SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 DECEMBER 2006

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 2006

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 2006 Production averaged 210 bopd (261 bopd in 2005), 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 508 boepd (422 boepd in 2005)

As in the prior year, 2006 was a year of consolidation on the development efforts and costs associated with the West Natuna gas scheme Exploration was limited to technical studies and no 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 2006 are summarised below

	2006 US$'000	2005 US$'000
Revenue	11,110	10,544
Profit before tax	3,129	7,058
Taxation	(2,315)	(3,525)
Profit after tax for the year	814	3,533

Dividends

No dividend was paid or declared in the current year

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

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 2006, the Company had an average of 134 day purchases outstanding in creditors

Events Since the Balance Sheet Date

No significant events subsequent to balance date

Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and Ernst & Young LLP therefore continue in office

By order of the Board

CF Woodhouse

Director

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 2006

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 prevent and detect fraud and other irregularities

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 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 25 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

As described in the Statement of Directors' Responsibilities on page 3, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU)

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 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 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

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 2006 and of its profit for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

Ernst + Young LLP.

Ernst & Young LLP
Registered Auditor
Aberdeen

Date 4 APRIL 2008

SANTOS UK (KAKAP 2) LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 US$000	2005 US$000
Revenue	2	11,110	10,544
Cost of sales	3	(7,010)	(3,013)
Gross profit		4,100	7,531
Other operating expenses	3	(853)	(150)
Operating profit before net financing costs		3,247	7,381
Net financing costs	4	(118)	(323)
Profit before tax	3	3,129	7,058
Taxation	5	(2,315)	(3,525)
Profit after tax for the year	17	814	3,533

SANTOS UK (KAKAP 2) LIMITED

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 US$000	2005 US$000
Profit for the year	814	3,533
Total recognised income and expense for the year	814	3,533

There are no other movements in equity arising from transactions with owners as owners, as set out in note 17

SANTOS UK (KAKAP 2) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 US$000	2005 US$000
Non-current assets			
Oil and gas assets	9	14,359	12,413
Other receivable		18	16
Total non-current assets		14,377	12,429
Current assets			
Stocks	10	849	608
Trade and other receivables	11	18,252	13,905
Cash and cash equivalents	12	337	872
Total current assets		19,438	15,385
Total assets		33,815	27,814
Current liabilities			
Trade and other payables	13	2,596	2,539
Tax payable	14	694	1,932
Total current liabilities		3,290	4,471
Non-current liabilities			
Provisions	15	9,066	3,066
Deferred tax liabilities	16	2,758	2,390
Total non-current liabilities		11,824	5,456
Total liabilities		15,114	9,927
Net assets		18,701	17,887
Equity			
Share capital	17	-	-
Share premium	17	10,208	10,208
Retained earnings	17	8,493	7,679
Total equity		18,701	17,887

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

CF Woodhouse

C Woodhouse
Director
Date 3 April 2008

SANTOS UK (KAKAP 2) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 US$000	2005 US$000
Cash flows from operating activities			
Receipts from customers		11,240	9,025
Interest received		58	-
Payments to suppliers and employees		(4,106)	(313)
Income taxes paid		(1,159)	(2,283)
Net cash flows from operating activities	18	6,033	6,429
Cash flows from investing activities			
Payments for			
Oil and gas assets expenditure		(2,079)	(1,016)
Other receivable		(2)	(16)
Net cash flows used in investing activities		(2,081)	(1,032)
Cash flows from financing activities			
Advances to(from) related entities		(4,475)	(4,654)
Net cash flows from financing activities		(4,475)	(4,654)
Net (decrease)/increase in cash and cash equivalents		(523)	743
Effect of exchange rate fluctuations on cash held		(12)	14
Cash and cash equivalents at 1 January	12	872	115
Cash and cash equivalents at 31 December	12	337	872

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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

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(c) and 1(d) Production and other operating costs are expensed as incurred

(a) Measurement Convention

The financial statements are prepared on the historical cost basis

(b) 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

(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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1. Significant 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

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

(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

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

1. Significant Accounting Policies (Continued)

(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

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) 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

(g) Trade and other receivables

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

1. Significant Accounting Policies (Continued)

(h) Cash and cash equivalents

Cash and cash equivalents comprise 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

(i) 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

(j) 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

(k) 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 money and, where appropriate, the risks specific to the liability

1. Significant Accounting Policies (Continued)

(k) Provisons (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 removing facilities, 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

