning of the year	Granted <sup>2</sup>	Exercised <sup>3,4</sup>	Date Exercised	Market Price at Date of Exercise <sup>3</sup>	Other Changes <sup>5</sup>	Balance at end of the year	Vested during the year	Vested at end of the year	Vested and exercisable at end of the year	Vested but not exercisable at end of the year
<b>Directors</b>											
Ellice-Flint, John Charles <sup>1</sup>	3,000,000	-	(2,000,000) (1,000,000)	2 Mar 2005 2 Sep 2005	8.66 11.52	-	-	1,000,000	-	-	-
<b>Executives</b>											
Eames, Martyn Edward James	-	69,600	-			-	69,600	-	-	-	-
Gouadain, Jacques Elie	200,000	60,000	-			-	260,000	20,000	220,000	220,000	-
Moore, Paul Derek	125,000	53,100	(125,000)	19 Aug 2005	11.00	(53,100)	-	100,000	-	-	-
Wasow, Peter Christopher	150,000	70,800	(150,000)	30 Aug 2005	11.52	-	70,800	173,600	23,600	23,600	-
Wilkinson, Richard John	-	53,100	-			-	53,100	17,700	17,700	17,700	-
Wood, Bruce James	95,085	165,900	(50,000)	1 Sep 2005	11.51	-	210,985	50,000	45,085	45,085	-
Young, Jonathon Terence	250,000	78,000	(250,000)	5 Sep 2005	11.15	-	78,000	276,000	26,000	26,000	-

<sup>1</sup> 3,000,000 options were granted to Mr J Ellice-Flint on his appointment. The performance conditions applicable to the options were based on achieving a 10% TSR growth over the performance period applicable to each tranche of options. Tranches 1 and 2 of the options satisfied the performance conditions in previous financial years and were exercised on 2 March 2005. During the current reporting period, the performance condition applying to Tranche 3 was satisfied and the options were exercised on 2 September 2005. As all options have been exercised there are no options remaining.

<sup>2</sup> The aggregate value of SARs and options granted during the year (as at the date of their grant) is \$1,595,190. Further details of the respective valuations of the SARs and options are set out in note 19.

<sup>3</sup> The value of an option on the date of exercise is the market price of a share in the Company on that date. Accordingly, the aggregate value of options exercised during the financial year was \$35,306,000.

<sup>4</sup> No SARs were exercised during 2005.

<sup>5</sup> During the year, the right to 53,100 SARs held by Mr P Moore were forfeited on his resignation on 21 November 2005. No options were forfeited during the reporting period. The value of a SAR or option on the day it lapses or is forfeited is nil.

Further details regarding SARs and options granted to executives are in note 19.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**28. Key Management Personnel Disclosures (continued)**

**(c) Equity Instruments (continued)**

**Share holdings**

The movement during the reporting period in the number of shares of the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Redeemed	Other changes	Balance at end of the year	Balance held nominally at end of the year
<b>Directors</b>							
Ordinary Shares – Fully Paid							
Barnett, Peter Charles	12,394	-	-	-	-	12,394	-
Dean, Kenneth Alfred	-	-	-	-	3,000	3,000	-
Ellice-Flint, John Charles	1,037,210	-	3,000,000	-	5,033	4,042,243	-
Gerlach, Stephen	42,305	-	-	-	1,551	43,856	-
Harding, Richard Michael	-	-	-	-	-	-	-
McGregor, Graeme William *	10,000	-	-	-	-	10,000	-
O'Leary, Michael Anthony	4,725	-	-	-	173	4,898	-
Recny, Christopher John	-	-	-	-	-	-	-
Sloan, Judith	5,000	-	-	-	-	5,000	-
Redeemable Convertible Preference Shares							
Ellice-Flint, John Charles	225	-	-	-	-	225	-
McGregor, Graeme William *	1,200	-	-	-	-	1,200	-
Sloan, Judith	195	-	-	-	-	195	-

\* Mr G McGregor resigned as Director on 30 September 2005.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. Key Management Personnel Disclosures (continued)**

**(c) Equity Instruments (continued)**

**Share holdings (continued)**

Name	Balance at beginning of the year	Granted as compensation	Received on exercise of options	Redeemed	Other changes	Balance at end of the year	Balance held nominally at end of the year
<b>Executives</b>							
Ordinary Shares – Fully Paid							
Eames, Martyn Edward James	-	-	-	-	-	-	-
Gouadain, Jacques Elie	12,216	-	-	-	-	12,216	-
Moore, Paul Derek *	12,025	-	125,000	-	(137,025)	-	-
Wasow, Peter Christopher	16,134	-	150,000	-	(150,000)	16,134	-
Wilkinson, Richard John	12,591	-	-	-	-	12,591	-
Wood, Bruce James	6,439	-	50,000	-	851	57,290	-
Young, Jonathon Terence	17,183	-	250,000	-	-	267,183	-

\* Mr P Moore resigned on 21 November 2005.

