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NATUNA UK (KAKAP 2) LIMITED (Formerly known as SANTOS UK (KAKAP 2) LIMITED)

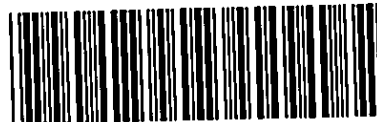
DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 DECEMBER 2008

(THIS FINANCIAL REPORT IS PREPARED IN UNITED STATES DOLLARS)

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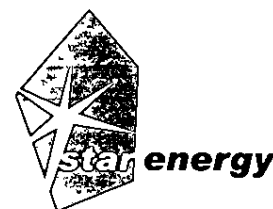
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COMPANIES HOUSE

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**DIRECTORS' REPORT**



The Directors present their directors' report and financial statements for the year ended 31 December 2008

**Principal Activity and Review of Business**

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

On 3 June 2009, Star Energy Holdings Pte Ltd entered into a Share Sale Agreement ("SSA") with Medco Kakap Holdings Pte Ltd to acquire 100% shares of Santos UK (Kakap 2) Ltd, subsequently renamed Natuna UK (Kakap 2) Ltd. See note 21 for further details

**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

The disclosures as included within the accounts are those applicable for the company to the year ended 31 December 2008. Following the year end hedging arrangements under the new parent company owners, Star Energy Holdings Pte Ltd, will have been revised (see note 21 for further details)



**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**DIRECTORS' REPORT**



*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), and subsequently through the Star Energy Holdings Pte Ltd or its Subsidiaries following the sale of the company, 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.

**Business Review and Future Developments**

The Company operates predominantly in one business, namely the exploration, 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.

Oil and condensate production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 6,000 boepd (7,977 boepd in 2007). Gas production averaged 8,283 boepd (9,340 boepd in 2007).

The results for the year to 31 December 2008 are summarised below.

	2008 US\$'000	2007 US\$'000
<b>Revenue</b>	17,697	17,276
Profit before tax	14,221	9,118
Taxation	(4,196)	(4,673)
<b>Profit after tax for the year</b>	10,025	4,445

A dividend of \$14,000,000 (\$55,776.89 per share) was distributed on 31 December 2008 to the parent entity, Santos (SPV) Pty Ltd.

The directors have declared to distribute a dividend of \$39,840.64 (2007 Nil) per share at a total cost of \$10,000,000 at the close of business on 10 March 2009.

During 2009, deterioration was identified in the hull envelope of the Floating Production Storage and Offloading ("FPSO") vessel on the Kakap field. As a result, the FPSO vessel's certification from the American Bureau of Shipping was cancelled which impacted the operation of the Company and crude oil lifting ability.

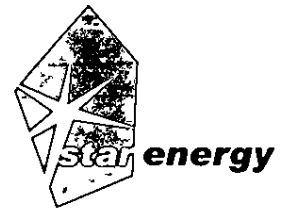
Several meetings and an assessment were undertaken which resulted in the decision to replace the current existing FPSO with a new rental FSO. As at the date of this report, the replacement has been finalised and the Operator has commenced its oil lifting and finished on 23 March 2010.

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.

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**DIRECTORS' REPORT**



**Key Performance Indicators**

The Company's ultimate parent entity Santos Ltd was 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.

The disclosures as included within the accounts are those applicable for the company to the year ended 31 December 2008. Following sale of the company to Star Energy Holdings Pte Ltd, via Medco, the post year end key performance indicators have been revised however still focus upon production targets and financial measures noted above.

**NATUNA 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

Charles Frederick Woodhouse (resigned 3 June 2009)  
David John Wissler Knox (appointed 29 May 2008, resigned 3 June 2009)  
Peter Christopher Wasow (appointed 29 May 2008, resigned 3 June 2009)  
John Charles Ellice-Flint (resigned 25 March 2008)  
Keith John Goodwin (appointed 3 June 2009, resigned 14 July 2009)  
James Trevor Hornabrook (appointed 3 June 2009, resigned 14 July 2009)  
Darwin Cyril Noerhadi (appointed 9 June 2009, resigned 14 July 2009)  
Larry Lee Luckey (appointed 9 June 2009, resigned 14 July 2009)  
Bret Wayne Mattes (appointed 14 July 2009)  
Rudy Suparman (appointed 14 July 2009)  
Robin Gregory Baker (appointed 1 October 2009)  
Paul Francis Winship (appointed 1 October 2009)  
Hendra Soetjpto Tan (appointed 1 October 2009)

**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 2008, the Company had an average of 194 days purchases outstanding in trade creditors.

**Events since the Balance Sheet Date**

On 10 May 2009 the parent company, Santos SPV Pty Ltd, entered into a conditional contract to sell all of its interest in the Company subject to Medco exercising their pre-emptive rights.