(l) 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

(m) 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

(n) Dividends

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

(o) 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

(p) 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

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

FOR THE YEAR ENDED 31 DECEMBER 2006

1. Significant Accounting Policies (Continued)

(q) 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

(r) 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

FOR THE YEAR ENDED 31 DECEMBER 2006

		2006 US$000	2005 US$000
2.	**Revenue**		
	Product sales		
	Crude oil	3,587	4,611
	Gas and ethane	7,523	5,933
		11,110	10,544
3.	**Expenses**		
	Included in profit before tax are the following items:		
	Operating lease expenses	3	-
	Depreciation and depletion		
	Depletion of sub-surface assets	1,422	1,123
	Depreciation of plant and equipment	1,668	609
		3,090	1,732
	Other operating expenses		
	Exploration expensed	853	150
		853	150
4.	**Net Financing Costs**		
	Foreign exchange losses/(gains)	12	(15)
	Interest income from related entities	(58)	-
	Unwind of the effect of discounting on provisions (refer note 1(k))	164	338
	Net financing costs	118	323
5.	**Taxation**		
	Recognised in the income statement		
	Current tax expense		
	UK Corporation tax on profits for the year	2,619	2,449
	Double tax relief	(2,619)	(2,449)
		-	-
	Foreign tax	1,947	4,049
	Deferred tax benefit/(expense)		
	Origination and reversal of temporary differences	368	(524)
	Total tax in income statement	2,315	3,525

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 US$000	2005 US$000

5. Taxation (Continued)

Reconciliation of tax expense		
Profit before tax	3,129	7,058
Prima facie income tax at 37% (2005 45%)	1,158	3,176
Branch profits tax	2,026	-
Investment credit	(692)	-
Other	(177)	349
Total tax in income statement	2,315	3,525

6. Staff Numbers and Costs

The Company had no employees during 2006 and 2005

7. Auditors' Remuneration

Audit of these financial statements	16	18
	16	18

The auditors' remuneration is borne by the ultimate parent entity, Santos Ltd

8. Directors' Emoluments

Directors' emoluments	11	11

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

9. Oil and Gas Assets

	2006			2005		
	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	26,256	13,300	39,556	24,683	9,837	34,520
Less accumulated depreciation, depletion and impairment	(20,140)	(5,057)	(25,197)	(18,718)	(3,389)	(22,107)
Balance at 31 December	6,116	8,243	14,359	5,965	6,448	12,413
Reconciliation of movements						
Producing assets						
Balance at 1 January	5,965	6,448	12,413	3,204	7,057	10,261
Additions	2,426	3,463	5,889	4,034	-	4,034
Disposals	-	-	-	-	-	-
Depreciation and depletion expense	(1,422)	(1,668)	(3,090)	(1,123)	(609)	(1,732)
Exploration expensed	(853)	-	(853)	(150)	-	(150)
Balance at 31 December	6,116	8,243	14,359	5,965	6,448	12,413

	2006 US$000	2005 US$000
10. Stocks		
Petroleum products	334	80
Drilling and maintenance stocks	515	528
	849	608
11. Trade and Other Receivables		
Current		
Trade receivables	1,351	2,477
Receivable from parent entity	3,888	6,651
Receivable from related entities	11,892	4,654
Other	1,121	123
	18,252	13,905
12. Cash and Cash Equivalents		
Cash and cash equivalents per balance sheet	337	872

13. Payables

Payables and accrued expenses	2,596	2,539

14. Tax payable

Provision for income tax	694	1,932
	694	1,932

15. Provisions

Restoration	7,040	3,066
Provision for branch profits tax	2,026	-
	9,066	3,066

Movement in provisions	Restoration	Branch Profits Tax	Total
	US$'000	US$'000	US$'000
Balance at 1 January 2006	3,066	-	3,066
Unwind of discount	164	-	164
Change in discount rate	3,810	-	3,810
Provisions made during the year	-	2,026	2,026
Balance at 31 December 2006	7,040	2,026	9,066
Balance at 1 January 2005	-	-	-
Unwind of discount	338	-	338
Provisions made during the year	2,728	-	2,728
Balance at 31 December 2005	3,066	-	3,066

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 removing facilities, abandoning wells and restoring the affected areas

These costs are currently expected to be incurred in 2019 The provision has been estimated using existing technology at current prices and discounted at 2 57% (2005 8 8%)

