
SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 DECEMBER 2004

Registered Number 3115420

TUESDAY



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14/08/2007

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SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Directors' Report

The Directors present their annual report and the audited accounts for the year ended 31 December 2004

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 2004. Production averaged 518 bopd (552 bopd in 2003), 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 933 boepd, an increase on the 2003 average of 611 boepd.

As in prior year, 2004 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. The exploration effort centred on improving the existing knowledge base regarding the Kakap North area.

Results

The results for the year to 31 December 2004 are summarised below

	2004 US\$'000	2003 US\$'000
Turnover	9,080	8,425
Profit on ordinary activities before taxation	3,820	3,498
Tax on profit on ordinary activities	(1,732)	(1,773)
Profit for the financial year	2,088	1,725

Dividends

An interim dividend of US\$23,764.94 per ordinary share was paid on 18 August 2004 (2003 US\$Nil). No final dividend was paid or declared (2003 US\$Nil).

Fixed Assets

Changes in tangible fixed assets are shown in Note 7 to the accounts.

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
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Directors' Report (continued)

Events since the balance sheet date

Change of Parent Undertaking

A takeover offer in respect of Novus Petroleum Limited was announced by PT Medco Energi International Tbk (Medco) of Jakarta, Indonesia. During 2004, Medco's takeover offer was successful and a change of control occurred. Accordingly, the ultimate parent undertaking is now different to that which existed at 31 December 2003.

Subsequent to the Balance Sheet Date, and as a consequence of the sale of Novus Petroleum Limited to Medco Energi International, it was agreed that the Company would be sold to Santos International Holdings Pty Ltd.

On 24th January 2006 the Company's parent company, 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 entity 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.

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.

**SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Directors' Report (continued)

Events since the balance sheet date (continued)

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.

Directors and their interests

The Directors who served during the year were

- James T Hornabrook (resigned 31 December 2004)
- Keith J Goodwin (resigned 31 December 2004)
- Robert C Williams (resigned 9 July 2004)
- John Charles Ellice-Flint (appointed 31 December 2004)
- Charles Frederick Woodhouse (appointed 31 December 2004)

None of the Directors had any interest in the shares of the Company at 31 December 2004 or at the date of signing this report.

Mr Ellice-Flint was a director of Santos Ltd, the ultimate parent company at 31 December 2004, and accordingly his and his family's interests in the ordinary shares of that Company are disclosed in its accounts.

As at 31 December 2004, Mr Woodhouse and his family were the holders of 1,086 fully paid ordinary shares in Santos Ltd, the ultimate parent company.

Creditor Payment Policy and Practice

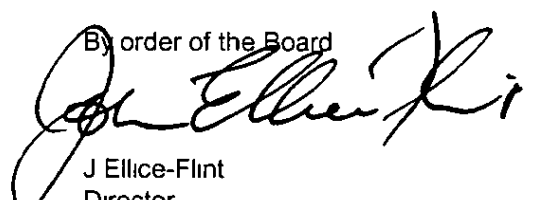
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2004, the Company had an average of 92 day purchases outstanding in trade creditors.

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 auditor 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
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 (formerly "NOVUS UK (KAKAP 2) LIMITED")

We have audited the financial statements on pages 7 to 18

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 are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss 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
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Profit and Loss Account

For the Year Ended 31 December 2004

	Notes	2004 US\$'000	2003 US\$'000
Turnover		9,080	8,425
Cost of sales	2	<u>(5,198)</u>	<u>(4,812)</u>
Gross profit		3,882	3,613
Other operating expenses		<u>(62)</u>	<u>(115)</u>
Profit on ordinary activities before taxation		3,820	3,498
Tax on profit on ordinary activities	6	<u>(1,732)</u>	<u>(1,773)</u>
Profit for the financial year		2,088	1,725
Dividends		<u>(5,965)</u>	<u>-</u>
(Accumulated loss) / retained profit for the financial year	16	<u>(3,877)</u>	<u>1,725</u>

All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the Company. These comprise all gains and losses arising since the last annual report.

The notes on pages 9 to 18 are an integral part of this profit and loss account.


SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Balance Sheet

At 31 December 2004

	Notes	2004 US\$'000	2003 US\$'000
Fixed assets			
Tangible assets	7	10,261	12,679
Current assets			
Stock	8	414	441
Debtors	9	7,720	8,944
Cash at bank and in hand		115	758
Total current assets		8,249	10,143
Creditors – amounts falling due within one year	10	(1,242)	(1,661)
Net current assets		7,007	8,482
Total assets less current liabilities		17,268	21,161
Provisions for liabilities and charges	11	(4,974)	(4,990)
Net assets		12,294	16,171
Capital and reserves			
Called up share capital	12	-	-
Share premium account	13	10,208	10,208
Profit and loss account	16	2,086	5,963
Equity shareholders' funds	17	12,294	16,171

The financial statements on pages 7 to 18 were approved by the board of directors and were signed on its behalf by


J Ellice Flint
Director
Date 20 JULY 2007

The notes on pages 9 to 18 are an integral part of this Balance Sheet

SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Notes to the Accounts

1 Principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year is set out below

(a) Basis of preparation of accounts

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with applicable UK accounting standards. The Company has taken advantage of the exception given in FRS 1 (revised 1996) "Cash Flow Statements" not to prepare a cash flow statement, as a consolidated cash flow statement, which includes the cash flows of the Company, has been published by the Ultimate Parent Undertaking.

In addition to the requirements of the accounting standards, the accompanying financial statements have been prepared in accordance with the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" issued by the Oil Industry Accounting Committee and updated 7 June 2001 (SORP), except the SORP recommends that oil and gas reserve quantities be disclosed. The directors have elected not to publish this information for the Company.

(b) Joint ventures

The Company conducts the majority of its exploration, development and production activities in association with other companies under joint operating agreements. The accounts reflect the Company's share of the costs and revenues resulting from such joint activities.

(c) 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.

**SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Notes to the Accounts (continued)

1. Principal Accounting Policies (Continued)

(c) Exploration and evaluation expenditure (continued)

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

(d) 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.

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

(e) 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.

**SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Notes to the Accounts (continued)

1 Principal Accounting Policies (Continued)

(e) Depreciation and depletion (continued)

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

(f) 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

(g) Decommissioning Provision

Costs incurred by the joint venture for exploration, development and production are generally recoverable from production of reserves under the terms of the Kakap Production Sharing Contract. At the termination of the contract, possession of the equipment and facilities reverts to the Indonesian government. Therefore, no provision for decommissioning is made in the accounts

SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Notes to the Accounts (continued)

1. Principal Accounting Policies (Continued)

(h) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences arising on re-translation are taken to the profit and loss account.

(j) Turnover

Turnover comprises sales of crude oil, which are stated net of value added tax. Sales of crude oil are recorded on the net entitlement method. When the volume of oil lifted is greater/(less) than the Company's entitlement, a payable/(receivable) accrues.

Under the terms of the Kakap Production Sharing Contract, the Company is required to sell certain amounts of crude to the government of Indonesia at prices provided for in the contract. The Company has recorded revenue from such sales based on latest realised prices from sales of crude to third parties.

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

SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Notes to the Accounts (continued)

2 Cost of sales

	2004 US\$'000	2003 US\$'000
Operating costs	2,809	2,556
Depreciation, depletion and amortisation	2,389	2,256
	<u>5,198</u>	<u>4,812</u>

3. Employee information

The Company had no employees, other than directors, during 2004 and 2003

4. Directors' remuneration

The Directors who served during the year ended 31 December 2004 received no fees or remuneration for their services as directors of the company (2003 US\$nil)

Mr J Ellice-Flint is a director of Santos Ltd, (the parent undertaking) in whose accounts information as to emoluments is given

5 Auditors' remuneration

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

6 Tax on profit on ordinary activities

The tax charge is made up as follows

	2004 US\$'000	2003 US\$'000
<i>Current Tax</i>		
UK corporation tax on profits for the year	920	1,577
Double tax relief	(920)	(1,577)
	-	-
Foreign tax	1,748	1,783
Total current tax	1,748	1,783
<i>Deferred Tax</i>		
Origination and reversal of timing differences (note 11)	(16)	(10)
Tax on profit on ordinary activities	<u>1,732</u>	<u>1,773</u>

SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Notes to the Accounts (continued)

6 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for the period

The rate at which tax has been assessed for the period is higher (2003 higher) than the standard rate of corporation tax in UK. The differences are explained below

	2004	2003
	US\$'000	US\$'000
Profit on ordinary activities before taxation	3,820	3,498
Profit on ordinary activities multiplied by the standard rate of corporation tax in Indonesia of 45% (2003 45%)	1,719	1,574
Effect of:		
Items not deductible for tax purposes	35	84
Depreciation in excess of capital allowances	14	314
Other timing differences	(20)	(189)
Current tax charge for the period	1,748	1,783

