

# SANTOS LTD

## Appendix 4D

### Half-Year Report under Listing Rule 4.2A

For the period ended 30 June 2006

ABN

80 007 550 923

Previous corresponding period

30 June 2005

#### 2. Results for announcement to the market

|                                                                                                                  |                     |       |    | \$A million                            |
|------------------------------------------------------------------------------------------------------------------|---------------------|-------|----|----------------------------------------|
| Revenue from ordinary activities                                                                                 | Up                  | 28.8% | to | 1,320.6                                |
| Profit from ordinary activities after tax attributable to members                                                | Up                  | 27.6% | to | 369.5                                  |
| Net profit for the period attributable to members                                                                | Up                  | 27.6% | to | 369.5                                  |
| Interim Dividends                                                                                                | Amount per security |       |    | Franked amount per security at 30% tax |
| Ordinary securities                                                                                              | 20.0¢               |       |    | 20.0¢                                  |
| Preference securities                                                                                            | \$2.5275            |       |    | \$2.5275                               |
| Record date for determining entitlements to the dividends                                                        | 5 September 2006    |       |    |                                        |
| <i>Brief explanation of any of the figures disclosed above necessary to enable the figures to be understood:</i> |                     |       |    |                                        |
| Refer to attached media release for further commentary regarding the half-year 2006 result.                      |                     |       |    |                                        |

**This half-year report is to be read in conjunction with the June 2006 half-year financial report.**

### 3. NTA backing

|                                                  | Current period | Previous corresponding period |
|--------------------------------------------------|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | N/A            | N/A                           |

### 4. Change in ownership of controlled entities

#### Control gained over entities having material effect

|                                                                                                                                                    |             |  |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--|
| Name of entity                                                                                                                                     | N/A         |  |
|                                                                                                                                                    | \$A million |  |
| Date from which control was gained                                                                                                                 | N/A         |  |
| <b>Where material to understanding of the report</b>                                                                                               |             |  |
| Consolidated profit from ordinary activities after tax of the controlled entity since the date in the current period on which control was acquired | N/A         |  |
| Profit from ordinary activities after tax of the controlled entity for the whole of the previous corresponding period                              | N/A         |  |

#### Loss of control of entities having material effect

|                                                                                                                                             |             |  |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------|--|
| Name of entity                                                                                                                              | N/A         |  |
|                                                                                                                                             | \$A million |  |
| Date from which control was lost                                                                                                            | N/A         |  |
| Consolidated profit from ordinary activities after tax of the controlled entity for the current period to the date of loss of control       | N/A         |  |
| Consolidated profit from ordinary after tax of the controlled entity while controlled during the whole of the previous corresponding period | N/A         |  |

## 5. Dividends

Date the dividend is payable

2 October 2006

|                       | Current period<br>\$A million | Previous<br>corresponding<br>period<br>\$A million |
|-----------------------|-------------------------------|----------------------------------------------------|
| Ordinary securities   | 119.2                         | 106.6                                              |
| Preference securities | 15.2                          | 15.9                                               |
| <b>Total</b>          | <b>134.4</b>                  | <b>122.5</b>                                       |

None of these dividends are foreign sourced.

## 6. Dividend Reinvestment Plans

The dividend or distribution plans shown below are in operation.

The Santos Dividend Reinvestment Plan is in operation. Shares are allocated at the daily weighted average market price of the Company's shares on the ASX over a period of 7 business days commencing on the business day after the Dividend Record Date. The Board has determined that no discount will apply.

The last date for receipt of election notices for the dividend or distribution plans

5 September 2006

## 7. Details of associates and joint venture entities

| Name of entity | Percentage of ownership interest held<br>at end of period or date of disposal |                                                    |
|----------------|-------------------------------------------------------------------------------|----------------------------------------------------|
|                | Current period<br>\$A million                                                 | Previous<br>corresponding<br>period<br>\$A million |
| N/A            | N/A                                                                           | N/A                                                |

**Santos Ltd**  
ABN 80 007 550 923

# Santos

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**SANTOS LTD**  
**(INCORPORATED IN SOUTH AUSTRALIA ON 18 MARCH 1954)**  
**AND CONTROLLED ENTITIES**

**HALF-YEAR CONDENSED FINANCIAL REPORT**  
**30 JUNE 2006**

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**SANTOS LTD AND CONTROLLED ENTITIES**

**CONDENSED INCOME STATEMENT**

**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                                                   |      | <b>CONSOLIDATED</b>                   |                                       |
|-----------------------------------------------------------------------------------|------|---------------------------------------|---------------------------------------|
|                                                                                   | Note | <b>30 June<br/>2006<br/>\$million</b> | <b>30 June<br/>2005<br/>\$million</b> |
| Product sales                                                                     | 3    | 1,313.3                               | 1,019.1                               |
| Cost of sales                                                                     | 4    | (569.0)                               | (572.8)                               |
| Gross profit                                                                      |      | 744.3                                 | 446.3                                 |
| Other revenue                                                                     | 3    | 7.3                                   | 6.2                                   |
| Other income                                                                      | 3    | 9.7                                   | 6.5                                   |
| Other expenses                                                                    | 4    | (184.0)                               | (12.4)                                |
| <b>Operating profit before net financing costs</b>                                |      | <b>577.3</b>                          | <b>446.6</b>                          |
| Interest income                                                                   | 6    | 3.8                                   | 4.5                                   |
| Finance expenses                                                                  | 6    | (60.4)                                | (29.2)                                |
| <b>Net financing costs</b>                                                        |      | <b>(56.6)</b>                         | <b>(24.7)</b>                         |
| <b>Profit before tax</b>                                                          |      | <b>520.7</b>                          | <b>421.9</b>                          |
| Income tax expense                                                                |      | (151.2)                               | (132.4)                               |
| <b>Net profit after income tax attributable to the shareholders of Santos Ltd</b> |      | <b>369.5</b>                          | <b>289.5</b>                          |
| <b>Earnings per share (¢)</b>                                                     |      |                                       |                                       |
| Basic                                                                             |      | 59.5                                  | 46.9                                  |
| Diluted                                                                           |      | 57.1                                  | 44.5                                  |
| <b>Dividends per share (\$)</b>                                                   |      |                                       |                                       |
| Redeemable preference shares                                                      | 12   | 2.5300                                | 2.4497                                |
| Ordinary shares                                                                   | 12   | 0.20                                  | 0.18                                  |

The income statement is to be read in conjunction with the notes to the half-year condensed financial statements.

