

An aerial photograph of an industrial facility, likely an oil or gas processing plant, situated in a vast, arid, orange-brown desert landscape. The facility includes a tall drilling rig or derrick, several large storage tanks, and numerous smaller buildings and structures. A winding road or pipeline cuts through the desert, leading towards the facility. The overall scene is dominated by the warm, orange tones of the desert environment.

Annual Report

Santos

Santos Ltd ACN 007 550 923

Incorporated in Adelaide, South Australia on 18 March 1954. Quoted on the official list of The Australian Stock Exchange Ltd and also the New Zealand Exchange. Santos American Depositary Receipts issued by Morgan Guaranty in the USA are sponsored and are quoted on the NASDAQ system in the USA.

Santos is a world scale specialist oil and gas company with assets of over \$4 billion and annual production of over 40 million barrels of oil equivalent (boe).

The company's business is exploring for and producing gas, natural gas liquids and oil, and supplying it to domestic and international customers. On current market capitalisation it is one of the world's top 20 independent exploration and production companies and one of the top five listed in the Asia Pacific region.

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

The company is also involved in exploration and production in the United States, the United Kingdom, Indonesia and Papua New Guinea. (The company has recently sought offers for the disposal of its interests in the United Kingdom).

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



South East Asia



Australia



United States

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

Aims and Objectives

- Provide consistent growth in shareholder value.
- Seek best practice standards in all facets of operations.
- Perform at a level above that of its peers.
- Pursue opportunities to grow the business.

Values

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

Key Strategies

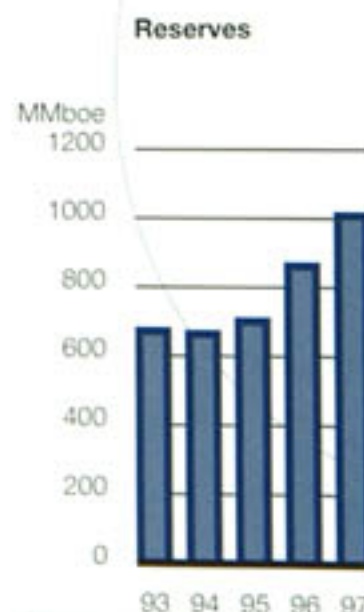
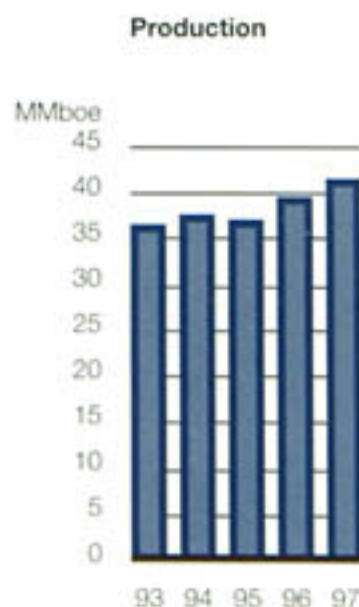
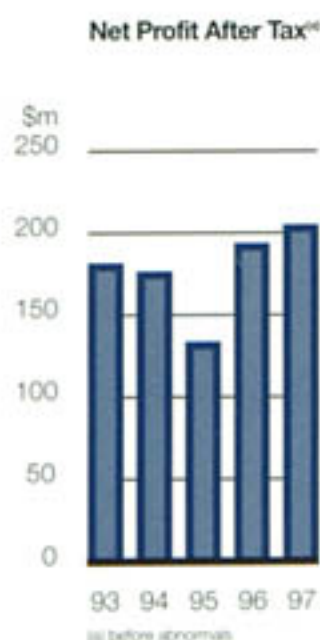
To explore, acquire, develop projects and market oil, gas and gas liquids to:

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

Highlights of 1997

Operational Highlights

- Increase in sales volume of 7.8% to 41.3 million boe.
- Increase in proved and probable reserves of 17% to 1,009 million boe. Average reserve life increased from 22 years to 24 years.
- Drilled 112 exploration wells with 65% success rate.
- Discovery of largest Australian onshore gas field since 1971 (Barrolka Complex - South West Queensland).
- Discovery of Kakatua North, Hingkip and Jaubert oil fields (offshore Australia).
- Discovery of hydrocarbons at Eugene Island Block #335 (Gulf of Mexico).
- Discovery of 22 gas fields and one oil field in the Cooper/Eromanga Basins.
- Creation of South East Asia Business Unit following acquisition of MIM oil and gas assets.
- Acquired a further 30% interest in the East Spar gas/condensate field (Carnarvon Basin).
- Acquired additional interests in the Amadeus Basin and new interests in the Bass Basin.
- Supplied first gas to Brisbane from South West Queensland.
- Signed three gas contracts for East Spar gas.
- Signed contract for the direct sale of gas to Incitec Ltd.
- Signed contract for the additional sales of gas to the Northern Territory Power and Water Authority.
- Completed a successful \$267 million rights issue.



Key Financial Results	1997	1996
Earnings before interest expense, foreign exchange and tax	\$372.9m	\$357.2m
Earnings before interest expense and tax	\$376.5m	\$382.2m
Profit attributable to shareholders after tax	\$206.2m	\$195.9m
Cash flow from operations	\$460.7m	\$413.1m
Exploration and development expenditure	\$575.2m	\$377.2m
Earnings per share	35.3 cents	35.4 cents
Dividends per share (fully franked)	25.0 cents	24.0 cents
Total shareholders' equity	\$1,919.0m	\$1,586.3m
Return on average shareholders' equity	11.8%	12.6%
Net debt/shareholders' equity	58.1%	59.2%
Net interest cover (times)	5.4	6.2

Outlook - January 1997

- 1997 production volumes similar to 1996.
- 1997 operating profit comparable to 1996.
- Oil field developments to proceed to achieve Santos' scheduled 1998 start up dates.
- 109 exploration wells to be drilled.
- Provision of gas to South East Queensland customers.

Outcome - December 1997

- Increase in production of 4.8%.
- Increase in operating profit of 5.3%.
- Oil field developments generally proceeded to schedule.
- 112 exploration wells drilled.
- Commenced gas delivery in 1997.



Chairman's Overview

"1997 was another record year for Santos." J A Uhrig – Chairman

The Year in Review

The operating profit achieved in 1997 was a record \$206.2 million. Production reached an all-time high of 41.1 million boe. The total return to shareholders during the year was 32.5% (capital appreciation plus dividends).

The company made an important acquisition, increasing its interest in the East Spar gas/condensate field in the Carnarvon Basin (offshore Western Australia).

A record amount was spent on exploration, with good results, and development proceeded on a range of oil and gas projects.

To assist with funding this expansion, a \$267 million rights issue (after costs) was successfully undertaken.

Work undertaken in 1997 is expected to have a significant impact on the company's performance in 1998 when a number of new projects will commence production. It also lays the foundation for the company's next stage of growth.

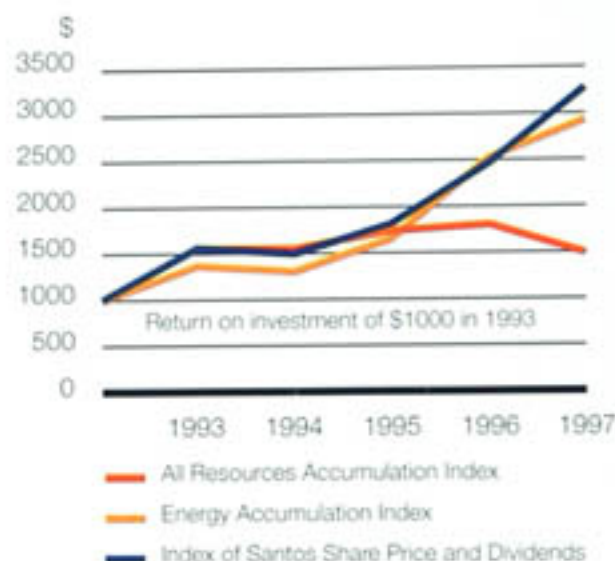
Shareholder Returns

A final dividend of 13 cents per share was declared by the Directors, making a total dividend payment of 25 cents per share for the year. The declared dividend is equivalent to a distribution of \$151.3 million. The final dividend will be paid on 30 April 1998 to those shareholders registered in the books of the company on 8 April 1998, in respect of fully paid shares held at record date. The dividend is fully franked.

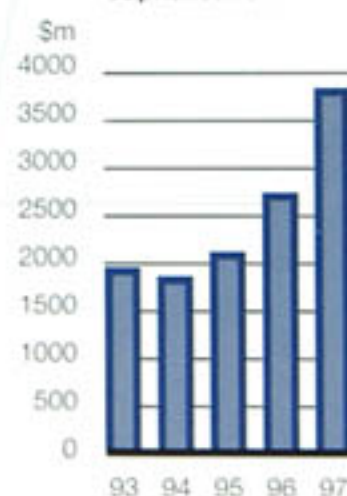
The Board's aim is to provide superior returns to Santos' shareholders on a short and long-term basis.

During the year the total return to Santos shareholders (capital appreciation plus dividends) exceeded the All Resources Accumulation Index by 60.0% and the Energy Index by 13.9%.

Shareholder Returns



Share Market Capitalisation



Board of Directors

The Santos Board is responsible for the overall corporate governance of the Group, including its strategic direction, establishing goals for management and monitoring the achievement of these goals. Corporate governance is discussed in detail on pages 36-38 of this report.

Amongst its members, the Board contains a wide range of skills and depth of experience relevant to the company's business.

The Board wishes to acknowledge the service of Mr Robert Strauss, who will be retiring from the Board at the conclusion of the Annual General Meeting on 1 May. Mr Robert Strauss is the longest serving member of the Board. The Board would like to acknowledge the significant contribution to the company made by Mr Robert Strauss over the past 15 years.

During the year we farewelled Mr Ian Callinan QC on his appointment to the High Court of Australia. The Board congratulates Mr Callinan on this important appointment and expresses its appreciation for his contribution to the company.

Environment

As was noted in last year's report, the Board places a high priority on its environmental responsibilities, with a Board Committee responsible for oversight of the company's environmental policies and performance. The Chairman of the Board is also Chairman of that Committee.

Santos is in the business of exploration and development. In carrying out this role, the community rightly expects that the company will behave properly. We go to great lengths to ensure, not only that we do this, but also that, at every opportunity, we seek to improve our environmental performance. We believe that we set a high standard but we also strive for constant improvement.

Santos' environmental practices are further discussed on page 22 of this report.

People

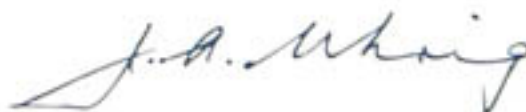
Occupational health and safety remains a matter of particular importance for the Board. Santos is committed to providing a safe working environment.

At the last Annual General Meeting shareholders approved the introduction of two employee share plans and an executive share option plan. These plans are designed to create a stronger link between increasing shareholder value and employee reward. I am pleased to report that approximately 1,300 employees have obtained shares or options under the plans.

Conclusion

1997 was a good year for Santos and the foundations are already in place for further growth in 1998 and beyond.

On behalf of the Board, I wish to record our appreciation and thanks to the company's management and employees for their contribution throughout 1997 and their continuing efforts to achieve Santos' aim of being the best performing oil and gas investment listed in Australia.



J A Uhrig

Chairman

11 March 1998



Managing Director's Review

"Santos has before it a wider range of opportunities than at any other time in the company's history." N R Adler – Managing Director

Earnings

Santos achieved record earnings in 1997, reflecting record production and sales revenue. Net profit after tax increased by 5.3% to \$206.2 million. This compares with a result of \$195.9 million in 1996.

Earnings per share were 35.3 cents compared with 35.4 cents in 1996. Cash flow per share increased from 74.6 cents to 78.9 cents and total operating cash flow increased by 11.5% to \$460.7 million.

Development Spending

Santos spent a record amount of \$385.1 million on development projects during 1997. These projects include the Stag oil field in the Carnarvon Basin, the Elang/Kakatua oil fields in the Timor Gap, the SE Gobe oil field in Papua New Guinea, the Banff and Pierce oil fields in the Central North Sea, the upgrading of the Ballera gas plant in South West Queensland and spending on enhancing gas deliverability in South Australia.

Taken together these projects will lift Santos' production to a new level during 1998.

Reserves

1997 was also important in laying foundations for a new stage of development. For the first time reserves now exceed one billion boe.

A record amount of \$190.1 million was spent on exploration and a success rate of 65% was achieved. Reserve replacement from exploration was 329%.

The exploration highlight of the year was the Barrolka Complex discovery which was the largest conventional onshore gas discovery made in Australia since 1971.

Wide Range of Opportunities

Santos aims to generate increasing value for its shareholders by:

- Maximising the value of its South Australian gas business.
- Continuing the growth of its Queensland/Northern Territory and Offshore Australia businesses.
- Building up its businesses in the US and South East Asia.

Across these businesses, we currently have a wider range of opportunities than at any other time in the company's history. We have:

- The best spread of exploration acreage.
- Potential with contemporary technology to further increase reserves and production.
- Opportunities to further reduce costs and improve efficiency in established areas of production.
- A range of gas marketing opportunities reflecting growing demand and expanding infrastructure.
- Continuing acquisition possibilities.

South Australia

In South Australia there are opportunities to increase reserves and to further reduce capital and operating costs.

During 1997 reserves of 24 million boe were added in South Australia from exploration.

The Nappamerri Trough will be a particular focus for future exploration and evaluation in South Australia. This is a large area of low permeability gas discovered by Santos. During 1997 Santos and its partners announced that further investment of at least \$100 million gross is planned for the South Australian section of the Trough over a number of years.

There are also continuing gas marketing opportunities. As the Australian gas pipeline network is expanded, gas supplies from different basins are increasingly able to reach a wider range of customers. This is a natural development as the industry matures and it encourages a larger total level of gas demand and provides access to new customers. In 1998 the first Cooper Basin gas will be sold to a Victorian customer.

Experience to date has demonstrated that Cooper Basin gas is competitive with gas from other sources.

Queensland and Northern Territory

The Queensland and Northern Territory business is growing rapidly as a result of new gas contracts commencing over the period 1997 – 2000. In the Northern Territory a new Mereenie gas contract was signed during the year. The priority has been to increase uncontracted gas reserves, particularly in Queensland. This was achieved in 1997 with the discovery of the Barrolka Complex. The company's reserves in Queensland and Northern Territory now exceed those in South Australia. Going forward, there are opportunities to continue an active exploration program and to win further gas contracts to underwrite the development of the reserves discovered.

Offshore Australia

The Offshore Australia business is also growing rapidly.

The acquisition during the year of increased interests in the East Spar gas and condensate field has strengthened the company's interests in the Western Australian gas industry. This has been achieved at a reasonable price. Subsequent transactions involving interests in the East Spar project during 1997 were at prices significantly higher than Santos paid for its interests.

The Offshore Australia exploration success rate of 56% in 1997 was high by industry standards. Three oil fields (Hingkip, Kakatua North and Jaubert) and one gas field (Reindeer) were discovered. Development of the Kakatua North field has already been announced.

These discoveries are encouraging, with the potential for further development projects.

During 1998 the exploration program will continue at a similar level to that in 1997 and will include appraisal of discoveries made in 1997. The Business Unit has a wide range of exploration prospects and is actively managing its acreage to focus on the most promising opportunities.

Advancing development studies on Bayu-Undan is also a priority, with the aim of commencing liquids production possibly in 2002.

United States

Outside Australia, the Santos Group has two focus areas, the US and South East Asia. For a number of years there has also been a target of developing a critical mass of interests in the North Sea (United Kingdom). However, this has been difficult to achieve and it has now been decided to seek offers for the disposal of these interests.

The Group's main interests in the US are located in the Gulf Coast, both onshore and in the shallower waters of the Gulf of Mexico. In the US the emphasis is on growth through offshore exploration, with larger exploration targets. Reflecting this shift in emphasis, the Group successfully acquired offshore leases in 1997 and has commenced a drilling program. During the year a discovery was made in the Eugene Island #335 block.

Managing Director's Review continued

South East Asia

Indonesia and Papua New Guinea are also focus areas. Acquisitions from Parker and Parsley Australasia and MIM Petroleum have increased the Group's interests in both countries. During 1997 the operations acquired from MIM were integrated into the company. These interests were further strengthened in 1997 with the farm-in to the Warim Production Sharing Contract (PSC) in Irian Jaya and the award of the Korinci-Baru and Sampang PSC's in Sumatra and Java.

The Group's interests include a share in the SE Gobe oil development project in Papua New Guinea which will commence production in 1998.

Exploration is the priority in Papua New Guinea and Irian Jaya. Both are high risk areas for exploration but the potential rewards are significant. Two wells were drilled in Irian Jaya during the year, one of which produced encouraging results. A number of wells are planned in Papua New Guinea in 1998.

In Indonesia the Group's interests are primarily oriented towards oil exploration but will seek gas exploration close to existing markets and centres of industrial development. These interests are modest and Indonesia is seen as a medium-term opportunity.

While the recent financial and potential political issues will create a period of uncertainty, we believe that the fundamental need for further gas supplies to meet domestic market opportunities remains.

Setting Priorities

Altogether the Group has a wide range of opportunities available to it, spread across the five business units. These are the foundations for our future growth.

To produce the best results for shareholders, there is a disciplined process of capital allocation to ensure that only the most profitable projects proceed.

Notwithstanding record exploration spending in 1996 and 1997 and a further record program planned in 1998, the company could spend considerably more. However, all business units are required to actively

manage their exploration portfolios to ensure that only the most profitable prospects with the best rates of return proceed.

This has been apparent in 1997 with Santos farming down in selected exploration prospects offshore Australia.

Investments

QCT Resources Limited

Santos has a 34.9% interest in Australia's premier listed coal producer QCT Resources Limited (QRL). Following the acquisition of an additional 2.79% interest in October 1997, QRL has a 32.37% interest in the world class Central Queensland Coal Associates (CQCA) and Gregory Joint Venture mines. It also owns 100% of the South Blackwater mine.

For the year ended 31 December 1997 QRL's share of coal shipments from the CQCA and Gregory Joint Ventures and South Blackwater was 12.7 million tonnes, representing an increase of 6.7% over 1996 shipments. In June 1997 QRL announced that the CQCA Joint Venture participants had approved plans for the expansion of the Peak Downs and Saraji mines. These projects will be developed over the 1999 - 2001 period and will materially increase the CQCA Joint Venture production of high quality coking coal. Annual production is expected to increase by 3.0 million tonnes per annum at Peak Downs (QRL 32.37%) and 2.0 million tonnes per annum at Saraji (QRL 32.37%).

In June 1997 agreement was reached with the Queensland Government on rail and royalty charges applicable to the CQCA Joint Venture's four northern mines - Goonyella, Peak Downs, Saraji and Norwich Park. The effect of the agreement will be to substantially reduce rail charges from the year 2000.

During the year the market value of the investment was adversely affected by reductions in coal prices. However, the company believes that QRL has a positive outlook over the longer term.

Firm and Probable Projects



Firm projects are those which are currently under development and have a scheduled production commencement date. Probable projects are those projects for which negotiations are advanced or on which development discussions are expected.

Other Investments

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

Production and Earnings Outlook

1997 sales revenue was an all-time record, generating a further increase in profit.

The first half of 1998 will be affected by the lower oil and liquids prices currently prevailing. However, during 1998, a number of development projects will come on line which are expected to increase significantly production in the second half.

The results achieved for the 1998 year will depend on the precise timing of commencement of production of these projects and on prevailing oil prices and the US/Australian dollar exchange rate. At this stage it is expected that results in the first half will be somewhat lower compared with 1997.

However, assuming that oil and liquids prices remain at around current levels, it is presently expected that results for the full year will be similar to or exceed 1997 results. This is because new production projects will compensate for the adverse effect of lower liquids prices in Australian dollar terms.

N. R. Adler

N R Adler

Managing Director

11 March 1998



Review of Performance

Petroleum engineers and drilling personnel conducting a site visit in South West Queensland.



Drilling Challum-7 in South West Queensland.
In 1998 a development drilling program will follow the successful 1997 exploration program in South West Queensland.

Financial Performance

During the year sales revenue increased by 6.8% to \$778.5 million. This resulted from record sales volumes.

Increased revenue from increased gas and condensate production more than offset reduced revenue from sales of crude oil and LPG.

Gas sales volumes were a record 171.5 petajoules (PJ), an increase of 13.2%. This increase resulted from increased sales to AGL and NGASA, sales of gas from East Spar (including the increment associated with the acquisition of additional interests), the first full year of ethane sales, and sales of gas from Ballera to South East Queensland.

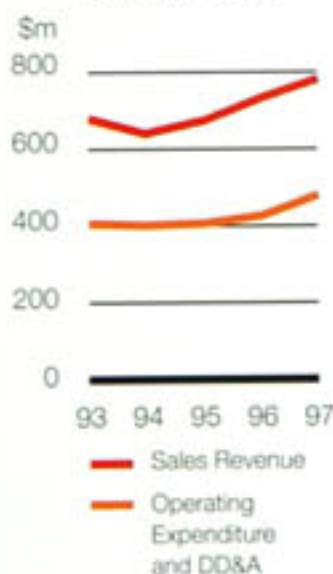
Average prices received for gas increased slightly.

The Australian dollar price received for crude oil was slightly lower than that received in 1996. The average Australian dollar prices of LPG and condensate increased by 6.1% and 5.5% respectively.

The weakening of the Australian dollar against the US dollar increased revenue by \$7.6 million above that which would have been received had the exchange rate remained at the same average as in 1996.

Other revenue increased by 8.3% to \$81.0 million due to proceeds from asset sales.

Sales Revenue and Expenses



Operating Expenses

Operating costs increased by 4.3% to \$187.4 million, principally due to costs arising from the company's additional interest in East Spar and the costs associated with the processing of gas through the Ballera Gas Plant for gas sales contracts which commenced during the year. Average operating costs per boe produced fell slightly to \$4.56. Total royalties paid remained virtually constant.

Depreciation and depletion increased by 8.1% to \$207.2 million. Average depreciation and depletion per boe produced increased from \$4.89 to \$5.04.

