
SANTOS UK (KAKAP 2) LIMITED
DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS
31 DECEMBER 2007
(THIS FINANCIAL REPORT IS PREPARED IN UNITED STATES DOLLARS)

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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 2007.

Principal Activities

The principal activities of the Company remain unchanged and continue to comprise the exploration for 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.

Principal Risks and Uncertainties

The following are some of the key risks that face the Company:

Exploration and development risk

There is no assurance that the Company's exploration activities will be successful and statistically few properties that are explored are ultimately developed into producing hydrocarbon fields. Accordingly, the Company provides a risk analysis and range of outcomes to the Board for consideration prior to any prospect being drilled.

The Company's operations may also be curtailed, delayed or cancelled not only as a result of weather conditions but also as a result of shortage or delays in the delivery of drilling rigs and other equipment which, at times, are in short supply. As the Company only owns a non operated asset, risk is mitigated to some extent by being in a joint venture with a number of other companies which have access to rigs and equipment.

Competition

There is strong competition within the petroleum industry for the identification and acquisition of properties considered to have hydrocarbon potential. The Company competes with other exploration and production companies, some of which have greater financial resources than the Company, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure transactions without having to over pay.

Commodity prices, fiscal regimes and currency

The market price of hydrocarbon products is volatile and cannot be controlled. If the price of hydrocarbon products should drop significantly, or the fiscal regime change for the worse, the economic prospects of the projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Where and when appropriate the Company will, through a related entity (Santos Finance Limited), put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. Commodity price risk is also minimised through the Company's gas price contracts.

Exposure to foreign currency 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 subsidiary of Santos Ltd, to hedge exposure to fluctuations in foreign exchange rates and commodity prices, on behalf of the Santos Group.

Financing

The development of the Company's properties will depend upon the Company's ability to obtain financing through the joint venture of projects, debt financing (through Santos Finance Limited), farm downs or other means. There is no assurance that the Company will be successful in obtaining the required financing or attracting farminees. If the Company is unable to obtain additional financing as needed through the attraction of suitable farm-in partners, some interests may be relinquished and/or the scope of the operations reduced.

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

Business Review and 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.

Oil and condensate production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 255 bopd (210 bopd in 2006). Gas production averaged 519 boepd (508 boepd in 2006).

During the year one exploration well (Pancing – 1X) was drilled, which was plugged and abandoned as a non-economic oil and gas discovery. One gas development well (KG West-1) was drilled, which is due to commence production in 2009 following installation of a sub-sea flow line.

The results for the year to 31 December 2007 are summarised below:

	2007 US\$'000	2006 US\$'000
Revenue	17,276	11,110
Profit before tax	9,118	3,129
Taxation	(4,673)	(2,315)
Profit after tax for the year	4,445	814

No dividends have been paid or declared during the year and no dividends have been recommended by the Directors.

Key Performance Indicators

The Company's ultimate parent entity Santos Ltd is the parent entity in the consolidated Santos Group. The Company holds a 6.25% non-operator interest in the Kakap Production Sharing Contract which is part of the Santos Group base business for Indonesia. The Santos Group has strategic targets for its base business including production targets and safety performance levels. The Company contributed to the attainment of these overall Santos Group strategic targets. As the Company is not the operator, management meets regularly with the operator through operating and technical forums to monitor the progress of the PSC against its strategic targets.

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed below. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the group's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Directors and their interests

The Directors who held office during the year or have subsequently been appointed to the Board prior to the date of signing were:

John Charles Ellice-Flint (retired 25 March 2008)
Charles Frederick Woodhouse
David John Wissler Knox (appointed 29 May 2008)
Peter Christopher Wasow (appointed 29 May 2008)

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 2007, the Company had an average of 174 days purchases outstanding in trade creditors.

Events since the Balance Sheet Date

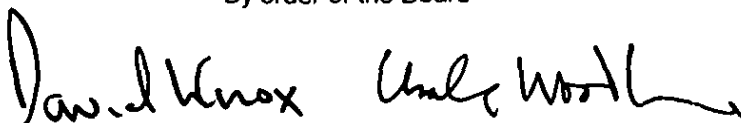
In 2008 the Company's branch profits tax obligation for 1994-2004 was subject to an audit by BPKP. This audit was closed on the 22 December 2008 and the Company agreed to pay the principal of \$2.4 million but was not required to pay interest on this obligation.