**(d) Loans**

There have been no loans made, guaranteed or secured, directly or indirectly, by the consolidated entity or any of its subsidiaries at any time throughout the year with any key management person, including their related parties.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**29. Related Parties**

**Identity of 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 5 as to interest received from/paid to controlled entities;
- Note 8 as to tax related balances and other amounts owing by controlled entities;
- Notes 17 and 18 as to amounts owing to controlled entities;
- Note 18 as to guarantees by Santos Ltd of the financing facilities of controlled entities;
- Note 20 as to Non-executive Directors' retirement benefits;
- Notes 15 and 24 as to investments in controlled entities;
- Note 26 as to interests in joint ventures; and
- Note 28 as to disclosures relating to key management personnel.

**Other related party transactions**

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 consolidated entity. The amount paid pursuant to this agreement during the financial year was \$85,000 (2004: \$55,000). This transaction occurred on terms no more favourable than would have been adopted if dealing at arm's length, does not have the potential to adversely affect decisions about the allocation of scarce resources and is trivial in nature.

<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

**30. Remuneration of Auditors**

Amounts received or due and receivable by the auditors of Santos Ltd for:

External audit services	1,091	715	360	443
Other services:				
Taxation	-	147	-	-
Due diligence	-	3	-	3
Other	12	9	6	6
	<b>1,103</b>	<b>874</b>	<b>366</b>	<b>452</b>

Amounts received or due and receivable by other auditors:

External audit services	<b>77</b>	<b>-</b>		
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The auditors ceased providing taxation services from 31 December 2004.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**31. 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.

**Geographic Segments**

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

	<b>AUSTRALIA</b>		<b>INTERNATIONAL</b>		<b>CONSOLIDATED</b>	
	<b>2005</b>	2004	<b>2005</b>	2004	<b>2005</b>	2004
<i><b>Primary Reporting</b></i>	<b>\$million</b>	\$million	<b>\$million</b>	\$million	<b>\$million</b>	\$million
<b>Geographic segments</b>						
<b>Revenue</b>						
Total segment revenue	2,303.5	1,400.5	172.3	114.7	2,475.8	1,515.2
Other unallocated revenue					0.1	-
<b>Total revenue</b>					<u>2,475.9</u>	<u>1,515.2</u>
<b>Results</b>						
Earnings before interest, tax and significant items	1,184.5	526.4	83.7	14.8	1,268.2	541.2
Significant items:						
Insurance recovery	33.9	116.6	-	-	33.9	116.6
Costs associated with Moomba liquids recovery plant fire	-	(17.5)	-	-	-	(17.5)
Profit on sale of oil and gas assets	34.5	54.3	0.2	6.8	34.7	61.1
Exploration and evaluation expense	(66.7)	(61.2)	(137.5)	(56.2)	(204.2)	(117.4)
Net impairment reversal of oil and gas assets	130.6	28.8	0.7	(21.2)	131.3	7.6
Organisation restructure costs	(5.2)	(21.6)	-	-	(5.2)	(21.6)
Accelerated depreciation due to East Spar shut-in	(18.5)	-	-	-	(18.5)	-
	<u>1,293.1</u>	<u>625.8</u>	<u>(52.9)</u>	<u>(55.8)</u>	<u>1,240.2</u>	<u>570.0</u>
Unallocated corporate expenses					(35.4)	(3.6)
<b>Earnings before interest and tax</b>					1,204.8	566.4
Unallocated net financing costs					(71.3)	(47.6)
Profit before income tax expense					1,133.5	518.8
Income tax expense					(371.4)	(164.1)
<b>Net profit after income tax attributable to the shareholders of Santos Ltd</b>					<u>762.1</u>	<u>354.7</u>



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**31. Segment Information (continued)**

