
SANTOS UK (KAKAP 2) LIMITED
REGISTERED NUMBER 3115420
DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS
31 DECEMBER 2005

TUESDAY



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COMPANIES HOUSE

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

The Directors present their directors' report and financial statements for the year ended 31 December 2005

Principal Activity and Review of Business

The principal activities of the Company remain unchanged and continue to comprise the exploration and production of hydrocarbons in areas of Indonesia granted by the Kakap Production Sharing Contract

It is the intention of the directors that the above business will continue for the foreseeable future

Production/Exploration

The Kakap PSC, in the West Natuna Sea, continues to deliver steadily, although lower oil production remained evident during 2005. Production averaged 453 bopd (518 bopd in 2004), the decrease being a result of natural decline. The impact of this decline was offset by strong deliveries from the West Natuna Gas scheme which averaged a production rate of 804 boepd (933 boepd in 2004)

As in the prior year, 2005 was a year of consolidation on the development efforts and costs associated with the West Natuna gas scheme and, accordingly, no exploration wells were drilled. Indeed the exploration effort centred on improving the existing knowledge base regarding the Kakap North area

Results

The results for the year to 31 December 2005 are summarised below

	2005	2004
	US\$'000	Restated US\$'000
Revenue	10,544	9,080
Profit before tax	7,058	3,820
Taxation	(3,525)	(1,317)
Profit after tax for the year	3,533	2,503

Dividends

No dividend was paid or declared in the current year (2004 Interim dividend of US\$23,764.94 per ordinary share)

Likely future developments

There are no other additional immediate developments that are likely to have a material impact on the operations of the Company although the Company is continually reviewing opportunities for growth and development. In the opinion of the Directors, further information on the evaluations may prejudice the interests of the Company if included in this report

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT (CONTINUED)

Directors and their interests

The Directors who held office during the year were

John Charles Ellice-Flint
Charles Frederick Woodhouse

None of the Directors had any interest in the shares of the Company at 31 December 2005 or at the date of signing this report

Mr Ellice-Flint was a director of Santos Ltd, the ultimate parent undertaking at 31 December 2005, and accordingly his and his family's interests in the ordinary shares of that company are disclosed in its accounts

As at 31 December 2005 Mr Woodhouse and his family were the holders of 1,126 fully paid ordinary shares in Santos Ltd, the ultimate parent company

Creditor Payment Policy and Practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2005, the Company had an average of 219 day purchases outstanding in trade creditors

Events Since the Balance Sheet Date

Change of Parent Undertaking

On 24th January 2006 the Company's parent undertaking, Santos International Holdings Pty Ltd, transferred its shareholding of 251 shares to Santos (SPV) Pty Ltd for a consideration of US\$16,143,494

As of 24 January 2006, the parent undertaking of the Company is Santos (SPV) Pty Ltd

Kakap Gas Investment Credit

The Company and Novus Nominees Pty Ltd ("Novus Nominees", a related party) are parties to the Kakap PSC joint venture, being one of three blocks in the West Natuna Sea that comprise the West Natuna gas collection system which commenced gas supplies to Singapore in 1999 (the "Project")

The current and corresponding preceding interest holders in the Kakap PSC are shown below

Preceding Parties	Current Parties
Gulf (Operator)	Star Energy Kakap Limited (Operator)
Pertamina	Pertamina
LLNE	Singapore Petroleum
Premier	Premier
Novus	Santos Kakap and Novus Nominees
Novus	Medco

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT (CONTINUED)

Events Since the Balance Sheet Date (continued)

When seeking formal approvals for the West Natuna Gas development it appears that a former operator may have inadvertently failed to

- include an application for a gas investment credit ("Gas Investment Credit") in the plan of development for the Project, and
- include details of the Gas Investment Credit in the amendment to the Kakap PSC, which was claimed by and paid to the joint venture

The current operator Star Energy Kakap Limited has advised that

- meetings were held with Pertamina (the predecessor of BPMIGAS) which both discussed and agreed upon the Kakap PSC's eligibility for the Gas Investment Credit, however there appears to be no formal minutes of these meetings to support these discussions,
- the Gas Investment Credit was claimed by and paid to the Kakap PSC joint venture but not ultimately reflected as an express entitlement in the Kakap PSC, and
- the two other blocks in the Project took the necessary steps to obtain the Gas Investment Credit and have not experienced the difficulties described above for the Kakap PSC