**SANTOS LTD AND CONTROLLED ENTITIES**

**CONDENSED BALANCE SHEET**

**AS AT 30 JUNE 2006**

|                                                                  | Note | <b>CONSOLIDATED</b>                   |                                           |
|------------------------------------------------------------------|------|---------------------------------------|-------------------------------------------|
|                                                                  |      | <b>30 June<br/>2006<br/>\$million</b> | <b>31 December<br/>2005<br/>\$million</b> |
| <b>Current assets</b>                                            |      |                                       |                                           |
| Cash and cash equivalents                                        |      | 252.2                                 | 229.2                                     |
| Trade and other receivables                                      |      | 503.0                                 | 511.7                                     |
| Inventories                                                      |      | 192.1                                 | 144.0                                     |
| Other                                                            |      | -                                     | 27.2                                      |
| <b>Total current assets</b>                                      |      | <b>947.3</b>                          | <b>912.1</b>                              |
| <b>Non-current assets</b>                                        |      |                                       |                                           |
| Exploration and evaluation assets                                | 7    | 385.8                                 | 339.1                                     |
| Oil and gas assets                                               | 8    | 4,878.2                               | 4,792.5                                   |
| Other land, buildings, plant and equipment                       | 9    | 82.2                                  | 73.5                                      |
| Other investments                                                |      | 16.3                                  | 14.8                                      |
| Deferred tax assets                                              |      | 46.7                                  | 57.4                                      |
| Other                                                            |      | 8.1                                   | 6.6                                       |
| <b>Total non-current assets</b>                                  |      | <b>5,417.3</b>                        | <b>5,283.9</b>                            |
| <b>Total assets</b>                                              |      | <b>6,364.6</b>                        | <b>6,196.0</b>                            |
| <b>Current liabilities</b>                                       |      |                                       |                                           |
| Trade and other payables                                         |      | 391.0                                 | 392.2                                     |
| Deferred income                                                  |      | 4.8                                   | 4.9                                       |
| Interest-bearing loans and borrowings                            |      | 16.8                                  | 11.1                                      |
| Current tax liabilities                                          |      | 106.7                                 | 184.7                                     |
| Employee benefits                                                |      | 53.8                                  | 49.7                                      |
| Other provisions                                                 |      | 22.1                                  | 22.7                                      |
| Other                                                            |      | 1.8                                   | 1.8                                       |
| <b>Total current liabilities</b>                                 |      | <b>597.0</b>                          | <b>667.1</b>                              |
| <b>Non-current liabilities</b>                                   |      |                                       |                                           |
| Deferred income                                                  |      | 11.2                                  | 13.8                                      |
| Interest-bearing loans and borrowings                            |      | 1,749.3                               | 1,817.0                                   |
| Deferred tax liabilities                                         |      | 520.8                                 | 512.9                                     |
| Employee benefits                                                |      | 19.2                                  | 16.1                                      |
| Other provisions                                                 |      | 229.1                                 | 198.9                                     |
| Other                                                            |      | 5.3                                   | 6.3                                       |
| <b>Total non-current liabilities</b>                             |      | <b>2,534.9</b>                        | <b>2,565.0</b>                            |
| <b>Total liabilities</b>                                         |      | <b>3,131.9</b>                        | <b>3,232.1</b>                            |
| <b>Net assets</b>                                                |      | <b>3,232.7</b>                        | <b>2,963.9</b>                            |
| <b>Equity</b>                                                    |      |                                       |                                           |
| Issued capital                                                   | 11   | 2,229.3                               | 2,212.0                                   |
| Reserves                                                         |      | (161.2)                               | (178.3)                                   |
| Retained earnings                                                |      | 1,164.6                               | 930.2                                     |
| <b>Total equity attributable to equity holders of Santos Ltd</b> |      | <b>3,232.7</b>                        | <b>2,963.9</b>                            |

The balance sheet is to be read in conjunction with the notes to the half-year condensed financial statements.

**SANTOS LTD AND CONTROLLED ENTITIES**

**CONDENSED CASH FLOW STATEMENT**

**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                                                     | <b>CONSOLIDATED</b>                   |                                       |
|-------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                     | <b>30 June<br/>2006<br/>\$million</b> | <b>30 June<br/>2005<br/>\$million</b> |
| <b>Cash flows from operating activities</b>                                         |                                       |                                       |
| Receipts from customers                                                             | 1,382.8                               | 991.9                                 |
| Interest received                                                                   | 3.9                                   | 4.5                                   |
| Overriding royalties received                                                       | 7.6                                   | 6.1                                   |
| Insurance proceeds received                                                         | 95.4                                  | 41.0                                  |
| Pipeline tariffs and other (payments)/receipts                                      | (12.2)                                | 21.9                                  |
| Payments to suppliers and employees                                                 | (489.1)                               | (333.2)                               |
| Royalty, excise and PRRT payments                                                   | (75.2)                                | (72.8)                                |
| Borrowing costs paid                                                                | (57.6)                                | (31.7)                                |
| Income taxes paid                                                                   | (212.7)                               | (62.4)                                |
| <b>Net cash provided by operating activities</b>                                    | <b>642.9</b>                          | <b>565.3</b>                          |
| <b>Cash flows from investing activities</b>                                         |                                       |                                       |
| Payments for:                                                                       |                                       |                                       |
| Exploration and evaluation expenditure                                              | (147.9)                               | (177.8)                               |
| Oil and gas assets expenditure                                                      | (259.2)                               | (365.8)                               |
| Other land, buildings, plant and equipment                                          | (15.3)                                | -                                     |
| Acquisitions of oil and gas assets                                                  | (71.5)                                | -                                     |
| Acquisitions of controlled entities                                                 | -                                     | (83.1)                                |
| Restoration expenditure                                                             | (5.2)                                 | (0.2)                                 |
| Other investing activities                                                          | (0.8)                                 | (0.2)                                 |
| Proceeds from disposal of non-current assets                                        | 2.2                                   | 56.0                                  |
| <b>Net cash used in investing activities</b>                                        | <b>(497.7)</b>                        | <b>(571.1)</b>                        |
| <b>Cash flows from financing activities</b>                                         |                                       |                                       |
| Dividends paid                                                                      | (118.6)                               | (101.0)                               |
| Proceeds from issues of ordinary shares                                             | 1.7                                   | 14.4                                  |
| Net (repayment)/drawdown of borrowings                                              | (5.5)                                 | 170.2                                 |
| <b>Net cash (used in)/provided by financing activities</b>                          | <b>(122.4)</b>                        | <b>83.6</b>                           |
| <b>Net increase in cash</b>                                                         | <b>22.8</b>                           | <b>77.8</b>                           |
| <b>Cash and cash equivalents at the beginning of the period</b>                     | <b>229.2</b>                          | <b>125.7</b>                          |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | 0.2                                   | 0.4                                   |
| <b>Cash and cash equivalents at the end of the period</b>                           | <b>252.2</b>                          | <b>203.9</b>                          |