	AUSTRALIA		INTERNATIONAL		CONSOLIDATED	
	2005	2004	2005	2004	2005	2004
	\$million	\$million	\$million	\$million	\$million	\$million
<b>Primary Reporting</b>						
<b>Geographic segments (continued)</b>						
<b>Non-cash expenses</b>						
Depreciation and depletion	493.2	388.1	51.9	72.4	545.1	460.5
Unallocated corporate depreciation and depletion					15.9	14.4
Total depreciation and depletion					561.0	474.9
Exploration and evaluation expensed	66.7	61.2	137.5	56.2	204.2	117.4
Net impairment reversal of oil and gas assets	(130.6)	(28.8)	(0.7)	21.2	(131.3)	(7.6)
<b>Total non-cash expenses</b>					<b>633.9</b>	<b>584.7</b>
<b>Acquisition of non-current assets</b>						
Controlled entities	519.4	92.2	20.0	35.1	539.4	127.3
Oil and gas assets, property, plant and equipment	701.1	773.2	250.6	146.4	951.7	919.6
Unallocated corporate acquisition of oil and gas assets, property, plant and equipment					23.6	10.4
<b>Total acquisition of non-current assets</b>					<b>1,514.7</b>	<b>1,057.3</b>
<b>Assets</b>						
Segment assets	5,243.3	4,193.1	521.0	454.0	5,764.3	4,647.1
Unallocated corporate assets					427.0	189.5
<b>Consolidated total assets</b>					<b>6,191.3</b>	<b>4,836.6</b>
<b>Liabilities</b>						
Segment liabilities	924.7	952.4	143.1	158.9	1,067.8	1,111.3
Unallocated corporate liabilities					2,159.5	1,367.5
<b>Consolidated total liabilities</b>					<b>3,227.3</b>	<b>2,478.8</b>

**Secondary Reporting**

**Business Segments**

The consolidated entity 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.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>
<b>32. Commitments for Expenditure</b>				
The consolidated entity has the following commitments for expenditure:				
<b>(a) Capital commitments</b>				
Capital expenditure contracted for at balance date for which no amounts have been provided in the financial statements:				
Not later than one year	78.8	253.5	37.6	93.9
Later than one year but not later than five years	135.5	13.4	53.2	8.2
Later than five years	-	-	-	-
	214.3	266.9	90.8	102.1
Santos Ltd has guaranteed the capital commitments of certain controlled entities (refer note 33 for further details).				
<b>(b) Minimum exploration commitments</b>				
Minimum exploration commitments for which no amounts have been provided in the financial statement or capital commitments:				
Not later than one year	63.8	42.1	6.8	10.3
Later than one year but not later than five years	105.2	118.8	42.0	61.2
Later than five years	0.5	11.6	-	-
	169.5	172.5	48.8	71.5
The consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment. The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.				
<b>(c) Lease commitments</b>				
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	38.9	54.7	32.9	8.4
Later than one year but not later than five years	105.9	102.9	103.7	21.1
Later than five years	42.0	0.1	41.8	-
	186.8	157.7	178.4	29.5

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**32. Commitments for Expenditure (continued)**

The consolidated entity leases Floating Production, Storage & Offtake ("FPSO") facilities at four of its producing fields and leases building office space under operating leases. The FPSO leases typically run for a period of five to seven years. Building office space leases are for 10 years. Both have an option to renew the lease after that date. Lease payments generally increase every year based on various indices and factors. None of the leases include contingent rentals.

During the year ended 31 December 2005 \$53.2 million (2004: \$38.9 million) was recognised as an expense in the income statement in respect of operating leases.

<b>CONSOLIDATED</b>		<b>SANTOS LTD</b>	
<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>

**33. Contingent Liabilities**

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Santos Ltd and its controlled entities have the following contingent liabilities arising in respect of:

Performance guarantees	22.5	9.8	12.4	6.3
Litigation and proceedings	8.2	8.1	3.5	2.3
	30.7	17.9	15.9	8.6

Legal advice in relation to the litigation and proceedings referred to above indicates that on the basis of available information, any liability in respect of these claims is unlikely to exceed \$2.8 million on a consolidated basis.

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

Guarantees provided by Santos Ltd for borrowings in respect of controlled entities are disclosed in note 18.

Santos Ltd has provided parent company guarantees in respect of:

- (a) the funding and performance obligations of a number of subsidiary companies, relating to:
  - the supply, operation and maintenance of the Mutineer-Exeter Floating Production Storage and Offloading Facility;
  - a Patricia Baleen equipment master rental agreement;
- (b) the payment of certain financial obligations of certain subsidiary companies in relation to farmout agreements and exploration concessions; and
- (c) a subsidiary company's obligations to meet distribution charges for gas retail customers.

The total expenditure commitment under these transactions and which are the subject of a parent company guarantee is \$256.2 million.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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### **34. Financial Instruments**

*Comparative information has been prepared under previous GAAP in accordance with the transition rules in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards".*

Exposure to foreign currency, interest rate, credit, and commodity price risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices.