Although BPMIGAS supports the position of the Kakap PSC, the Ministry of Minerals and Natural Resources have

- not supported the eligibility of the Kakap PSC, and
- made formal notification requiring the Kakap PSC joint venture to refund the Gas Investment Credit

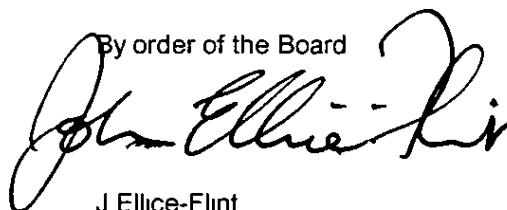
To date, the Current Parties have repaid the entire Gas Investment Credit (net of tax) to the Indonesian Government. The Company's share of these payments were US\$537,848 in 2006 and US\$307,342 in 2007. No further payments are expected to be made.

Auditors

On 5 October 2005 KPMG LLP was appointed as the Company's auditor in place of the retiring auditor Ernst & Young LLP.

Subsequent to the year end the Board has taken the decision not to re-appoint KPMG LLP as auditors of the Company at the forthcoming Annual General Meeting.

By order of the Board



J Ellice-Flint
Director

Date **20 JULY 2007**

SANTOS UK (KAKAP 2) LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS'
REPORT AND THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2005

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and the performance of the Company. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Santos UK (Kakap 2) Limited

We have audited the financial statements of Santos UK (Kakap 2) Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Report of the independent auditors to the members of
Santos UK (Kakap 2) Limited *(continued)***

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

20 July 2007

SANTOS UK (KAKAP 2) LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 US\$000	2004 Restated US\$000
Revenue	2	10,544	9,080
Cost of sales		(3,013)	(5,198)
Gross profit		7,531	3,882
Other operating expenses	3	(150)	(62)
Operating profit before net financing costs		7,381	3,820
Net financing costs	4	(323)	-
Profit before tax		7,058	3,820
Taxation	5	(3,525)	(1,317)
Profit after tax for the year	16	3,533	2,503

SANTOS UK (KAKAP 2) LIMITED
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2005

		2005	2004
		US\$000	Restated US\$000
Profit for the year		3,533	2,503
Total recognised income and expense	16	3,533	2,503

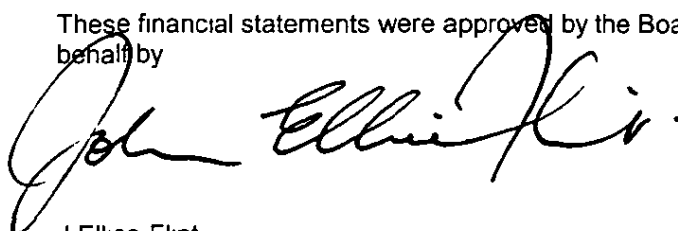
Other movements in equity arising from transactions with owners as owners are set out in note 16

SANTOS UK (KAKAP 2) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 US\$000	2004 Restated US\$000
Non-current assets			
Oil and gas assets	9	12,413	10,261
Other		16	-
Total non-current assets		<u>12,429</u>	<u>10,261</u>
Current assets			
Stocks	10	608	414
Trade and other receivables	11	13,893	7,720
Cash and cash equivalents	12	872	115
Other		12	-
Total current assets		<u>15,385</u>	<u>8,249</u>
Total assets		<u>27,814</u>	<u>18,510</u>
Current liabilities			
Trade and other payables	13	2,539	1,076
Tax payable		1,932	166
Total current liabilities		<u>4,471</u>	<u>1,242</u>
Non-current liabilities			
Provisions	14	3,066	-
Deferred tax liabilities	15	2,390	2,914
Total non-current liabilities		<u>5,456</u>	<u>2,914</u>
Total liabilities		<u>9,927</u>	<u>4,156</u>
Net assets		<u>17,887</u>	<u>14,354</u>
Equity			
Share capital	16	-	-
Share premium	16	10,208	10,208
Retained earnings	16	7,679	4,146
Total equity		<u>17,887</u>	<u>14,354</u>