Branch Profits Tax

The provision for branch profits tax is the potential additional tax that could be imposed in lieu of dividend withholding tax on the excess of taxable income over ordinary corporate income tax

16. Deferred Tax Liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2006 US$000	2005 US$000	2006 US$000	2005 US$000	2006 US$000	2005 US$000
Exploration and evaluation assets, oil and gas assets and other land, buildings, plant and equipment	-	-	2,758	2,307	2,758	2,307
Stocks	-	-	-	83	-	83
Net tax (assets) / liabilities	-	-	2,758	2,390	2,758	2,390

Movement in deferred tax during the year	1 January 2006 US$000	Recognised in income US$000	31 December 2006 US$000
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	2,307	451	2,758
Stocks	83	(83)	-
	2,390	368	2,758

Movement in deferred tax during the year	1 January 2005 US$000	Recognised in income US$000	31 December 2005 US$000
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

17. 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
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
Balance at 1 January 2006	-	10,208	7,679	17,887
Total recognised income and expense	-	-	814	814
Balance at 31 December 2006	-	10,208	8,493	18,701

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

17. Capital and Reserves (continued)

	2006 US$000	2005 US$000
Share capital		
251 (2005 251) fully paid ordinary shares at US$1 each	-	-

Movement in fully paid ordinary shares

	2006	2005
	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

18. Reconciliation of Cash Flows from Operating Activities

	2006 US$000	2005 US$000
Profit for the year	814	3,533
Add non-cash items		
Depreciation and depletion	3,090	1,732
Write-down of exploration and evaluation expenditure	853	150
Unwind the effect of discounting on provision	164	338
Increase in income taxes payable	788	1,766
Net increase/(decrease) in deferred tax liability	368	(524)
Foreign currency fluctuations	12	(15)
Net cash flows from operating activities before change in assets or liabilities	6,089	6,980
Add/(deduct) change in operating assets or liabilities, net of acquisitions of businesses		
Decrease/(increase) in receivables	128	(1,531)
Increase in inventories	(241)	(194)
Increase in payables	57	1,174
Net cash flows from operating activities	6,033	6,429

19. 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

(c) Lease commitments

Operating leases		
Due not later than one year	-	3
Due later than one year but not later than five years	-	140
	-	143

20. Contingent Liabilities

The Company has the following contingent liabilities arising in respect of		
Performance guarantees	-	-
Litigation and proceedings	-	-
	-	-

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 US$000	2005 US$000

21. 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

	2006 US$000	2005 US$000
Non-current assets		
Oil and gas assets	14,359	12,413
Total non-current assets	14,359	12,413
Current Assets		
Stocks	849	608
Trade and other receivables	2,470	2,588
Cash and cash equivalents	337	872
Total current assets	3,656	4,068
Total assets	18,015	16,481

The amount of capital expenditure commitments, minimum exploration commitments and contingent liabilities in respect of the Company's unincorporated joint venture are

	2006 US$000	2005 US$000
Capital expenditure commitments	-	-
Minimum exploration commitments	-	250
Contingent liabilities	-	-

(b) Related party balances

	2006 US$000	2005 US$000
Current		
Loan receivable from parent entity	3,888	6,651
Loans receivable from related entities	11,892	4,654
	15,780	11,305

All of the above loans are repayable on call A loan receivable from the Company's parent entity earns interest at the 1-month LIBOR rate minus 0 05% (2005 0%) The remaining loans receivable from related entities are interest-free (2005 interest-free)

The Company has not engaged in any other related party transactions in the current year

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

21. Related Parties (continued)

(c) Key management personnel

	2006 US$000	2005 US$000
Key management emoluments	2,186	2,270
Company contributions to superannuation plans	685	206
Other post employment benefits	128	-
Compensation for loss of office	-	-
Share related awards	1,059	-
	4,058	2,476

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$ 11,058 as key management emoluments for the current year (2005 US$10,924) 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$ 4,047,078 (2005 US$2,465,178), being the total compensation paid to him by Santos Ltd for services as director to the Santos Group

22. 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

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

22. Financial Instruments (continued)

(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 2006 and 2005 Santos Ltd has no open oil price swap contracts

(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

23. 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 2006 was Santos International Holdings Pty Ltd, a company incorporated in Australia

The smallest group into which the results of this Company are consolidated is Santos Ltd, a company incorporated in Australia

24. Post Balance Date Event

No significant post balance sheet date events identified as of the date of this report

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