The 31 December 2007 branch profit tax provision of \$3.5 million includes the principal payment of \$2.4 million resulting from the 1994-2004 audit and \$1.1 million in relation to branch profits tax obligations relating to subsequent years. Subsequent to balance date the amount relating to the 1994-2004 audit (\$2.4 million) has been paid.

Auditors

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

By order of the Board



Director

Director

Dated this 10th day of March 2009

SANTOS UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

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

FOR THE YEAR ENDED 31 DECEMBER 2007

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position and the financial performance and cash flows for that period.

In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance; and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT 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 2007 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 22. 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 auditors' 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 United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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 whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 European Union, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Aberdeen

³
1st March 2009

SANTOS UK (KAKAP 2) LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 US\$000	2006 US\$000
Revenue	2	17,276	11,110
Cost of sales		(6,076)	(7,010)
Gross profit		11,200	4,100
Other operating expenses	3	(2,148)	(853)
Operating profit before net financing costs		9,052	3,247
Financial income		261	58
Financial expenses		(195)	(176)
Net financing income/(costs)	4	66	(118)
Profit before tax		9,118	3,129
Income tax expense	5	(4,673)	(2,315)
Net profit after income tax attributable to equity holders of Santos UK (Kakap 2) Limited	16	4,445	814

The income statement is to be read in conjunction with the notes to the financial statements.

SANTOS UK (KAKAP 2) LIMITED
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000
Net income/(expense) recognised directly in equity	-	-
Profit for the year	<u>4,445</u>	<u>814</u>
Total recognised income for the year attributable to equity holders of Santos UK (Kakap 2) Limited	<u>4,445</u>	<u>814</u>

There are no other movements in equity arising from transactions with owners are set out in note 16.

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

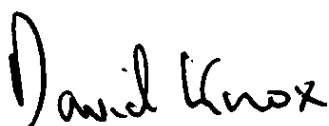
SANTOS UK (KAKAP 2) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 US\$000	2006 US\$000
Non-current assets			
Oil and gas assets	9	7,621	14,359
Amounts owing from related entities		7,721	3,888
Other receivables		19	18
Total non-current assets		15,361	18,265
Current assets			
Inventories	10	758	849
Trade and other receivables	11	6,152	2,809
Amounts owing from related entities		12,553	12,080
Cash and cash equivalents	12	-	-
Total current assets		19,463	15,738
Total assets		34,824	34,003
Current liabilities			
Trade and other payables	13	3,518	2,784
Current tax liabilities		1,182	694
Total current liabilities		4,700	3,478
Non-current liabilities			
Provisions	14	4,600	9,066
Deferred tax liabilities	15	2,378	2,758
Total non-current liabilities		6,978	11,824
Total liabilities		11,678	15,302
Net assets		23,146	18,701
Equity			
Share capital	16	10,208	10,208
Retained earnings	16	12,938	8,493
Total equity attributable to equity holders of Santos UK (Kakap 2) Ltd		23,146	18,701

These financial statements were approved by the Board of Directors on 10th March 2009 and were signed on its behalf by:



D J W Knox
Director



C F Woodhouse
Director

The balance sheet is to be read in conjunction with the notes to the financial statements.

SANTOS UK (KAKAP 2) LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 US\$000	2006 US\$000
Cash flows from operating activities			
Receipts from customers and joint venture parties		13,958	10,903
Interest received		261	58
Payments to suppliers and employees		(2,655)	(4,106)
Income taxes paid		(3,106)	(1,159)
Net cash flows from operating activities	17	<u>8,458</u>	<u>5,696</u>
Cash flows from investing activities			
Payments for:			
Oil and gas assets expenditure		(4,252)	(2,079)
Other receivable		-	(2)
Net cash flows used in investing activities		<u>(4,252)</u>	<u>(2,081)</u>
Cash flows from financing activities			
Payments from related entities		(4,181)	(4,475)
Net cash used in financing activities		<u>(4,181)</u>	<u>(4,475)</u>
Net increase/(decrease) in cash and cash equivalents		25	(860)
Effect of exchange rate fluctuations on cash held		(25)	(12)
Cash and cash equivalents at the beginning of the year		<u>-</u>	<u>872</u>
Cash and cash equivalents at the end of the year	12	<u>-</u>	<u>-</u>

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

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies

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

The financial report was authorised for issue by the Directors on 10th March 2009.