These financial statements were approved by the Board of Directors and were signed on its behalf by



J Ellice-Flint

Director

Date 20 JULY 2007

SANTOS UK (KAKAP 2) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 US\$000	2004 Restated US\$000
Cash flows from operating activities			
Receipts from customers		9,025	8,410
Payments to suppliers and employees		(313)	(3,282)
Income taxes paid		(2,283)	(1,687)
Net cash flows from operating activities	17	<u>6,429</u>	<u>3,441</u>
Cash flows from investing activities			
Payments for			
Oil and gas assets expenditure		(1,016)	(88)
Other investing activities		(16)	-
Proceeds from disposal of oil and gas assets		-	101
Net cash flows (used in) / from investing activities		<u>(1,032)</u>	<u>13</u>
Cash flows from financing activities			
Advances to/from related entities		(4,654)	1,868
Dividends paid		-	(5,965)
Net cash flows from financing activities		<u>(4,654)</u>	<u>(4,097)</u>
Net increase / (decrease) in cash and cash equivalents		743	(643)
Effect of exchange rate fluctuations on cash held		14	-
Cash and cash equivalents at 1 January		<u>115</u>	<u>758</u>
Cash and cash equivalents at 31 December	12	<u>872</u>	<u>115</u>

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies

Santos UK (Kakap 2) Limited ("the Company") is a company incorporated in the United Kingdom

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to Adopted IFRSs

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1(l)

The Company's activities are conducted in Indonesia under a Production Sharing Contract ("PSC") The Company accounts for PSC's on a net entitlements basis whereby hydrocarbon production, revenues and reserves are determined by reference to the terms of the PSC Expenditure on exploration and development activities are capitalised and depleted as described in notes 1(d) and 1(e) Production and other operating costs are expensed as incurred

(a) Transition to Adopted IFRSs

The Company is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1 An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 26

(b) Measurement Convention

The financial statements are prepared on the historical cost basis Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

(c) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US dollars at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies (Continued)

(d) Exploration and evaluation expenditure

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

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

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

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

Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually represents an individual oil or gas field.

When an oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to Oil and Gas Assets – Assets in Development.

(e) Oil and gas assets

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

Assets in Development

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

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

Producing Assets

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

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

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies (Continued)

(f) Depreciation and depletion

Depreciation charges are calculated to write-off the depreciable value of buildings, plant and equipment over their estimated economic useful lives to the Company. Each component of an item of buildings, plant and equipment with a cost that is significant in relation to the total cost of asset shall be depreciated separately. The residual value, useful life and depreciation method applied to an asset is reviewed at the end of each annual reporting period.

Depreciation of onshore buildings, plant and equipment and corporate assets is calculated using the straight line method of depreciation on an individual asset basis from the date the asset is available for use.

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

- Plant and equipment: 3 - 4 years (as defined by the 2P remaining reserve life up to 2007)

Depreciation of offshore plant and equipment is calculated using the unit of production method on a cash generating unit basis from the date of commencement of production.

Depletion charges are calculated using a unit of production method based on heating value which will amortise the cost of carried forward exploration and development expenditure over the life of the Proven plus Probable ("2P") reserves in a cash generating unit, together with future costs necessary to develop the hydrocarbon reserves in the respective cash generating units.

The heating value measurement used for the conversion of volumes of different hydrocarbon products is barrels of oil equivalent.

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

(g) Inventories

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

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

(h) Trade and other receivables

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

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits, net of bank overdrafts

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

(j) Impairment

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

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

Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amount of the assets in the unit on a pro-rata basis

Calculation of recoverable amount

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

Reversals of impairment

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

(k) Interest-bearing loans and borrowings

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

(l) Provisions

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

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies (Continued)

(l) Provisions (continued)

Restoration

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

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

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

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

(m) Capitalisation of borrowing costs

Borrowing costs, including preproduction interest, finance charges and foreign currency gains and losses on the interest costs of foreign currency borrowings, relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

Borrowing costs incurred after commencement of commercial operations are expensed.

(n) Deferred income

A liability is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received.