There was no writedown of exploration expenditure in 1997 (1996 - \$11.2 million). This was based on a detailed assessment of the recoverability of the Group's oil and gas assets in producing areas and a review of exploration activity in non-producing areas.

Earnings Before Interest Expense, Foreign Currency and Tax

Earnings before interest expense, foreign currency gains and tax increased by 4.4% to \$372.9 million.

Foreign currency gains of \$3.6 million (\$3.5 million realised) recognised in the Profit and Loss Account in 1997 arose principally from the conversion of US dollar cash deposits to Australian currency.

US dollar denominated borrowings were fully designated either as a hedge of US dollar denominated investments in self-sustaining overseas controlled entities or, from 1 January 1997, as a hedge of future US dollar denominated sales revenues. Accordingly, there were no foreign currency gains or losses arising from translation of US dollar denominated borrowings brought to account in 1997.

In accordance with Australian Accounting Standards, \$29.2 million of unrealised foreign currency losses were deferred as at 31 December 1997. The ultimate foreign currency gains or losses will be included in the measurement of the specific hedged US dollar denominated sales revenues to be realised in the years 2001 through 2005.

In 1996 and prior years, US dollar denominated borrowings were not designated as a hedge of future US dollar denominated sales revenues and foreign currency gains and losses were brought to account at transaction date and year end currency exchange rates.

Interest on higher borrowings associated with the funding of acquisitions and the significant development program increased the gross interest expense by \$7.3 million to \$75.1 million.

Capitalisation of interest of \$20.9 million on the financing of development projects (1996 – \$17.5 million) reduced the net expense to \$54.2 million.

Operating profit before income tax fell by 2.9% to \$322.3 million. Income tax on operating profit fell by \$19.9 million to \$116.1 million, primarily due to lower non-deductible items, the SA Cooper Basin Development allowance and research and development credits. In 1997, the income tax expense represented 36.0% of operating profit before tax, compared with a figure of 41.0% in 1996.

Operating Profit After Tax

A net profit after tax of \$206.2 million was achieved in 1997. This compares with a result of \$195.9 million in 1996.

No abnormal items were recorded in either 1996 or 1997.

Net profit after tax, before foreign currency gains, increased by 13.3%, from \$179.9 million in 1996 to \$203.9 million in 1997.

Cash Flow

Cash flow from operations increased by 11.5% to \$460.7 million. Higher sales receipts more than offset the increased income tax paid in respect of 1996 tax liabilities.

Operating cash flow per share increased from 74.6 cents to 78.9 cents.

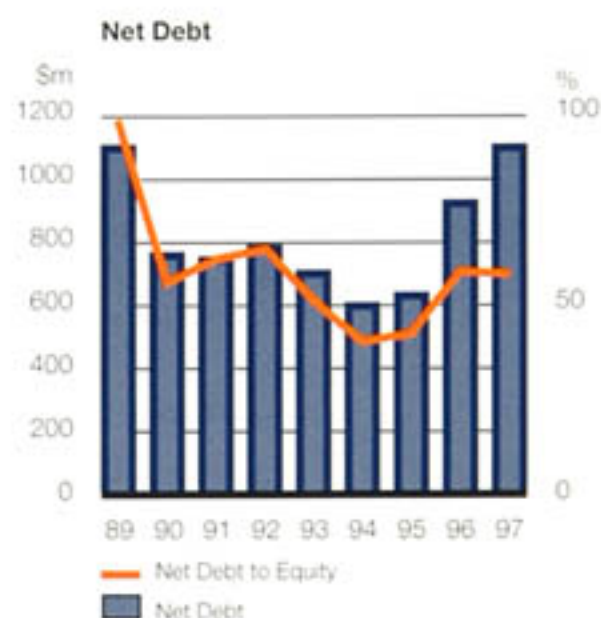
Average operating cash flow per boe produced increased to \$11.21 (1996 – \$10.54).

Dividends of \$142.5 million (1996 – \$123.6 million) were paid to shareholders.

Balance Sheet

During 1997, a one for eight renounceable rights issue raised \$267 million after costs.

The level of net debt increased during 1997 to \$1,114.2 million (1996 – \$938.6 million), due to funding of capital expenditure programs and acquisitions.



The net debt to equity ratio at the end of the year was 58.1% (1996 – 59.2%).

During 1997 the company established a domestic Medium Term Note Program and undertook a \$150 million issue.

After providing for the final dividend of 13 cents per share, shareholders' equity at the end of the year was \$1,919.0 million.

"Year 2000" Issue

The potential effect of "Year 2000" Compliance on organisations has been well documented. Being a user of information technology and process control systems, Santos also must address these issues. Accordingly, the company is assessing its exposure to any issues arising out of the rollover of the century dates.

All Santos equipment, both in the information technology and process control systems, has been reviewed. Equipment which is critical to maintaining the company's business has been identified. A detailed assessment of the Year 2000 Compliance of each such item has been initiated and the corrective action, where relevant, will be undertaken. Santos is also working with its industry partners to identify the most cost effective approaches and remedies.

Review of Performance

Exploration and Development

Record exploration results were achieved in 1997. Expenditure of \$190 million generated 135 million boe of proved and probable reserves for an industry-competitive finding cost of \$1.41/boe. Santos' five-year average finding cost is \$1.43/boe. The program achieved an overall success rate of 65% (64% on wildcat wells and 71% on appraisal wells).

1997 Exploration Results

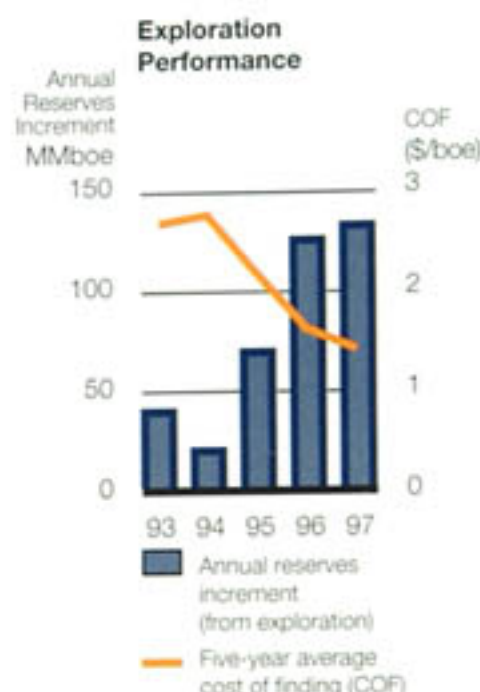
	Wells Drilled		Successful Wells		Success Rate %
	Gas	Oil	Gas	Oil	
South Australia & Victoria	29	6	19	1	57
Queensland & Northern Territory	35	2	27	1	76
Offshore Australia	2	7	2	3	56
South East Asia	1	2	0	0	0
Americas & Europe	25	3	19	1	71
Total	92	20	67	6	65

1997 Exploration Highlights

The highlights of the 1997 exploration program were:

- The appraisal of a substantial gas accumulation in the Barroka Complex and discovery of 11 additional new gas fields resulting from the South West Queensland program.
- New oil discoveries at Jaubert-1 in the Carnarvon Basin and at Kakatua North-1 and Hingkip-1 in the Timor Gap and a gas discovery at Reindeer-1 in the Carnarvon Basin.
- Participation for the first time in the Gulf of Mexico lease sales with the award of nine exploration permits. Early drilling has been encouraging with a discovery in the Eugene Island #335 block.
- The discovery of 11 new gas fields and one new oil field from the accelerated program in South Australia. Important discoveries included Davren-1, Dorodillo-1 and Gudnuki-1, which are non-conventional stratigraphic traps.

- Light oil/wet gas indications in Kau-1 in Irian Jaya, Indonesia. The economic significance of this discovery is subject to further appraisal.



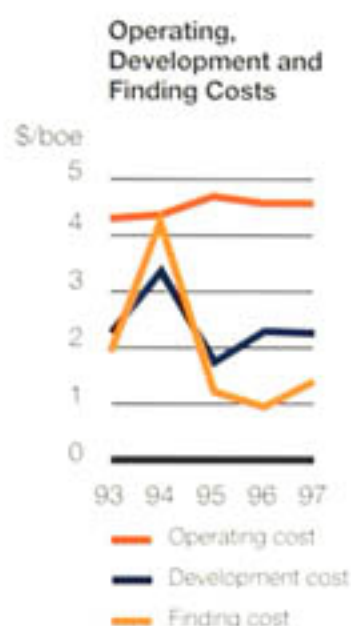
Santos' Exploration Strategy

Key elements of Santos' exploration strategy include:

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

1998 Exploration Program

	Wells	\$ million
Onshore Australia:		
Cooper/Eromanga	54	94
Other	8	6
Offshore Australia	13	43
SE Asia	10	35
US	31	24
UK	1	4
Total	117	206



Proved and Probable Hydrocarbon Reserves*

	Sales Gas (incl ethane) PJ	Crude Oil million barrels	Condensate million barrels	LPG '000 tonnes	Total million boe
Estimated reserves at 31 December 1996	3862	80	73	5582	860
1997 Production	(172)	(7)	(2)	(264)	(41)
Additions from					
1997 Exploration	632	13	9	626	135
Acquisitions	253	4	9	0	56
Field revisions	(30)	6	(1)	(155)	(1)
Estimated reserves at 31 December 1997	4545	96	88	5789	1009

* A definition of proved and probable reserves is provided in the Glossary on page 40.

1998 Exploration Program

Consistent with the company's growth strategy, exploration expenditure is expected to increase to \$206 million in 1998.

This increased exploration is the result of several factors including:

- Increased levels of exploration activity in the South Australian sector of the Cooper Basin ahead of compulsory relinquishment in February 1999.
- Increased drilling activity in South East Asia, particularly Indonesia and Papua New Guinea.
- Further drilling in the Gulf of Mexico on blocks acquired in the 1997 lease sale and anticipated participation in the 1998 lease sale.

The exploration program involves the drilling of 117 wells, with 83 of these wells targeting gas prospects.

The company will continue to aggressively pursue new venture opportunities, particularly in the focus areas of Offshore Australia, South East Asia and the Gulf of Mexico. These projects will be funded by substituting them for lower ranked projects in the company's program and managed as part of the company's overall exploration portfolio.

Technology

The implementation and innovative use of modern technology is vital to achieving and sustaining

competitive exploration performance. Santos has highly skilled staff who are able to exploit state-of-the-art and fit-for-purpose technology to extract the maximum value from the company's assets.

Air drilling and fracture stimulation are examples of modern technology which have enhanced the company's exploration performance.

Air Drilling

Santos has been using air drilling to increase drilling rates in the Mereenie field for several years. Recently this technology was transferred to the Cooper Basin where it was used to increase productivity. This enables the identification of commercially viable gas in areas that would otherwise be considered sub-economic by permitting economic flow rates from previously sub-economic reservoirs.

Fracture Stimulation

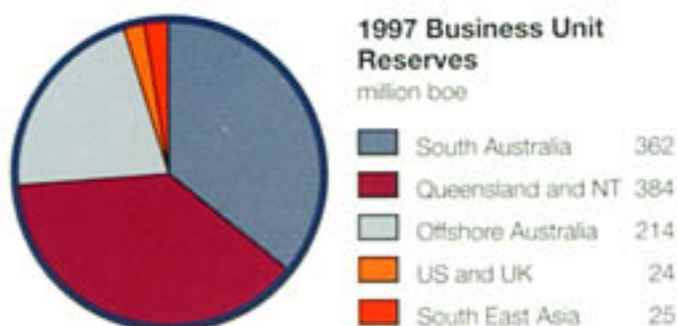
The more deeply buried Permian gas sands of the Cooper Basin are very hot and highly stressed making fracture stimulation difficult.

Santos has focused a significant effort and enjoyed considerable success in increasing its expertise in this technology. In 1997 several successful fracture stimulations were executed that extended the previous operational limits of this technique.

Use of this technology promises to increase the amount of gas recovered from each field while providing a cost effective method for increasing the production rate.

Reserves

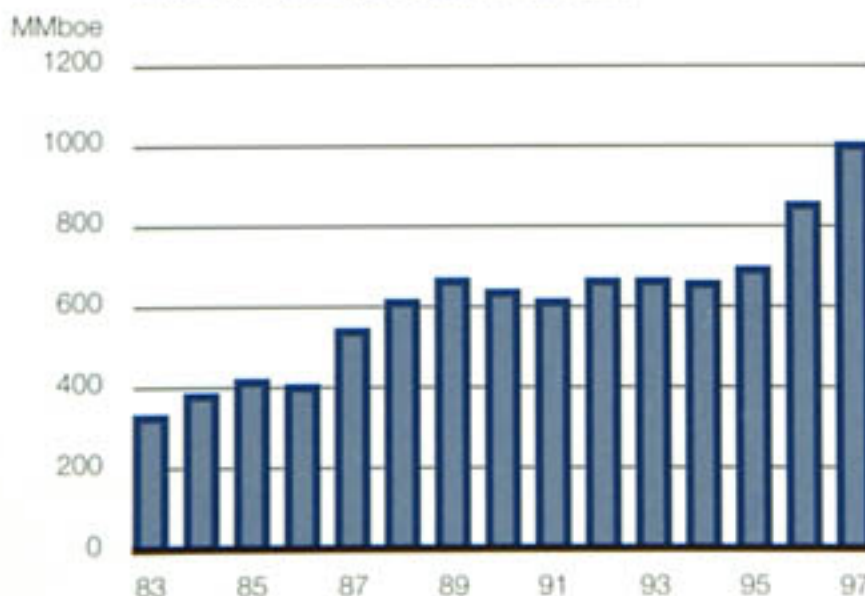
Proven and probable reserves increased by 149 million boe to a record 1,009 million boe at the end of 1997, after accounting for production of 41.1 million boe. This equates to reserve replacement of 463% and is a record addition for the company.



The exploration program contributed 135 million boe to reserves. The majority of this increment came from the successful appraisal of the Barrolka Complex (66 million boe), other Queensland discoveries (29 million boe), the accelerated exploration program in South Australia (24 million boe) and offshore Australia (12 million boe).

The MIM, WMC and Amadeus acquisitions added 56 million boe to reserves during the year.

Santos Proved and Probable Reserves



The acquisitions provided additional reserves in East Spar (offshore Western Australia), SE Gobe (Papua New Guinea), Bentu PSC (Indonesia) and in the Amadeus Basin (Northern Territory), continuing the diversification of Santos' reserve base.

Resources

The year end reserves figures exclude oil and gas which falls outside the definition of proved and probable reserves. This may result from uncertainty about their extent or the ability to be economically recovered. Santos holds interest in a number of oil and gas accumulations which currently fall into this category.

Production

Record production of 41.1 million boe was achieved in 1997.

Production in 1998 is again forecast to increase with oil production from Stag, Elang/Kakatua, SE Gobe, Banff and Pierce, gas production to supply North West Queensland customers and additional sales from East Spar.

Group Production

	1997	1996
Sales Gas (PJ)	172.2	157.0
Crude Oil (million barrels)	6.9	7.7
Condensate (million barrels)	2.5	2.3
LPG ('000 tonnes)	263.6	287.2
Total (million boe)	41.1	39.2

Increased Gas Potential

Two achievements in 1997 have had a significant impact on the future of Santos' Cooper Basin gas business. The first was the discovery of what is now known as the Barrolka Complex, and the second was the securing of long-term tenure over the Nappamerri Trough. These outcomes have largely been achieved as a result of the creation of a specialist Gas Resources Team. The Team was formed to develop appropriate expertise to successfully commercialise areas where gas had been discovered but failed to flow at economic rates.

Santos' Interest in Uncontracted Gas Reserves^(a) PJ as at Dec 1997^(b)

	Total Gas Reserves in Santos' Acreage	Santos' Share of Gas Reserves	Uncontracted Gas in Santos' Acreage	Santos' Share of Uncontracted Gas
South Australia	2890	1730	1060	630
SW Queensland	2390	1400	1470	860
Surat/Bowen	200	110	100	60
Amadeus	670	400	410	250
East Spar	520	230	130	60
Total	6670	3870	3170	1860

(a) Includes ethane.

(b) Australian producing areas.

Barrolka Complex

The initial discovery well, Barrolka 1, was drilled in 1976 and flowed gas at a relatively low rate of 1.6 million cubic feet per day. However, the results from follow-up drilling were disappointing and could not justify further investment.

Following the formation of the Gas Resources Team, Barrolka was identified as an area of substantial unrealised potential. A program to introduce air drilling into the Cooper Basin was initiated with the drilling of Barrolka 3. This well was successful and follow-up wells at Beeree, Coolah, Barrolka North East and Barrolka East confirmed that the Barrolka Complex contained significant reserves. The Barrolka Complex is now recognised as the largest onshore Australia gas discovery since 1971 and is currently estimated to contain gross hydrocarbon reserves of 130 million boe, 14 million boe of which is petroleum liquids.

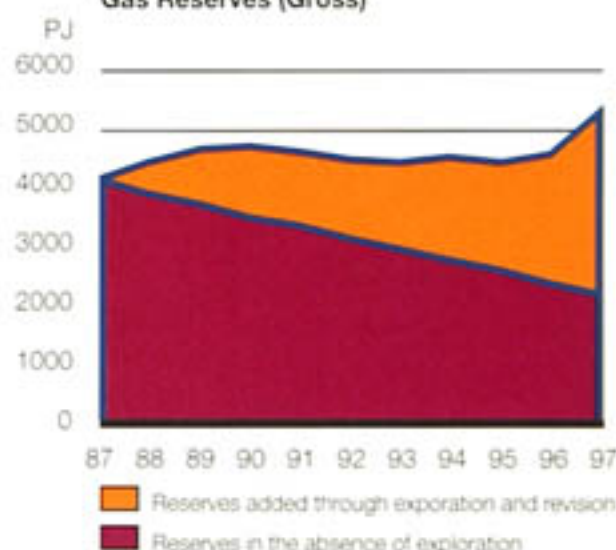
Nappamerri Trough

Continuity of tenure over an area of Production and Exploration Licences 5 and 6 known as the Nappamerri Trough was secured during 1997. The award was made in recognition of approximately \$50 million of investment that Santos and its joint venture partners have made in the area exploring for and discovering low permeability gas resources.

It is anticipated that at least a further \$100 million gross will be invested over a 15-year period to further explore the area.

The area awarded is covered by 17 Petroleum Production Licences totalling in excess of 4,100 square kilometres. Continued access to this area will facilitate the ongoing development of Santos' expertise in the management of low-permeability gas resources with a view to developing a world-class capability. This will provide a substantial skill base which the company can utilise to expand into other low-permeability gas provinces.

Total Cooper/Eromanga Basins Gas Reserves (Gross)



Development Expenditure

Total development expenditure in 1997 was \$385 million, reflecting the large number of new projects underway. An industry competitive development cost of \$2.26/boe was achieved. As a number of these projects will be completed in 1998, total development expenditure is expected to decline to \$317 million.

1997 Development Expenditure

	\$ million
South Australia	105
Queensland/Northern Territory	136
Offshore Australia	107
South East Asia	11
US and UK	24
Other	2
Total	385

Review of Performance - Business Unit Summary

Exploration and Development

1997 Exploration Activity



South Australia

- 19 gas discoveries and one oil discovery.
- 57% success rate.
- 12 new gas fields and one new oil field discovered.
- 24 million boe reserve additions.
- Significant gas potential identified. Davren-1, Gudnuki-1 and Dorodillo-1 represented discoveries from stratigraphically trapped gas plays.



Queensland & Northern Territory

- 27 gas discoveries and one oil discovery.
- 76% success rate.
- 13 new gas fields discovered.
- 95 million boe reserve additions.
- Barrolka Complex discovery – the largest ever conventional gas discovery made in Queensland.



Offshore Australia

- Two gas discoveries and three oil discoveries.
- 56% success rate.
- 12 million boe reserve additions with a further 39 million boe of possible oil and gas resources subject to further evaluation in 1998.



Americas & Europe

- In the US, 19 gas discoveries and one oil discovery made for an overall success rate of 71%.
- Four million boe reserve additions.
- Participated in Gulf of Mexico Lease Sale #166. 20% working interest acquired in nine blocks.
- Hydrocarbon discovery made at Eugene Island Block #335.



South East Asia

- One gas and two oil wells drilled, all in Indonesia.
- Encouraging indication of hydrocarbons intersected in the Kau-1 exploration well drilled in Irian Jaya, Indonesia.
- Seismic programs undertaken in a number of permits in Papua New Guinea in preparation for drilling activity in 1998.
- Technical work undertaken will result in the drilling of one well in New Zealand in 1998.

1997 Development Activity

- Activity undertaken to meet increased contractual delivery requirements. A record number of fracture stimulation treatments performed to increase gas deliverability.
- Slimhole drilling technology together with monobore well completion introduced as a more cost effective way of drilling and completing new gas wells.
- Activity focused on South West Queensland for the forthcoming gas supply commitments.
- Upgrading of the Ballera gas processing plant.
- Challum field development commenced.
- Stokes field development and Yanda field expansion.
- Creation of gas storage facilities using the Chookoo Hutton reservoir.
- The Stag (Carnarvon Basin) and Elang/Kakatua (Timor Gap) oil field development projects continued. Production expected to commence mid-1998.
- Development of the Kakatua North oil field sanctioned. Kakatua North to be tied into Elang/Kakatua.
- Development feasibility studies on Bayu-Undan and Minerva continued.
- In the Gulf of Mexico, West Delta 152 and Mississippi Canyon 357 developed.
- Development approval granted for both the Banff and Pierce oil fields in the Central North Sea.
- The major activity undertaken during 1997 was the SE Gobe oil field development project. First oil from SE Gobe scheduled for the second quarter of 1998.