The cash flow statement is to be read in conjunction with the notes to the half-year condensed financial statements.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**CONDENSED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                                                                                                                                                    | <b>CONSOLIDATED</b>                   |                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                                                                                                                    | <b>30 June<br/>2006<br/>\$million</b> | <b>30 June<br/>2005<br/>\$million</b> |
| Adjustment on initial adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement", net of tax, to: |                                       |                                       |
| Retained profits                                                                                                                                                                   | -                                     | (2.4)                                 |
| Reserves                                                                                                                                                                           | -                                     | (6.7)                                 |
| Foreign exchange translation differences                                                                                                                                           | 8.4                                   | 11.0                                  |
| Net gain / (loss) on hedge of net investment in foreign subsidiaries                                                                                                               | 8.2                                   | (11.0)                                |
| Cash flow hedges:                                                                                                                                                                  |                                       |                                       |
| Gains taken to equity                                                                                                                                                              | -                                     | 0.8                                   |
| Change in fair value of equity securities available-for-sale, net of tax                                                                                                           | 0.5                                   | (0.7)                                 |
| Share-based payment transactions                                                                                                                                                   | 0.7                                   | -                                     |
| Actuarial loss on defined benefits plans, net of tax                                                                                                                               | (1.7)                                 | -                                     |
| <b>Net income / (expense) recognised directly in equity</b>                                                                                                                        | <b>16.1</b>                           | <b>(9.0)</b>                          |
| <b>Profit for the period</b>                                                                                                                                                       | <b>369.5</b>                          | <b>289.5</b>                          |
| <b>Total recognised income and expense for the period attributable to equity holders of Santos Ltd</b>                                                                             | <b>385.6</b>                          | <b>280.5</b>                          |

Other movements in equity arising from transactions with owners as owners are set out in notes 11 and 12.

The statement of recognised income and expense is to be read in conjunction with the notes to the half-year condensed financial statements.



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**1. Corporate Information**

The financial report of Santos Ltd ("the Company") for the half-year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 24 August 2006. Santos Ltd is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

**2. Summary of Significant Accounting Policies**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the 31 December 2005 annual financial report of Santos Ltd.

It is also recommended that the half-year financial report be considered together with any public announcements made by Santos Ltd and its controlled entities during the half-year ended 30 June 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**(a) Basis of Preparation**

The half-year condensed financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The half-year financial report has been prepared on the historical cost basis, except for derivative financial instruments and available-for-sale investments that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest hundred thousand dollars, unless otherwise stated, under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which that class order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

**(b) Significant Accounting Policies**

The half-year condensed financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 31 December 2005.

Australian Accounting Standards and UIG Interpretations that have recently been issued and that are effective from 1 January 2006 have not impacted the consolidated entity's existing accounting policies as they are either consistent with the existing accounting policies or relate to transactions that the consolidated entity has not entered into.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**2. Summary of Significant Accounting Policies (continued)**

**(b) Significant Accounting Policies (continued)**

**Accounting for petroleum resource rent tax and similar taxes**

As disclosed in the 31 December 2005 Annual Financial Report, there is currently uncertainty regarding the accounting treatment for petroleum resource rent tax ("PRRT") and similar taxes. The Company has continued to account for these taxes under the accruals basis described in the 2005 Annual Financial Report. However, some oil and gas industry participants are of the view that PRRT (and similar taxes) expense is more appropriately measured by applying AASB112 "Income Taxes" and divergent practices on its reporting remain. The Company is of the view that there has been no definitive guidance from any of the relevant accounting standards setting bodies and that there remains uncertainty as to what constitutes an income tax, and therefore will continue to account for these taxes under the accruals basis until such time as this uncertainty is resolved or a clear industry practice develops.

Had PRRT and similar taxes been accounted for as an income tax under AASB 112, a deferred tax asset of \$31.8 million (31 December 2005: \$150.1 million) would have been recognised at 30 June 2006. Profit before tax would have increased by \$25.8 million (30 June 2005: \$21.8 million), the income tax expense attributed to these taxes would have been \$93.7 million (30 June 2005: income tax benefit of \$101.7 million), and profit after tax would have decreased by \$75.6 million (30 June 2005: \$117.0 million increase).

**(c) Basis of Consolidation**

The half-year condensed financial statements comprise the financial statements of Santos Ltd and its controlled entities ("the consolidated entity").