(o) Dividends

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

(p) Revenue

Product sales and overriding royalties are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Other income

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

The gain or loss arising on disposal of a non-current asset is included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

1. Significant Accounting Policies (Continued)

(r) Expenses

Operating lease payments

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

Net financing costs

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

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

(s) Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 US\$000	2004 Restated US\$000
2. Revenue		
Product sales		
Crude oil	4,611	3,615
Gas and ethane	5,933	5,465
	<u>10,544</u>	<u>9,080</u>
3. Expenses		
Included in profit before tax are the following items		
Depreciation and depletion		
Depletion of exploration and development expenditure	1,123	716
Depreciation of plant and equipment	609	1,673
	<u>1,732</u>	<u>2,389</u>
Other operating expenses		
Exploration and evaluation expensed	150	46
Loss on disposal of oil and gas assets	-	16
	<u>150</u>	<u>62</u>
4. Net Financing Costs		
Foreign exchange gains	(15)	-
Unwind of the effect of discounting on provisions (refer note 1(I))	338	-
Net financing costs	<u>323</u>	<u>-</u>
5. Taxation		
Recognised in the income statement		
<i>Current tax expense</i>		
UK Corporation tax on profits for the year	2,449	1,773
Double tax relief	(2,449)	(1,773)
	<u>-</u>	<u>-</u>
Foreign tax	4,049	1,732
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(524)	(415)
Total tax in income statement	<u>3,525</u>	<u>1,317</u>

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 US\$000	2004 Restated US\$000
5. Taxation (continued)		
Reconciliation of tax expense		
Profit before tax	7,058	3,820
Tax using the Indonesian corporation tax rate of 45% (2004 45%)	3,176	1,719
Non-deductible expenses	-	35
Other	349	(437)
Total tax in income statement	3,525	1,317

6. Staff Numbers and Costs

The Company had no employees during 2005 and 2004

7. Auditors' Remuneration

Auditors' remuneration (and fees for other services) are borne by the ultimate parent undertaking, Santos Ltd

8. Directors' Emoluments

Directors' emoluments	11	-
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9. Oil and Gas Assets

	2005			2004 Restated		
	Sub-surface assets US\$'000	Plant and equipment US\$'000	Total US\$'000	Sub-surface assets US\$'000	Plant and equipment US\$'000	Total US\$'000
Cost at 31 December	24,683	9,837	34,520	20,799	9,837	30,636
Less accumulated depreciation, depletion and impairment	(18,718)	(3,389)	(22,107)	(17,595)	(2,780)	(20,375)
Balance at 31 December	5,965	6,448	12,413	3,204	7,057	10,261
Reconciliation of movements						
Producing assets						
Balance at 1 January	3,204	7,057	10,261	3,832	8,847	12,679
Additions	4,034	-	4,034	88	-	88
Disposals	-	-	-	-	(117)	(117)
Depreciation and depletion expense	(1,123)	(609)	(1,732)	(716)	(1,673)	(2,389)
Exploration expensed	(150)	-	(150)	-	-	-
Balance at 31 December	5,965	6,448	12,413	3,204	7,057	10,261

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	2004		
	US\$000	Restated US\$000		
10. Stocks				
Petroleum products	80	-		
Drilling and maintenance stocks	528	414		
	<u>608</u>	<u>414</u>		
11. Trade and Other Receivables				
Current				
Trade receivables	2,477	787		
Receivable from parent entity	6,651	6,651		
Receivables from related entities	4,654	-		
Other	111	282		
	<u>13,893</u>	<u>7,720</u>		
12. Cash and Cash Equivalents				
Cash and cash equivalents per balance sheet	872	115		
Cash and cash equivalents per cash flow statement	<u>872</u>	<u>115</u>		
13. Payables				
Payables and accrued expenses	<u>2,539</u>	<u>1,076</u>		
14. Provisions				
	1 January 2005	Provisions made during the year	Unwind of discount	31 December 2005
	US\$'000	US\$'000	US\$'000	US\$'000
Movement in provisions				
Restoration (non-current)	-	2,728	338	3,066

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

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

15. Deferred Tax Liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
	US\$000	Restated US\$000	US\$000	Restated US\$000	US\$000	Restated US\$000
Exploration and evaluation assets, oil and gas assets and other land, buildings, plant and equipment	-	-	2,307	2,914	2,307	2,914
Stocks	-	-	83	-	83	-
Net tax (assets) / liabilities	-	-	2,390	2,914	2,390	2,914