1998 Exploration and Development

- 28 gas and two oil wells scheduled to be drilled as part of the accelerated exploration program (AEP).
- The AEP aims to establish new oil production and to book substantial gas reserves.
- Development of the Patchawarra East gas resource to continue with gas forecast to flow into the Moomba facilities by mid-1998.
- 21 gas and 11 oil wells scheduled to be drilled. The program to continue to focus on gas.
- Development to include the ongoing South West Queensland gas project, gas development in central Queensland, and prospects in the Northern Territory.
- Three gas and 10 oil wells scheduled to be drilled.
- Program to target locations offshore Western Australia and focus on oil. Emphasis to be upon emerging and non-conventional oil plays.
- Development activity includes the completion of the Stag and Elang/Kakatua developments, an East Spar development well and Bayu-Undan pre-development.
- Activity to focus on the Texas/Louisiana Gulf Coast and the Gulf of Mexico. 31 wells are planned.
- Potential exists to acquire additional blocks in the 1998 Central Gulf of Mexico Lease Sale.
- 1998 development spending focused on completion of the Banff and Pierce development projects and Gulf of Mexico development.
- Four wells scheduled to be drilled in Papua New Guinea in 1998. Seismic programs in this region to also continue.
- Development activity in Papua New Guinea in 1998 to focus on completion of SE Gobe.
- In Indonesia, three oil and two gas wells scheduled to be drilled. Both onshore and offshore seismic programs to be undertaken.

Human Resources

The expertise and input of Santos' highly qualified and experienced employees was a significant contributing factor to Santos' 1997 results. The focus of human resource management continues to be on recruiting the best possible people, ensuring appropriate training and maintaining a program of performance improvement in line with the company's business objectives.

Recruitment

With an accelerated exploration program across the company, recruitment of professional staff was a major focus, particularly in the Queensland and Northern Territory Business Unit and the South Australia Business Unit.

A shortage of suitably qualified and experienced industry professional staff in Australia necessitated extensive recruitment campaigns in North America and the UK. A total of 61 industry professionals were recruited, including 14 from overseas.

Significant improvements were made in the recruitment procedures of new industry professional graduates. A coordinated program of university contacts and promotion of graduate opportunities within Santos resulted in top graduates being hired.

A formal program of graduate development and a mentoring system was adopted by all Business Units.

Performance Management and Improvement

The annual performance review procedures were reviewed and redesigned to emphasise performance improvement, training and career development. The Professional Development Programs for industry professional employees were reviewed and key competencies and criteria were integrated with the performance review process.

A skills database was developed to assist the identification of specialist professional expertise and the potential for further professional development, transfer of skills and expertise, and succession planning.

A training needs analysis commenced with data collected from the performance review. This will form the basis of a coordinated training approach in key competencies across the company, to be further developed in 1998.

Employee Share Issue

Introduction of the Santos Employee Share Acquisition Plan and the Santos Employee Share Purchase Plan was an important development during the year.

Supported by the Board as an opportunity to create a stronger link between increasing shareholder value and employee reward, these plans will encourage the retention of employees through the creation of a valuable asset to which they can make a direct contribution.

The share acquisition offer was taken up by 98% of employees, and a total of 98,400 shares offered under the Share Purchase Plan were allotted to 155 employees.

Health and Safety

Safety management systems were developed for all Business Units. Implementation of these systems has achieved improvements in levels of compliance and positive safety initiatives.

South Australia Business Unit

- A campaign was initiated to increase the safety awareness of all employees and to raise the profile of Santos throughout all areas of operation.
- A "Back to Basics" Program was implemented with emphasis on issues such as manual handling, respiratory protection and heat stress.



Queensland and Northern Territory Business Unit

- Overall the downward trend in lost time injuries (LTI) continued. The Mereenie Field and Pipeline Operations achieved three and five years respectively without an LTI.
- South West Queensland achieved 500 days without recording an LTI on December 19.
- The Ballera Gas Plant was upgraded without an LTI. Over one million hours were worked.

South East Asia Business Unit

- An integrated Health, Safety and Environment Management System was initiated in July. An Emergency Response Plan for field operation in Papua New Guinea and Indonesia has been developed.

Offshore Australia Business Unit

- A Safety Management System and safety case documentation for offshore work was completed and has been implemented.

Environmental Management

1997 has presented Santos with challenges in the fields of environmental management and cultural heritage.

The conduct of the Western Prospects seismic survey in the vicinity of the Coongie Lakes in the far north east of South Australia attracted opposition from conservation groups and some members of the public.

The survey was the subject of a detailed Declaration of Environmental Factors (DEF), a consultation process involving some 65 stakeholders with their concerns addressed in a separate supplement to the DEF. The South Australian Government assessed the DEF and granted Santos permission to conduct the survey, in accordance with the adoption of strict environmental conditions.

The survey was duly completed to the satisfaction of both government officers and the independent ecologist working with the seismic party.

Over many years, Santos has strived to establish and maintain a careful balance between sensitivity to Aboriginal cultural heritage and cost effective exploration and production operations in the field.

In other areas, Santos' Corporate Environmental Management System is in the process of being devolved to the company's geographically-based Business Units, where detailed sub-systems are being created in order to accurately address both the practical and regulatory requirements of environmental, political and cultural realities of those geographical areas.

The company places a high priority on environmental and cultural heritage induction and training. Different systems and procedures have been established for each of Santos' operational areas. An interactive computer program established for Moomba some years ago has been revised and transferred onto compact disk. In this form it is being used as a template for similar systems being tailor-made for the specific circumstances that exist in the various operational areas.

Drilling Challum-7 in the Cooper/Eromanga Basin







Business Unit

The Offshore Australia Business Unit development and operations team.



erview



The East Spar Gas Plant in the foreground on Varanus Island (Carnarvon Basin) off the north west coast of Australia.

Operations at a Glance



South Australia

Operational Profile

Cooper/Eromanga Basins (South Australian section)

- Exploration and production.
- Average interest 59%.

Port Bonython Liquids Processing Plant

- LPG extraction and liquids processing.

Otway Basin

- Exploration acreage.



Queensland & Northern Territory

Cooper/Eromanga Basins (South West Queensland section)

- Exploration and production.
- Average interest 59%.

Surat/Bowen Basins

- Exploration and production.

Amadeus Basin

- Exploration and production.



Offshore Australia

Exploration acreage

- Timor Sea, Timor Gap, Bonaparte Gulf, Browse Basin, Carnarvon Basin and Otway Basin.

Production

- Crude oil: Jabiru and Challis fields (Timor Sea); Airlie field (Carnarvon Basin); Bula field (Seram PSC – Indonesia). Oil production from Stag (Carnarvon Basin) and Elang/Kakatua (Timor Gap) scheduled to commence in 1998.
- Sales gas and condensate: East Spar field in the Carnarvon Basin.



Americas & Europe

United States

- Onshore and offshore exploration and production through Santos USA Corporation.
- Offshore exploration and production in the Gulf of Mexico. Onshore exploration and production focused on the Texas/Louisiana Gulf Coast and the Arkoma Basin in Oklahoma.

United Kingdom

- Offshore oil and gas production.



South East Asia

Papua New Guinea

- Exploration acreage.
- Oil production from SE Gobe scheduled to commence second quarter 1998.

Indonesia

- Exploration acreage – Warim, Bentu, Bangko, Korinci-Baru, Sampang and Seram PSCs.
- Operator of Bentu, Korinci-Baru and Sampang PSCs.

New Zealand

- Exploration acreage.

Operations

Production:	1997	1996
Sales Gas + Ethane (PJ)	105.0	101.0
Crude Oil (MMbbls)	2.5	2.6
Condensate (MMbbls)	1.4	1.4
LPG ('000 tonnes)	196.9	208.3
Total (MMboe)	23.5	23.1
Reserves (MMboe)	362	369

Strategy

- The aim of the South Australian Business Unit is to continue to grow its business by acting on the opportunities which arise in Australia's growing gas environment.
- To achieve this aim the Business Unit has formulated a strategy based on active exploration, development and gas marketing.

Production:	1997	1996
Sales Gas (PJ)	50.1	44.2
Crude Oil (MMbbls)	3.1	3.3
Condensate (MMbbls)	0.7	0.7
LPG ('000 tonnes)	66.7	78.8
Total (MMboe)	12.9	12.2
Reserves (MMboe)	384	293

- Through extensive exploration and development Santos' strategy is to increase its level of gas reserves in this region which, combined with supporting infrastructure, will enable Santos to take advantage of a growing demand for gas, together with associated liquids products. Active gas marketing will further reinforce this strategy.

Production:	1997	1996
Sales Gas (PJ)	6.7	0.2
Crude Oil (MMbbls)	1.1	1.5
Condensate (MMbbls)	0.4	0.0
LPG ('000 tonnes)	0.0	0.0
Total (MMboe)	2.6	1.5
Reserves (MMboe)	214	174

- Growth through exploration and development represents the core component of the Offshore Australia Business Unit's strategy. Beyond commitment to development of undeveloped reserves the long-term growth strategy of the Business Unit is exploration driven.

Production:	1997	1996
Sales Gas (PJ)	10.4	11.6
Crude Oil (MMbbls)	0.2	0.3
Condensate (MMbbls)	0.1	0.1
LPG ('000 tonnes)	0.0	0.0
Total (MMboe)	2.1	2.4
Reserves (MMboe)	24	24

- Following the announcement of the Group's proposed sale of its UK interests, the Group plans to increase its focus in its key areas in the USA, with the emphasis on acquisitions, exploration and development in the Gulf of Mexico and the adjacent Texas/Louisiana Gulf Coast area.

	1997	1996
Reserves (MMboe)	25	—

- The South East Asia Business Unit's strategy is to continue to grow the company's business activities in Papua New Guinea and Indonesia. In Papua New Guinea the company's focus is on oil while in Indonesia the company's primary strategy is to target oil exploration but will seek gas exploration close to existing markets and centres of industrial development.

Business Unit Overview

South Australia Business Unit

1997 Highlights

- **Gas contract signed with Incitec Limited.**
- **Gas contract trade practices authorisation appeal upheld.**
- **Third-party product processing commenced at Port Bonython.**
- **Continuing tenure granted over Nappamerri Trough (refer page 17).**
- **Successful accelerated exploration program continued (refer page 18).**

Production

Full year production increased to 23.5 million boe reflecting increased sales gas and ethane production.

Business Development

Gas contract with Incitec Limited

In December 1997 Santos announced that it had concluded a contract with Incitec Limited for the supply of gas requirements to three Incitec plants in New South Wales. Incitec is one of the largest consumers of gas in New South Wales and selected the Santos gas supply option as being the most competitive available.

The term of the contract is to the end of 2002 as a minimum, and the Incitec gas load represents about 10 PJ per annum or approximately 10% of the current gas demand in New South Wales.

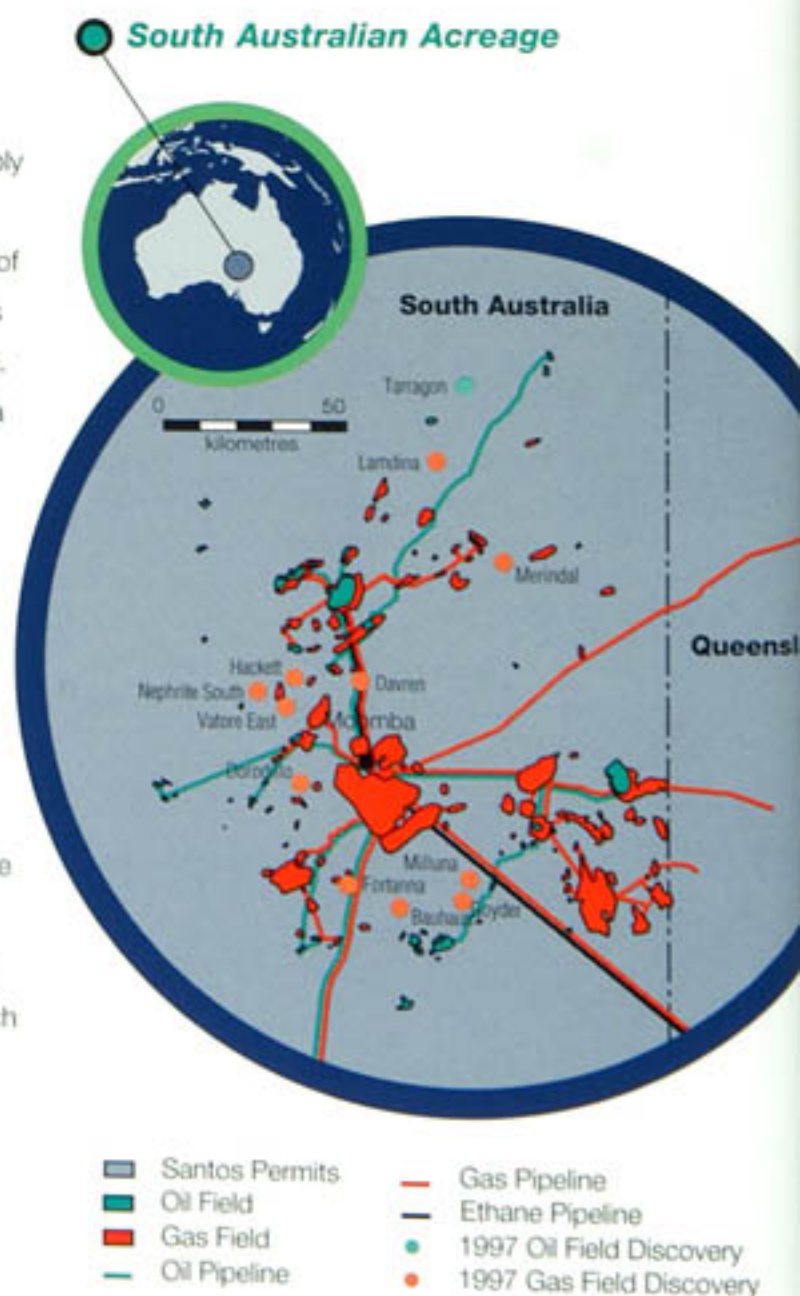
Gas Contract Authorisation Appeal Upheld

In October 1997 it was announced that the Australian Competition Tribunal had, following an appeal by the South Australian Cooper Basin Producers, ordered that a determination in 1996 of the Australian Competition and Consumer Commission revoking a 1986 Trade Practices Authorisation be set aside. The decision related to the contract under which gas is supplied from the Cooper Basin to Australian Gas Light Company (AGL).

The decision is viewed by Santos as constituting due recognition of the important role played by long-term contracts in the development of the Australian gas industry and of the substantial investments made in reliance upon the security and life of such long-term contracts.

Product Processing at Port Bonython

Processing facilities at Port Bonython have been developed to allow not only for the processing of gas liquids and crude oil from the Cooper Basin but also to reprocess third-party product. During 1997 the first shipment of condensate from the North West Shelf was purchased for conversion to naphtha. This business initiative is expected to add further value in 1998 and beyond.



1997 Highlights

- **Delivery of first gas from South West Queensland to Brisbane.**
- **Upgrading of the Ballera Gas Plant.**
- **Contract signed for the sale of gas from Mereenie field in the Northern Territory.**
- **Largest conventional gas discovery in Queensland (refer page 17).**
- **Successful gas exploration program (refer page 18).**

Production

Full year production increased to 12.9 million boe reflecting increased sales gas production.

Business Development

Gas Supplies to Brisbane Customers from South West Queensland Commence

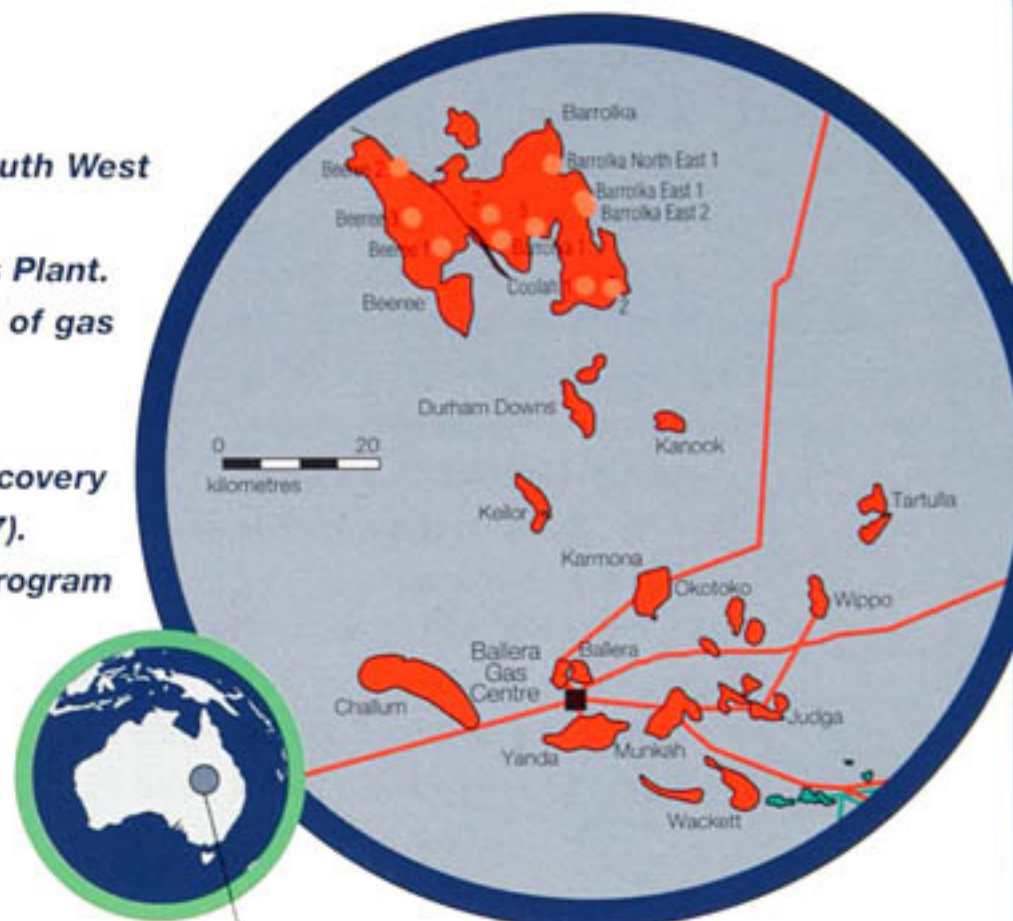
Long-term contracts to supply Brisbane customers with gas sourced from South West Queensland commenced during the year.

The benefits of the development work undertaken in South West Queensland over the past two years are now being realised with the commencement of the sales.

South West Queensland is now firmly established as the prime gas producing area in Queensland. The South West Queensland Producers are well positioned, through major reserve additions in 1997 and the commissioning of new transmission pipelines, to supply gas to new customers.

Upgrade of the Ballera Gas Plant

During the year the Ballera Gas Plant was upgraded. The development was part of the process of supplying gas from South West Queensland to customers in Brisbane and other centres in South East and Central Queensland.



Barrooka Complex - South West Queensland

- Santos Permits
- Oil Field
- Gas Field
- Oil Pipeline
- Gas Pipeline
- Gas Discovery

Further expansion of the Ballera Gas Plant is underway to meet contractual requirements for the supply of gas to North West Queensland customers.

New Mereenie Gas Contract

Santos' strength in gas marketing was highlighted with the signing of a new gas contract in the Northern Territory.

The contract for 67.5 PJ of gas was signed between the Mereenie Producers and Gasco Pty Limited, a subsidiary of the Northern Territory Power and Water Authority. The contract, the largest for gas from the Mereenie field, will require the capacity of the current gas plant to be increased by 150%. This will represent the most significant development since the commencement of gas supply to Darwin in 1986/87.

Business Unit Overview

Offshore Australia Business Unit

1997 Highlights

- **Total production increased for the first time since 1990.**
- **Progress of the Stag and Elang/Kakatua oil development projects.**
- **Development approval granted for the Kakatua North oil field.**
- **Three gas sale agreements reached for East Spar gas.**
- **Commencement of Bayu Undan feasibility studies.**
- **Acquisition of East Spar interests from WMC Petroleum (refer page 7).**
- **Five hydrocarbon discoveries from nine exploration wells (refer page 18).**

Production

Full year production increased to 2.6 million boe reflecting sales gas and condensate production from East Spar.

Business Development

Stag and Elang/Kakatua oil field development projects

Both projects continued under development with targeted first production commencing mid-1998.

Kakatua North development approval

Development approval was granted for the Kakatua North oil field located in the Timor Gap. Kakatua North will be developed in conjunction with the Elang/Kakatua oil field. Kakatua North production is expected to extend the economic life of the complex to about five years and add value to the total development.

East Spar gas sale agreements

Three gas sale agreements were reached for East Spar gas during the year. Total contract commitments for East Spar gas now represent approximately three-quarters of the total proven reserves.

1997 East Spar Contracts

	Contract Quantity PJ/year	Commencement Date
Plutonic Operations Ltd	1.4	Late 1997
Western Power Corporation	3.6	Late 1997
Fletcher Challenge Energy/ Western Power Corporation	11.7	Late 1999

Bayu-Undan feasibility studies commence
Feasibility Evaluation and Engineering Design studies for condensate extraction/gas recycling from Bayu-Undan commenced during the year. Project sanction is targeted for late 1998.



Business Unit Overview

Americas and Europe Business Unit

1997 Highlights

USA

- **Review of existing USA operations.**
- **Development of two Gulf of Mexico properties (WD152 and MC357).**
- **Increased acreage position in south western Texas. 15 wells were completed for production in this area.**
- **Successful participation in Gulf of Mexico lease sale (refer page 14).**
- **Successful exploration program undertaken (refer page 18).**
- **EI335 discovery in Gulf of Mexico (refer page 18).**

UK

- **Approval and initiation of the Banff and Pierce oil field developments.**

Production

Full year production decreased slightly to 2.1 million boe reflecting natural decline of producing fields.

Business Development

Banff and Pierce oil field developments approved

During the year the Group received development approval for the Banff and Pierce oil fields. Both fields are located in the Central North Sea and are expected to commence production during the second half of 1998.

Review of operations

The Group undertook significant activity in reviewing its operations in both the USA and the UK.

In the US, operations were reviewed and resulted in increased focus on the Gulf of Mexico and the Texas/Louisiana Gulf Coast area.

In the UK, potential exploration and acquisition projects were reviewed with a view to increasing the Group's activities in this region. In all cases the projects reviewed had unacceptable rates of return. In early 1998 the Group announced that it would seek offers for the purchase of its UK oil and gas interests and that the Business Unit would concentrate its activities in the USA.