**SANTOS LTD AND CONTROLLED ENTITIES**

**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                        | <b>CONSOLIDATED</b>                   |                                       |
|--------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                        | <b>30 June<br/>2006<br/>\$million</b> | <b>30 June<br/>2005<br/>\$million</b> |
| <b>3. Revenue and Other Income</b>                     |                                       |                                       |
| Product sales:                                         |                                       |                                       |
| Gas, ethane and liquefied gas                          | 446.3                                 | 400.7                                 |
| Crude oil                                              | 550.7                                 | 378.6                                 |
| Condensate and naphtha                                 | 203.2                                 | 163.0                                 |
| Liquefied petroleum gas                                | 113.1                                 | 76.8                                  |
|                                                        | <u>1,313.3</u>                        | <u>1,019.1</u>                        |
| Other revenue:                                         |                                       |                                       |
| Overriding royalties                                   | 7.3                                   | 6.2                                   |
|                                                        | <u>7.3</u>                            | <u>6.2</u>                            |
| Total revenue                                          | <u>1,320.6</u>                        | <u>1,025.3</u>                        |
| Other income:                                          |                                       |                                       |
| Equipment rentals, pipeline tariffs and other          | 7.6                                   | 9.6                                   |
| Net gain / (loss) on sale of non-current assets        | 2.1                                   | (3.1)                                 |
|                                                        | <u>9.7</u>                            | <u>6.5</u>                            |
| <b>4. Expenses</b>                                     |                                       |                                       |
| Cost of sales:                                         |                                       |                                       |
| Production costs                                       |                                       |                                       |
| Production expenses                                    | 162.2                                 | 144.1                                 |
| Production facilities operating leases                 | 23.2                                  | 21.2                                  |
|                                                        | <u>185.4</u>                          | <u>165.3</u>                          |
| Other operating costs                                  |                                       |                                       |
| Pipeline tariffs and tolls                             | 22.3                                  | 16.6                                  |
| Royalty and excise                                     | 44.0                                  | 54.0                                  |
| PRRT                                                   | 25.8                                  | 21.8                                  |
|                                                        | <u>92.1</u>                           | <u>92.4</u>                           |
| Cash cost of production                                | <u>277.5</u>                          | <u>257.7</u>                          |
| Depreciation and depletion                             | 270.6                                 | 273.3                                 |
| Third party gas purchases                              | 41.5                                  | 58.8                                  |
| Increase in product stock                              | (20.6)                                | (17.0)                                |
|                                                        | <u>569.0</u>                          | <u>572.8</u>                          |
| Total cost of sales                                    | <u>569.0</u>                          | <u>572.8</u>                          |
| Other expenses:                                        |                                       |                                       |
| Selling, general and administrative expenses:          |                                       |                                       |
| Operating expenses                                     | 25.2                                  | 26.0                                  |
| Depreciation                                           | 1.3                                   | 1.4                                   |
|                                                        | <u>26.5</u>                           | <u>27.4</u>                           |
| Foreign exchange (gains) / losses                      | (0.2)                                 | 11.8                                  |
| Hedge ineffectiveness gains                            | (0.4)                                 | (0.6)                                 |
| Exploration and evaluation expensed                    | 132.0                                 | 71.3                                  |
| Net impairment loss / (reversal) of oil and gas assets | 26.1                                  | (97.5)                                |
|                                                        | <u>184.0</u>                          | <u>12.4</u>                           |

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                                                                                      | <b>CONSOLIDATED</b>                   |                                       |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                                                      | <b>30 June<br/>2006<br/>\$million</b> | <b>30 June<br/>2005<br/>\$million</b> |
| <b>4. Expenses (continued)</b>                                                                                       |                                       |                                       |
| Amounts that are unusual because of their nature, size, or incidence:                                                |                                       |                                       |
| Included in exploration and evaluation expensed is the following amount related to the Banjar Panji 1 well incident: |                                       |                                       |
| Amount provided for potential remediation and related costs                                                          | 24.3                                  | -                                     |

Banjar Panji 1 is an onshore exploration well in the Brantas PSC in East Java, Indonesia. The Company, through its subsidiary Santos Brantas Pty Ltd, has an 18% interest in the Brantas PSC which is operated by Lapindo Brantas Inc.

On 29 May 2006, the Company was informed of an uncontrolled flow of mud and water to the surface from a series of vents proximate to drilling operations. The cause of this venting has not yet been determined.

At this time, it is not possible to complete a detailed assessment of the clean up costs in relation to the incident nor to determine whether the venturers in the Brantas PSC will have any liability in relation to remediation of the area or any other costs. However, it has been considered prudent to make a provision of \$24.3 million (\$19.2 million after tax) as at 30 June 2006 in respect of potential remediation and related costs that may arise from the incident. This amount will be reviewed as further information comes to light.