(a) Statement of compliance

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

(b) Basis of preparation

The financial statements are prepared on a historical cost basis.

The financial statements are presented in United States dollars.

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(e), 1(f) and 1(h). Production and other operating costs are expensed as incurred.

Since 1 January 2007 the Company has adopted the following new and amended standards, mandatory for annual reporting periods beginning on or after 1 January 2007. Adoption of these new and revised standards did not have any effect on the financial position or performance of the Company.

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment - Presentation of Financial Statements*

The following new and amended standards were available for early adoption but have not been applied by the Company in these financial statements. The initial application of the standards is not expected to have a material impact on the financial results of the Company.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies

(b) Basis of preparation (continued)

Reference	Title	Summary	Effective for annual reporting periods beginning on or after	Application date for Company
IFRS 2	<i>Amendment to IFRS 2 – Vesting Conditions and Cancellations</i>	Clarifies the definition of vesting conditions; introduces concept of non-vesting conditions; requires non-vesting conditions to be reflected in grant date fair value; provides the accounting treatment for non-vesting conditions and cancellations.	1 January 2009	1 January 2009
IFRS 3	<i>Business Combinations</i> (revised January 2008)	Adopts the acquisition method to account for business combinations; acquisition costs expensed; contingent consideration recognised at fair value on acquisition date.	1 July 2009	1 January 2010
IFRS 8	<i>Operating Segments</i>	Segment disclosure based on components of an entity that management monitors in making decisions about allocating resources to segments and in assessing their performance.	1 January 2009	1 January 2009
IAS 1	<i>Presentation of Financial Statements</i> (revised September 2007)	Changes the titles of financial statements; requires all non-owner changes in equity be presented in statement of comprehensive income; additional statement of financial position at beginning of earliest comparative period required for changes in accounting policy or reclassifications; income tax relating to each component of comprehensive income to be disclosed.	1 January 2009	1 January 2009
IAS 23	<i>Borrowing Costs</i> (revised March 2007)	Removes option to expense borrowing costs related to qualifying assets.	1 January 2009	1 January 2009
IAS 27	<i>Consolidated and Separate Financial Statements</i> (revised January 2008)	Changes in a parent's ownership in a subsidiary that result in a loss of control requires reserves to be recycled and remaining ownership interest to be measured at fair value; changes that do not result in a loss of control are accounted for as equity transactions.	1 July 2009	1 January 2010
IAS 27	<i>Consolidated and Separate Financial Statements</i> (revised July 2008)	Removes the definition of the cost method; requires all dividends from subsidiaries, jointly controlled entities or associates to be recognised as income; receipt of dividend may be indicator of impairment if certain criteria met; specified accounting for certain transactions where newly formed entity becomes parent of another entity in a group.	1 January 2009	1 January 2009
IAS 32	<i>Amendment to IAS 32 – Puttable Financial Instruments and Obligations arising on Liquidation</i>	Introduces exception to the definition of financial liability to classify certain puttable financial instruments as equity instruments.	1 January 2009	1 January 2009

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial report except to the extent set out in 1.(x) below. The accounting policies have been applied consistently by the Company.

(c) Jointly controlled assets

The Company's exploration and production activities are often conducted through joint venture arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships.

A joint venture characterised as a jointly controlled asset involves the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of expenses incurred. Each venturer has control over its share of future economic benefits through its share of jointly controlled assets.

Interests in unincorporated joint ventures are recognised by including in the financial statements under the appropriate headings, the Company's proportion of the joint venture costs, assets and liabilities.

(d) Foreign currency

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in United States dollars which is the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rates 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 rates at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

(e) 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 assets. 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 2007

1. Significant Accounting Policies (continued)

(e) 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 alternatively by its sale; 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.

The carrying amounts of the Company's exploration and evaluation assets are reviewed at each balance sheet date, in conjunction with the impairment review process referred to in note 1(l), to determine whether any of the following indicators of impairment exist:

- (i) tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed;
- (ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned;
- (iii) exploration for and evaluation of resources in the specific area has not led to the discovery of commercially viable quantities of resources, and the Company has decided to discontinue activities in the specific area; or
- (iv) sufficient data exists to indicate that although a development is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

Where an indicator of impairment exists a formal estimate of the recoverable amount is made, and any resultant impairment loss is recognised in the income statement.