Santos USA Corporation Interests



Business Unit Overview

South East Asia Business Unit

1997 Highlights

- **Creation of the South East Asia Business Unit following the acquisition of MIM oil and gas assets.**

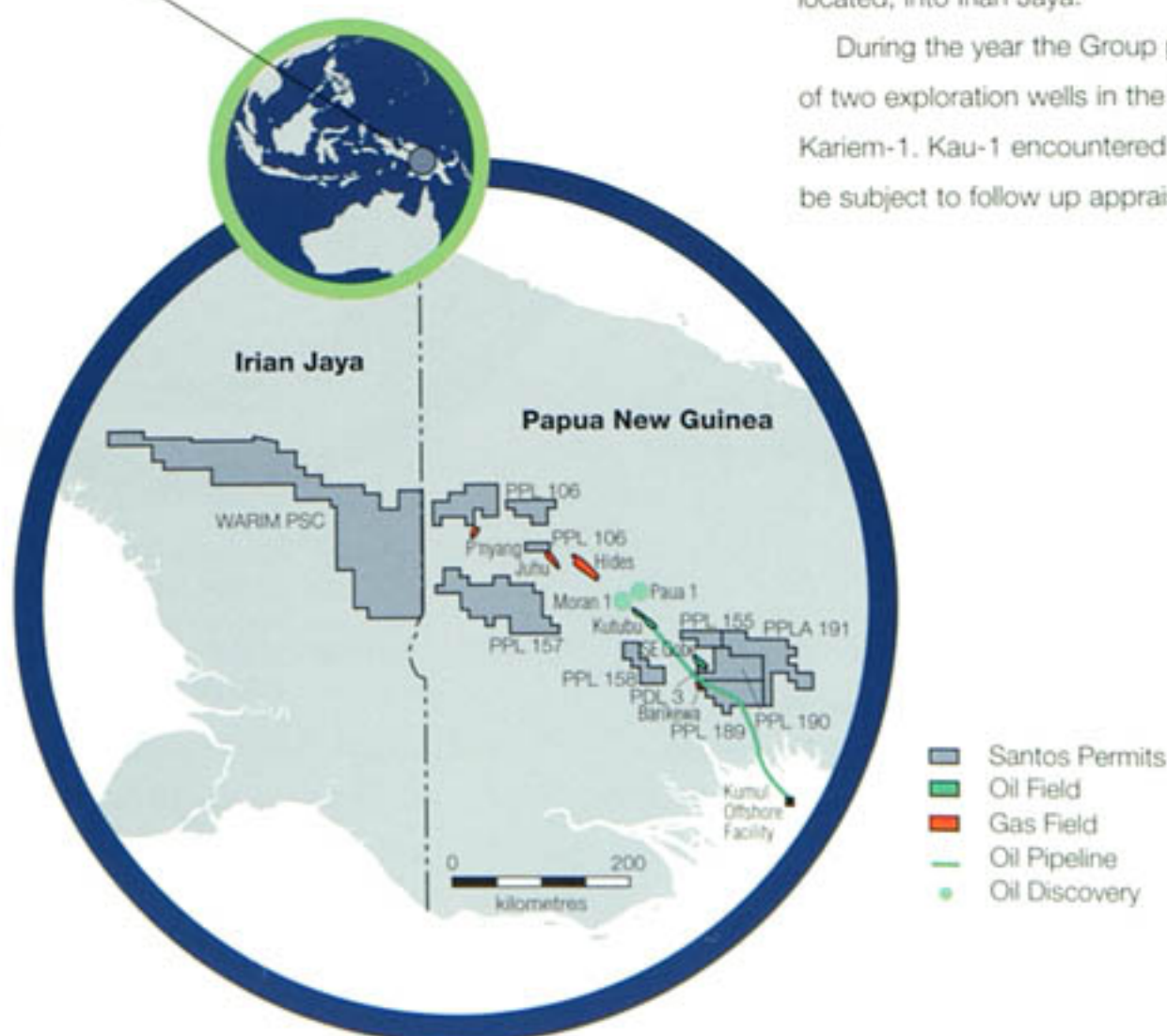
Papua New Guinea

- **Further progress on SE Gobe oil development project (refer page 19).**
- **Commencement of Group operated seismic programs in a number of permits. This activity will continue through to the second quarter of 1998 and lead to the drilling of a number of wells in 1998 and 1999 (refer page 18).**

Indonesia

- **Awarded interests in two PSCs.**
- **Awarded Operator status in both the Bentu and Korinci-Baru PSCs.**
- **Farm-in in the Warim PSC.**

Papua New Guinea Interests



Business Development

Award of interests in Production

Sharing Contracts

During the year the Group announced that it had been awarded interests in two PSCs in Indonesia. A 61% interest was awarded in the Korinci-Baru PSC in Central Sumatra, and a 45% interest was awarded in the Sampang PSC in East Java.

Both interests complement the Group's existing interest in the Bentu PSC. These interests further strengthen the Group's position in Indonesia and will position the company to take advantage of the growing gas demand in this region.

Interests acquired in Irian Jaya

The Group announced during the year that it had acquired a 20% interest in the Warim PSC in eastern Irian Jaya.

The PSC straddles the same thrust and foldbelt in the Papuan Basin which extends from Papua New Guinea, where the Kutubu and Gobe oil fields are located, into Irian Jaya.

During the year the Group participated in the drilling of two exploration wells in the Warim PSC, Kau-1 and Kariem-1. Kau-1 encountered hydrocarbons and will be subject to follow up appraisal in 1998.

Ten Year Summary

as at 31 December

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Crude oil price (A\$/bbl)	19.26	23.44	30.72	28.00	28.65	27.64	23.64	24.96	27.43	27.42
Profit and Loss (\$million)										
Sales revenue	436.1	560.6	709.5	655.9	689.8	680.2	640.0	671.6	729.2	778.5
Total operating revenue	465.6	603.0	812.9	702.0	741.5	931.6	716.6	740.1	804.0	859.5
Foreign currency gains/(losses)	39.1	22.5	(1.3)	(11.4)	(36.8)	(7.3)	66.3	(16.0)	25.0	3.6
Operating profit before abnormal items	162.0	123.0	254.8	223.5	245.1	289.2	295.9	241.0	331.9	322.3
Income tax on operating profit	66.3	52.6	112.0	106.8	104.9	104.8	116.2	101.1	136.0	116.1
Operating profit after tax before abnormal items	95.7	70.4	142.8	116.7	140.2	184.4	179.7	139.9	195.9	206.2
Abnormal items after tax	(87.8)	48.4	18.5	(224.9)	(27.5)	34.9	10.7	(29.3)	—	—
Operating profit/(loss) after tax and abnormal items	7.9	118.8	161.3	(108.2)	112.7	219.3	190.4	110.6	195.9	206.2
Outside equity interest in operating profit	5.7	1.7	5.3	2.7	—	—	—	—	—	—
Profit/(loss) attributable to shareholders	2.2	117.1	156.0	(110.9)	112.7	219.3	190.4	110.6	195.9	206.2
Balance Sheet (\$million)										
Total assets	2,849.0	2,931.6	2,962.5	2,797.6	2,821.8	2,831.2	2,897.2	2,915.5	3,443.4	4,036.2
Net debt	919.3	1,116.1	772.4	755.0	797.4	711.2	619.9	642.0	938.6	1,114.2
Total shareholders' equity	1,106.8	1,123.8	1,380.2	1,215.1	1,231.7	1,380.6	1,532.2	1,519.3	1,586.3	1,919.0
Exploration										
Wells drilled (number)	120	133	119	80	41	66	63	66	91	112
Expenditure (\$million)	90.9	109.2	97.5	79.8	76.7	79.6	91.9	87.9	121.1	190.1
Reserves (MMboe)	623	671	646	623	670	675	663	703	860	1,009
Production (MMboe)	30.6	35.6	36.0	34.2	34.6	36.3	37.2	36.8	39.2	41.1
Capital Expenditure (\$million)										
Field developments	20.1	54.9	88.9	51.9	33.2	40.0	52.2	53.9	105.8	179.7
Buildings, plant and equipment	40.4	59.7	60.9	69.1	75.6	80.6	30.5	40.1	150.3	205.4
Share Information										
Share issues	1 for 10 bonus/ 1 for 4 rights/ Private placement	Executive Share Plan	1 for 10 rights/ Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan/ Executive Share Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan	Dividend Reinvestment Plan/ Executive Share Plan	—	—	1 for 8 rights issue/ Employee Share Plan
Number of issued shares at year end (million)	403.3	404.3	450.4	473.0	498.6	517.9	539.6	539.6	539.6	607.3
Weighted average number of shares (million)*	340.2	427.5	438.0	477.5	495.7	518.8	539.2	553.3	553.4	583.7
Dividends per share — ordinary (¢)	19.0	19.0	19.0	19.0	21.0	22.0	22.0	23.0	24.0	25.0
— special (¢)	—	—	—	—	—	5.0	—	—	—	—
Dividends — ordinary (\$million)	68.9	76.0	85.5	88.5	102.7	112.3	117.2	123.6	129.0	151.3
— special (\$million)	—	—	—	—	—	25.8	—	—	—	—
Ratios and Statistics										
Earnings per share *										
— before abnormal items (¢)	27.0	16.1	31.4	23.9	28.3	35.5	33.3	25.3	35.4	35.3
— after abnormal items (¢)	0.6	27.4	35.6	(23.2)	22.7	42.3	35.3	20.0	35.4	35.3
Return on total operating revenue (%)	20.6	11.7	17.6	16.6	18.9	24.3	25.1	18.9	24.4	24.0
Return on shareholders' equity (%)	9.0	6.6	10.6	9.7	11.4	13.4	11.7	9.2	12.3	10.7
Net debt/equity (%)	83.1	99.3	56.0	62.1	64.7	51.5	40.5	42.3	59.2	58.1
Net interest cover (times)	3.1	1.9	3.2	4.1	5.9	7.0	8.3	5.8	6.2	5.4
General										
Number of employees	1,547	1,655	1,683	1,570	1,468	1,526	1,492	1,471	1,461	1,615
Number of shareholders	27,113	26,499	26,251	29,706	35,492	42,068	50,595	55,684	55,482	65,459
Market capitalisation (\$million)	1,335.1	1,639.3	1,779.8	1,399.2	1,288.5	1,988.1	1,868.2	2,111.2	2,741.1	3,826.1

* adjusted for bonus element of rights issues.

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

Santos Group Interests as at 11 March 1998

Licence Area	% Interest	Licence Area	% Interest
South Australia			
PELs 5 & 6	59.7500	SA Unit and Downstream	59.7500
Patchawarra East	69.3522		
Queensland			
South-West Queensland		Roma cont.	
ATP 259P		PL 5 (Drillsearch)	21.2500
Naccowlah	55.5000	PL 5 (Barcoo)	85.0000
Total 66	70.0000	ATP 336P (Waldegrave)	46.2500
Wareena	59.2000	PLs 28, 69 and 89 (Waldegrave)	46.2500
Innaminka	65.0000	PL 11 (Snake Creek East)	25.0000
Aquitaine A	52.5000	ATP 336P (Kalima)	76.5000
Aquitaine B	55.0000	PL 12 (Trinidad)	92.5000
Alkina	60.0000	ATP 378P (Burunga)	84.3750
Aquitaine C	47.8000	Bowen Basin	
PL 55	60.0000	ATP 337P (Denison Trough)	50.0000
SWQ Unit	58.8625	ATP 451P (Denison Trough)	50.0000
ATP 267P (Nockatunga)	59.0640	ATP 535P (Denison Trough)	50.0000
PLs 33, 50 and 51 (Nockatunga)	59.0640	ATP 553P (Denison Trough)	50.0000
ATP 269P (Bodalla)	5.8060	PLs 41-45, 54 and 67 (Denison Trough)	50.0000
PLs 31, 32 and 47 (Bodalla)	5.2500	Surat Basin	
ATP 577P	7.0000	PLs 21, 22, 27 and 64 (Balonne)	12.5000
ATP 299P (Tintaburra)	89.0000	ATP 470P (Redcap)	10.0000
PLs 29, 38, 39, 52 and 57 (Tintaburra)	89.0000	PL 71 (Redcap)	10.0000
Southern Surat		ATP 212P	15.0000
PL 1 (Moonie)	100.0000	PLs 39, 56 and 74	15.0000
PL1 (2) (C) (Cabawin)	100.0000	ATP 471P (Weribone)	5.9100
PL 1 (2) (Cabawin Farm-out)	50.0000	ATP 471W (Wunger)	66.6700
PL 2C (Alton)	100.0000	PL 15 (Wunger)	66.6700
PL 2 (Kooroon)	52.5000	ATP 471N (Noona)	50.0000
PL 2C (Alton Farm-out)	51.0000	PLs 16, 48 and 66 (Noona)	50.0000
ATP 512P	66.7000	ATP-RCE (Rocky Creek East - Expl)	41.6700
ATP 244P (D Block)	20.0000	ATP 471-M (Myall)	69.4500
PL 17	70.0000	ATP 471-O (Onerry)	72.5000
PL 17 (Bennett)	100.0000	ATP 471-D (Dalkeith)	66.6700
PL 17 (Leichardt Exclusion)	70.0000	ATP 471-B (Bainbilla)	16.6700
ATP 552P-GN	30.0000	PL 49 (Rocky Creek East)	50.0000
ATP 552P-RM	5.0000	Facilities	
Roma		Wungoona Processing Facilities	50.0000
ATP 336P (Roma)	85.0000	Moonie to Brisbane Pipeline	100.0000
PLs 3-13 and 93 (Roma)	85.0000	Jackson Moonie Pipeline	82.7500
PL 5 (Mascotte)	42.5000	Ballera to Mt Isa Pipeline	17.6588
Victoria			
PEP 108	50.0000	VIC/RL1	33.3334
PEP 132	50.0000	VIC/RL3	25.0000
PEP 119	60.0000	VIC/RL7	10.0000
		VIC/RL8	10.0000
Tasmania			
T/RL1 (Yolla)	5.0000		
Northern Territory			
OL 3 (Palm Valley)	47.9770	RL2 (Dingo)	65.6635
OLs 4 and 5 (Mereenie)	65.0000	Mereenie-Brewer Estate Pipeline	65.0000

Licence Area	% Interest	Licence Area	% Interest
Offshore Northern Australia			
EP 325	25.0000	AC/L2 (Challis)	10.3125
EP 398	100.0000	AC/L3 (Cassini)	10.3125
TL/2	15.0000	AC/L4 (Skua)	30.5887
TP/12	100.0000	WA-261-P	52.0833
TP/7 (1-3)	43.7110	WA-264-P	66.6667
TP/7 (4)	18.7110	WA-258-P	45.4444
WA-149-P	18.7110	NT/RL1 (Petrel)	50.4900
WA-199-P	40.8560	NT/P52	37.5000
WA-206-P	43.0000	WA-1-P	22.5600
WA-13-L	45.0000	WA-8-L (Talisman)	27.3684
WA-208-P	30.0000	WA-15-L	54.1666
WA-214-P	45.0000	WA-18-P (Tern)	70.0000
WA-215-P	10.0000	WA-191-P	33.3977
WA-239-P	10.0000	WA-209-P	36.0000
WA-242-P	20.0000	WA-222-P	50.4900
AC/P6 (Oliver)	38.0000	WA-6-R (West Petrel)	50.4900
AC/P15	33.3334	ZOCA 91-01	20.0000
AC/RL1 (Talbot)	47.7478	ZOCA 91-12	21.4260
AC/L1 (Jabiru)	10.3125	Bayu-Undan Gas Field	11.8276
Americas and Europe			
United Kingdom		Avg working interest	
Central North Sea			
- Banff (22/27a Development)	1.8000	- WC 582	20.0000
- Pierce (23/27 Development)	2.9250	- WC 632	20.0000
- Block 23/27	3.7500	- WC 272	20.0000
- Block 22/27a	11.7500	- EC 155	20.0000
- Block 22/22c	13.3360	- MB 997	20.0000
Southern North Sea		- MB 998	20.0000
- Anglia gas field	32.8020	- EI 143	20.0000
- Block 48/18b & 48/19b	32.8020	- ST 60-S	50.0000
- Block 41/10	12.5000	Texas Onshore Tertiary Trend	
United States of America		- Sublime	87.0400
Gulf of Mexico		- Birdie Porter Green	50.0000
- WD 152	13.0000	- SW Nordheim	34.0000
- EI 335	20.0000	- Thomson Barrow/O'Brien Ranch	18.0000
- EI 59	20.0000	Arkoma Basin	26.4000
- MC 357	12.5000	Mississippi Smackover	33.0000
New Zealand			
PEP 38712	46.6600		
Papua New Guinea			
PPL 106	55.0000	PPL 191	87.0000
PPL 157	80.0000	PDL 3	15.5000
PPL 158	50.0000	SE Gobe Field Unit	6.9750
PPL 189	40.4040	PPL 155	43.8250
PPL 190	30.1010	PL 3	3.4875
Indonesia			
Seram	2.5000	Bangko	15.0000
Bula	100.0000	Bentu	61.1111
Korinci-Baru	61.1111	Sampang	45.0000
Warim	20.0000		

Corporate Governance

Corporate Governance Statement

The Board of Santos Limited is committed to good corporate governance and to this end has had formal guidelines in place for a number of years. These guidelines cover: Board composition and appointment of chairman; Board membership and attendance; the appointment and retirement of Directors; independent professional advice; compensation arrangements; external auditors; risk management; and ethical standards. The guidelines are reviewed by the Board on an annual basis and as required.

Board of Directors and its Committees

The Board is responsible for the overall corporate governance of the Company including its strategic direction and financial objectives, establishing goals for management and monitoring the attainment of these goals.

To assist in the effective execution of its responsibilities, the Board has established a number of Board Committees including a Nomination and Remuneration Committee, an Audit Committee and an Environmental Committee. The Nomination and Remuneration Committee comprises all non-executive Directors and each of the Audit and Environmental Committees comprises a majority of non-executive Directors and is chaired by a non-executive Director. The Chairman of the Board is a non-executive Director.

All current non-executive Directors are considered to be "independent" Directors, as defined in the 1997 guidelines of the then Australian Investment Managers Association.

Composition of the Board

The names and details of the experience, current qualifications, special responsibilities and shareholdings of each Director of the Company are set out on page 39 of this Annual Report.

The composition of the Board is determined using the following principles:

- in accordance with the Articles of Association, the Board is to comprise a minimum of five and a maximum of ten Directors (exclusive of the Managing Director);
- the Board should comprise a substantial majority of non-executive Directors (currently the Board comprises seven non-executive and two executive Directors);

- there should be a separation of the roles of Chairman and Chief Executive Officer of the Company; and
- the Chairman of the Board should be a non-executive Director.

The primary criteria adopted in selection of suitable Board candidates are their capacity to contribute to the ongoing development of the Company having regard to the location and nature of the Company's significant business interests and to the candidates' age and experience by reference to the age and diversity of experience of existing Board members. Under its written Charter, approved by the Board, it is the responsibility of the Nomination and Remuneration Committee to devise the criteria for, and review membership of, and nominations to, the Board.

When a Board vacancy exists or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination and Remuneration Committee has responsibility for proposing candidates for consideration by the Board and, where appropriate, engages the services of external consultants.

Prior to appointment, each Director is provided with a letter of appointment which, inter alia, encloses a copy of the guidelines governing board operation, membership and corporate governance, including detailed regulations relating to disclosure of interests and guidelines for dealing in securities, together with the requisite form for completion in compliance with those regulations. The expectations of the Board in respect to a proposed appointee to the Board and the workings of the Board and its committees are conveyed in interviews with the Chairman and access provided to appropriate executives in relation to details of the business of the Company.

Under the Company's Articles of Association approximately one-third of Directors retire by rotation each year and Directors appointed during the year are required to submit themselves for election by shareholders at the Company's next Annual General Meeting.

It is the Board's policy that, under normal circumstances, Directors should retire at the first Annual General Meeting after reaching the age of 72 years and not seek re-appointment.

Independent Professional Advice

The Board has established guidelines setting out the circumstances and procedures pursuant to which a Director, in furtherance of his or her duties, may seek independent professional advice at the Company's expense. Those procedures require prior consultation with, and approval by, the Chairman and assurances as to the qualifications and reasonableness of the fees of the relevant expert and, under normal circumstances, the provision of the expert's advice to the Board.

Remuneration

Under its written Charter, approved by the Board, the Nomination and Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company including the compensation arrangements for executive Directors and senior management, the Company's superannuation arrangements and, within the aggregate amount approved by shareholders, the fees for non-executive members of the Board. This role also includes responsibility for the Company's employee share and option plans. Executive and senior management performance review and succession planning are matters referred to and considered by the Committee.

The current members of the Nomination and Remuneration Committee, all of whom are non-executive Directors, are: Mr J A Uhrig (Chairman), Mr P C Barnett, Mr S Gerlach, Mr M A O'Leary, Professor J Sloan, Mr R Strauss and Mr I E Webber.

Remuneration levels are competitively set to attract appropriately qualified and experienced Directors and senior executives capable of discharging their respective responsibilities. The Nomination and Remuneration Committee has access to independent advice and comparative studies on the appropriateness of remuneration arrangements. Option Plans approved by shareholders for executive Directors and senior management incorporate performance hurdles. No non-executive Director may participate in any of the Company's Share or Option Plans. Details of those Plans are provided in Note 19 of the Financial Statements.

Under the Company's Articles of Association, fees for non-executive Directors are determined by the Board within

an aggregate amount approved by shareholders.

Non-executive Directors also have entitlements to retirement benefits in accordance with agreements entered into with shareholders' approval in 1989.

Audit Committee

It is Board policy to continue in existence an Audit Committee of the Board.

The role of the Audit Committee is documented in a Charter, approved by the Board. In accordance with this Charter, the Committee comprises three non-executive Directors plus the Managing Director and is chaired by a non-executive Director. The internal and external auditors, and senior management, attend Audit Committee meetings at the invitation of the Committee.

The current members of the Audit Committee are: Mr S Gerlach (Chairman), Mr P C Barnett, Mr I E Webber and Mr N R Adler.

The Committee is required to meet at least three times per year: at the planning stage of the audit, at which time the planned scope of the audit and the auditor recommendations on controls are considered; and before the issue of the half-yearly and annual financial statements and the Board meetings approving the same, at which time any significant matters arising during the audit are considered. The Committee also meets, as determined by the Chairman of the Committee and members may raise any matters considered desirable.