#### **(a) Foreign currency risk**

The consolidated entity is exposed to foreign currency 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 currency risk, the consolidated entity has from time to time entered into forward foreign exchange, foreign currency swap and foreign currency option contracts.

US dollar denominated borrowings are either swapped into Australian dollar exposure (2005: \$nil; 2004: US\$321.4 million) or designated as a hedge of US dollar denominated investment in foreign operations (2005: US\$782.6 million; 2004: US\$313.0 million) or as a hedge of future US denominated sales revenues (2005: \$nil; 2004: US\$146.4 million). As a result, there were no net foreign currency gains or losses arising from translation of US denominated dollar borrowings recognised in the income statements in 2005. Accordingly, \$nil unrealised foreign currency gains were deferred as at 31 December 2005 (2004: gains of \$37.4 million).

#### **Recognised assets and liabilities**

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as an expense. The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies and recognised in fair value derivatives at 31 December 2005 was \$nil (2004: \$11.2 million).

#### **(b) Interest rate risk**

##### **Hedging**

The consolidated entity adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a floating rate basis. Interest rate swaps, denominated in Australian dollars and US dollars, have been entered into as fair value hedges of medium-term notes and long-term notes respectively. The swaps have maturities ranging from one to eighteen years, following the maturity of the related notes (see the following table) and have fixed swap rates ranging from 5.85% to 8.44%. At 31 December 2005, the consolidated entity had interest rate swaps with a notional contract amount of \$654.5 million (2004: \$522.8 million).

The consolidated entity classifies interest rate swaps as fair value hedges and states them at fair value. The fair value of swaps at 1 January 2005 was adjusted against the opening balance of retained earnings at that date.

The net fair value of swaps at 31 December 2005 was \$27.1 million, comprising assets of \$27.2 million and liabilities of \$0.1 million. These amounts were recognised as fair value derivatives.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**34. Financial Instruments (continued)**

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

**Effective interest rates and repricing analysis**

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

<b>Consolidated</b>		Effective interest rate	Total \$million	6 months or less \$million	6 to 12 months \$million	1-2 years \$million	2-5 years \$million	More than 5 years \$million
	Note							
<b>2005</b>								
Cash and cash equivalents	7	5.02%	229.2	229.2	-	-	-	-
Bank loans	18	5.02%	(261.5)	(261.5)	-	-	-	-
Commercial paper	18	5.83%	(265.5)	(265.5)	-	-	-	-
Medium-term notes	18	6.22%*	(468.5)	-	-	-	(20.0)	(448.5)
Long-term notes	18	6.00%*	(832.6)	-	-	(152.1)	(200.5)	(480.0)
Interest rate swaps **			27.1	(627.4)	-	83.3	104.0	467.2
			<u>(1,571.8)</u>	<u>(925.2)</u>	<u>-</u>	<u>(68.8)</u>	<u>(116.5)</u>	<u>(461.3)</u>
<b>2004</b>								
Cash and cash equivalents	7	4.55%	126.1	126.1	-	-	-	-
Bank loans	18	2.70%	(227.9)	(227.9)	-	-	-	-
Commercial paper	18	5.61%	(209.0)	(209.0)	-	-	-	-
Medium-term notes	18	6.25%*	(20.0)	-	-	-	(20.0)	-
Long-term notes	18	5.61%*	(801.5)	-	(43.7)	-	(173.4)	(584.4)
Interest rate swaps **			-	(522.8)	-	-	98.3	424.5
			<u>(1,132.3)</u>	<u>(833.6)</u>	<u>(43.7)</u>	<u>-</u>	<u>(95.1)</u>	<u>(159.9)</u>

\* After incorporating the effect of interest rate swaps

\*\* Notional principal amounts.

**(c) Commodity price risk exposure**

The consolidated entity is exposed to commodity price fluctuations through the sale of petroleum products denominated in US dollars. The consolidated entity 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 2005 the consolidated entity has no open oil price swap contracts. At 31 December 2004 the consolidated entity had open oil price swap contracts with settlement expiry dates up to nine months. If closed out at that date these contracts would have resulted in a loss of \$11.2 million.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**34. Financial Instruments (continued)**

**(d) Credit risk**

Credit risk represents the potential financial loss if counterparties fail to perform as contracted. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

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

The maximum exposure to credit risk is represented by the carrying amount of financial assets of the consolidated entity, excluding investments, which have been recognised on the balance sheet. At the balance sheet date there were no significant concentrations of credit risk.

**(e) Fair values**

The financial assets and liabilities of the consolidated entity and the Company are recognised on the balance sheets at their fair value in accordance with the accounting policies in note 1, except for long-term notes that do not form part of an interest rate swap, and bank borrowings, which are recognised at face value.