	1 January 2005 US\$000	Recognised in income US\$000	31 December 2005 US\$000
Movement in deferred tax during the year			
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	2,914	(607)	2,307
Stocks	-	83	83
	2,914	(524)	2,390

	1 January 2004 Restated US\$000	Recognised in income Restated US\$000	31 December 2004 Restated US\$000
Movement in deferred tax during prior year			
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	3,329	(415)	2,914

16. Capital and Reserves

Reconciliation of movement in capital and reserves	Share Capital US\$000	Share Premium US\$000	Retained Earnings US\$000	Total US\$000
2004 (Restated)				
Balance at 1 January 2004	-	10,208	7,608	17,816
Total recognised income and expense	-	-	2,503	2,503
Dividends	-	-	(5,965)	(5,965)
Balance at 31 December 2004	-	10,208	4,146	14,354
2005				
Balance at 1 January 2005	-	10,208	4,146	14,354
Total recognised income and expense	-	-	3,533	3,533
Balance at 31 December 2005	-	10,208	7,679	17,887

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

16. Capital and Reserves (continued)	2005	2004
	US\$000	Restated US\$000
Share capital		
251 (2004 251) fully paid ordinary shares at US\$1 each	-	-
Movement in fully paid ordinary shares		
	2005	2004
	Number of Shares	
On issue at 1 January	251	251
Issued for cash	-	-
On issue at 31 December - fully paid	251	251
No dividends have been paid or declared during the financial year and no dividends have been recommended by the directors		
17. Reconciliation of Cash Flows from Operating Activities	2005	2004
	US\$000	Restated US\$000
Profit for the year	3,533	2,503
Add non-cash items		
Depreciation and depletion	1,732	2,389
Write-down of exploration and evaluation expenditure	150	46
Unwind the effect of discounting on provision	338	-
Loss on disposal of oil and gas assets	-	16
Increase in income taxes payable	1,766	45
Net decrease in deferred tax liability	(524)	(415)
Foreign currency fluctuations	(15)	-
Net cash flows from operating activities before change in assets or liabilities	6,980	4,584
Add/(deduct) change in operating assets or liabilities, net of acquisitions of businesses		
Increase in receivables	(1,519)	(645)
Increase in inventories	(194)	27
Increase in other assets	(12)	-
Increase/(decrease) in payables	1,174	(525)
Net cash flows from operating activities	6,429	3,441

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 US\$000	2004 Restated US\$000
18. Commitments for Expenditure		
The Company has the following commitments for expenditure		
(a) Capital commitments		
Capital expenditure contracted for at balance date but for which no amounts have been provided in the financial report	-	-
(b) Minimum exploration commitments		
Minimum exploration commitments for which no amounts have been provided in the financial report or capital commitments		
Due not later than one year	250	625
Due later than five years	250	-
	<u>500</u>	<u>625</u>
(c) Lease commitments		
Operating leases		
Due not later than one year	3	-
Due later than one year but not later than five years	140	-
	<u>143</u>	<u>-</u>
19. Contingent Liabilities		
The Company has the following contingent liabilities arising in respect of		
Performance guarantees	-	-
Litigation and proceedings	-	-
	<u>-</u>	<u>-</u>

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 US\$000	2004 Restated US\$000
20. Related Parties		
(a) Interests in joint ventures		
The Company has interests in the following unincorporated joint venture		
Joint Venture/Area Indonesia - West Natura Basin		
Principal Activities Oil and gas exploration and production		
Average Interest 6 25%		
The Company's interests in assets employed in the above unincorporated joint venture is included in the balance sheet under the following asset categories		
<i>Non-current assets</i>		
Oil and gas assets	12,413	10,261
Total non-current assets	12,413	10,261
<i>Current Assets</i>		
Stocks	608	414
Trade and other receivables	2,588	1,069
Cash and cash equivalents	872	115
Total current assets	4,068	1,598
Total assets	16,481	11,859
The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of the Company's unincorporated joint venture are		
Capital expenditure commitments	-	-
Minimum exploration commitments	500	625
Contingent liabilities	-	-
(b) Related party balances		
<i>Current</i>		
Loan receivable from parent entity	6,651	6,651
Loans receivable from related entities	4,654	-
	11,305	6,651