The role of the Audit Committee includes:

- Examining the accounting policies of the Company to determine whether they are appropriate and in accordance with all applicable reporting requirements.
- Ensuring that truth and fairness is reflected in the preparation and publication of the Company's financial statements.
- Meeting regularly with the auditors to reinforce the independence of the auditors, to determine the appropriateness of internal and external audit procedures, to review the performance of the auditors and to provide the auditors with confidential access to the Board.
- Referring matters of concern to the Board, as appropriate, and considering risk management matters.

Corporate Governance continued

Minutes and recommendations of the Audit Committee are distributed at the next Board meeting.

Risk Management

The Board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the maintenance of: Board Committees (including Audit and Environmental Committees of the Board); detailed and regular budgetary, financial and management reporting; established organisational structures, procedures, manuals and policies; audits (including internal and external financial, environmental and safety audits); comprehensive insurance programs; and the retention of specialised staff and external advisors. For example:

- Financial reporting - a comprehensive budgeting system exists with a five year financial plan and an annual budget approved by the Board. Monthly actual results are reported against budget and, where applicable, revised forecasts for the year are prepared and reported to the Board. Speculative transactions are prohibited.
- Functional speciality and business unit reporting - all significant areas of Company operations are subject to regular reporting to the Board. The Board receives regular reports on the performance of each business unit and on exploration, development, finance, liquids marketing, safety, government, investor relations and environmental matters.
- Investment appraisal - the Company has clearly defined procedures for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where assets are being acquired.
- Management of exploration risk - exploration risk is managed through internal control systems which include formalised risk assessment procedures at the Business Unit level, Corporate review in both prospect and hindsight, Board approval of exploration budgets and regular reporting on progress to the Board. External reviews are also undertaken as necessary.
- Management of environmental risk - environmental risk is managed through: comprehensive environmental management systems; Environmental Committees at Board and management levels; the retention of specialist

environmental staff and advisers; regular internal and external environmental audits; and imposing environmental care as a line management responsibility. Membership of the Environmental Committee of the Board comprises three non-executive Directors and the Managing Director.

The current members of the Committee are: Mr J A Uhrig (Chairman), Mr S Gerlach, Mr M A O'Leary and Mr N R Adler.

- Senior management attend Board and Committee meetings, at which they report to Directors within their respective areas of responsibility. This assists the Board in maintaining its understanding of the Company's business and assessing the senior management team. Where appropriate, advisers to the Company attend meetings of the Board and of its Committees.

Under the Company's Delegation of Authority, the Board is responsible, inter alia, for the approval of the annual corporate budget and for significant:

- acquisitions and disposals of assets;
- expenditure decisions outside of the corporate budget;
- hedging of product sales;
- sales contracts; and
- financing arrangements.

The Audit Committee is responsible for approving the program of internal audit to be conducted each financial year in ensuring compliance with these internal controls.

Ethical Standards

In pursuance of the promotion of high standards of corporate governance, the Board has established and maintained various internal standards which extend beyond requirements prescribed by law and include additional disclosure of interests by Directors and guidelines relating to the dealing in securities by Directors and managers.

Board of Directors



Pictured from left to right:
Mr MA O'Leary,
Mr PC Barnett,
Prof J Sloan,
Mr NR Adler (Managing Director),
Mr JA Uhrig (Chairman),
Mr IE Webber,
Mr JW McArdle,
Mr Robert Strauss,
Mr S Gerlach.

John Allan Uhrig

AO, DUniv, BSc, FAIM
Age 69. Director since
3 December 1991 and Chairman
since 15 February 1994.
Chairman of the Environmental
Committee of the Board and
also Chairman of Santos Finance
Ltd. Chairman of Rio Tinto Ltd,
Westpac Banking Corporation
and The Australian Minerals and
Energy Environment Foundation.
Deputy Chairman of Rio Tinto
PLC. Until 1985 was Managing
Director of Simpson Holdings Ltd.

Norman Ross Adler

B Com, MBA
Age 53. Managing Director since
7 November 1984, member of
the Audit and Environmental
Committees of the Board and
also Chairman of other Santos
Ltd subsidiary companies.
Director of the Commonwealth
Bank of Australia, QCT
Resources Ltd Group, Telstra
Corporation Ltd and Australian
Institute of Petroleum Ltd.
Member of the Corporations and
Securities Panel and Business
Council of Australia.

Peter Charles Barnett FCPA

Age 57. Director since
31 October 1995 and member
of the Audit Committee of the
Board. Chairman of Norwich
Union Financial Services Group.
Director of Mayne Nickless Ltd,
Australian Media &
Communications Investments
Limited, Ericsson Australia Pty
Ltd and the Institute of Public
Affairs. Former Managing
Director and Chief Executive
Officer of Pasminco Ltd and
Chief Executive Officer of EZ
Industries Ltd.

Stephen Gerlach LLB

Age 52. Director since
5 September 1989. Chairman
of the Audit Committee and
member of the Environmental
Committee of the Board.
Chairman of Amdel Ltd,
Equitorial Mining N.L., Aser
Nominees Pty Ltd and Elders
Australia Ltd. Director of
Southcorp Holdings Ltd, Futuris
Corporation Ltd, and Beston
Pacific Corporation Limited.
Former Managing Partner of the
Adelaide legal firm, Finlaysons.

John Walter McArdle FCPA

Age 51. Executive Director since
5 September 1995 and
Executive General Manager -
Commercial of Santos Ltd.
Deputy Chairman of Australian
National Railways Commission.
Director of QCT Resources Ltd
Group and Santos Ltd subsidiary
companies. Former Managing
Director of Delhi Petroleum
Pty Ltd.

Michael Anthony O'Leary

DipMinE, BSc, FAusIMM, FAIM
Age 62. Director since
15 October 1996 and member
of the Environmental Committee
of the Board. Director of Bank
of Western Australia Ltd. Former
Chairman of Hamersley Iron,
Argyle Diamonds, Dampier Salt
and former Director of Rio Tinto
Ltd and Rio Tinto PLC.

Professor Judith Sloan

BA (Hons), MA, MSc
Age 43. Director since
5 September 1994. Professor
of Labour Studies at the Flinders
University of South Australia and
Director of the National Institute

of Labour Studies. Chairman of
SGIC Holdings Ltd and Director
of Mayne Nickless Ltd, SGIO
Insurance Limited and South
Australian Ports Corporation.

Robert Strauss

MBE, FCA, FCPA, FCIS
Age 72. Director since 4 October
1983. Mr Strauss is a Chartered
Accountant. Chairman of John
Kaldor Fabricmaker Ltd Group
and Director of Gibson Holdings
Inc and Chairman of the Council
of the Australian Simon
University. Former Executive
Chairman of Bridge Oil Limited.

Ian Ernest Webber

AO, BE, ATS, FCIT, FAIM
Age 62. Director since
16 February 1993 and member
of the Audit Committee of the
Board. Chairman of ASEA Brown
Boveri Advisory Board and
Director of Pacific Dunlop Ltd
and WMC Ltd. Former Managing
Director and Deputy Chairman
of Chrysler Australia Ltd and
Managing Director of Mitsubishi
Motors Australia Ltd.

Glossary

air drilling	A drilling technique which uses compressed air rather than mud to lubricate the drill bit and to lift rock cuttings.
appraisal well	An exploration well drilled for the purpose of identifying extensions to known fields or discoveries.
barrel/bbl	The standard unit of measurement for all production and sales. One barrel equals 159 litres or 35 imperial gallons.
boe	Barrels of oil equivalent. The factors used by Santos to convert volume of different hydrocarbon production to barrels of oil equivalent are printed below.
bopd	Barrels of oil per day.
the company	Santos Ltd and its subsidiaries.
D,D&A	Depreciation, depletion and amortisation of building, plant and equipment, exploration and development expenditure.
development well	A well drilled to enable production from a known oil or gas reservoir.
exploration well	A wildcat or appraisal well drilled to find new reserves of oil or gas.
farm-out (farm-in)	An agreement which provides for a party to acquire an interest in a permit by either fully or partially funding an agreed program of work to be conducted in the permit.
fracture stimulation	A technique used to improve hydrocarbon recovery from reserves with poor permeability or porosity. Fracture stimulation involves the fracturing of the reservoir rock to encourage the flow of hydrocarbons.
hydrocarbons	Solid, liquid or gas compounds of the elements hydrogen and carbon.
LPG	Liquefied petroleum gas.
Mbbbls	Thousand barrels.
MMbbbls	Million barrels.
MMboe	Million barrels of oil equivalent.
monobore well	A well which has a single casing and no internal tubing.
petroleum liquids	Crude oil, condensate, or its derivative naphtha, and the liquefied petroleum gases propane and butane.
PJ	Petajoules. Joules are the metric measurement unit for energy. A petajoule is equal to $1 \text{ kilojoule} \times 10^{12}$. The equivalent imperial measure to joules is British Thermal Units (BTU). One kilojoule = 0.9478 BTU.
PSC	Production sharing contract.
reserves	Proved and probable reserves as defined by the Australian Stock Exchange Ltd (ASX). Proved reserves are those reserves that, to a high degree of certainty, are recoverable, at commercial rates, under presently anticipated production methods, operating conditions, prices and costs. Probable reserves are those reserves that may be reasonably assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves. Reserves reported are based on, and accurately reflect, information compiled by full-time employees of the company who have the requisite qualifications and experience prescribed by the ASX Listing Rules.
reservoir	A rock formation in which hydrocarbons are present.
Santos	Santos Ltd and its subsidiaries.
seismic survey	A survey used to gain an understanding of rock formations beneath the earth's surface.
slim hole drilling	The drilling of a well where 90% or more of its length has an open hole diameter of 180mm or less.
stratigraphic trap	A trap which results from a lateral variation in the reservoir rock.
TJ	Terajoules. Joules are the metric measurement unit for energy. A terajoule is equal to $1 \text{ joule} \times 10^{12}$.
wildcat well	An exploration well drilled to identify new accumulations of oil or gas.
ZOCA	Zone of Co-operation Area.

boe conversion factors

Crude Oil 1 barrel = 1 boe

Condensate/Naphtha 1 barrel = 0.935 boe

Sales Gas 1 petajoule = $171.937 \text{ boe} \times 10^3$

LPG 1 tonne = 8,458 boe

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Directors' Statutory Report

This report by the Directors of Santos Ltd ("the Company") is made pursuant to Division 6 of Part 3.6 of the Corporations Law for the year ended 31 December 1997 and is accompanied by the Financial Statements for the period of the Company and the entities it controlled from time to time during the period ("economic entity") and the information appearing on the pages specified herein of this Annual Report, which are to be read as part of the report:

1. Directors, Directors' Shareholdings and Directors' Meetings

The names of Directors of the Company in office at the date of this report and details of the relevant interest of each of those Directors in the share capital in the Company or in any related body corporate as notified to Australian Stock Exchange Limited are:

Surname	Other Names	Shareholdings in Santos Ltd		Surname	Other Names	Shareholdings in Santos Ltd	
		Beneficial Interest	Non-Beneficial Interest			Beneficial Interest	Non-Beneficial Interest
Uhrig	John Allan (Chairman)	16,875	-	McArdle	John Walter (Executive Director)	516,732**	37,913
Adler	Norman Ross (Managing Director)	855,000*	-	O'Leary	Michael Anthony	4,725	-
Barnett	Peter Charles	16,250	-	Sloan	Judith	1,125	-
Gerlach	Stephen	-	7,305	Strauss	Robert	11,250	-
				Webber	Ian Ernest	26,250	-

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

* Includes 610,000 partly paid Executive Share Plan Shares.

** Includes 320,000 partly paid Executive Share Plan Shares.

No Director holds shares in any related body corporate, other than in trust for the Company.

Pursuant to the Santos Executive Share Option Plan, approved by shareholders at the Annual General Meeting of the Company held on 15 May 1997, 500,000 Options, each to subscribe for one ordinary fully paid share, have been issued to the Managing Director,

Mr N R Adler, and a further 350,000 such Options have been issued to the Executive Director, Mr J W McArdle, all of which Options are held beneficially.

Details of the qualifications, experience, other directorships and special responsibilities of each Director are set out on page 39 of this Annual Report.

Mr Ian David Francis Callinan resigned as a Director of the Company at the end of the year.

Directors' Meetings

The number of Directors' Meetings and meetings of committees of Directors held in the period each Director held office during the financial year and the number of meetings attended by each Director are as follows:

Surname	Other Names	Directors' Meetings		Audit Committee		Environmental Committee		Nomination and Remuneration Committee	
		No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*	No. of Meetings Attended	No. of Meetings Held*
Uhrig	John Allan	10	11			3	3	5	5
Adler	Norman Ross	10	11	3	4	3	3		
Barnett	Peter Charles	11	11	4	4			5	5
Callinan	Ian David Francis	11	11					5	5
Gerlach	Stephen	9	11	4	4	3	3	5	5
McArdle	John Walter	11	11						
O'Leary	Michael Anthony	10	11			-	-	5	5
Sloan	Judith	9	11					5	5
Strauss	Robert	7	11					5	5
Webber	Ian Ernest	9	11	2	4			5	5

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

Special committees for the Rights Issue (comprising Messrs P C Barnett, S Gerlach and I E Webber) and for the Executive Share Option Plan (comprising Messrs J A Uhrig and I E Webber) each held one meeting and were attended by all Directors who were members of those Committees.

As at the date of this report, the Company had an audit committee of the Board of Directors.

Particulars of the Company's corporate governance practices appear on pages 36 to 38 of this Annual Report.

2. Principal Activities

The principal activities of the economic entity constituted by the Company and the entities it controlled from time to time during the year were: petroleum exploration; the production, treatment and marketing of natural gas, crude oil, condensate, naphtha and liquid petroleum gas; and the transportation by pipeline of crude oil. No significant change in the nature of these activities has occurred during the year.

3. Consolidated Result

The net amount of Consolidated Profit of the economic entity for the year ended 31 December 1997 after providing for income tax was \$206.2 million.

4. Dividends

In respect of the year ended 31 December 1997:

(a) the Directors on 11 March 1998 declared a fully franked final dividend of 13 cents per fully paid share to be paid on 30 April 1998 to members registered in the books of the Company as at close of business on 8 April 1998 and declared that such dividend be a Class C franked dividend to the extent of 100%. This final dividend amounts to approximately \$78.7 million; and

(b) a fully franked interim dividend of \$72.6 million (12 cents per share) was paid to members in November 1997.

A fully franked final dividend of \$69.9 million on the 1996 results (13 cents per share) was paid in May 1997. Indication of this dividend payment was disclosed in the 1996 Annual Report.

5. Review of Operations

A review of the operations and of the results of those operations of the economic entity during the financial year are contained in pages 4 to 8, 12 to 19 and 28 to 32 of the Report to Shareholders forming part of this Annual Report ("Report to Shareholders").

6. State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review other than those referred to on pages 2 and 3 of the Report to Shareholders including those relating to the acquisition of certain petroleum assets of MIM Holdings Limited and WMC Resources Limited and the one for eight renounceable rights issue (refer Note 19 to the Financial Statements).

7. Subsequent Events

Other than as referred to at Note 35 to the Financial Statements, in the opinion of the Directors there has not arisen in the interval between the end of the financial year ended 31 December 1997 and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

8. Future Developments

Certain likely developments in the operations of the economic entity and the expected results of those operations subsequent to the financial year ended 31 December 1997 are referred to at pages 9, 14, 15, 17, 19 and 28 to 32 of the Report to Shareholders. The Directors believe, on reasonable grounds, it would be likely to result in unreasonable prejudice to the Company if further information which may be required by Section 305(11) of the Corporations Law to be included in this report was so included and the information has been excluded in accordance with Section 306 of the Corporations Law.

9. Directors' Interests and Benefits

- (a) Directors have declared interests in contracts or proposed contracts with the Company by virtue of their association with the companies specified in the statement setting out particulars of the qualifications, experience and special responsibilities of each Director on page 39 of this Annual Report. Some of these companies have transactions with the Company in the ordinary course of business.
- (b) There are no particulars of Directors' interests declared in contracts or proposed contracts as described in Section 307(1)(c) of the Corporations Law which are not otherwise disclosed in this report.
- (c) Other than as set out in paragraphs 10 and 11 of this report and, in accordance with ASC Class Order 97/2348, Notes 26 and 27 to the Financial Statements, no Director of the Company has received or become entitled to receive a benefit such as would be required to be reported pursuant to Section 309 of the Corporations Law.

10. Share Options

The Santos Executive Share Option Plan was approved by shareholders at the Annual General Meeting of the Company held on 15 May 1997. Full details of the Plan are disclosed in the section titled "Santos Executive Share Option Plan" in Note 19 to the Financial Statements.

During the financial year ended 31 December 1997, the Company granted 5,550,000 options to 39 executives under the Plan, including 500,000 options to the Managing Director, Mr N R Adler and 350,000 options to the Executive Director, Mr J W McArdle. For further details of the options granted to these Directors, refer to the section titled "Santos Executive Share Option Plan" in Note 19 to the Financial Statements.

No options have been exercised up to the date of this report and at the date of this report there are 5,550,000 ordinary shares under option.

The names of persons who currently hold options in the Plan are entered in the register of options kept by the Company pursuant to Section 216C of the Corporations Law. The register may be inspected free of charge.

Pursuant to ASC Class Order 97/1011 dated 9 July 1997, the Directors have taken advantage of relief available from the requirement to disclose the names of persons, not being Directors, to whom options are granted and the number of options granted to each person.

There are no unissued shares under option as at the date of this report, other than those referred to above. These options do not entitle the holder to participate in any share issue of any other body corporate.

11. Indemnification

Article 177 of the Company's Articles of Association provides that the Company indemnifies each person who is or who has been an officer (as defined) of the Company against any liability to another person (other than the Company or a related body corporate) arising from their position as such officer, unless the liability arises out of conduct involving a lack of good faith. The Company has insured against amounts which it is liable to pay pursuant to Article 177 or which it otherwise agrees to pay by way of indemnity. Article 177 also provides for an indemnity in favour of an officer or auditor in relation to costs incurred in defending proceedings in which judgment is given in their favour or in which they are acquitted or the Court grants relief.

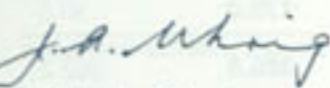
During the financial year, the Company, in conformity with Article 177, entered into Deeds of Indemnity in favour of each of the Directors referred to in this report, who held office during the year, and the Secretary referred to at page 77 of the Report to Shareholders, being indemnities to the full extent permitted by law. Similar Deeds of Indemnity were entered into by the Company during the financial year in favour of certain General Managers of the Group. There is no monetary limit to the extent of the indemnity under those Deeds and no liability has arisen thereunder as at the date of this report other than in respect of the legal costs referred to below.

As at the date of this report, legal costs of \$613,687 have been paid by the Company in defending certain proceedings in relation to termination of employment brought by a former employee against the Company, the Managing Director, Mr N R Adler, and other Group employee defendants, Dr J D Armstrong and Mr S G Gibson. These costs, which insofar as they relate to the three personal defendants have been paid pursuant to the terms of the above Deeds of Indemnity, have not been apportioned among the Company nor the three indemnified personal defendants and therefore it is not possible to determine the amount paid on behalf of each of them.

12. Rounding

The Company is a company of the kind referred to in ASC Class Order 97/1005 dated 9 July 1997 and accordingly amounts set out in the accounts and reports contained in this Annual Report have been rounded to the nearest hundred thousand dollars, unless otherwise indicated.

This report is made out on 11 March 1998 in accordance with a resolution of the Directors.