When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to oil and gas assets – assets in development.

(f) Oil and gas assets

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities the individual oil or gas fields and the associated production facilities are managed and reported as a single oil and gas asset.

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.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(f) Oil and gas assets (continued)

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 note 1(h).

Ongoing exploration and evaluation expenditure activities

Often the initial discovery and development of an oil or gas asset will lead to ongoing exploration for and evaluation of, potential new oil or gas fields in the vicinity with the intention of producing any near field discoveries using the infrastructure in place. Exploration and evaluation expenditure associated with oil and gas assets is accounted for in accordance with the policy in note 1(e).

Title of assets

The legal title of assets purchased/constructed for operations in Indonesia transfers to the relevant government body under the terms of the PSC. However, these assets are recognised as assets in the financial statements whilst the Company controls the assets and expects to receive future economic benefits from the use of those assets.

(g) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of rotatable spares and insurance spares that are purchased for back up or rotation with specific plant and equipment items. Similarly, the cost of major cyclical maintenance is recognised in the carrying amount of the related plant and equipment as a replacement only if it is eligible for capitalisation. Any remaining carrying amount from the cost of the previous major cyclical maintenance is derecognised. All other repairs and maintenance are recognised in income statement as incurred.

Depreciation of plant and equipment is calculated in accordance with note 1(h).

(h) Depreciation and depletion

Depreciation charges are calculated to write-off the depreciable value of plant and equipment over their estimated economic useful lives to the Company. Each component of an item of plant and equipment with a cost that is significant in relation to the total cost of the asset is 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 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 estimated useful lives for each class of onshore assets for the current and comparative periods are as follows:

- Plant and equipment
 - Computer equipment 3 - 5 years
 - Motor vehicles 4 - 7 years
 - Furniture and fittings 10 - 20 years
 - Pipelines 10 - 30 years
 - Plant and facilities 10 - 50 years

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(h) Depreciation and depletion (continued)

Depreciation of offshore plant and equipment is calculated using the unit of production method on a cash-generating unit basis (refer note 1(l)) 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, evaluation and subsurface development expenditure ("subsurface assets") over the life of the estimated Proven plus Probable ("2P") reserves in a cash-generating unit, together with future subsurface 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.

(i) 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 weighted 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 in a manner which approximates specific identification.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value, which in practice is the equivalent of cost, less any impairment losses. Trade receivables are non-interest bearing and settlement terms are generally within 30 days.

Long-term receivables are discounted and are stated at amortised cost, less impairment losses.

Trade and other receivables are assessed for indicators of impairment at each balance sheet date. Where a receivable is impaired the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. Changes in the allowance account are recognised in income statement.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short-term deposits that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and have an original maturity of three months or less.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(k) Cash and cash equivalents (continued)

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 cash flow statement. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(l) 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.

Oil and gas assets, plant and equipment are assessed for impairment on a cash-generating unit ("CGU") basis. A cash-generating unit is the smallest grouping of assets that generates independent cash flows, and generally represents an individual oil or gas field. 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.

Exploration and evaluation assets are assessed for impairment in accordance with note 1(e).

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.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, an asset's 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.

For oil and gas assets the estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available.

Reversals of impairment

An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. 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 depletion, if no impairment loss had been recognised.

(m) Interest-bearing 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.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(n) 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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 future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted 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.

(o) Capitalisation of borrowing costs

Borrowing costs, including interest and finance charges relating to major oil and gas assets under development up to the date of being ready for 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.

(p) 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.

(q) Trade and other payables

Trade and other payables are recognised when the related goods or services are received, at the amount of cash or cash equivalent that will be required to discharge the obligation, gross of any settlement discount offered. Trade payables are non-interest bearing and are settled on normal terms and conditions.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(r) Share capital

Ordinary share capital

Ordinary share capital is classified as equity.

Dividends

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

(s) Revenue

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration or contributions received, to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sales revenue

Sales revenue is recognised on the basis of the Company's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering a pipeline.

(t) Other Income

Other income is recognised in the income statement at the fair value of the consideration received or receivable, 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 other income 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.

(u) 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 provisions, and interest receivable on funds invested.