The carrying value of the long-term notes is US\$198.5 million and their fair value is estimated at US\$203.3 million based on discounting the future cash flows excluding the credit spread at the time of issue. The discount rate used is the interest rate swap rate for the remaining term to maturity of the note as at 31 December 2005.

The carrying value of the bank borrowings approximates fair value as it is a floating rate instrument.

**35. Economic Dependency**

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

**36. Explanation of Transition to AIFRSs**

As stated in note 1, these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The accounting policies in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004, and in the preparation of an opening AIFRS balance sheet at 1 January 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

**SANTOS LTD AND CONTROLLED ENTITIES**  
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**36. Explanation of Transition to AIFRSs (continued)**

**Reconciliation of equity**

	Note	CONSOLIDATED						SANTOS LTD					
		1 January 2004			31 December 2004			1 January 2004			31 December 2004		
		Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Australian GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Australian GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million
<b>Current assets</b>													
Cash and cash equivalents	a	111.1	-	111.1	128.4	(2.3)	126.1	52.9	-	52.9	39.3	-	39.3
Trade receivables	a	171.7	-	171.7	423.5	(2.7)	420.8	1,417.7	(262.1)	1,155.6	1,925.4	(269.1)	1,656.3
Inventories	a	112.4	-	112.4	118.0	(0.5)	117.5	53.2	-	53.2	58.8	-	58.8
Other		14.3	-	14.3	3.2	-	3.2	-	-	-	2.3	-	2.3
<b>Total current assets</b>		<b>409.5</b>	<b>-</b>	<b>409.5</b>	<b>673.1</b>	<b>(5.5)</b>	<b>667.6</b>	<b>1,523.8</b>	<b>(262.1)</b>	<b>1,261.7</b>	<b>2,025.8</b>	<b>(269.1)</b>	<b>1,756.7</b>
<b>Non-current assets</b>													
Exploration and development expenditure	a,b,c,d	2,953.8	(1,029.7)	1,924.1	3,197.3	(1,047.0)	2,150.3	903.6	(347.7)	555.9	858.4	(325.4)	533.0
Land and buildings, plant and equipment	a,c,d	1,840.8	(145.0)	1,695.8	2,073.4	(148.4)	1,925.0	673.1	(6.6)	666.5	665.4	(3.2)	662.2
Other investments	c	11.7	-	11.7	1.2	-	1.2	2,295.9	(449.6)	1,846.3	2,530.7	(459.1)	2,071.6
Deferred tax assets	f	1.4	61.7	63.1	3.0	86.6	89.6	0.8	-	0.8	2.4	(2.4)	-
Other		1.1	-	1.1	2.9	-	2.9	-	-	-	-	-	-
<b>Total non-current assets</b>		<b>4,808.8</b>	<b>(1,113.0)</b>	<b>3,695.8</b>	<b>5,277.8</b>	<b>(1,108.8)</b>	<b>4,169.0</b>	<b>3,873.4</b>	<b>(803.9)</b>	<b>3,069.5</b>	<b>4,056.9</b>	<b>(790.1)</b>	<b>3,266.8</b>
<b>Total assets</b>		<b>5,218.3</b>	<b>(1,113.0)</b>	<b>4,105.3</b>	<b>5,950.9</b>	<b>(1,114.3)</b>	<b>4,836.6</b>	<b>5,397.2</b>	<b>(1,066.0)</b>	<b>4,331.2</b>	<b>6,082.7</b>	<b>(1,059.2)</b>	<b>5,023.5</b>

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**36. Explanation of Transition to AIFRSs (continued)**