On 29 May 2009, Santos SPV Pty Ltd, entered into a Share Sale Agreement with Medco Kakap Holdings Pte Ltd to sell 100% shares of Santos UK (Kakap 2) Ltd.

Subsequently, on 3 June 2009, Star Energy Holdings Pte Ltd has entered into a Share Sale Agreement ("SSA") with Medco Kakap Holdings Pte Ltd to acquire 100% shares of Santos UK (Kakap 2) Ltd.

**NATUNA UK (KAKAP 2) LIMITED**

**REGISTERED NUMBER 3115420**

**DIRECTORS' REPORT**



As part of the internal restructuring in the Star Energy Holdings Pte Ltd , the ownership of Santos UK (Kakap 2) Ltd has been transferred to Star Energy Kakap Holdings Ltd (a subsidiary of Star Energy Holdings Pte Ltd ) on 23 December 2009

**Auditors**

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

By order of the Board

A handwritten signature in black ink, appearing to read "John I. Lee".

Director

**NATUNA 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 2008**

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 2008 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 21. 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 2008 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

4 April 2010

**NATUNA UK (KAKAP 2) LIMITED**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 US\$000	2007 US\$000
Revenue	2	17,697	17,276
Cost of sales	3	(4,394)	(6,076)
Gross profit		13,303	11,200
Other income	2	104	-
Other expenses	3	-	(2,148)
<b>Operating profit before net financing costs</b>		<b>13,407</b>	<b>9,052</b>
Financial income		839	261
Financial expenses		(25)	(195)
Net financing income	4	814	66
<b>Profit before tax</b>		<b>14,221</b>	<b>9,118</b>
Income tax expense	5	(4,196)	(4,673)
<b>Net profit after income tax attributable to equity holders of Santos UK (Kakap 2) Limited</b>	16	<b>10,025</b>	<b>4,445</b>

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

**NATUNA UK (KAKAP 2) LIMITED**  
**STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	2008 US\$000	2007 US\$000
<b>Net income/(expense) recognised directly in equity</b>	-	-
<b>Profit for the year</b>	<u>10,025</u>	<u>4,445</u>
<b>Total recognised income for the year attributable to equity holders of Santos UK (Kakap 2) Limited</b>	<u>10,025</u>	<u>4,445</u>

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



**NATUNA UK (KAKAP 2) LIMITED**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2008**

	Note	2008 US\$000	2007 US\$000
<b>Non-current assets</b>			
Oil and gas assets	10	6,220	7,621
Amounts owing from related entities		-	7,721
Other receivables		16	19
<b>Total non-current assets</b>		<b>6,236</b>	<b>15,361</b>
<b>Current assets</b>			
Inventories	11	874	758
Trade and other receivables	12	1,404	6,152
Amounts owing from related entities		20,100	12,553
<b>Total current assets</b>		<b>22,378</b>	<b>19,463</b>
<b>Total assets</b>		<b>28,614</b>	<b>34,824</b>
<b>Current liabilities</b>			
Trade and other payables	13	2,904	3,518
Provisions	14	2,389	-
Current tax liabilities		623	1,182
<b>Total current liabilities</b>		<b>5,916</b>	<b>4,700</b>
<b>Non-current liabilities</b>			
Provisions	14	2,403	4,600
Deferred tax liabilities	15	1,124	2,378
<b>Total non-current liabilities</b>		<b>3,527</b>	<b>6,978</b>
<b>Total liabilities</b>		<b>9,443</b>	<b>11,678</b>
<b>Net assets</b>		<b>19,171</b>	<b>23,146</b>
<b>Equity</b>			
Share capital	16	10,208	10,208
Retained earnings	16	8,963	12,938
<b>Total equity attributable to equity holders of Santos UK (Kakap 2) Ltd</b>		<b>19,171</b>	<b>23,146</b>

These financial statements were approved by the Board of Directors on 25 March 2010 and were signed on its behalf by

  
Director

**NATUNA UK (KAKAP 2) LIMITED**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 US\$000	2007 US\$000
<b>Cash flows from operating activities</b>			
Receipts from customers and joint venture parties		22,481	13,958
Interest received		-	261
Payments to suppliers and employees		(4,961)	(2,655)
Income taxes paid		(5,322)	(3,106)
<b>Net cash flows from operating activities</b>	17	<u>12,198</u>	<u>8,458</u>
<b>Cash flows from investing activities</b>			
Payments for			
Oil and gas assets expenditure		(297)	(4,252)
<b>Net cash flows used in investing activities</b>		<u>(297)</u>	<u>(4,252)</u>
<b>Cash flows from financing activities</b>			
Payments (to)/from related entities		(18,597)	126
Receipts (to)/ from related entities		6,696	(4,307)
<b>Net cash used in financing activities</b>		<u>(11,901)</u>	<u>(4,181)</u>
<b>Net increase in cash and cash equivalents</b>		-	25
Effect of exchange rate fluctuations on cash held		-	(25)
<b>Cash and cash equivalents at the beginning of the year</b>		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>-</u>	<u>-</u>

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

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies**

Santos UK (Kakap 2) Limited ("the Company") is a company incorporated and domiciled in the United Kingdom. On 15 June 2009 the name of the company was changed to Natuna UK (Kakap 2) Limited.