J A Uhrig, Director

11 March 1998



N R Adler, Director

Profit and Loss Accounts

for the year ended 31 December 1997

		Consolidated		Santos Ltd	
	Note	1997 \$million	1996 \$million	1997 \$million	1996 \$million
Sales revenue		778.5	729.2	376.0	338.7
Other revenue	(2)	81.0	74.8	119.0	186.1
Operating revenue		859.5	804.0	495.0	524.8
Operating expenses		(270.4)	(235.0)	(117.4)	(120.1)
Depreciation, depletion and amortisation	(3)	(216.2)	(211.8)	(94.6)	(84.5)
Interest expense	(4)	(54.2)	(50.3)	(42.1)	(62.3)
Foreign currency gains	(5)	3.6	25.0	-	-
Operating profit before income tax	(6)	322.3	331.9	240.9	257.9
Income tax attributable to operating profit	(7)	(116.1)	(136.0)	(53.3)	(46.2)
Operating profit after income tax attributable to the shareholders of Santos Ltd		206.2	195.9	187.6	211.7
Retained profits at the beginning of the year		283.7	216.8	173.2	90.5
Total available for appropriation		489.9	412.7	360.8	302.2
Dividends provided for or paid	(8)	(151.3)	(129.0)	(151.3)	(129.0)
Retained profits at the end of the year		338.6	283.7	209.5	173.2

The Profit and Loss Accounts are to be read in conjunction with the notes to and forming part of the Financial Statements

Balance Sheets

at 31 December 1997

			Consolidated	Santos Ltd	
	Note	1997 \$million	1996 \$million	1997 \$million	1996 \$million
Current assets					
Cash		109.8	152.0	30.6	7.0
Receivables	(9)	119.6	130.4	212.3	224.3
Inventories	(10)	74.8	72.6	38.3	38.1
Total current assets		304.2	355.0	281.2	269.4
Non-current assets					
Receivables	(9)	0.5	4.6	0.5	4.6
Investments	(11)	389.7	389.7	1,910.6	1,910.3
Exploration and development expenditure	(12)	2,139.9	1,682.3	705.7	600.8
Land and buildings, plant and equipment	(13)	1,084.4	914.1	513.4	483.8
Intangibles	(14)	62.6	71.6	-	-
Other	(15)	54.9	26.1	10.8	11.9
Total non-current assets		3,732.0	3,088.4	3,141.0	3,011.4
Total assets		4,036.2	3,443.4	3,422.2	3,280.8
Current liabilities					
Accounts payable	(16)	183.5	83.6	1,215.6	1,419.0
Borrowings	(17)	3.7	0.4	0.1	0.1
Provisions	(18)	144.8	174.5	129.6	104.5
Total current liabilities		332.0	258.5	1,345.3	1,523.6
Non-current liabilities					
Borrowings	(17)	1,220.3	1,090.2	0.1	0.1
Provisions	(18)	564.9	508.4	293.8	279.8
Total non-current liabilities		1,785.2	1,598.6	293.9	279.9
Total liabilities		2,117.2	1,857.1	1,639.2	1,803.5
Net assets		1,919.0	1,586.3	1,783.0	1,477.3
Shareholders' equity					
Share capital	(19)	151.4	134.4	151.4	134.4
Reserves	(20)	1,429.0	1,168.2	1,422.1	1,169.7
Retained profits		338.6	283.7	209.5	173.2
Total shareholders' equity		1,919.0	1,586.3	1,783.0	1,477.3

The Balance Sheets are to be read in conjunction with the notes to and forming part of the Financial Statements

Statements of Cash Flows

for the year ended 31 December 1997

	Note	Consolidated		Santos Ltd	
		1997 \$million	1996 \$million	1997 \$million	1996 \$million
Cash flows from operating activities					
Receipts from customers		809.2	721.2	386.0	338.9
Dividends received		23.9	28.2	161.1	28.2
Interest received		6.4	7.9	1.0	0.9
Overriding royalties received		16.6	16.3	17.7	13.4
Pipeline tariffs and other receipts		16.5	21.2	3.9	12.2
Payments to suppliers and employees		(187.9)	(196.0)	(82.1)	(80.2)
Government royalties and resource rent tax paid		(51.7)	(50.3)	(26.4)	(21.8)
Interest and other costs of finance paid		(73.6)	(65.8)	(47.1)	(66.7)
Income taxes paid		(98.7)	(69.6)	(20.1)	(51.6)
Net cash provided by operating activities	(25)	460.7	413.1	394.0	173.3
Cash flows from investing activities					
Payments for:					
Exploration		(166.9)	(120.8)	(64.6)	(44.5)
Development		(129.8)	(88.4)	(58.4)	(39.7)
Land and buildings, plant and equipment		(196.2)	(138.0)	(81.2)	(56.3)
Fixed factor settlement		-	(12.6)	-	(22.8)
Acquisitions of oil and gas assets		(194.7)	(8.8)	(13.5)	-
Acquisitions of controlled entities	(25)	(40.0)	(155.6)	(8.7)	(129.1)
Share subscriptions in controlled entities		-	-	(0.7)	(14.9)
Other investments		-	(46.1)	-	(42.4)
Proceeds from:					
Disposal of non-current assets		16.6	4.7	1.1	9.8
Other		3.7	-	3.7	-
Net cash used in investing activities		(707.3)	(565.6)	(222.3)	(339.9)
Cash flows from financing activities					
Dividends paid		(142.5)	(123.6)	(142.5)	(123.6)
Proceeds from issues of shares and agreed conversions		268.2	0.3	268.2	0.3
Repayment of term borrowings		-	(183.7)	-	-
Net drawdown of other borrowings		73.5	523.8	-	-
Advances (to)/from related entities		-	-	(273.8)	294.6
Net cash provided/(used) by financing activities		199.2	216.8	(148.1)	171.3
Net increase/(decrease) in cash		(47.4)	64.3	23.6	4.7
Cash at the beginning of the year		152.0	87.8	7.0	2.3
Effects of exchange rate changes on the balances of cash held in foreign currencies		5.2	(0.1)	-	-
Cash at the end of the year		109.8	152.0	30.6	7.0

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

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

1. Statement of Accounting Policies

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

(a) Basis of preparation

The financial statements have been prepared as a general purpose financial report in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views and the Corporations Law. They have been prepared on the basis of historical cost principles and do not take into account changes in the purchasing power of money or, except where specifically stated, current valuations of non-current assets. The accounting policies are consistent with those adopted in the previous financial year.

The disclosures in the financial statements incorporate the additional requirements of new and revised Accounting Standards first effective in the current financial year.

(b) Non-current assets

With the exception of exploration expenditure carried forward pertaining to areas of interest in the exploration stage (refer note 1(h)), the carrying amounts of non-current assets are reviewed to determine whether they are in excess of their estimated recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(c) Principles of consolidation

The consolidated accounts comprise the accounts of Santos Ltd, the chief entity, and its controlled entities. Throughout these financial statements the term "Company" refers to Santos Ltd and the term "economic entity" means the chief entity and its controlled entities. A listing of the controlled entities is contained in note 22.

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

Interests in associated companies are included in non-current investments and carried at cost or written down to their recoverable amount where there is a permanent diminution in value. Dividend income is only brought to account as it is received. Information, determined in accordance with the equity method of accounting, about the economic entity's interests in associated companies is contained in note 23.

Interests in unincorporated joint ventures are recognised by including in the financial statements under the appropriate headings the economic entity's proportion of the joint venture costs, assets and liabilities. The major interests in unincorporated joint ventures are listed in note 24.

(d) Goodwill

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

(e) Foreign currency transactions

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

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

- For self-sustaining operations, assets and liabilities are translated at the exchange rate existing at balance date, and revenue and expense items at the exchange rates applying at the date they were recognised in the controlled entities' Profit and Loss Accounts. Exchange differences arising on translation are included in the foreign currency translation reserve. In the consolidated accounts, gains and losses on certain long-term foreign currency loans are transferred to the foreign currency translation reserve. This transfer recognises that those foreign currency borrowings are matched by the net investment in overseas assets.
- For integrated operations, monetary assets and liabilities are translated at the exchange rate existing at balance date, non-monetary assets and liabilities at the historical exchange rate, and revenue and expense items at the exchange rates applying at the date they were recognised in the controlled entities' Profit and Loss Accounts. Any profit or loss on the translation of monetary assets and liabilities is brought to account in determining operating profit for the year.

(f) Receivables

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

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

1. Statement of Accounting Policies (continued)

(g) Inventories

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

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

(h) Exploration and development expenditure

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

- (i) such expenditure is expected to be recouped through successful development and commercial exploitation of the area of interest; or
- (ii) the exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or if Directors consider the expenditure to be of reduced or no further value, accumulated exploration expenditure is written down or off in the period in which such a decision is made.

(i) Borrowings

Borrowings are carried on the balance sheet at their principal amount. Interest is accrued at the contracted rate and is included in "sundry creditors and accruals".

(j) Leases

Finance leases, which effectively transfer to the lessee substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments, disclosed as capitalised leases and amortised over the period the lessee is expected to benefit from the use of the leased assets. A corresponding liability is also established and each lease payment is allocated between the principal component and the interest expense.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are charged against operating profit in equal instalments over the lease term.

(k) Capitalisation of finance costs

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

(l) 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.

(m) Depreciation and depletion

Depreciation charges are calculated to write-off the value of buildings, plant and equipment over their estimated economic useful lives to the entity. The depreciation rates are reviewed and reassessed periodically in light of technical and economic developments.

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

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

(n) Restoration

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

(o) Employee entitlements

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

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

Contributions to defined benefit superannuation plans sponsored by the economic entity are charged against operating profit. Where the assets of a fund significantly exceed the liabilities and the fund's actuary has so recommended, contributions have been suspended until such time as the surplus is reduced. The amount of such surplus is brought to account and amortised over the same period as the contributions have been suspended.

1. Statement of Accounting Policies (continued)

(p) Employee share ownership plans

The Company operates a number of share ownership plans.

Shares issued under the Santos Executive Share Plan, Santos Executive Share Option Plan and the Santos Employee Share Purchase Plan are treated as equity contributions to the extent the shares are paid up.

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

(q) Income tax

Tax effect accounting is applied whereby the income tax charged in the Profit and Loss Accounts is matched with the accounting profit after allowing for permanent differences. Income tax on timing differences, which arise from items being brought to account in different periods for income tax and

accounting purposes, is carried forward in the Balance Sheets as a future income tax benefit or deferred income tax liability. Future income tax benefits relating to entities which incur losses are brought to account where realisation of the benefits is considered to be virtually certain.

(r) Derivative financial instruments

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

(s) Comparatives

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

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
2. Other Revenue				
Dividends from:				
controlled entities	-	-	64.8	122.4
associated Company	22.2	26.5	22.2	26.5
other than related parties	1.7	1.7	1.7	1.7
Interest	6.3	7.8	1.0	0.9
Overriding royalties	15.0	16.3	16.4	14.3
Pipeline tariffs	9.5	9.3	-	-
Proceeds from disposal of non-current assets	16.6	4.7	1.1	9.8
Other	9.7	8.5	11.8	10.5
	81.0	74.8	119.0	186.1

3. Depreciation, Depletion and Amortisation

Depletion of exploration and development expenditures	111.4	103.4	42.0	32.7
Depreciation of buildings, plant and equipment	94.8	87.5	52.5	49.9
Amortisation of capitalised leases	1.0	0.7	0.1	0.2
Amortisation of goodwill	9.0	9.0	-	-
Write-down of exploration expenditure	-	11.2	-	1.7
	216.2	211.8	94.6	84.5

4. Interest Expense

Interest paid or due and payable to:				
controlled entities	-	-	47.0	66.5
other than related parties:				
on loans	74.2	66.6	0.1	0.2
on finance leases	0.9	1.2	-	0.1
Less interest capitalised	(20.9)	(17.5)	(5.0)	(4.5)
	54.2	50.3	42.1	62.3

5. Foreign Currency Gains

Foreign currency gains	3.6	25.0	-	-
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Foreign currency gains of \$3.6 million brought to account in 1997 arose principally from conversion of US dollar cash deposits to Australian currency.

US dollar denominated borrowings were fully designated either as a hedge of US dollar denominated investments in self-sustaining overseas controlled entities or, from 1 January 1997, as a hedge of future US dollar denominated sales revenues. Accordingly, there were no foreign currency gains or losses arising from translation of US dollar denominated borrowings brought to account in 1997.

In 1996 and prior years, US dollar denominated borrowings were not designated as a hedge of future US dollar denominated sales revenues and foreign currency gains and losses were brought to account at transaction date and year end currency exchange rates.

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
6. Operating Profit				
Operating profit before income tax includes the following items:				
Government royalties and resource rent tax	50.8	50.5	25.2	22.5
Increase/(decrease) in provisions:				
doubtful debts	0.3	(1.2)	0.4	-
stock obsolescence	0.8	0.4	-	-
employee entitlements and non-executive Directors' retirement benefits	3.7	1.6	1.7	1.4
future restoration costs	2.6	3.7	0.4	1.6
Operating lease rentals	4.3	5.1	3.1	3.5
Loss/(profit) on disposal of non-current assets	(0.3)	0.1	(0.2)	0.1
Write-down of investments in controlled entities	-	-	-	4.5

7. Taxation

Income tax attributable to operating profit

The prima facie income tax attributable to operating profit differs from income tax expense and is calculated as follows:

Prima facie income tax at 36%	116.0	119.5	86.7	92.8
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Non-deductible depreciation and amortisation of buildings, plant and equipment	4.8	4.7	3.6	3.5
Non-deductible depletion of exploration and development expenditure	9.6	12.3	0.3	0.9
Write-down of exploration expenditure	-	2.4	-	-
Write-down of investments in controlled entities	-	-	-	1.6
Amortisation of goodwill	3.2	3.2	-	-
Non-deductible/(assessable) items	(2.3)	0.4	0.7	0.4
Rebate on dividend income	(7.1)	(8.7)	(30.5)	(52.8)
Research and development allowances	(6.8)	(0.6)	(5.7)	-
Recognition of tax benefits not previously recognised	(2.7)	-	-	-
Income tax under/(over) provided in prior years	1.4	2.8	(1.8)	(0.2)
Income tax attributable to operating profit	116.1	136.0	53.3	46.2

Income tax attributable to operating profit comprises amounts set aside to:

Provision for current income tax	59.1	101.3	38.8	31.0
Provision for deferred income tax	58.9	25.5	14.5	15.2
Future income tax benefits	(1.9)	9.2	-	-
	116.1	136.0	53.3	46.2

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
8. Dividends				
Dividends provided for or paid by the Company				
Interim dividend of 12.0 cents per share, fully franked (1996: 11.0 cents per share, fully franked)	72.6	59.1	72.6	59.1
Final dividend of 13.0 cents per share, fully franked (1996: 13.0 cents per share, fully franked)	78.7	69.9	78.7	69.9
	151.3	129.0	151.3	129.0
Franking credits				
Santos has \$166.2 million of franking credits at 36% available for future distribution of franked dividends, after adjusting for franking credits which will arise from the payment of the current income tax provision at 31 December 1997 and after deducting franking credits to be used in payment of the 1997 final dividend.				
9. Receivables				
Current				
Trade debtors	80.8	87.4	39.9	44.2
Sundry debtors and prepayments	40.1	44.0	20.1	18.3
Less provision for doubtful debts	(1.3)	(1.0)	(0.8)	(0.4)
Amounts owing by controlled entities	-	-	153.1	162.2
	119.6	130.4	212.3	224.3
Non-current				
Sundry debtors and prepayments	-	4.1	-	4.1
Other loans (refer note 26)	0.5	0.5	0.5	0.5
	0.5	4.6	0.5	4.6
10. Inventories				
Petroleum products	46.2	49.5	26.1	27.1
Drilling and maintenance stocks	31.2	24.9	12.9	11.7
Provision for obsolescence	(2.6)	(1.8)	(0.7)	(0.7)
	74.8	72.6	38.3	38.1
11. Investments				
Non-current				
Investments in controlled entities (refer note 22)	-	-	1,520.9	1,520.6
Listed shares and notes in other entities	389.7	389.7	389.7	389.7
	389.7	389.7	1,910.6	1,910.3
Aggregate market value of investments in listed shares and notes in other than controlled entities	375.4	487.9	375.4	487.9
The Directors have reviewed the carrying values of non-current investments in other than controlled entities and whilst the carrying values of the investments are greater than the current market values, they do not believe there has been a permanent diminution in their values and accordingly the carrying values have not been written down in 1997.				

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
12. Exploration and Development Expenditure				
Areas in which production has commenced				
Cost at beginning of year	2,733.3	2,337.5	923.9	839.6
Expenditure incurred during the year	282.3	205.8	116.9	71.3
Acquisitions, net of disposals and foreign currency revaluation	212.5	139.6	13.4	13.0
Expenditure transferred from areas in the exploration stage	27.4	55.4	27.4	-
Expenditure written off during the year	-	(5.0)	-	-
Cost at the end of year	3,255.5	2,733.3	1,081.6	923.9
Less accumulated depletion	(1,363.8)	(1,203.9)	(440.2)	(398.2)
	1,891.7	1,529.4	641.4	525.7
Areas in the exploration and development stage				
Cost at beginning of year	152.9	172.7	75.1	82.6
Expenditure incurred during the year	87.5	21.1	15.1	4.5
Acquisitions, net of disposals and foreign currency revaluation	35.2	20.7	1.5	(12.0)
Expenditure transferred to areas where production has commenced	(27.4)	(55.4)	(27.4)	-
Expenditure written off during the year	-	(6.2)	-	-
Cost at the end of year	248.2	152.9	64.3	75.1
Total exploration and development expenditure	2,139.9	1,682.3	705.7	600.8
13. Land and Buildings, Plant and Equipment				
Land and buildings				
At cost (refer below)	57.9	58.6	37.9	34.4
Less accumulated depreciation	(32.4)	(31.1)	(23.6)	(22.7)
	25.5	27.5	14.3	11.7
Plant and equipment				
At cost	2,152.0	1,900.2	1,189.5	1,111.1
At independent valuation-1977	35.2	35.2	35.2	35.2
Capitalised leases	18.2	20.9	-	2.7
	2,205.4	1,956.3	1,224.7	1,149.0
Less accumulated depreciation	(1,146.5)	(1,069.7)	(725.6)	(676.9)
	1,058.9	886.6	499.1	472.1
Total land and buildings, plant and equipment	1,084.4	914.1	513.4	483.8
The Directors consider the current value of land and buildings to be at least equal to their carrying value.				

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
14. Intangibles				
Goodwill, at cost	160.2	160.2	-	-
Less accumulated amortisation	(97.6)	(88.6)	-	-
	62.6	71.6	-	-
15. Other Assets				
Non-current				
Security deposit (refer below)	18.2	20.5	10.8	11.9
Future income tax benefits	7.5	5.6	-	-
Deferred foreign currency differences (refer note 33(a))	29.2	-	-	-
	54.9	26.1	10.8	11.9
A security deposit has been lodged with the South Australian Government on behalf of the Cooper Basin downstream joint venture for the provision of a jetty at Port Bonython. The State Government is repaying the deposit including an interest component in annual instalments concluding in 2003.				
16. Accounts Payable				
Current				
Trade creditors	142.8	62.0	43.2	27.2
Sundry creditors and accruals	40.7	21.6	10.9	11.3
Amounts owing to controlled entities	-	-	1,161.5	1,380.5
	183.5	83.6	1,215.6	1,419.0
17. Borrowings				
Current				
Short-term borrowings	3.3	-	-	-
Lease liabilities	0.4	0.4	0.1	0.1
	3.7	0.4	0.1	0.1
Non-current				
Bank loans	382.3	463.8	-	-
Commercial paper	414.0	398.5	-	-
Medium-term notes	149.7	-	-	-
Long-term notes	260.4	213.5	-	-
Lease liabilities	13.9	14.4	0.1	0.1
	1,220.3	1,090.2	0.1	0.1

17. Borrowings (continued)

Details of major credit facilities

(i) Bank loans

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

Revolving Facilities at 31 December 1997

Maturity date	Currency	Amount	Amount drawn at
		A\$million	31 December 1997 A\$million
18 March 1999	Multi Option	100.0	75.0
2 December 1999	Multi Option	50.0	50.0
19 July 2000	Australian Dollars	5.0	-
22 November 2000	Multi Option	100.0	-
18 March 2001	Multi Option	125.0	75.0
18 March 2002	Multi Option	50.0	50.0
19 July 2002	Multi Option	600.0	132.3
18 March 2003	Multi Option	75.0	-
		1,105.0	382.3

Bank loans bear interest at the relevant interbank reference rate plus 0.125% to 0.15%. The weighted average annual effective interest rate is 5.74% (1996: 6.75%). The amount drawn at 31 December 1997 is comprised of GBP 32.4 million (A\$82.3 million) (1996: GBP 32.4 million (A\$68.8 million)) and A\$300.0 million (1996: A\$395.0 million).

(ii) Commercial paper

The economic entity has commercial paper programs based in Hong Kong and Australia. The programs which total US\$200.0 million (1996: US\$200.0 million) (Euro Commercial Paper) and A\$600.0 million (1996: A\$400.0 million) (Promissory Notes) are supported by the revolving facilities referred to in (i) above. At 31 December 1997, A\$414.0 million (1996: A\$398.5 million) equivalent of commercial paper is on issue and the weighted average annual effective interest rate is 5.02% (1996: 6.72%).

(iii) Medium-term notes

On 31 October 1997, the economic entity established a A\$500.0 million domestic medium-term note program. At 31 December 1997, A\$150.0 million of notes have been issued at an annual effective interest rate of 6.55%, maturing 15 October 2002.

(iv) Long-term notes

US\$170.0 million (A\$260.4 million) (1996: US\$170.0 million equivalent to A\$213.5 million) of long-term notes were issued to institutional investors in December 1993 at an annual effective interest rate of 6.95% and are repayable in five annual US dollar instalments commencing in December 2001.

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

	Consolidated		Santos Ltd	
	1997 Smillion	1996 Smillion	1997 Smillion	1996 Smillion
18. Provisions				
Current				
Dividends	78.7	69.9	78.7	69.9
Employee entitlements	33.4	29.8	24.1	22.7
Income tax	32.7	74.8	26.8	11.9
	144.8	174.5	129.6	104.5
Non-current				
Deferred income tax	498.9	440.0	266.7	252.2
Future restoration costs	64.9	67.7	26.0	26.9
Non-executive Directors' retirement benefits	1.1	0.7	1.1	0.7
	564.9	508.4	293.8	279.8

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
19. Share Capital				
Authorised capital				
2,000,000,000 unclassified shares of 25c each	500.0	500.0	500.0	500.0
Issued capital				
605,400,025 (1996: 537,472,918) ordinary shares of 25c each	151.4	134.4	151.4	134.4
1,929,750 (1996: 2,104,500) ordinary shares of 25c each paid to 1c	-	-	-	-
	151.4	134.4	151.4	134.4
Movement in fully paid ordinary shares				
	1997 Number of shares	1996	1997 \$million	1996 \$million
Balance at the beginning of the year	537,472,918	537,131,918	134.4	134.3
Rights Issue (i)	67,463,848	-	16.8	-
Santos Executive Share Plan (ii)	174,750	241,000	0.1	0.1
Santos Employee Share Acquisition Plan (iv)	190,109	-	0.1	-
Santos Employee Share Purchase Plan (v)	98,400	-	-	-
Conversion of "B" Class shares to ordinary shares	-	100,000	-	-
Balance at the end of the year	605,400,025	537,472,918	151.4	134.4

The market price of the Company's shares as at 31 December 1997 was \$6.32 (1996: \$5.10).

(i) Rights Issue

67,463,848 ordinary shares (fully paid) were allotted to Santos shareholders on 2 June 1997 at a premium of \$3.75 per share pursuant to a 1 for 8 renounceable rights issue.

(ii) Santos Executive Share Plan

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

In essence, the Plan involves the Company issuing to employees selected by the Board ("the Executives"), a number of ordinary shares of \$0.25 each in the capital of the Company determined by the Board. There are two categories of Plan Shares which have been issued to Executives, Plan 2 Shares and Plan 0 Shares, each initially issued as partly paid shares, paid to one cent.

The Plan allows for calls to be made at the instigation of the Company in certain specified events or at the request of the Executive. While partly paid, the Plan Shares are not transferable, carry no voting right and no entitlement to dividend but are entitled to participate in any bonus or rights issue. The price payable for shares issued under the Plan varies according to the event giving rise to a call being made. Market price at the time of the call is payable on the issued Plan 2 Shares if the Executive resigns within two years from the date of issue or is dismissed. After a restriction period of two years, the price payable upon a call being made on the issued Plan 2 Shares is the lower of two-thirds of the market price on the date of allotment and the highest sale price on the day prior to the date of the call. The price payable on the issued Plan 0 Shares is the lowest of market price on the date of allotment, the date of the call and the date 14 days thereafter.