The Company has advised its insurers of the incident. As the Company's accounting policy in respect of insurance claims is not to recognise an insurance claim receivable until the insurers have granted indemnity, no estimate of the amount of insurance claims receivable has been recorded at 30 June 2006.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                                                                                          |         | <b>CONSOLIDATED</b>                                        |                                                                   |
|--------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------|-------------------------------------------------------------------|
|                                                                                                                          |         | <b>30 June<br/>2006<br/>\$million</b>                      | <b>30 June<br/>2005<br/>\$million</b>                             |
| <b>5. Earnings</b>                                                                                                       |         |                                                            |                                                                   |
| Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") is calculated as follows: |         |                                                            |                                                                   |
| Profit before tax                                                                                                        | 520.7   | 421.9                                                      |                                                                   |
| Add back:                                                                                                                |         |                                                            |                                                                   |
| Net financing costs                                                                                                      | 56.6    | 24.7                                                       |                                                                   |
| Earnings before interest and tax ("EBIT")                                                                                | 577.3   | 446.6                                                      |                                                                   |
| Add back:                                                                                                                |         |                                                            |                                                                   |
| Depreciation and depletion                                                                                               | 271.9   | 274.7                                                      |                                                                   |
| Exploration and evaluation expensed                                                                                      | 132.0   | 71.3                                                       |                                                                   |
| Net impairment loss / (reversal) of oil and gas assets                                                                   | 26.1    | (97.5)                                                     |                                                                   |
| EBITDAX                                                                                                                  | 1,007.3 | 695.1                                                      |                                                                   |
| <b>6. Net Financing Costs</b>                                                                                            |         |                                                            |                                                                   |
| Interest income                                                                                                          | 3.8     | 4.5                                                        |                                                                   |
| Interest paid to third parties                                                                                           | 57.6    | 36.7                                                       |                                                                   |
| Less borrowing costs capitalised                                                                                         | (9.2)   | (14.4)                                                     |                                                                   |
|                                                                                                                          | 48.4    | 22.3                                                       |                                                                   |
| Unwinding the effect of discounting provisions                                                                           | 9.8     | 6.9                                                        |                                                                   |
| Interest expense on defined benefit obligation                                                                           | 2.2     | -                                                          |                                                                   |
| Financial expenses                                                                                                       | 60.4    | 29.2                                                       |                                                                   |
| Net financing costs                                                                                                      | 56.6    | 24.7                                                       |                                                                   |
|                                                                                                                          |         | <b>CONSOLIDATED</b>                                        |                                                                   |
|                                                                                                                          |         | <b>Six months<br/>ended<br/>30 June 2006<br/>\$million</b> | <b>Twelve months<br/>ended<br/>31 December 2005<br/>\$million</b> |
| <b>7. Exploration and Evaluation Assets</b>                                                                              |         |                                                            |                                                                   |
| Balance at the beginning of the period                                                                                   | 339.1   | 272.0                                                      |                                                                   |
| Acquisitions of controlled entities                                                                                      | -       | 29.6                                                       |                                                                   |
| Acquisitions of oil and gas assets                                                                                       | 42.8    | -                                                          |                                                                   |
| Additions                                                                                                                | 93.7    | 168.8                                                      |                                                                   |
| Exploration and evaluation expensed                                                                                      | (54.8)  | (153.5)                                                    |                                                                   |
| Net impairment reversals                                                                                                 | -       | 6.3                                                        |                                                                   |
| Transfer to oil and gas assets                                                                                           | (31.2)  | -                                                          |                                                                   |
| Foreign currency translation                                                                                             | (3.8)   | 15.9                                                       |                                                                   |
| Balance at the end of the period                                                                                         | 385.8   | 339.1                                                      |                                                                   |

**SANTOS LTD AND CONTROLLED ENTITIES**

**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

|                                                      | <b>CONSOLIDATED</b>                                        |                                                                   |
|------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|
|                                                      | <b>Six months<br/>ended<br/>30 June 2006<br/>\$million</b> | <b>Twelve months<br/>ended<br/>31 December 2005<br/>\$million</b> |
| <b>8. Oil and Gas Assets</b>                         |                                                            |                                                                   |
| <b>Assets in Development</b>                         |                                                            |                                                                   |
| Balance at the beginning of the period               | 473.1                                                      | 550.0                                                             |
| Additions                                            | 79.5                                                       | 204.6                                                             |
| Transfer from exploration and evaluation assets      | 31.2                                                       | -                                                                 |
| Transfer to producing assets                         | (386.2)                                                    | (294.3)                                                           |
| Exploration and evaluation expensed                  | (21.8)                                                     | (2.5)                                                             |
| Foreign currency translation                         | (5.1)                                                      | 15.3                                                              |
| Balance at the end of the period                     | 170.7                                                      | 473.1                                                             |
| <b>Producing Assets</b>                              |                                                            |                                                                   |
| Balance at the beginning of the period               | 4,319.4                                                    | 3,186.4                                                           |
| Acquisitions of controlled entities                  | -                                                          | 692.5                                                             |
| Acquisitions of oil and gas assets                   | 27.5                                                       | -                                                                 |
| Additions                                            | 320.7                                                      | 578.3                                                             |
| Transfer from assets in development                  | 386.2                                                      | 294.3                                                             |
| Disposals                                            | -                                                          | (0.4)                                                             |
| Depreciation and depletion expense                   | (263.9)                                                    | (543.6)                                                           |
| Exploration and evaluation expensed                  | (55.4)                                                     | (48.2)                                                            |
| Net impairment (losses) / reversals                  | (26.1)                                                     | 125.0                                                             |
| Foreign currency translation                         | (0.9)                                                      | 35.1                                                              |
| Balance at the end of the period                     | 4,707.5                                                    | 4,319.4                                                           |
| <b>Total oil and gas assets</b>                      | <b>4,878.2</b>                                             | <b>4,792.5</b>                                                    |
| <b>9. Other Land, Buildings, Plant and Equipment</b> |                                                            |                                                                   |
| Balance at the beginning of the period               | 73.5                                                       | 66.9                                                              |
| Additions                                            | 17.3                                                       | 23.6                                                              |
| Disposals                                            | (0.1)                                                      | -                                                                 |
| Depreciation                                         | (8.0)                                                      | (17.4)                                                            |
| Foreign currency translation                         | (0.5)                                                      | 0.4                                                               |
| Balance at the end of the period                     | 82.2                                                       | 73.5                                                              |

**10. Impairment of Cash Generating Units**

At 30 June 2006 the consolidated entity reassessed the carrying amount of its oil and gas assets for indicators of impairment. As a result, the recoverable amount of some cash generating units were formally reassessed resulting in:

- An impairment write-down of Patricia Baleen of \$21.0 million, and
- Impairment write-downs and reversals in several USA cash generating units resulting in a net write-down of \$5.1 million.

Estimates of recoverable amounts are based on the assets value in use, determined by discounting each asset's estimated future cash flows at asset specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates between 7.6% and 12.0% (2005: 8.7% and 15.0%) depending on the nature of the risks specific to each asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**11. Issued Capital**