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

(v) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income 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.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(v) Income tax (continued)

Current tax is the amount of income tax payable on the taxable profit or loss 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 determined using the balance sheet approach, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the appropriate tax bases. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent it is probable that they will 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are:

Estimates of reserve quantities

The estimated quantities of proven and probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

Exploration and evaluation

The Company's policy for exploration and evaluation expenditure is discussed in note 1(e). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement. The Company has no exploration and evaluation assets at 31 December 2007 (2006: \$nil).

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Significant Accounting Policies (continued)

(w) Significant accounting judgements, estimates and assumptions (continued)

Provision for restoration

The Company estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date and the extent of restoration activities required.

The carrying amount of the provision for restoration is disclosed in note 14 and the accounting policy for providing for restoration is included in note 1(n).

Impairment of oil and gas assets

The Company assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The assumptions used in the estimation of recoverable amount and the carrying amount of oil and gas assets are discussed in note 1(l) and note 9 respectively.

(x) Restatement of comparative information

In the prior period an amount of US\$337,000 was disclosed as cash and cash equivalents, which actually related to amounts due from joint venture partners. This amount has been restated in the 2006 comparatives shown in this financial report, and now follows consistent treatment with that adopted in 2007.

The corrections to balance sheet items for the comparative financial statements for the year-ended 31 December 2006 are:

	US\$000
Increase trade and other receivables by	337
Decrease cash and cash equivalents by	(337)
Net Balance Sheet Adjustments	<u>-</u>

These adjustments have also been reflected in the cash flow statement and notes 11, 12 and 17.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000
2. Revenue		
Product sales:		
Crude oil	6,570	3,587
Gas and ethane	10,706	7,523
	<u>17,276</u>	<u>11,110</u>
3. Expenses		
Included in profit before tax are the following items:		
Operating lease expense	-	3
Depreciation and depletion:		
Depletion of subsurface assets	1,239	1,422
Depreciation of plant and equipment	1,508	1,668
	<u>2,747</u>	<u>3,090</u>
Other operating expenses:		
Exploration and evaluation expensed	2,148	853
4. Net Financing Costs		
Foreign exchange losses	(25)	(12)
Interest income	261	58
Unwind of the effect of discounting on provisions	(170)	(164)
Net financing income/(costs)	<u>66</u>	<u>(118)</u>
5. Taxation		
Recognised in the income statement		
Current tax expense		
UK Corporation tax on profits for the year	3,106	2,619
Double tax relief	(3,106)	(2,619)
	-	-
Foreign tax	5,053	1,947
Deferred tax expense		
Origination and reversal of temporary differences	(380)	368
Total tax in income statement	<u>4,673</u>	<u>2,315</u>

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000
5. Taxation (continued)		
Reconciliation of tax expense		
Profit before tax	9,118	3,129
Prima facie income tax at 37% (2006: 37%)	3,374	1,158
Branch profits tax in respect of prior years	1,459	2,026
Investment credit	-	(692)
Other	(160)	(177)
Total tax expense in income statement	4,673	2,315

6. Employees

The Company has no employees

7. Auditors' Remuneration

Audit of these financial statements	16	16
Other fees to auditors:		
Other services relating to taxation	13	-

The auditor's remuneration is borne by the ultimate parent entity, Santos Ltd.

8. Borrowing Costs

Borrowing costs capitalised during the period were nil (2006: nil)

9. Oil and Gas Assets

	2007			2006		
	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	26,188	9,377	35,565	26,256	13,300	39,556
Less accumulated depreciation, depletion and impairment	(21,379)	(6,565)	(27,944)	(20,140)	(5,057)	(25,197)
Balance at 31 December	4,809	2,812	7,621	6,116	8,243	14,359
Reconciliation of movements						
Producing assets						
Balance at 1 January	6,116	8,243	14,359	5,965	6,448	12,413
Additions	3,663	589	4,252	2,426	3,463	5,889
Change in restoration asset	(1,583)	(4,512)	(6,095)	-	-	-
Depreciation and depletion expense	(1,239)	(1,508)	(2,747)	(1,422)	(1,668)	(3,090)
Exploration and evaluation expense	(2,148)	-	(2,148)	(853)	-	(853)
Balance at 31 December	4,809	2,812	7,621	6,116	8,243	14,359