Since its inception, some 101 Executives have participated in the Plan and 2,012,500 Plan 0 and 1,999,500 Plan 2 Shares have been issued, principally in years 1987 and 1989. During the financial year, no issue of Plan Shares was made and at balance date no offer to an Executive was outstanding. During the financial year 98,500 Plan 0 and 76,250 Plan 2 Shares were fully paid and as at 31 December 1997 there were 38 holders of the outstanding 1,003,500 Plan 0 Shares and 33 holders of the outstanding 926,250 Plan 2 Shares.

The Board has determined that the Plan be discontinued and that, accordingly, there will be no further issues of shares under the Plan.

(iii) Santos Executive Share Option Plan

The Santos Executive Share Option Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. The Plan provides for the grant of options to subscribe for or purchase ordinary shares of \$0.25 each in the capital of the Company to eligible executives selected by the Board. Participation will be limited to those executives who, in the opinion of the Board, are able to significantly influence the generation of shareholder wealth. Directors envisage the Plan applying to up to 50 executives.

19. Share Capital (continued)

The exercise price of the options shall not be less than Market Value (as defined in the Rules of the Plan) on the grant date and, in the case of an option to acquire shares by subscription, shall also not be less than the par value of the shares. No consideration is provided by executives for the options.

During the financial year, the Company granted options over 5,550,000 unissued ordinary shares to 39 participating eligible executives, with an exercise price of \$6.32 per share and exercise period from 25 July 2000 to 24 July 2002. The market price of ordinary shares on the grant date of the options was \$6.19 per share. As at 31 December 1997, the number of options outstanding was 5,550,000.

Except in limited circumstances, the options cannot be exercised before 25 July 2000 and the ability to exercise is conditional on the Company achieving a prescribed performance hurdle. To reach the performance hurdle, the Company's Total Shareholder Return (broadly, growth in share price plus dividends reinvested) over a minimum three year period, must equal or exceed 10% per annum calculated on a compound basis.

If Total Shareholder Return does not reach the performance hurdle after three years, the options may nevertheless be exercisable if the hurdle is subsequently reached within the remaining life of the options. In assessing the performance against the hurdle, the Board may apply on a consistent basis an averaging method over a period of three months to allow for short-term volatility.

(iv) Santos Employee Share Acquisition Plan

The Santos Employee Share Acquisition Plan was approved by shareholders at the Annual General Meeting on 15 May 1997.

Broadly, permanent employees with at least a minimum period of service determined by Directors as at the offer date (which for the initial issue was one year of completed service) are eligible to acquire shares under this Plan. Executives participating in the Santos Executive Share Option Plan (see above), casual employees and Directors of the Company are excluded from participating in this Plan. Employees are not eligible to participate under the Plan while they are resident overseas unless the Board decides otherwise.

The Plan provides for free grants of fully paid ordinary shares of \$0.25 each in the capital of the Company up to a value of \$1,000 per annum per eligible employee. A trustee is funded by the Company and its subsidiaries to acquire shares direct from the Company or on market. The shares are then allocated to eligible employees who have made applications under the Plan. The employee's ownership of shares allocated under the Plan, and his or her right to deal with them, are subject to restrictions until the earlier of the expiration of three years and the time when he or she ceases to be an employee. Shares are granted to eligible employees for no consideration.

On 29 August 1997, the Company allotted 190,109 ordinary shares to the trustee on behalf of 1,259 eligible employees under the Plan, being 151 shares for each employee. The total market value of those shares on the issue date was \$1,230,005. At the Board's discretion, annual future grants of up to \$1,000 per eligible employee may be offered. At this time no offers remain outstanding under this Plan.

(v) Santos Employee Share Purchase Plan

The Santos Employee Share Purchase Plan was approved by shareholders at the Annual General Meeting on 15 May 1997. The Plan is open to all employees (other than a casual employee or an executive Director of the Company) determined by the Board who are continuing employees at the date of the offer. However, employees who are not resident in Australia at the time of an offer under the Plan will not be eligible to participate in that offer unless the Board otherwise decides.

Under the Plan, eligible employees may be offered the opportunity to subscribe for fully paid ordinary shares of \$0.25 each in the capital of the Company at a discount to market price, subject to a 12-month restriction on disposal. The subscription price is the higher of par value and 95% of Market Value (as defined in the Rules of the Plan). No loans will be provided to employees under the Plan.

On 3 October 1997, the Company issued 98,400 ordinary shares to 155 eligible employees at a subscription price of \$6.12 per share under the Plan. The total market value of those shares on the issue date was \$718,320 and the total amount received from employees for those shares was \$602,208.

The Company may make further offers under the Plan, but only during the periods following the announcement of the Company's half year and annual results.

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

The aggregate number of:

- (a) shares issued and for the time being subject to the terms of each employee share plan of the Company; and
- (b) unissued shares in respect of which options are granted and for the time being outstanding under any employee or executive share option plan of the Company;

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

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
20. Reserves				
Share premium	1,401.5	1,149.1	1,401.5	1,149.1
Asset revaluation	14.9	14.9	14.9	14.9
Capital	5.9	5.9	5.7	5.7
Foreign currency translation	6.7	(1.7)	-	-
	1,429.0	1,168.2	1,422.1	1,169.7
Movements during the year				
Share premium				
Balance at beginning of the year	1,149.1	1,148.4	1,149.1	1,148.4
Premium on shares issued during the year				
Rights Issue	250.1	-	250.1	-
Santos Executive Share Plan	0.5	0.7	0.5	0.7
Santos Employee Share Acquisition Plan	1.2	-	1.2	-
Santos Employee Share Purchase Plan	0.6	-	0.6	-
Balance at end of the year	1,401.5	1,149.1	1,401.5	1,149.1
Foreign currency translation				
Balance at beginning of the year	(1.7)	(1.0)	-	-
Transfers to/(from) foreign currency translation reserve arising from exchange rate fluctuations on:				
overseas net assets	39.7	(2.9)	-	-
foreign currency borrowings	(31.3)	2.2	-	-
Balance at end of the year	6.7	(1.7)	-	-

	Consolidated	
	1997	1996
21. Earnings per share		
Basic earnings per share (cents)	35.3	35.4
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (million)	583.7	553.4

Santos Ltd has potential ordinary shares on issue being 1,929,750 ordinary shares paid to 1 cent issued to senior executives of the Company under the Santos Executive Share Plan, the dilutive impact of which is not material. Diluted earnings per share are therefore not materially different to basic earnings per share.

Options over 5,550,000 unissued ordinary shares issued to senior executives of the Company under the Santos Executive Share Option Plan are not dilutive.

Basic earnings per share for the year ended 31 December 1996, previously disclosed as 36.5 cents per share, has been adjusted for the bonus element pursuant to the 1 for 8 renounceable rights issue of ordinary shares allotted to Santos shareholders on 2 June 1997 in accordance with Australian Accounting Standards.

22. Investments in Controlled Entities

Name	Place of incorporation	Name	Place of incorporation
Santos Ltd (Chief entity)	SA		
Controlled entities¹:			
Alliance Oil Development Australia Pty Ltd	VIC	Santos (Halph) Pty Ltd	ACT
<i>Controlled entities of Alliance Oil Development Australia Pty Ltd</i>		Santos International Holdings Pty Ltd	ACT
Alliance Minerals Australia Pty Ltd	VIC	<i>Controlled entities of Santos International Holdings Pty Ltd</i>	
Alliance Petroleum Australia Pty Ltd	VIC	Peko Offshore Ltd	BER
Associated Petroleum Pty Ltd	QLD	Santos Americas and Europe Corp ¹	USA
<i>Controlled entities of Associated Petroleum Pty Ltd</i>		<i>Controlled entities of Santos Americas and Europe Corp</i>	
TMOC Exploration Pty Ltd	QLD	SAE Management Services Corp ¹	USA
Santos Petroleum Marketing Pty Ltd	QLD	Santos Colombia Exploration Inc ¹	USA
Santos Petroleum Management Pty Ltd	QLD	Santos USA Corp ¹	USA
Santos Petroleum Operations Pty Ltd	QLD	<i>Controlled entity of Santos USA Corp</i>	
Australasian Eagle Petroleum Pty Ltd	NSW	Santos USA Pipeline Corp ¹	USA
<i>Controlled entities of Australasian Eagle Petroleum Pty Ltd</i>		Santos Europe Ltd ¹	UK
Castend Pty Ltd	NSW	Santos Exploration (China) Pte Ltd ¹	SIN
Santos (BOL) Pty Ltd	NSW	Santos Niugini Exploration Pty Ltd ¹	PNG
<i>Controlled entities of Santos (BOL) Pty Ltd</i>		Barracuda Pty Ltd ^{1,2}	PNG
Bridge Gas Queensland Pty Ltd	QLD	Santos Petroleum (NZ) Ltd ^{1,3}	
Bridge Oil Exploration Pty Ltd	ACT	(formerly MIM Petroleum (NZ) Limited)	NZ
Bridge Oil International Finance Pty Ltd	ACT	Santos Petroleum (Seram) Ltd ¹	HK
Bridge Oil Developments Pty Ltd	NSW	Santos (Korinci-Baru) Pty Ltd	ACT
Bridge Oil Investments Pty Ltd	NSW	Santos (N.T.) Pty Ltd	ACT
<i>Controlled entity of Bridge Oil Investments Pty Ltd</i>		Santos Offshore Pty Ltd	VIC
Santos (Bentu) Pty Ltd	NSW	Santos Oil Exploration (Malaysia) Sdn Bhd (in liquidation)	MAL
<i>Controlled entity of Santos (Bentu) Pty Ltd</i>		Santos Petroleum Pty Ltd	NSW
Santos (Bangko) Pty Ltd	WA	Santos Resources Pty Ltd	QLD
Boston Long Hedges Finance Pty Ltd	VIC	Santos (Zoca 91-01) Pty Ltd	ACT
Moonie Oil Pty Ltd	QLD	Santos (Zoca 91-12) Pty Ltd	ACT
Moonie Pipeline Company Pty Ltd	QLD	Transoil Pty Ltd	QLD
<i>Controlled entities of Moonie Pipeline Company Pty Ltd</i>		Vamgas Pty Ltd	VIC
Candolia Pty Ltd	ACT	Worldwide Assets Pty Ltd	NSW
Australian Interstate Pipeline Company Pty Ltd	NSW	<i>Controlled entity of Worldwide Assets Pty Ltd</i>	
<i>Controlled entity of Australian Interstate Pipeline Company Pty Ltd</i>		Western Australian Capital Holdings Pty Ltd	WA
Bridgefield Pty Ltd	QLD	Latec Investments Pty Ltd (in liquidation)	NSW
Petromin Pty Ltd	QLD	<i>Controlled entities of Latec Investments Pty Ltd</i>	
Reef Oil Pty Ltd	NSW	Doce Pty Ltd	QLD
Santos (299) Pty Ltd	WA	Canso Resources Pty Ltd	NSW
Santos Asia Pacific Pty Ltd ¹		Farmout Drillers Pty Ltd	NSW
(formerly MIM Petroleum Exploration Pty Ltd)	QLD		
<i>Controlled entities of Santos Asia Pacific Pty Ltd</i>			
Santos (Bentu No. 2) Pty Ltd ¹			
(formerly MIM Bentu Pty Limited)	QLD		
Santos (Korinci-Baru No. 2) Pty Ltd ¹	SA		
Santos (Sampang) Pty Ltd ¹	SA		
Santos (Warim) Pty Ltd ¹	SA		
Santos Exploration Pty Ltd	VIC		
Santos Facilities Pty Ltd	SA		
Santos Finance Ltd	NSW		
Santos Gnuco Pty Ltd	WA		

1. Entities audited by overseas KPMG member firms.
2. Beneficial interests in all controlled entities is 100%.
3. Companies acquired during the year.
4. Companies incorporated during the year.

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

22. Investments in Controlled Entities (continued)

Notes:

(i) Acquisition of controlled entities

The following controlled entities were acquired during the year at the date stated and their operating results have been included in the profit and loss account from the date of acquisition:

Name of entities	Date of acquisition	Beneficial interest acquired	Consideration paid for shares	Fair value or net assets at time of acquisition
		%	\$million	\$million
Acquisition of various entities from MIM Holdings Ltd	21 January 1997	100	46.9	46.9
(ii) Place of incorporation				
ACT – Australian Capital Territory	BER – Bermuda			
NSW – New South Wales	HK – Hong Kong			
QLD – Queensland	MAL – Malaysia			
SA – South Australia	PNG – Papua New Guinea			
VIC – Victoria	SIN – Singapore			
WA – Western Australia	UK – United Kingdom			
NZ – New Zealand	USA – United States of America			

23. Associated Company

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

Name of associated company	Country where business carried on	Principal activity	Balance date	Beneficial interest in ordinary shares at 31 December		Book value of ordinary shares at 31 December (a)		Contribution to Consolidated Profit (b)	
				1997 %	1996 %	1997 \$million	1996 \$million	1997 \$million	1996 \$million
OCT Resources Limited	Australia	Coal mining	30 June	34.9	34.9	325.7	325.7	20.8	25.1

Supplementary equity accounting information relating to the associated company:

	1997 \$million	1996 \$million
Share of operating profit after income tax	10.2	23.7
Deduct amortisation of excess of fair values of net assets over the book values of net assets	(4.9)	(4.6)
Deduct ordinary share dividend income	(18.2)	(22.5)
Equity adjustment to operating profit after income tax	(12.9)	(3.4)
Deduct share of post acquisition decrease in retained profits at the beginning of the year	(11.5)	(8.1)
Total of post-acquisition decrease in retained profits at the end of the year	(24.4)	(11.5)
Investment in ordinary shares as included in the consolidated accounts	325.7	325.7
Aggregate carrying value of investment in associated company as determined under the equity method of accounting	301.3	314.2

(a) In addition to ordinary shares, the economic entity and chief entity hold an investment of \$36.3 million (1996: \$36.3 million) in non-maturing subordinated unsecured convertible notes issued by OCT Resources Limited.

(b) Represents dividends received of \$18.2 million (1996: \$22.5 million) on holdings of ordinary shares and interest received or receivable after tax of \$2.6 million (1996: \$2.6 million) on holdings of non-maturing subordinated unsecured convertible notes.

24. 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
		%
Bass Basin	Oil and gas exploration	21
Bonaparte Basin		
Bonaparte Sea	Oil and gas exploration	55
Timor Gap	Oil and gas exploration	18
Timor Sea	Oil and gas exploration and production	26
Browse Basin	Oil and gas exploration	25
Carnarvon Basin	Oil and gas exploration and production	34
Cooper Basin Downstream	Liquid hydrocarbon transportation and processing	60
Cooper Basin Unit		
South Australia	Oil and gas production	60
Queensland	Oil and gas exploration and production	59
Cooper/Eromanga Basins Block		
South Australia	Oil and gas exploration and production	60
Queensland, ATP 259P	Oil and gas exploration and production	58
Other Eromanga	Oil and gas exploration and production	33
Denison Trough	Oil and gas exploration and production	37
Indonesian interests	Oil and gas exploration and production	34
Jackson Moonie Pipeline	Oil transportation	83
Mereenie	Oil and gas production	65
Mereenie Pipeline	Oil transportation	65
Moonie Oil Fields	Oil and gas exploration and production	53
Taranaki Basin - New Zealand	Oil and gas exploration	47
Otway Basin	Oil and gas exploration	34
Palm Valley	Gas production	48
Papua New Guinean interests	Oil and gas exploration	37
Roma Gas Fields	Oil and gas exploration and production	85
Surat	Oil and gas exploration and production	49
United Kingdom interests	Oil and gas exploration and production	13
USA		
Onshore/Gulf Coast	Oil and gas exploration and production	35
Gulf of Mexico	Oil and gas exploration and production	20

(b) The sales revenue received from the economic entity's share of petroleum products produced by the joint ventures was \$778.5 million (1996: \$729.2 million) and the contribution of joint venture business undertakings to operating profit before interest and tax of the economic entity was \$361.1 million (1996: \$335.2 million).

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

24. Interests in Joint Ventures (continued)

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

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
Current assets				
Cash	—	5.2	—	—
Receivables	11.3	14.5	3.9	3.7
Inventories	28.2	21.5	12.1	10.9
Total current assets	39.5	41.2	16.0	14.6
Non-current assets				
Exploration and development expenditure	2,148.7	1,685.6	691.7	588.5
Land and buildings, plant and equipment	1,032.8	861.8	496.9	472.0
Other	18.2	20.5	10.8	11.9
Total non-current assets	3,199.7	2,567.9	1,199.4	1,072.4
Total assets	3,239.2	2,609.1	1,215.4	1,087.0
Current liabilities				
Accounts payable	179.4	75.9	75.0	37.4
Non-current liabilities				
Provisions	60.7	61.5	26.0	26.9
Total liabilities	240.1	137.4	101.0	64.3
Net investments in joint ventures	2,999.1	2,471.7	1,114.4	1,022.7
(d) The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of unincorporated joint ventures are:				
Capital expenditure commitments	46.1	112.7	23.8	35.8
Minimum exploration commitments	161.5	138.9	37.7	25.8
Contingent liabilities	11.6	9.3	6.4	5.7

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
25. Notes to Statements of Cash Flows				
Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	206.2	195.9	187.6	211.7
Add/(deduct) non-cash items:				
Depreciation of buildings, plant and equipment	94.8	87.5	52.5	49.9
Depletion of exploration and development expenditure	111.4	103.4	42.0	32.7
Amortisation of capitalised leases	1.0	0.7	0.1	0.2
Amortisation of goodwill	9.0	9.0	-	-
Write-down of exploration expenditure	-	11.2	-	1.7
Write-down of investments in controlled entities	-	-	-	4.5
Increase/(decrease) in income taxes payable	(42.1)	31.8	14.9	(20.7)
Net increase in deferred taxes payable and future income tax benefits	56.0	34.7	14.5	15.2
Increase in provisions	4.7	4.5	1.9	3.0
Interest capitalised	(20.9)	(17.5)	(5.0)	(4.5)
Foreign currency gains	(3.6)	(25.0)	-	-
Deduct items classified as investing activities:				
Loss/(profit) on disposal of non-current assets	(0.3)	0.1	(0.2)	0.1
Net cash provided by operating activities before change in assets or liabilities	416.2	436.3	308.3	293.8
Add/(deduct) change in assets or liabilities:				
Decrease/(increase) in receivables	17.8	(10.4)	71.1	(129.7)
Decrease/(increase) in inventories	(3.0)	(6.5)	(0.2)	(2.6)
Decrease/(increase) in other assets	2.3	2.1	1.1	1.0
Increase/(decrease) in accounts payable	27.4	(8.4)	13.7	10.8
Net cash provided by operating activities	460.7	413.1	394.0	173.3
Acquisitions of controlled entities				
During the financial year, the economic entity acquired controlled entities as disclosed in Note 22. Details of the acquisition are as follows:				
Fair value of net assets acquired				
Exploration and development	43.6	150.5	-	150.5
Land and buildings, plant and equipment	1.0	75.1	0.8	75.1
Cash	2.1	9.4	-	9.4
Trade debtors	-	5.3	-	5.3
Security deposits	-	4.1	-	4.1
Sundry debtors and prepayments	1.5	3.2	0.9	3.2
Inventories	-	4.9	-	4.9
Future income tax benefits	-	6.9	-	6.9
Bank loans	-	(48.8)	-	(48.8)
Trade creditors	-	(4.6)	-	(4.6)
Sundry creditors and accruals	(0.9)	(15.5)	(0.5)	(15.5)
Provision for deferred income tax	-	(17.9)	-	(17.9)
Other provisions	(0.4)	(7.6)	(0.3)	(7.6)
Intercompany	-	-	8.8	(26.5)
Consideration	46.9	165.0	9.7	138.5
Outflow of cash to acquire net assets, net of cash acquired				
Cash consideration	46.9	165.0	9.7	138.5
Less cash paid in prior year	(4.8)	-	(1.0)	-
Less cash balances acquired	(2.1)	(9.4)	-	(9.4)
Outflow of cash	40.0	155.6	8.7	129.1

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

26. Related Parties

The names of each person holding the position of Director of Santos Ltd during the financial year are:

UHRIG John Allan

ADLER Norman Ross

BARNETT Peter Charles

CALLINAN Ian David Francis: resigned 31 December 1997

GERLACH Stephen

McARDLE John Walter

O'LEARY Michael Anthony

SLOAN Judith

STRAUSS Robert

WEBBER Ian Ernest

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

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

Note 2 as to dividends received from controlled entities;

Note 4 as to interest paid to controlled entities;

Note 9 as to amounts owing by controlled entities;

Note 16 as to amounts owing to controlled entities;

Note 17 as to guarantees by Santos Ltd of the financing facilities and lease obligations of controlled entities;

Note 18 as to non-executive Directors' retirement benefits;

Notes 11 and 22 as to investments in controlled entities;

Note 23 as to investments in associated company and interest and dividends received from associated Company; and

Note 27 as to Directors' remuneration, including amounts paid or prescribed benefits given in respect of the retirement of Directors.

In addition:

(i) Agreements exist with the non-executive Directors providing for the payment of a sum on retirement from office as a Director in accordance with shareholder approval at the 1989 Annual General Meeting. The amount provided for the year was \$327,560 (1996: \$73,760).

(ii) Included in other loans is an amount of \$506,000 (1996: \$506,000) being a loan made to an executive Director of Santos Ltd, Mr N R Adler, in accordance with the provisions of the Loan Scheme approved at the 1990 Annual General Meeting. Interest received during the year on this loan totalled \$32,890 (1996: \$32,890).

(iii) During the financial year, Directors of Santos Ltd and their director-related entities acquired an aggregate of 164,632 fully paid ordinary shares of \$0.25 each in the capital of the Company from Santos Ltd under the 1 for 8 rights issue at a subscription price of \$4.00 per share (1996: Nil).

During the financial year, executive Directors of Santos Ltd, Messrs N R Adler and J W McArdle acquired an aggregate of 850,000 options under the Santos Executive Share Option Plan (1996: Nil), which was approved by shareholders at the Annual General Meeting of the Company held on 15 May 1997.