The above loans are repayable on call and are interest-free

The Company has not engaged in any other related party transactions in the current year
In 2004 the company incurred a service charge of US\$6,767 for certain services provided by Novus Management Services Pty Ltd, a related company

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 US\$000	2004 Restated US\$000
20. Related Parties (continued)		
(c) Key management personnel		
Key management emoluments	2,270	1,734
Company contributions to superannuation plans	206	203
Other post employment benefits	-	-
Compensation for loss of office	-	-
Share related awards	-	202
	<u>2,476</u>	<u>2,139</u>

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

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

John Charles Ellice-Flint, Executive Director
Charles Frederick Woodhouse, Non-executive Director

Mr C Woodhouse received US\$10,924 as key management emoluments for the current year (2004 US\$nil) for his services as director of the Company

Mr J Ellice-Flint is a director of Santos Ltd, the Company's ultimate parent undertaking. Included in the key management compensation above is Mr J Ellice-Flint's compensation of US\$2,465,178, being the total compensation paid to him for services as director to the Santos Group

21. Financial Instruments

Exposure to foreign currency, interest rate, credit and commodity price risks arises in the normal course of the Company's business. Derivative financial instruments are used by Santos Ltd, the Company's ultimate parent entity, and Santos Finance Ltd, a fellow subsidiary, to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices, on behalf of the Santos Group

(a) Foreign currency risk

The Company is exposed to foreign currency risk principally through Australian dollar loans with related entities in the Santos Group

(b) Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are not materially exposed to changes in market interest rates

(c) Commodity price risk exposure

The Company is exposed to commodity price fluctuations through the sale of petroleum products. Santos Ltd, the Company's ultimate parent undertaking, enters into commodity crude oil price swap and option contracts to manage the Santos Group's commodity price risk. At 31 December 2005 Santos Ltd has no open oil price swap contracts

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

21. Financial Instruments (continued)

(d) Credit risk

Credit risk represents the potential financial loss if counterparties fail to perform as contracted. The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At the balance sheet date there were no significant concentrations of credit risk.

22. Ultimate Parent Company and Parent Company

The Directors regard Santos Ltd of Adelaide, Australia, a company incorporated in Australia, as the ultimate parent undertaking and whose principal place of business is at Ground Floor, Santos House, 91 King William Street, Adelaide SA 5000, Australia. The consolidated accounts of the Santos Group are available to the public and may be obtained from that address.

The Company's immediate parent undertaking at 31 December 2005 was Santos International Holdings Pty Ltd, a company incorporated in Australia.

23. Post Balance Date Event

Change of Parent Undertaking

On 24th January 2006 the Company's parent undertaking, Santos International Holdings Pty Ltd, transferred its shareholding of 251 shares to Santos (SPV) Pty Ltd for a consideration of US\$16,143,494.

As of 24 January 2006, the parent undertaking of the Company is Santos (SPV) Pty Ltd.

Kakap Gas Investment Credit

The Company and Novus Nominees Pty Ltd ("Novus Nominees", a related party) are parties to the Kakap PSC joint venture, being one of three blocks in the West Natuna Sea that comprise the West Natuna gas collection system which commenced gas supplies to Singapore in 1999 (the "Project").

The current and corresponding preceding interest holders in the Kakap PSC are shown below.

Preceding Parties	Current Parties
Gulf (Operator)	Star Energy Kakap Limited (Operator)
Pertamina	Pertamina
LLNE	Singapore Petroleum
Premier	Premier
Novus	Santos Kakap and Novus Nominees
Novus	Medco

When seeking formal approvals for the West Natuna Gas development it appears that a former operator may have inadvertently failed to

- include an application for a gas investment credit ("Gas Investment Credit") in the plan of development for the Project, and
- include details of the Gas Investment Credit in the amendment to the Kakap PSC, which was claimed by and paid to the joint venture.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