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000	
10. Inventories			
Petroleum products	316	334	
Drilling and maintenance stocks	442	515	
Total inventories at the lower of cost and net realisable value	758	849	
11. Trade and Other Receivables			
Current			
Trade receivables	3,988	1,351	
Prepayments	140	64	
Other	2,024	1,394	
	6,152	2,809	
Trade receivables are neither past due nor impaired and relate to independent customers for whom there is no recent history of default.			
12. Cash and Cash Equivalents			
Cash and cash equivalents per balance sheet	-	-	
13. Payables			
Current			
Trade payables	277	341	
Non-trade payables and accrued expenses	2,926	2,255	
Amounts owing to related entities	315	188	
	3,518	2,784	
14. Provisions			
Restoration	1,115	7,040	
Provision for branch profits tax	3,485	2,026	
	4,600	9,066	
Reconciliation of movements			
	Restoration US\$'000	Branch Profits Tax US\$'000	Total US\$'000
Balance at 1 January 2007	7,040	2,026	9,066
Unwind of discount	170	-	170
Change in restoration assumptions	(6,095)	-	(6,095)
Provisions made during the year	-	1,459	1,459
Balance at 31 December 2007	1,115	3,485	4,600

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

14. Provisions (continued)

Restoration

Provisions for future removal and restoration costs 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 in accordance with the terms of the PSC.

These costs are currently expected to be incurred in 2020 of US \$1.9 million (2006: 2019 of US \$9.7 million). The provision has been estimated using existing technology at current prices and discounted at 4.37% (2006: 2.57%).

Under the terms of the PSC gross abandonment costs needs to be provided for from 22 March 2005. Prior to this date there was no legal requirement under the PSC to provide for abandonment costs. The provision is based on the operator's assessment of gross abandonment costs.

Branch profits tax

The provision for branch profits tax is the additional tax of 10% imposed in lieu of dividend withholding tax on the excess of taxable income over ordinary corporate income tax.

15. Deferred Tax Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Exploration and evaluation assets, oil and gas assets and other land, buildings, plant and equipment	-	-	2,378	2,758	2,378	2,758
Net deferred tax liabilities	-	-	2,378	2,758	2,378	2,758

Movement in deferred tax during the year:	1 January 2007	Recognised in income	31 December 2007
	US\$000	US\$000	US\$000
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	2,758	(380)	2,378
Movement in deferred tax during the year:	1 January 2006	Recognised in income	31 December 2006
	US\$000	US\$000	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

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

16. Reconciliation of Movements in Equity

	Share Capital US\$000	Share Premium US\$000	Retained Earnings US\$000	Total Equity US\$000
Balance at 1 January 2006	-	10,208	7,679	17,887
Total recognised income and expense for the year	-	-	814	814
Balance at 31 December 2006	-	10,208	8,493	18,701
Balance at 1 January 2007	-	10,208	8,493	18,701
Total recognised income and expense for the year	-	-	4,445	4,445
Balance at 31 December 2007	-	10,208	12,938	23,146
			2007 US\$000	2006 US\$000

Authorised and issued capital

Share capital

251 (2006: 251) fully paid \$1 ordinary shares

-	-
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Share Capital and Share Premium

The balance of share capital and share premium includes the total net proceeds (both nominal and share premium) on issue of the Company's equity share capital, comprising 251 ordinary shares of US\$1 each.

Dividends

No dividends have been paid or declared during the financial year and no dividends have been recommended by the directors.

Capital risk management

The Company's objective when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure.

In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

	2007 \$'000	2006 \$'000
Total interest-bearing loans and borrowings	-	-
Less:		
Cash and cash equivalents (note 12)	-	-
Net debt	-	-
Total equity	23,146	18,701
Total capital	23,146	18,701
Gearing ratio	0%	0%

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000
17. Reconciliation of Cash Flows from Operating Activities		
Profit for the year	4,445	814
Add non-cash items:		
Depreciation and depletion	2,747	3,090
Exploration and evaluation expensed	2,148	853
Unwind of the effect of discounting on provision	170	164
Increase in income taxes payable	1,948	788
Net decrease in deferred tax liability	(380)	368
Foreign currency fluctuations	25	12
Net cash flows from operating activities before change in assets or liabilities	11,103	6,089
Add/(deduct) change in operating assets or liabilities, net of acquisitions of businesses:		
(Increase)/decrease in receivables	(3,343)	(209)
Decrease/(increase) in inventories	91	(241)
Increase in payables	607	57
Net cash flows from operating activities	8,458	5,696