(iv) The aggregate number of shares and options held directly, indirectly or beneficially by Directors of Santos Ltd and their director-related entities in Santos Ltd as at the balance sheet date was 574,675 fully paid ordinary shares of \$0.25 each (1996: 387,043), 930,000 Executive Share Plan Shares paid to 1 cent (1996: 930,000) and 850,000 options granted under the Santos Executive Share Option Plan (1996: Nil).

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

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

(vi) During the financial year, legal costs of \$415,344 have been paid by the Company in defending certain proceedings in relation to termination of employment brought by a former employee against the Company, the Managing Director, Mr N R Adler, and other Group employee defendants, Dr J D Armstrong and Mr S G Gibson. These costs, which in so far as they relate to the three personal defendants have been paid pursuant to the terms of Deeds of Indemnity entered into between the Company and each of them, have not been apportioned among the Company nor the three indemnified personal defendants and therefore it is not possible to determine the amount paid on behalf of each of them.

		Santos Ltd	
		1997 \$million	1996 \$million
(v) All amounts owing by or to controlled entities are for loans made on interest free terms for an indefinite period with the exception of: Amounts owing to controlled entities		725.8	963.8
These loans were made in the ordinary course of business on normal market terms and conditions.			
(vi) During the financial year, legal costs of \$415,344 have been paid by the Company in defending certain proceedings in relation to termination of employment brought by a former employee against the Company, the Managing Director, Mr N R Adler, and other Group employee defendants, Dr J D Armstrong and Mr S G Gibson. These costs, which in so far as they relate to the three personal defendants have been paid pursuant to the terms of Deeds of Indemnity entered into between the Company and each of them, have not been apportioned among the Company nor the three indemnified personal defendants and therefore it is not possible to determine the amount paid on behalf of each of them.			

				Consolidated		Santos Ltd	
1997 \$000	1996 \$000	1997 \$000	1996 \$000	1997 \$000	1996 \$000	1997 \$000	1996 \$000
27. Executives' and Directors' Remuneration							
Executives							
Amounts received or receivable from Santos Limited or its controlled entities by executive officers domiciled in Australia whose income is \$100,000 or greater							
				12,378	10,902	12,327	10,902
Number of executive officers whose remuneration was within the following bands:							
\$000		No.	No.	No.	No.	No.	No.
100 - 110		1	4	1		1	4
110 - 120		2	3	2		2	3
120 - 130		4	6	4		4	6
130 - 140		7	11	7		7	11
140 - 150		11	7	11		11	7
150 - 160		7	4	7		7	4
160 - 170		6	5	6		6	5
170 - 180		4	1	4		4	1
180 - 190		2	1	2		2	1
190 - 200		-	1	-		-	1
200 - 210		4	-	4		4	-
210 - 220		-	1	-		-	1
220 - 230		1	-	1		1	-
240 - 250		1	-	1		1	-
250 - 260		1	1	1		1	1
260 - 270		1	1	1		1	1
280 - 290		1	-	1		1	-
290 - 300		-	1	-		-	1
300 - 310		1	-	1		1	-
310 - 320		2	2	2		2	2
330 - 340		-	1	-		-	1
340 - 350		1	-	1		1	-
380 - 390		-	1	-		-	1
390 - 400		1	-	1		1	-
560 - 570		-	1	-		-	1
590 - 600		1	-	1		1	-
650 - 660		-	1	-		-	1
1,370 - 1,380		-	1	-		-	1
1,510 - 1,520		1	-	1		1	-

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

	Consolidated		Santos Ltd	
	1997 \$000	1996 \$000	1997 \$000	1996 \$000
27. Executives' and Directors' Remuneration (continued)				
Directors				
Amounts paid or payable, or otherwise made available from Santos Ltd and its controlled entities to the Directors of Santos Ltd and Directors of each of its controlled entities	2,724	2,438	2,673	2,438
Number of Directors whose remuneration was within the following bands:				
\$000			No.	No.
0 - 10			-	1
10 - 20			-	2
40 - 50			-	3
50 - 60			6	2
60 - 70			1	1
170 - 180			-	1
220 - 230			1	-
560 - 570			-	1
590 - 600			1	-
1,370 - 1,380			-	1
1,510 - 1,520			1	-

1996 amounts have been adjusted to place them on a comparable basis with current year amounts.

	1997 \$000	1996 \$000	1997 \$000	1996 \$000
Superannuation and retirement benefits				
Superannuation contributions and retirement benefits paid in respect of Directors, being amounts that have been previously approved by shareholders in a general meeting. The Directors believe that the provision of full particulars would be unreasonable.	-	394	-	394

28. Remuneration of Auditors

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

audit services	375	363	281	243
other services	541	584	481	444
	916	947	762	687

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

audit services	94	109	-	-
other services	173	315	-	-
	267	424	-	-

29. Segment Reporting

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

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
30. Commitments for Expenditure				
(a) Capital commitments				
Capital expenditure contracted for at balance date for which no amounts have been provided in the accounts:				
Due not later than one year	43.2	104.5	21.8	35.8
Due later than one year but not later than two years	2.5	8.2	1.7	—
Due later than five years	0.4	—	0.3	—
	46.1	112.7	23.8	35.8
(b) Minimum exploration commitments				
Minimum exploration commitments for which no amounts have been provided in the accounts or capital commitments:				
Due not later than one year	43.8	59.8	5.7	18.1
Due later than one year but not later than two years	25.5	30.7	0.3	4.5
Due later than two years but not later than five years	46.1	48.4	3.1	3.2
Due later than five years	46.1	—	28.6	—
	161.5	138.9	37.7	25.8
Santos Ltd and its controlled entities have certain obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. These commitments may be varied as a result of renegotiations of the terms of the exploration permits, licences or contracts or alternatively upon their relinquishment.				
The minimum exploration commitments are less than the normal level of exploration expenditures expected to be undertaken by Santos Ltd and its controlled entities.				
(c) Lease commitments				
Finance leases:				
Due not later than one year	1.1	1.3	0.1	0.1
Due later than one year but not later than two years	1.1	1.4	0.1	0.1
Due later than two years but not later than five years	15.2	4.0	—	—
Due later than five years	—	13.0	—	—
Total commitments under finance leases	17.4	19.7	0.2	0.2
Less future finance charges	(3.1)	(4.9)	—	—
Lease liabilities	14.3	14.8	0.2	0.2
Operating leases:				
Due not later than one year	15.8	5.0	3.5	3.8
Due later than one year but not later than two years	22.8	4.7	3.7	3.5
Due later than two years but not later than five years	61.6	5.6	5.1	3.8
Due later than five years	36.7	4.4	6.9	2.5
Total commitments under operating leases	136.9	19.7	19.2	13.6

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

31. Superannuation Commitments

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

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

	Santos Petroleum Management Superannuation Fund and Santos Retirement Plan	Santos Superannuation Fund
Type of benefit	Cash accumulation	Defined benefits and cash accumulation
Basis of contributions	Percentage of member's wage contributed by member and employer	Percentage of member's salary contributed by member and employer. The employer's percentage reflects the amount to provide an accumulation and the amount recommended by the Actuary to provide the defined benefit.
Employer's legal obligation to contribute	Enforceable subject to right to cease contributions on written notice to the Trustee	Enforceable subject to right to cease contributions on written notice to the Trustee.
Last actuarial assessment		
– date	Not applicable	1 January 1997
– name of valuer and qualifications	Not applicable	NL Wilmont BSc, FIAA

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

	Consolidated		Santos Ltd	
	As at 30 June 1997 \$million	As at 1 January 1997 \$million	As at 30 June 1997 \$million	As at 1 January 1997 \$million
Present value of employees' accrued benefits	*	64.1	*	64.1
Net market value of net assets held by the Fund to meet future benefit payments	80.6	72.9	67.9	72.9
Excess of assets held to meet future benefit payments	*	8.8	*	8.8

Vested benefits at 1 January 1997 are \$46.9 million.

* The last actuarial review of the Santos Superannuation Fund was at 1 January 1997. Upon recommendation of the Actuary, the employer contribution to the defined benefits and 3% supplementary accounts continue to be suspended until 1 July 1998. An amount of \$1.4 million was charged to operating profit in 1997 (1996: \$0.9 million), representing the net amortisation of the recorded net surplus of the market value of net assets over the present value of employees' accrued benefits. The last audited financial statements available are as at 30 June 1997.

	Consolidated		Santos Ltd	
	1997 \$million	1996 \$million	1997 \$million	1996 \$million
32. Contingent Liabilities				
Contingent liabilities arising in respect of other persons:				
(i) Performance guarantees	7.6	7.6	4.9	4.7
(ii) Employee service agreements	3.3	2.4	3.3	2.4
(iii) Claims have been lodged including the following:				
(a) claims under and for breach of contract and public liability	4.0	1.7	1.5	1.0
(b) miscellaneous claims	0.3	0.3	-	-
	15.2	12.0	9.7	8.1

Legal advice in relation to the claims lodged above indicates that on the basis of available information, liability in respect of these claims is unlikely to exceed \$2.3 million on a consolidated basis.

Guarantees provided by Santos Ltd for financing facilities and lease obligations in respect of controlled entities are disclosed in note 17.

A number of the Australian interests of the economic entity are located within areas the subject of one or more claims or applications for native title determination, the majority of which applications are currently either in the mediation or pre-mediation stage under the *Native Title Act*. The economic entity is a party to a number of those applications which, if not capable of successful mediation, are referable to the Federal Court for hearing and determination. Whatever the outcome of those applications, it is not believed that they will significantly impact the asset base of the economic entity. The decision of the High Court of Australia in the "Wik" case has the potential to introduce delay in the grant of mineral and petroleum tenements and consequently to impact generally the timing of exploration, development and production operations. An assessment of the impact upon the timing of particular operations may require consideration and determination of complex legal and factual issues dependent on the final outcome of response of the Commonwealth Government to the implications of the "Wik" decision.

33. Additional Financial Instruments Disclosure

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

(a) Foreign exchange risk exposure

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

At 31 December 1997 the economic entity had open forward foreign exchange and foreign currency option contracts with settlement/expiry dates up to one year. If closed out at balance date these contracts would have resulted in a loss of \$2.1 million which has been deferred for inclusion as part of the underlying future sales transactions.

US dollar denominated borrowings were fully designated either as a hedge of US dollar denominated investments in self-sustaining overseas controlled entities or, from 1 January 1997, as a hedge of future US dollar denominated sales revenues. As a result, there were no foreign currency gains or losses arising from translation of US dollar denominated borrowings recognised in the profit and loss account in 1997. In accordance with Australian Accounting Standards, \$29.2 million of unrealised foreign currency losses were deferred as at 31 December 1997. The ultimate foreign currency gains or losses will be included in the measurement of the specific hedged US dollar denominated sales revenues to be realised in the years 2001 through 2005.

UK pound denominated borrowings were fully designated as a hedge of UK pound denominated investments in a self-sustaining overseas controlled entity.

Notes To and Forming Part of the Financial Statements

for the year ended 31 December 1997

33. Additional Financial Instruments Disclosure (continued)

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

		Consolidated		Santos Ltd	
		1997 \$million	1996 \$million	1997 \$million	1996 \$million
Current assets	– United States dollars	14.7	130.5	–	21.9
	– United Kingdom pounds	15.1	24.7	–	–
Current liabilities	– United States dollars	13.4	5.8	–	–
	– United Kingdom pounds	12.0	4.4	–	–
Non-current liabilities	– United States dollars	–	132.6	–	–

(b) Interest rate risk exposure

The economic entity enters into interest rate swap contracts to manage interest rate risk with maturities between one and eight years.

At 31 December 1997 the economic entity had open interest rate swap contracts which, if closed, would have resulted in a loss of \$0.5 million (1996: loss of \$3.5 million).

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

		Floating interest rate	Fixed interest repriced or maturing in			Non interest bearing	Total
			1 year or less	Over 1 to 5 years	More than 5 years		
	Note	\$million	\$million	\$million	\$million	\$million	\$million
31 December 1997							
Financial Assets							
Cash		109.8	–	–	–	–	109.8
Receivables	(9)	–	–	–	0.5	119.6	120.1
Investments	(11)	–	–	–	–	389.7	389.7
Total financial assets		109.8	–	–	0.5	509.3	619.6
Weighted average interest rate		4.63%	–	–	6.50%		
Financial Liabilities							
Accounts payable	(16)	–	–	–	–	183.5	183.5
Borrowings	(17)	17.6	796.2	253.9	156.3	–	1,224.0
		17.6	796.2	253.9	156.3	183.5	1,407.5
Interest rate swaps*		–	120.2	26.9	(147.1)	–	–
Total financial liabilities		17.6	916.4	280.8	9.2	183.5	1,407.5
Weighted average interest rate		5.95%	5.75%	6.61%	6.95%		
31 December 1996							
Financial Assets							
		152.0	–	–	0.5	524.2	676.7
Weighted average interest rate		5.37%	–	–	6.50%		
Financial Liabilities							
		14.8	988.2	77.5	10.1	83.6	1,174.2
Weighted average interest rate		7.65%	6.91%	7.09%	6.95%		

* notional principal amounts

33. Additional Financial Instruments Disclosure (continued)

(c) **Commodity price risk exposure**

The economic entity is exposed to liquid petroleum price fluctuations through the sale of liquid petroleum products denominated in US dollars. The economic entity enters into commodity crude oil price swap contracts to manage its commodity price risk. These contracts allow the economic entity to receive a fixed price on a specified quantity of crude oil at some point in the future.

At 31 December 1997 the economic entity did not have any open crude oil price swap contracts (1996: Nil).

(d) **Credit risk exposure**

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

The credit risk on financial assets, excluding investments, of the economic entity which have been recognised on the balance sheet is indicated by the carrying amount.

The credit risk on off-balance sheet derivatives is the cost of replacing the contract if the counterparty was to default and is measured by their market value at the reporting date. As at 31 December 1997, counterparty default of interest rate swap contracts, foreign exchange contracts and foreign currency options would result in a loss of \$2.5 million (1996: \$0.5 million).

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

(e) **Net fair values of financial assets and liabilities**

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

The estimated amount which the economic entity would expect to pay if derivative financial instruments contracts relating to future revenue transactions were closed out at their market rates at 31 December 1997 amounted to \$2.6 million (1996: \$3.5 million).

34. Economic Dependency

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

35. Post Balance Date Event

Subsequent to balance date, the Company announced that it intends to seek offers for the purchase of its oil and gas interests in the United Kingdom.

Statement by Directors

for the year ended 31 December 1997

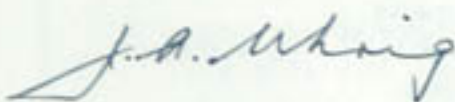
1. In the opinion of the Directors of Santos Ltd:

- (a) the financial statements set out on pages 46 to 73 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 31 December 1997, and the state of affairs at 31 December 1997, of the Company and the economic entity;
- (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law; and
- (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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

Dated at Adelaide this 11th day of March 1998.

Signed in accordance with a resolution of the Directors:



J A Uhrig
Director



N R Adler
Director

Independent Auditors' Report

to the members of Santos Ltd

Scope

We have audited the financial statements of Santos Ltd for the financial year ended 31 December 1997, consisting of the Profit and Loss Accounts, Balance Sheets, Statements of Cash Flows, accompanying notes, and the Statement by Directors set out on pages 46 to 74. The financial statements comprise the accounts of the Company and the consolidated accounts of the economic entity, being the Company and its controlled entities. The Company's Directors are responsible for the financial statements. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

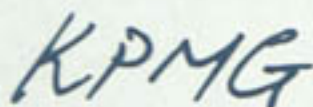
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial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

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

Audit Opinion

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

- (a) so as to give a true and fair view of:
 - i) the state of affairs of the Company and the economic entity at 31 December 1997 and the results and cash flows of the Company and the economic entity for the year ended on that date; and
 - ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law; and
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.



KPMG
Chartered Accountants
Adelaide, 11 March 1998



W J Stevens
Partner

Stock Exchange and Shareholder Information

Listed on Australian Stock Exchange at 27 February 1998 were 605,118,009 ordinary shares. Unlisted are 1,003,500 partly paid Plan 0 shares, 926,250 partly paid Plan 2 shares, 183,616 ordinary shares issued pursuant to the Santos Employee Share Acquisition Plan ("SESAP") and 98,400 ordinary shares issued pursuant to the Santos Employee Share Purchase Plan ("SESPP"). There were 67,003 holders of all classes of issued shares (including 38 holders of Plan 0 shares and 33 holders of Plan 2 shares) compared with

57,060 a year earlier.

The listed issued ordinary shares plus the ordinary shares issued pursuant to SESAP and SESPP represent all of the voting power in Santos. The holdings of the 20 largest holders of shares represent 48.38% of the total voting power in Santos (last year 47.96%).

The 20 largest shareholders in Santos as shown in the Company's Register of Members at 27 February 1998 were:

Name	Number of fully paid shares	% of voting capital
Westpac Custodian Nominees Limited	74,621,397	12.33
National Nominees Limited	37,954,906	6.27
Chase Manhattan Nominees Limited	31,331,101	5.17
ANZ Nominees Limited	23,746,483	3.92
AMP Life Limited	18,842,647	3.11
Perpetual Trustees Nominees Limited (MBA Account)	13,054,176	2.16
SAS Trustee Corporation	13,035,587	2.15
MLC Limited	11,140,882	1.84
Queensland Investment Corporation	9,680,048	1.60
Perpetual Trustees Australia Limited (MBA Account)	8,288,117	1.37
Westpac Custodian Nominees Limited (ADR Account)	7,753,421	1.28
Citicorp Nominees Pty Limited	7,479,522	1.23
Permanent Nominees (Aust) Limited	6,370,481	1.05
BT Custodial Services Pty Limited (Sub Cus Account)	5,933,360	0.98
Prudential Corporation Australia Limited	5,769,401	0.95
Bond Street Australia Limited (MBL-Instalment Account)	5,634,850	0.93
Perpetual Trustees Nominees Limited	3,607,262	0.60
CSS Board	3,151,982	0.52
Australian Foundation Investment Company Limited (Investment Portfolio Account)	2,764,251	0.46
Westpac Life Insurance Services Limited	2,757,833	0.46
	292,917,707	48.38

Substantial Shareholders, as at 27 February 1998, as disclosed by notices received by the Company:

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

Analysis of Fully Paid Ordinary Shares - range of shares held

	Fully paid ordinary shares	% of holders	% of shares held
(Holders)			
1 - 1,000 *	19,253	28.75	1.81
1,001 - 5,000	37,189	55.54	14.44
5,001 - 10,000	6,626	9.90	7.55
10,001 - 100,000	3,646	5.44	12.17
100,001 and over	251	0.37	64.03
Total No	66,965	100.00	100.00

* There were 1,337 shareholders who held less than 100 shares which at the then current market price was deemed to be the minimum marketable parcel.

For Directors' Shareholdings see Directors' Statutory Report as set out on pages 42 to 45 of this Annual Report.

Voting Rights

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

Notice of Meeting

The Annual General Meeting of Santos Ltd will be held in the Auditorium at The Adelaide Town Hall Function Centre, 128 King William Street, Adelaide, South Australia on Friday, 1 May 1998 at 11.00 a.m.

Final Dividend

The 1997 final ordinary dividend will be paid on 30 April 1998 to shareholders registered in the books of the company at the close of business on 8 April 1998 in respect of fully paid shares held at record date.

Shareholders' Enquires

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

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

Directors

J.A. Uhrig (Chairman)
N.R. Adler (Managing Director)
P.C. Barnett
S. Gerlach
J.W. McArdle (Executive Director)
M.A. O'Leary
J. Sloan
Robert Strauss
I.E. Webber

Secretary

M.G. Roberts

Registered and Head Office

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

Share Register

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

Offices**Port Bonython**

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

Brisbane

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

Sydney

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

Subsidiary Companies**Brisbane**

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

United States of America

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

United Kingdom

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

Indonesia

Santos Petroleum (Seram)
Limited
Mulia Tower, Suite 701
Jl. Jend. Gatot Subroto Kav. 9-11
Jakarta 12930 Indonesia
Telephone (62-21) 520 4045
Facsimile (62-21) 520 4032

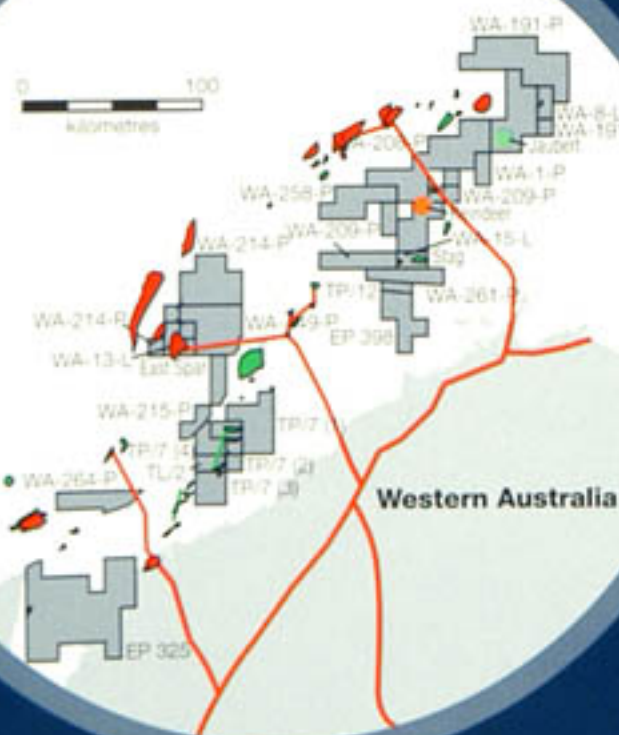
Papua New Guinea

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

Santos Exploration and Production Interests - Australia



● **Santos Acreage - Carnarvon Basin**



-  Santos Permits
-  Oil Field
-  Gas Field
-  Oil Pipeline
-  Gas Pipeline
-  1997 Oil Discovery
-  1997 Gas Discovery

● **Santos Acreage - Bonaparte Basin**



-  Santos Permits
-  Oil Field
-  Gas Field
-  1997 Oil Discovery

● **Santos Exploration and Production Interests - South East Asia**



● **Santos Acreage - Cooper/Eromanga Basins**