23. Post Balance Date Event (continued)

The current operator Star Energy Kakap Limited has advised that

- meetings were held with Pertamina (the predecessor of BPMIGAS) which both discussed and agreed upon the Kakap PSC's eligibility for the Gas Investment Credit, however there appears to be no formal minutes of these meetings to support these discussions,
- the Gas Investment Credit was claimed by and paid to the Kakap PSC joint venture but not ultimately reflected as an express entitlement in the Kakap PSC, and
- the two other blocks in the Project took the necessary steps to obtain the Gas Investment Credit and have not experienced the difficulties described above for the Kakap PSC

Although BPMIGAS supports the position of the Kakap PSC, the Ministry of Minerals and Natural Resources have

- not supported the eligibility of the Kakap PSC, and
- made formal notification requiring the Kakap PSC joint venture to refund the Gas Investment Credit

To date, the Current Parties have repaid the entire Gas Investment Credit (net of tax) to the Indonesian Government. The Company's share of these payments were US\$537,848 in 2006 and US\$307,342 in 2007. No further payments are expected to be made.

24. Economic Dependency

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

25. Segment Reporting

During the year the Company operated only in Indonesia and in an industry which consisted of exploration, development and production of crude oil, natural gas and associated liquids. All of its revenue is derived from such operations.

26. Explanation of Transition to Adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRSs.

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

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

26. Explanation of Transition to Adopted IFRSs (continued)

	Note	1 January 2004			31 December 2004		
		UK GAAP US\$000	Effect of transition to Adopted IFRSs US\$000	Adopted IFRSs US\$000	UK GAAP US\$000	Effect of transition to Adopted IFRSs US\$000	Adopted IFRSs US\$000
Non-current assets							
Oil and gas assets		12,679	-	12,679	10,261	-	10,261
Other		-	-	-	-	-	-
		12,679	-	12,679	10,261	-	10,261
Current assets							
Stocks		441	-	441	414	-	414
Other financial assets		8,519	-	8,519	6,651	-	6,651
Trade and other receivables		425	-	425	1,069	-	1,069
Cash and cash equivalents		758	-	758	115	-	115
Other		-	-	-	-	-	-
		10,143	-	10,143	8,249	-	8,249
Total assets		22,822	-	22,822	18,510	-	18,510
Current liabilities							
Trade and other payables		1,556	-	1,556	1,076	-	1,076
Tax payable		105	-	105	166	-	166
		1,661	-	1,661	1,242	-	1,242
Non-current liabilities							
Provisions		-	-	-	-	-	-
Deferred tax liabilities	a	4,990	(1,661)	3,329	4,974	(2,060)	2,914
		4,990	(1,661)	3,329	4,974	(2,060)	2,914
Total liabilities		6,651	(1,661)	4,990	6,216	(2,060)	4,156
Net assets		16,171	1,661	17,832	12,294	2,060	14,354
Equity							
Share capital		-	-	-	-	-	-
Share premium		10,208	-	10,208	10,208	-	10,208
Retained earnings	b	5,963	1,661	7,624	2,086	2,060	4,146
Total equity		16,171	1,661	17,832	12,294	2,060	14,354

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2005

26. Explanation of Transition to Adopted IFRSs (continued)

Reconciliation of profit for 2004

			Effect of transition to	
	Note	UK GAAP	Adopted IFRSs	Adopted IFRSs
		US\$000	US\$000	US\$000
Revenue		9,080	-	9,080
Cost of sales		(5,198)	-	(5,198)
Gross profit		3,882	-	3,882
Other operating expenses		(62)	-	(62)
Operating profit before net financing costs		3,820	-	3,820
Net financing costs		-	-	-
Profit before tax		3,820	-	3,820
Taxation	a	(1,732)	415	(1,317)
Profit for the year		2,088	415	2,503

Notes to the reconciliations of equity and profit

(a) Income tax

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

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

(b) Retained earnings

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

	1 January 2004 US\$000	31 December 2004 US\$000
Deferred Tax	1,661	415
	<u>1,661</u>	<u>415</u>

Under UK GAAP, the Company was not required to, and did not, prepare a cash flow statement. There are no material differences between the cash flow statement presented under Adopted IFRSs, and the cash flow statement that would have been prepared under UK GAAP in 2004, had the Company elected to prepare a cash flow statement in that year.