The financial report was authorised for issue by the Directors on 25 March 2010.

**(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.

***Adoption of new accounting standards and interpretations***

From 1 January 2008, the Company has adopted the following standards and interpretations, and all consequential amendments, which became applicable on 1 January 2008. Adoption of these standards and interpretations has only affected the disclosure in these financial statements. There has not been any impact on the financial position or performance of the Company.

- |   |        |  |
|---|--------|--|
| • | IFRS 7 | <i>Amendment – Financial Instruments Disclosures</i>                 |
| • | IAS 39 | <i>Amendment – Financial Instruments Recognition and Measurement</i> |

Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ending 31 December 2008, and are not expected to have a significant impact on the financial results of the Company. These are outlined in the following table:



**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**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 1	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	Clarifies how an entity, in its separate financial statements, determines the cost of investments in subsidiaries, jointly controlled entities or associates	1 January 2009	1 January 2009
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 (revised)</i>	Increases the scope of transactions to which the standard applies, by including combinations of mutual entities and combinations without consideration	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 (revised September 2007)</i>	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 (revised March 2007)</i>	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>	Removes the cost method, and removes the distinction between pre and post acquisition profits	1 January 2009	1 January 2010
IAS 32	<i>Amendment of IAS 32 – Financial Instruments Presentation</i>	Clarifies the features required for a puttable financial instrument to be classified as equity	1 January 2009	1 January 2009
IFRIC 17	<i>Distributions of Non-Cash Assets to Owners</i>	Provides guidance on when and how a liability for certain distributions of non-cash assets is recognised and measured, and how to account for that liability Does not apply to common control transactions	1 July 2009	1 January 2010

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

Improvements to International  
Accounting Standards – issued 2008

Improvement project including various minor amendments to IFRS 5, IAS 1,  
IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 36, IAS 38, IAS 39, IAS 40  
and IAS 41

1 January 2009

1 January 2009

Improvements to International  
Accounting Standards – issued 2009

Improvement project including various minor amendments to IFRS 2, IFRS 5,  
IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and  
IFRIC 16

1 January 2010

1 January 2010

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

The accounting policies set out below have been applied consistently to all periods presented in the Company's financial report. 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.

The interests of the Company in unincorporated joint ventures are brought to account by recognising in the financial statements the Company's share of jointly controlled assets, share of expenses and liabilities incurred, and the income from the sale or use of its share of the production of the joint venture in accordance with the revenue policy in note 1(t).

**(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 and presentation currency.

***Transactions and balances***

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at the balance sheet 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 initial 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. 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.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**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(m), 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

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**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 the 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 - 30 years

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**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(m)) 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) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value

***Embedded derivatives***

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss

**(j) 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

**(k) 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

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

**(k) Trade and other receivables (continued)**

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 the income statement.

**(l) 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.

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.

**(m) 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.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

**(m) Impairment (continued)**

**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.

**(n) 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.

**(o) 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 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 measured at the present value of management's best estimate of the expenditure required to settle the present obligation using a discounted cash flow methodology. If the effect of the time value of money is material, the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

**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.



**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**1. Significant Accounting Policies (continued)**

**(p) 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 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.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

**(q) 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.

**(r) 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.

**(s) Share capital**

***Ordinary share capital and share premium***

Ordinary share capital and share premium are classified as equity.

***Dividends***

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

**(t) 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.

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

**(u) 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

Interest income is recognised in the income statement as it accrues, using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset

**(v) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Assets under finance lease are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred

**(w) 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

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

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

**(w) Income tax (continued)**

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.

**(x) 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 plus 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 exploration 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 2008 (2007: \$nil).

**NATUNA UK (KAKAP 2) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Significant Accounting Policies (continued)**

**(x) 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, future environmental legislation, the extent of restoration activities required and future removal technologies.

The carrying amount of the provision for restoration is disclosed in note 13 and the accounting policy for providing for restoration is included in note 1(o).