|                                                       | <b>Six months ended<br/>30 June<br/>2006</b> | <b>Twelve months ended<br/>31 December<br/>2005</b> | <b>Six months ended<br/>30 June<br/>2006</b> | <b>Twelve months ended<br/>31 December<br/>2005</b> |
|-------------------------------------------------------|----------------------------------------------|-----------------------------------------------------|----------------------------------------------|-----------------------------------------------------|
|                                                       | <b>Number of Shares</b>                      |                                                     | <b>\$million</b>                             | <b>\$million</b>                                    |
| <b>Movement in fully paid ordinary shares</b>         |                                              |                                                     |                                              |                                                     |
| Balance at start of period                            | 594,301,771                                  | 585,520,675                                         | 1,627.6                                      | 1,557.2                                             |
| Issuance of ordinary shares:                          |                                              |                                                     |                                              |                                                     |
| Santos Executive Share Plan                           | -                                            | 93,000                                              | -                                            | 0.3                                                 |
| Santos Employee Share Acquisition Plan                | -                                            | 106,744                                             | -                                            | 1.2                                                 |
| Shares issued on exercise of options                  | 272,735                                      | 4,261,134                                           | 1.8                                          | 25.6                                                |
| Shares issued on exercise of Share Acquisition Rights | 40,400                                       | -                                                   | -                                            | -                                                   |
| Dividend Reinvestment Plan                            | 1,393,593                                    | 4,270,418                                           | 15.5                                         | 42.8                                                |
| Santos Employee Share Purchase Plan                   | -                                            | 49,800                                              | -                                            | 0.5                                                 |
| Balance at end of period                              | 596,008,499                                  | 594,301,771                                         | 1,644.9                                      | 1,627.6                                             |
| <b>Preference shares</b>                              |                                              |                                                     |                                              |                                                     |
| Redeemable convertible preference shares              | 6,000,000                                    | 6,000,000                                           | 584.4                                        | 584.4                                               |
|                                                       |                                              |                                                     | 2,229.3                                      | 2,212.0                                             |

**12. Dividends**

|                                                          | <b>Dollars<br/>Per Share</b> | <b>Total<br/>\$million</b> | <b>Franked/<br/>Unfranked</b> | <b>Payment<br/>Date</b> |
|----------------------------------------------------------|------------------------------|----------------------------|-------------------------------|-------------------------|
| Dividends paid in the current period by the Company are: |                              |                            |                               |                         |
| <b>2006</b>                                              |                              |                            |                               |                         |
| Final 2005 redeemable preference                         | \$2.5300                     | 15.2                       | Franked                       | 31 Mar 2006             |
| Final 2005 ordinary                                      | \$0.20                       | 118.9                      | Franked                       | 31 Mar 2006             |
|                                                          |                              | 134.1                      |                               |                         |
| <b>2005</b>                                              |                              |                            |                               |                         |
| Final 2004 redeemable preference                         | \$2.4497                     | 14.7                       | Franked                       | 31 Mar 2005             |
| Final 2004 ordinary                                      | \$0.18                       | 105.8                      | Franked                       | 31 Mar 2005             |
|                                                          |                              | 120.5                      |                               |                         |

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

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

|                                    |          |       |         |            |
|------------------------------------|----------|-------|---------|------------|
| Interim 2006 redeemable preference | \$2.5275 | 15.2  | Franked | 2 Oct 2006 |
| Interim 2006 ordinary              | \$0.20   | 119.2 | Franked | 2 Oct 2006 |
|                                    |          | 134.4 |         |            |

The financial effect of these dividends have not been brought to account in the financial statements for the six months ended 30 June 2006 and will be recognised in subsequent financial reports.

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**13. Segment Information**

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**Geographic Segments**

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

|                                                                                                | <b>AUSTRALIA</b> |                  | <b>INTERNATIONAL</b> |                  | <b>CONSOLIDATED</b> |                  |
|------------------------------------------------------------------------------------------------|------------------|------------------|----------------------|------------------|---------------------|------------------|
|                                                                                                | <b>30 June</b>   | <b>30 June</b>   | <b>30 June</b>       | <b>30 June</b>   | <b>30 June</b>      | <b>30 June</b>   |
|                                                                                                | <b>2006</b>      | <b>2005</b>      | <b>2006</b>          | <b>2005</b>      | <b>2006</b>         | <b>2005</b>      |
|                                                                                                | <b>\$million</b> | <b>\$million</b> | <b>\$million</b>     | <b>\$million</b> | <b>\$million</b>    | <b>\$million</b> |
| <b>Geographic segments</b>                                                                     |                  |                  |                      |                  |                     |                  |
| <b>Revenue</b>                                                                                 |                  |                  |                      |                  |                     |                  |
| Total segment revenue                                                                          | 1,258.0          | 939.0            | 62.6                 | 86.3             | 1,320.6             | 1,025.3          |
| <b>Total revenue</b>                                                                           |                  |                  |                      |                  | <b>1,320.6</b>      | <b>1,025.3</b>   |
| <b>Results</b>                                                                                 |                  |                  |                      |                  |                     |                  |
| Earnings before interest, tax, depreciation, depletion, exploration and impairment ("EBITDAX") | 972.1            | 652.7            | 48.7                 | 69.6             | 1,020.8             | 722.3            |
| Unallocated corporate expenses                                                                 |                  |                  |                      |                  | (13.5)              | (27.2)           |
| <b>EBITDAX</b>                                                                                 |                  |                  |                      |                  | <b>1,007.3</b>      | <b>695.1</b>     |
| Depreciation and depletion                                                                     | (241.6)          | (241.5)          | (22.6)               | (25.1)           | (264.2)             | (266.6)          |
| Exploration and evaluation expensed                                                            | (26.8)           | (18.2)           | (105.2)              | (53.1)           | (132.0)             | (71.3)           |
| Net impairment (loss) / reversal of oil and gas assets                                         | (21.0)           | 97.5             | (5.1)                | -                | (26.1)              | 97.5             |
|                                                                                                | 682.7            | 490.5            | (84.2)               | (8.6)            | 585.0               | 454.7            |
| Unallocated corporate depreciation and depletion                                               |                  |                  |                      |                  | (7.7)               | (8.1)            |
| <b>Earnings before interest and tax</b>                                                        |                  |                  |                      |                  | <b>577.3</b>        | <b>446.6</b>     |
| Unallocated net financing costs                                                                |                  |                  |                      |                  | (56.6)              | (24.7)           |
| <b>Profit before income tax expense</b>                                                        |                  |                  |                      |                  | <b>520.7</b>        | <b>421.9</b>     |
| Income tax expense                                                                             |                  |                  |                      |                  | (151.2)             | (132.4)          |
| <b>Net profit after income tax attributable to the shareholders of Santos Ltd</b>              |                  |                  |                      |                  | <b>369.5</b>        | <b>289.5</b>     |



**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**14. Acquisition / Disposal of Controlled Entities**

**(a) Acquisitions of controlled entities**

No companies were acquired during the six months ended 30 June 2006.