**Reconciliation of equity (continued)**

	Note	CONSOLIDATED						SANTOS LTD					
		1 January 2004			31 December 2004			1 January 2004			31 December 2004		
		Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million
<b>Current liabilities</b>													
Trade and other payables	a	291.3	-	291.3	374.1	(1.2)	372.9	655.0	-	655.0	437.2	14.7	451.9
Deferred income		8.9	-	8.9	5.8	-	5.8	2.0	-	2.0	1.5	-	1.5
Interest-bearing loans and borrowings		45.4	-	45.4	49.9	-	49.9	1,411.7	-	1,411.7	1,686.2	-	1,686.2
Current tax liabilities	a,f	29.3	-	29.3	8.9	2.8	11.7	23.5	-	23.5	9.9	-	9.9
Employee benefits		47.7	-	47.7	45.3	-	45.3	46.3	-	46.3	44.4	-	44.4
Provisions	a,d	7.6	(6.9)	0.7	4.1	12.1	16.2	1.2	(1.1)	0.1	1.1	-	1.1
Other		10.6	-	10.6	14.6	-	14.6	-	-	-	-	-	-
<b>Total current liabilities</b>		<b>440.8</b>	<b>(6.9)</b>	<b>433.9</b>	<b>502.7</b>	<b>13.7</b>	<b>516.4</b>	<b>2,139.7</b>	<b>(1.1)</b>	<b>2,138.6</b>	<b>2,180.3</b>	<b>14.7</b>	<b>2,195.0</b>
<b>Non-current liabilities</b>													
Deferred income		18.8	-	18.8	16.3	-	16.3	-	-	-	-	-	-
Interest-bearing loans and borrowings		963.3	-	963.3	1,209.5	-	1,209.5	-	-	-	-	-	-
Deferred tax liabilities	a,f	535.8	(89.6)	446.2	561.3	(39.5)	521.8	454.2	(306.7)	147.5	448.7	(315.4)	133.3
Employee benefits	e	-	17.8	17.8	-	12.5	12.5	-	17.8	17.8	-	12.5	12.5
Provisions	a,d	116.0	46.2	162.2	133.9	34.6	168.5	38.3	(0.3)	38.0	48.5	(14.1)	34.4
Other		55.7	-	55.7	33.8	-	33.8	-	-	-	-	-	-
<b>Total non-current liabilities</b>		<b>1,689.6</b>	<b>(25.6)</b>	<b>1,664.0</b>	<b>1,954.8</b>	<b>7.6</b>	<b>1,962.4</b>	<b>492.5</b>	<b>(289.2)</b>	<b>203.3</b>	<b>497.2</b>	<b>(317.0)</b>	<b>180.2</b>
<b>Total liabilities</b>		<b>2,130.4</b>	<b>(32.5)</b>	<b>2,097.9</b>	<b>2,457.5</b>	<b>21.3</b>	<b>2,478.8</b>	<b>2,632.2</b>	<b>(290.3)</b>	<b>2,341.9</b>	<b>2,677.5</b>	<b>(302.3)</b>	<b>2,375.2</b>
<b>Net assets</b>		<b>3,087.9</b>	<b>(1,080.5)</b>	<b>2,007.4</b>	<b>3,493.4</b>	<b>(1,135.6)</b>	<b>2,357.8</b>	<b>2,765.0</b>	<b>(775.7)</b>	<b>1,989.3</b>	<b>3,405.2</b>	<b>(756.9)</b>	<b>2,648.3</b>
<b>Equity</b>													
Issued Capital		1,893.1	-	1,893.1	2,139.0	2.7	2,141.7	1,893.1	-	1,893.1	2,139.0	2.7	2,141.7
Reserves	a	(8.8)	(145.4)	(154.2)	(12.2)	(183.1)	(195.3)	-	-	-	-	-	-
Retained profits	g	1,203.6	(935.1)	268.5	1,366.6	(955.2)	411.4	871.9	(775.7)	96.2	1,266.2	(759.6)	506.6
<b>Total equity</b>		<b>3,087.9</b>	<b>(1,080.5)</b>	<b>2,007.4</b>	<b>3,493.4</b>	<b>(1,135.6)</b>	<b>2,357.8</b>	<b>2,765.0</b>	<b>(775.7)</b>	<b>1,989.3</b>	<b>3,405.2</b>	<b>(756.9)</b>	<b>2,648.3</b>



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**36. Explanation of Transition to AIFRSs (continued)**

**Reconciliation of profit for 2004**

	Note	CONSOLIDATED			SANTOS LTD		
		Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million	Previous GAAP \$million	Effect of transition to AIFRSs \$million	AIFRSs \$million
Product sales		1,500.9	-	1,500.9	568.8	-	568.8
Cost of sales	b,c,d	(1,038.7)	64.5	(974.2)	(414.5)	9.3	(405.2)
Gross profit		462.2	64.5	526.7	154.3	9.3	163.6
Other revenue		14.3	-	14.3	270.4	-	270.4
Other income	b	180.0	9.0	189.0	378.1	37.9	416.0
Other expenses	a,b,c	(85.6)	(78.0)	(163.6)	(56.6)	(11.1)	(67.7)
<b>Operating profit before net financing costs</b>		570.9	(4.5)	566.4	746.2	36.1	782.3
Interest income		3.5	-	3.5	45.1	-	45.1
Finance costs	d,e	(33.6)	(17.5)	(51.1)	(91.1)	(6.7)	(97.8)
<b>Net financing costs</b>		(30.1)	(17.5)	(47.6)	(46.0)	(6.7)	(52.7)
<b>Profit before tax</b>		540.8	(22.0)	518.8	700.2	29.4	729.6
Income tax expense	f	(160.9)	(3.2)	(164.1)	(57.1)	(17.1)	(74.2)
<b>Net profit after income tax attributable the to shareholders of Santos Ltd</b>		379.9	(25.2)	354.7	643.1	12.3	655.4
<b>Earnings per share (cents):</b>							
Basic		58.6	(4.4)	54.2			
Diluted		58.5	(4.3)	54.2			