7 Fixed assets – tangible assets

	2004	2003
	US\$'000	US\$'000
Interest in Petroleum Properties		
At 1 January	12,154	12,158
Disposals	-	(4)
At 31 December	12,154	12,154
Depreciation, depletion and amortisation		
At 1 January	7,473	6,797
Charge for the year	716	676
At 31 December	8,189	7,473
Net Book Value at 31 December	3,965	4,681
Property, Plant and Equipment		
At 1 January	18,482	18,071
Additions	88	411
Disposals	(117)	-
At 31 December	18,453	18,482
Accumulated Depreciation		
At 1 January	10,484	8,904
Charge for the year	1,673	1,580
At 31 December	12,157	10,484
Net Book value at 31 December	6,296	7,998
Total Net Book Value at 31 December	10,261	12,679

SANTOS UK (KAKAP 2) LIMITED
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")

Notes to the Accounts (continued)

8 Stock

	2004 US\$'000	2003 US\$'000
Warehouse stock and drilling materials	414	441

9 Debtors

	2004 US\$'000	2003 US\$'000
Trade debtors	787	117
Fellow subsidiary undertakings	6,651	8,519
Other	282	308
	7,720	8,944

10 Creditors – amounts falling due within one year

	2004 US\$'000	2003 US\$'000
Corporation tax creditor	166	105
Trade creditors	1,076	1,556
	1,242	1,661

11. Provisions for liabilities and charges

	2004 US\$'000	2003 US\$'000
Movement in provision for deferred taxation		
At 1 January	4,990	5,000
Charge for the year	(16)	(10)
At 31 December	4,974	4,990

	2004 US\$'000	2003 US\$'000
The provision for deferred taxation comprises		
Accelerated capital allowances	4,059	4,071
Deferred branch profit tax liability	915	919
	4,974	4,990

SANTOS UK (KAKAP 2) LIMITED
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Notes to the Accounts (continued)

12 Share capital

	2004	2003
	US\$'000	US\$'000
Authorised, allotted, called up and fully paid 251 ordinary shares of \$1 each	-	-

13 Share premium account

	2004	2003
	US\$'000	US\$'000
At 1 January and 31 December	10,208	10,208

14. Ultimate parent undertaking

The Directors regard Santos Ltd of Adelaide, Australia, a company incorporated in Australia, as the ultimate parent undertaking as of 31 December 2004 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 Group are available to the public and may be obtained from that address.

The Company's immediate parent undertaking is Santos International Holdings Pty Ltd, a company incorporated in Australia.

15 Commitments

The Company conducts substantially all of its operations through membership of a joint venture consortium. In the event of non-performance of obligations by another member, or members of the consortium, the Company would become subject to additional obligations. The Company does not anticipate non-performance by its joint venture partners. In terms of specific commitments, at the end of 2004, the company was committed to drilling one exploration well before the end of 2005 (total commitment of \$0.625m).

16 Profit and loss account

	2004	2003
	US\$'000	US\$'000
At 1 January	5,963	4,238
(Accumulated loss)/retained profit for the financial year	(3,877)	1,725
At 31 December	2,086	5,963

17 Reconciliation of movements in shareholders' funds

	2004	2003
	US\$'000	US\$'000
At 1 January	16,171	14,446
(Accumulated loss)/retained profit for the financial year	(3,877)	1,725
At 31 December	12,294	16,171

SANTOS UK (KAKAP 2) LIMITED
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Notes to the Accounts (continued)

18 Related Party Transactions

Certain services were provided by Novus Management Services Pty Ltd, a related company. A service charge of US\$ 6,767 (2003 US\$ 68,596) has been included in the accounts to reflect the services provided by that company.

19. Post Balance Date Event

Change of Parent Undertaking

A takeover offer in respect of Novus Petroleum Limited was announced by PT Medco Energi International Tbk (Medco) of Jakarta, Indonesia. During 2004, Medco's takeover offer was successful and a change of control occurred. Accordingly, the ultimate parent undertaking is now different to that which existed at 31 December 2003.

Subsequent to the Balance Sheet Date, and as a consequence of the sale of Novus Petroleum Limited to Medco Energi International, it was agreed that the Company would be sold to Santos International Holdings Pty Ltd.

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
(FORMERLY "NOVUS UK (KAKAP 2) LIMITED")**

Notes to the Accounts (continued)

19 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.