The following companies were registered during the six months ended 30 June 2006:

Fairview Pipeline Pty Ltd  
Fairview Power Pty Ltd  
Santos (JPDA 06-104) Pty Ltd  
Santos Vietnam Pty Ltd

**(b) Disposals of controlled entities**

Peko Offshore Ltd was dissolved during the six months ended 30 June 2006.

**15. Commitments**

In addition to the commitments disclosed in the December 2005 Financial Report, the consolidated entity has entered into the following expenditure commitments during the six months ended 30 June 2006 :

|                                 |                |
|---------------------------------|----------------|
| Capital Commitments             | \$75.3 million |
| Minimum Exploration Commitments | \$67.9 million |

**16. Contingent Liabilities**

There has been no material change to the aggregate of contingent liabilities since the last annual reporting date, other than for:

(a) the following parent company guarantees have been entered into during the six months ended 30 June 2006 in respect of:

- the performance of Santos (Sampang) Pty Ltd's obligations under the Floating Storage and Offloading Facilities agreement; and
- the performance of Santos (Madura Offshore) Pty Ltd's obligations under the Mobile Offshore Production Unit agreement.

The total expenditure commitment under these transactions and which are the subject of a parent company guarantee is approximately \$212.9 million.

(b) A "blow-out" occurred at the Banjar Panji 1 well in East Java in May 2006. Santos Brantas is an 18% participant in the Brantas PSC with Lapindo Brantas Inc (50% and also the operator) and a subsidiary of PT Medco Energi Inc (32%). The details of the well incident are disclosed in note 4.

**17. Post Balance Date Events**

The following events occurred subsequent to 30 June 2006, the financial effects of which have not been brought to account in the half-year financial statements for the six months ended 30 June 2006:

(a) For dividends declared after 30 June 2006 refer note 12;

**SANTOS LTD AND CONTROLLED ENTITIES**  
**NOTES TO THE HALF-YEAR CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**17. Post Balance Date Events (continued)**

- (b) On 17 July 2006, Santos Ltd announced it had reached agreement on terms for the acquisition of Australian Petroleum Investments Pty Ltd, the parent company of Delhi Petroleum Pty Limited (Delhi), which will increase its stake in the Cooper Basin oil and gas fields from approximately 63% to 85%. The proposed acquisition includes Santos Ltd buying all of the equity in the Delhi group of companies (Delhi Group) and the transfer to Santos Ltd of the associated ASX-listed Floating Interest Energy Linked Securities (FIELDs) issued by the Australian Onshore Energy Fund (AOEF), via a creditors scheme of arrangement (Scheme) which will be held early in the fourth quarter of 2006. Under the Scheme, FIELDs noteholders will be offered a cash payment of \$83.25 for each FIELDs, and will be entitled to receive the scheduled August 2006 quarterly interest payment of \$2.8058 per FIELDs. As part of the acquisition Santos will assume all outstanding debt liabilities and purchase all issued FIELDs for an estimated \$474 million. The total acquisition price is still to be finalised.

**Directors' Declaration  
for the half-year ended 30 June 2006**

In accordance with a resolution of the Directors of Santos Ltd, we state that:

In the opinion of the Directors:

1. the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (a) give a true and fair view of the financial position as at 30 June 2006 and the performance for the half-year ended on that date of the consolidated entity; and
  - (b) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated this 24th day of August 2006.

On behalf of the Board

Director

Director

Adelaide, South Australia

## Independent review report to the members of Santos Ltd

### Scope

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

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense and accompanying notes to the financial statements for Santos Ltd (the company) comprising both the company and the entities it controlled during the half year ended 30 June 2006, and the directors' declaration, for the company for the half year ended 30 June 2006.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange (ASX) and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

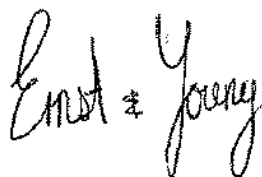
### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Santos Ltd and the entities it controlled during the half-year is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 30 June 2006 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



R J Curtin  
Partner  
Adelaide, South Australia  
24 August 2006

## DIRECTORS' STATUTORY REPORT

The Directors present their report together with the consolidated financial report of the consolidated entity, being Santos Ltd (**Company**) and its controlled entities, for the half-year ended 30 June 2006 and the auditors' review report thereon.

### 1. Review and Results of Operations

A review of the operations and of the results of those operations of the consolidated entity during the half-year is as follows:

#### ***Production and Sales***

Total production volumes for the 2006 first half of 28.7 million boe were 2.4 million boe higher than the 2005 first half. The higher production volumes are principally attributable to a full half-year production of Casino, John Brookes (commenced September 2005), Tipperary (acquired July 2005) and the commencement of production from the Bayu Undan LNG project.

Sales volumes for the 2006 first half of 30.1 million boe were 1.4 million boe higher than the 2005 first half. Sales volumes increased due to the commencement of Casino, Tipperary and the Bayu Undan LNG projects.

In US dollar terms, the average oil price realised by the Company was 38% higher in the first half of 2006 compared to the first half of 2005 and the average US dollar condensate price was 20% higher. The Australian dollar was weaker against the US dollar in the first half-year 2006 (average 0.7459) as compared to first half-year 2005 (average 0.7701). In Australian dollar terms, the average oil price realised by the Company was 40% higher than in the first half of 2005 and the average condensate price was 22% higher. The LPG price realised in Australian dollars was 33% higher. The average gas and ethane price realised increased by 1%.

Product sales revenue for the first half of 2006 increased by 29% to \$1,313.3 million. The \$294.2 million increase in revenue reflects higher sales volumes for all products and higher average realised prices.

### ***Unusual Items***

The results for the first half-year 2006 include the following unusual item: a provision for potential remediation and related costs of \$24.3 million that may arise from the Banjar Panji 1 well incident is included in exploration and evaluation expensed. Details of the well incident are disclosed in Note 4 to the financial statements.