**Notes to the reconciliations of equity and profit**

**(a) Functional Currency**

The functional currency adjustments reflect the adoption of the US dollar as the functional currency for the Timor Gap, Indonesian and Papua New Guinean operations. The asset carrying values are adjusted using the A\$ to US\$ exchange rate at each balance date with differences due to exchange rate movements reflected in the foreign currency translation reserve.

The effect in the consolidated entity is to decrease net assets by \$152.3 million at 1 January 2004 and decrease net assets by \$31.8 million at 31 December 2004. This resulted in a \$5.7 million decrease in profit for the consolidated entity in 2004.

There is no adjustment in the Company on transition to AIFRS or during 2004.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**36. Explanation of Transition to AIFRSs (continued)**

**Notes to the reconciliations of equity and profit (continued)**

**(b) Successful Efforts**

The adoption of the successful efforts method of accounting for exploration and evaluation expenditure has resulted in the expensing of unsuccessful exploration costs.

The effect in the consolidated entity is to decrease exploration and evaluation assets by \$712.8 million at 1 January 2004. In 2004, the consolidated entity expensed exploration and evaluation expenditure of \$117.4 million.

The effect in the Company is to decrease exploration and evaluation assets by \$257.6 million at 1 January 2004. In 2004, the Company expensed exploration and evaluation expenditure of \$46.0 million.

**(c) Impairment**

Impairment is assessed at an asset level, or where an asset does not generate separately identifiable cash flows impairment is assessed on a cash generating unit basis, being the smallest grouping of assets that generates independent cash flows. Impairment is measured using discounted cash flows. Under previous GAAP, future cash flows were not discounted and assets were grouped together under a broader area of interest concept which included all of the producing assets within a geological basin.

The effect in the consolidated entity is to decrease exploration and development by \$248.8 million at 1 January 2004 and \$73.2 million at 31 December 2004; decrease land and buildings, plant and equipment by \$102.1 million at 1 January 2004 and \$14.6 million at 31 December 2004. A net impairment reversal of \$7.6 million is recognised in the income statement of the consolidated entity in 2004.

The effect in the Company at 1 January 2004 is to decrease exploration and development by \$105.6 million, decrease land and buildings, plant and equipment by \$13.5 million and decrease investments in controlled entities by \$449.6 million. At 31 December 2004 exploration and development increased by \$28.3 million, land and buildings, plant and equipment increased by \$6.1 million and investments in controlled entities decreased by \$9.5 million. A net impairment reversal of oil and gas assets of \$34.4 million and a net impairment loss of investment in controlled entities of \$9.5 million is recognised in the income statement of the Company in 2004.

**(d) Restoration**

Under AIFRS the liability for future restoration reflects the present value of the total expected restoration costs, and is capitalised as a component of oil and gas assets. Under previous GAAP, the cost of restoration was provided for over the life of the reserves.

The effect in the consolidated entity at 1 January 2004 is to increase exploration and development by \$43.2 million, land and buildings, plant and equipment by \$61.8 million, provisions by \$39.6 million and retained earnings by \$45.0 million.

The effect in the Company at 1 January 2004 is to increase exploration and development by \$15.5 million, land and buildings, plant and equipment by \$8.7 million, decrease provisions by \$1.4 million and increase retained earnings by \$17.9 million.

In 2004 the consolidated entity recognised \$14.0 million interest expense from the unwind of the effect of discounting on the provision, and the Company recognised \$3.2 million.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**36. Explanation of Transition to AIFRSs (continued)**

**Notes to the reconciliations of equity and profit (continued)**

**(e) Employee benefits**

Santos Ltd is the sponsor of a defined benefit superannuation plan. Under previous GAAP cumulative actuarial gains and losses on the defined benefit plan were not recognised on the balance sheet. At the date of transition a liability has been recognised in the provision for employee benefits. The liability is measured as the difference between the present value of the employees' accrued benefits at that date and the net market value of the superannuation fund's assets at that date.

The effect in the consolidated entity and the Company is to increase liabilities for employee benefits by \$17.8 million at 1 January 2004 and decrease it by \$5.3 million at 31 December 2004.

