

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 32. Additional Financial Instruments Disclosure (continued)

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

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

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

## 33. Economic Dependency

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

## 34. Post Balance Date Events

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

- (a) For dividends declared after 31 December 2004 refer note 20;
- (b) On 17 February 2005, the Company entered into a contract to acquire Basin Oil Pty Ltd effective 1 January 2005. Basin Oil Pty Ltd has a 2.1% interest in SA Cooper Basin, 40% interests in Patricia-Baleen and Sole, and 33.3% interests in Golden Beach and Vic/P55.

## 35. Australian Equivalents to International Financial Reporting Standards

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

A project team has been in place throughout the year and is well advanced to achieve the transition from Australian GAAP to A-IFRS.

At 31 December 2004, the following activities are underway and are expected to be completed by 30 June 2005:

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

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

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

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

### Financial instruments

All financial instruments including derivatives will be recognised in the statement of financial position and all derivatives will be carried at fair value.

Changes in the fair value of certain financial instruments will be recorded in the statement of financial performance. Where financial instruments satisfy strict hedge criteria, changes in the fair value will be recognised in equity, or will offset the hedged exposure in the statement of financial performance.

The A-IFRS relating to financial instruments applies from 1 January 2005. Unlike the majority of other A-IFRS standards which require retrospective application as at 1 January 2004, this accounting standard does not require retrospective application. The effect of the first time application of this standard on the opening statement of financial position at 1 January 2005 will be to recognise additional financial assets and liabilities.

Santos intends to continue to align its hedging transactions to underlying exposures to achieve accounting eligibility and thereby reduce profit and loss volatility.