### ***Net Profit and Earnings Per Share***

The 2006 first half-year net profit attributable to shareholders of \$369.5 million is \$80.0 million (28%) higher than in 2005 and includes the unusual loss item, referred to above.

Earnings per share were 59.5 cents, compared with the corresponding result of 46.9 cents in 2005.

### ***Shareholders' Equity / Dividends***

Shareholders' equity at 30 June 2006 was \$3,232.7 million.

On 24 August 2006, Directors declared:-

- (i) that a fully franked interim dividend of 20 cents per fully paid ordinary share be paid on 2 October 2006 to shareholders registered in the books of the Company at the close of business on 5 September 2006; and
- (ii) that in accordance with the Terms of Issue, a fully franked dividend of \$2.5275 per Franked Unsecured Equity Listed Securities be paid on 2 October 2006 to holders registered in the books of the Company at the close of business on 5 September 2006.

The 2006 interim dividend of 20 cents per fully paid ordinary share compares with the 2005 interim dividend of 18 cents per share, fully franked, declared and paid in 2005.

### ***Cash Flow***

The net cash inflow from operating activities was \$642.9 million or \$77.6 million (14%) higher than the 2005 first half inflow of \$565.3 million. The higher cash flows are principally attributable to increased production and sales volumes and higher average realised prices.

### ***Net Debt / Leverage Ratio***

Net debt stood at \$1,513.9 million at 30 June 2006, which was \$85.0 million lower than at the beginning of the year due principally to the excess of operating cash flows over capital expenditure.

At 30 June 2006, the leverage ratio was 32% compared to 35% at the beginning of 2006.

### ***Exploration and Evaluation***

Expenditure on exploration and evaluation in the first half of 2006 was \$168.6 million, compared with \$109.4 million for the corresponding period in 2005.

During the first half of 2006, 12 wildcat exploration wells were drilled and the drilling of 3 wells spudded in the fourth quarter of 2005 was completed while one well spudded in the second quarter of 2006 was still in progress. Of the 14 wells finished during the half, 3 wells discovered oil or gas with the commercial significance still to be determined.

A further 22 evaluation wells were drilled during the first half of 2006 with 3 wells in progress on 30 June 2006. Of the 19 wells finished in the first half, 12 were successful and 7 were plugged and abandoned. The 3 wells in progress on 30 June 2006 were subsequently successful.

### ***Oil and Gas Asset Expenditure***

Expenditure on development, including plant and equipment and development wells, in the first half of 2006 was \$328.6 million, compared with \$353.4 million for the corresponding period in 2005. The first half of 2006 development programme included expenditure on the Oyong and Maleo development projects together with various projects within the Cooper Basin. Some 71 development wells were drilled during the first half: 65 wells were cased and suspended as future production wells; 3 wells were drilling at the end of the first half; and 3 wells were plugged and abandoned.

### ***Business Development***

During the first half of 2006 the Company acquired interests in Offshore Victoria and Eastern Queensland. The interests acquired included WD Kennedy's 1.75% interest in the Fairview coal seam gas field and Sunshine Gas Limited's interests in the Roma area of Eastern Queensland. The Company increased its consolidated interest in the unitised Kipper field from 14% to 35% by



acquiring 30% of Retention Licence VIC/RL 2 located in the Gippsland Basin from the Woodside Energy Limited Group.

### Post Balance Day Event

On 17 July 2006, the Company announced it had reached agreement on terms for the acquisition of Australian Petroleum Investments Pty Ltd, the parent company of Delhi Petroleum Pty Limited (**Delhi**), which will increase its stake in the Cooper Basin oil and gas fields from approximately 63% to 85%. The proposed acquisition includes the Company buying all of the equity in the Delhi group of companies (Delhi Group) and the transfer to the Company of the associated ASX-listed Floating Interest Energy Linked Securities (**FIELDS**) issued by the Australian Onshore Energy Fund (**AOEF**), via a creditors scheme of arrangement (**Scheme**) which will be held early in the fourth quarter of 2006. Under the Scheme, FIELDS noteholders will be offered a cash payment of \$83.25 for each FIELDS, and will be entitled to receive the scheduled August 2006 quarterly interest payment of \$2.8058 per FIELDS. As part of the acquisition the Company will assume all outstanding debt liabilities and purchase all issued FIELDS for an estimated \$474 million. The total acquisition price is still to be finalised.

## 2. Directors

The names of Directors of the Company in office during or since the end of the half year are:-

| Surname             | Other Names                      |                          |
|---------------------|----------------------------------|--------------------------|
| <b>Barnett</b>      | Peter Charles                    | Retired 28 February 2006 |
| <b>Dean</b>         | Kenneth Alfred                   |                          |
| <b>Ellice-Flint</b> | John Charles (Managing Director) |                          |
| <b>Gerlach</b>      | Stephen (Chairman)               |                          |
| <b>Harding</b>      | Richard Michael                  |                          |
| <b>O'Leary</b>      | Michael Anthony                  |                          |
| <b>Recny</b>        | Christopher John                 | Deceased 4 June 2006     |
| <b>Sloan</b>        | Judith                           |                          |

Each of the above named Directors held office during and since the end of the half year, except for Mr PC Barnett who resigned as a Director of the Company on 28 February 2006 and Mr CJ Recny who passed away on 4 June 2006.

### **3. Rounding**

Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998, applies to the Company and accordingly amounts have been rounded off in accordance with that Class Order, unless otherwise indicated.

### **4. Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is set out on the following page and forms part of this report.

This report is made out on 24 August 2006 in accordance with a resolution of the Directors.

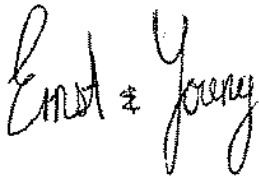
**Director**

**Director**

24 August 2006

### **Auditor's Independence Declaration to the Directors of Santos Limited**

In relation to our review of the financial report of Santos Limited for the half-year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



R J Curtin  
Partner  
Adelaide, South Australia  
24 August 2006