In 2004 the consolidated entity and the Company recognised a net \$0.5 million increase to profit resulting from a credit to defined benefits expense of \$4.0 million, and interest expense of \$3.5 million

**(f) Income tax**

Under previous GAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under AIFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

**(g) Retained earnings**

The effect of the above adjustments on retained earnings is as follows:

	Note	CONSOLIDATED		SANTOS LTD	
		1 Jan 2004 \$million	31 Dec 2004 \$million	1 Jan 2004 \$million	31 Dec 2004 \$million
Functional currency	a	18.3	5.7	-	-
Successful efforts	b	(542.1)	(117.4)	(180.3)	(46.0)
Impairment	c	(283.9)	7.6	(533.5)	24.9
Restoration	d	45.0	(11.9)	17.9	(3.2)
Employee benefits	e	(12.5)	5.3	(12.4)	5.3
Deferred tax	f	(159.9)	90.6	(67.4)	35.1
		(935.1)	(20.1)	(775.7)	16.1

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

### 37. Changes in Accounting Policy

In the current financial year the consolidated entity adopted AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement". This change in accounting policy has been adopted in accordance with the transition rules in AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising available-for-sale investments and all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of retained earnings, hedging reserve and fair value reserve at 1 January 2005.

The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 January 2005 is shown below:

	Note	CONSOLIDATED			SANTOS LTD		
		AIFRSs 31 December 2004 \$million	Impact of change in accounting policy \$million	Restated 1 January 2005 \$million	AIFRSs 31 December 2004 \$million	Impact of change in accounting policy \$million	Restated 1 January 2005 \$million
Equity securities							
available-for-sale	a	1.2	1.6	2.8	0.5	(0.2)	0.3
Commodity hedges	b	-	(11.1)	(11.1)	-	(11.1)	(11.1)
Interest rate swaps	c	-	40.4	40.4	-	-	-
Interest bearing liabilities	c	(1,259.4)	(43.8)	(1,303.2)	(1,686.2)	-	(1,686.2)
Deferred tax liabilities		(521.8)	3.8	(518.0)	(133.3)	3.4	(129.9)
Fair value reserve	a	-	(1.1)	(1.1)	-	0.1	0.1
Hedging reserve	b	-	7.8	7.8	-	7.8	7.8
Retained earnings	c	(411.4)	2.4	(409.0)	(506.6)	-	(506.6)

The transitional provisions will not have any effect in future reporting periods.

#### Notes to the reconciliation of financial instruments:

- (a) Under previous GAAP, the consolidated entity recorded available for sale equity securities at cost. In accordance with AIFRSs, they are now recognised at fair value.

The effect in the consolidated entity is to increase "Investments in other entities at cost" and "Fair value reserve" by \$1.6 million and \$1.1 million respectively (\$1.6 million less related deferred tax of \$0.5 million) at 1 January 2005. The effect in the Company is to decrease "Investments in other entities at cost" by \$0.2 million and "Fair value reserve" by \$0.1 million (\$0.2 million less deferred tax of \$0.1 million).

- (b) Under previous GAAP, the consolidated entity did not recognise derivatives at fair value on the balance sheet. In accordance with AIFRSs derivatives are now recognised at fair value.

The effect in the consolidated entity and the Company at 1 January 2005 is to recognise a liability for commodity hedges of \$11.1 million and a charge to "Hedging reserve" of \$7.8 million (\$11.1 million less related deferred tax of \$3.3 million).

- (c) The net ineffectiveness of interest rate swap hedges in the consolidated entity of \$2.4 million (\$3.4 million less related deferred tax of \$1.0 million) has been charged to retained earnings. No adjustment has arisen for the Company.

**DIRECTORS' DECLARATION**  
**for the year ended 31 December 2005**

In the opinion of the Directors of Santos Ltd ("the Company"):

- (a) the financial statements and notes, set out on pages 1 to 84, 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 2005 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 Australian Accounting Standards 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 23<sup>rd</sup> day of February 2006.

Signed in accordance with a resolution of the Directors:

Director

Director

## **Independent audit report to members of Santos Limited**

### ***Scope***

#### *The financial report and directors' responsibility*

The financial report comprises the income statements, balance sheets, statements of recognised income and expense, cash flow statements, accompanying notes 1 to 37 to the financial statements, and the directors' declaration for both Santos Limited (the "Company") and Santos Limited and its Controlled Entities (the "Consolidated Entity"), for the year ended 31 December 2005. 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*.

#### *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.

***Audit opinion***

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

- a) the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 December 2005 and of their performance for the financial year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Peter A Jovic  
Partner

Adelaide  
23 February 2006