18. Related Parties

(a) Interests in joint ventures

The Company has interests in the following unincorporated joint venture:

<i>Joint Venture</i>	<i>Principal Activities:</i>	<i>% Interest:</i>
West Natuna Basin	Oil and gas exploration and production	6.25%

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 US\$000	2006 US\$000
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18. Related Parties (continued)

(b) Related party balances

Non-current

Loan receivable from parent entity	7,721	3,888
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Current

Loan receivables from related entities	12,553	12,080
Loan payable to related entities	(315)	(188)

The loan receivable from the parent entity, Santos (SPV) Pty Ltd, are on normal market terms and conditions and are not repayable for a minimum of six years. The interest rate that applies is the 1 month LIBOR less 0.05% per annum.

Loan receivables from related entities are interest-free, have no fixed term and are repayable on demand.

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

(c) Key management personnel

Short-term employee benefits	3,071	2,186
Post-employment benefits	828	685
Other long-term benefits	249	128
Share-based payments	1,592	1,059
	<u>5,740</u>	<u>4,058</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.

Name	Position
John Charles Ellice-Flint	Executive Director (resigned 25 March 2008)
Charles Frederick Woodhouse	Non-executive Director
David John Wissler Knox	Executive Director (appointed 29 May 2008)
Peter Christopher Wasow	(appointed 29 May 2008)

Mr C Woodhouse received US\$6,005 as key management emoluments for the current year (2006: US\$11,058) for his services as a director of the Company.

Mr J Ellice-Flint (resigned 25 March 2008) was 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\$5,734,152 (2006: US\$4,047,078), being the total compensation paid to him by Santos Limited for services as a director of the Santos Group.

Subsequent to the balance sheet date, Mr D J W Knox and Mr P C Wasow were appointed (29 May 2008). They did not receive any emoluments as Directors of the Company nor were they key management personnel of the Company during 2007.

SANTOS UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

19. 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 subsidiary of Santos Ltd, 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 not materially exposed to foreign currency risk as it principally trades in US dollars through the sale of liquid petroleum products denominated in US dollars, incurs expenditure in US dollars and has US dollar borrowings from a related entity.

(b) Interest rate risk

As the Company has no interest-bearing liabilities the Company is not 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, may enter into commodity crude oil price swap and option contracts to manage the Santos Group's commodity price risk. At 31 December 2007, Santos Ltd has no open oil price swap contracts (2006: nil). At 31 December 2007 the Company had no open commodity price contracts and therefore is not exposed to movements in commodity price on financial instruments.

(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.

The Company's maximum exposure to credit risk is represented by the carrying amount of trade and other receivables recognised on the balance sheet. At the balance sheet date there were no significant concentrations of credit risk.

The Santos Group controls credit risk on derivative financial instruments by setting exposure limits related to the creditworthiness of counterparties, all of which are selected banks or institutions with a Standard and Poor's rating of A or better.

(e) Liquidity risk

The Company aims to mitigate liquidity risk by maintaining sufficient cash balances to meet ongoing operational requirements and exploration activities, and has additional funding available to it through committed credit facilities held by Santos Finance Ltd, a subsidiary of Santos Ltd.

SANTOS UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

19. Financial Instruments (continued)

(e) Liquidity risk (continued)

The following table analyses the contractual maturities of the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	On demand US\$000
2007	
Trade and other payables	<u>3,518</u>
2006	
Trade and other payables	<u>2,784</u>

20. Parent Entities

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, 60 Flinders 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 registered office of the Company is 66 Lincoln Inn Fields, London, WC2A 3LH.

The Company's immediate parent undertaking at 31 December 2007 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.

21. Segment Information

The Company operates predominantly in one business, namely the exploration for and development, production, transportation and marketing of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons.

The Company operates in one geographical segment being Indonesia.

22. Events Subsequent to Balance Sheet Date

In 2008 the Company's branch profits tax obligation for 1994-2004 was subject to an audit by BPKP. This audit was closed on the 22 December 2008 and the Company agreed to pay the principal of \$2.4 million but was not required to pay interest on this obligation.

The 31 December 2007 branch profit tax provision of \$3.5 million includes the principal payment of \$2.4 million resulting from the 1994-2004 audit and \$1.1 million in relation to branch profits tax obligations relating to subsequent years. Subsequent to balance date the amount relating to the 1994-2004 audit (\$2.4 million) has been paid.