***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(m) and note 9 respectively.

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2008 US\$000	2007 US\$000
<b>2. Revenue and Other Income</b>		
Product sales		
Crude oil	12,135	6,570
Gas and ethane	5,562	10,706
Total revenue	<u>17,697</u>	<u>17,276</u>
Other operating income		
Write back of exploration and evaluation expensed	104	-
	<u>104</u>	<u>-</u>
<b>3. Expenses</b>		
Included in profit before tax are the following items		
Depreciation and depletion		
Depletion of subsurface assets	621	1,239
Depreciation of plant and equipment	663	1,508
	<u>1,284</u>	<u>2,747</u>
Other operating expenses		
Exploration and evaluation expensed	-	2,148
	<u>-</u>	<u>2,148</u>
<b>4. Net Financing Costs</b>		
Foreign exchange gains/(losses)	32	(25)
Net borrowing income received from related entities	805	261
Unwind of the effect of discounting on provisions	(23)	(170)
Net financing income	<u>814</u>	<u>66</u>
<b>5. Taxation</b>		
Recognised in the income statement		
Current tax expense		
UK Corporation tax on profits for the year	4,162	3,106
Double tax relief	(4,162)	(3,106)
	<u>-</u>	<u>-</u>
Foreign tax	5,450	5,053
Deferred tax expense		
Origination and reversal of temporary differences	(1,254)	(380)
Total tax in income statement	<u>4,196</u>	<u>4,673</u>

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

	2008 US\$000	2007 US\$000
<b>5. Taxation (continued)</b>		
<b>Reconciliation of tax expense</b>		
Profit before tax	14,221	9,118
Prima facie income tax at 37% (2007 37%)	5,262	3,374
Branch profits tax in respect of prior years	-	1,459
Prior year under/(over)	47	-
Expenses not deductible for tax purposes	412	-
Non Taxable Income	(1,342)	-
Other	(183)	(160)
Total tax expense in income statement	4,196	4,673
<b>6. Employees</b>		
The Company has no employees in 2008 and 2007		
<b>7. Auditors' Remuneration</b>		
Audit of these financial statements	3	16
Other fees to auditors		
Other services relating to taxation	10	13
Both the auditor's remuneration and other fees to auditors were borne by the ultimate parent entity, Santos Ltd for the year to 31 December 2008 at that time		
<b>8. Borrowing Costs</b>		
Borrowing costs capitalised during the period were nil (2007 nil)		
<b>9. Dividends paid and proposed</b>		
Declared and paid during the year		
Equity Dividends on ordinary shares		
Interim dividend 2008 \$55,776 89 per share (2007 nil)	14,000	-
Dividends paid	14,000	

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. Oil and Gas Assets**

	<b>2008</b>			<b>2007</b>		
	<b>Subsurface assets US\$'000</b>	<b>Plant and Equipment US\$'000</b>	<b>Total US\$'000</b>	<b>Subsurface Assets US\$'000</b>	<b>Plant and equipment US\$'000</b>	<b>Total US\$'000</b>
Cost at 31 December	25,824	9,624	35,448	26,188	9,377	35,565
Less accumulated depreciation, depletion and impairment	(22,000)	(7,228)	(29,228)	(21,379)	(6,565)	(27,944)
<b>Balance at 31 December</b>	<b>3,824</b>	<b>2,396</b>	<b>6,220</b>	<b>4,809</b>	<b>2,812</b>	<b>7,621</b>
<b>Reconciliation of movements</b>						
<b>Producing assets</b>						
Balance at 1 January	4,809	2,812	7,621	6,116	8,243	14,359
Additions/(disposals)	(204)	501	297	3,663	589	4,252
Exploration & evaluation write-back	104	-	104	-	-	-
Exploration & evaluation expense	-	-	-	(2,148)	-	(2,148)
Change in restoration asset	(264)	(254)	(518)	(1,583)	(4,512)	(6,095)
Depreciation and depletion expense	(621)	(663)	(1,284)	(1,239)	(1,508)	(2,747)
<b>Balance at 31 December</b>	<b>3,824</b>	<b>2,396</b>	<b>6,220</b>	<b>4,809</b>	<b>2,812</b>	<b>7,621</b>

	<b>2008 US\$000</b>	<b>2007 US\$000</b>
<b>11. Inventories</b>		
Petroleum products	362	316
Drilling and maintenance stocks	512	442
<b>Total inventories at the lower of cost and net realisable value</b>	<b>874</b>	<b>758</b>

**12. Trade and Other Receivables**

<b>Current</b>		
Trade receivables	471	3,988
Prepayments	106	140
Other	827	2,024
	<b>1,404</b>	<b>6,152</b>

Trade receivables are neither past due nor impaired and relate to independent customers for whom there is no recent history of default

**13. Trade and Other Payables**

<b>Current</b>		
Trade payables	369	277
Non-trade payables and accrued expenses	1,102	2,926
Amounts owing to related entities	1,433	315
	<b>2,904</b>	<b>3,518</b>

**NATUNA UK (KAKAP 2) LIMITED**  
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	2008 US\$000	2007 US\$000	
<b>14. Provisions</b>			
<b>Current</b>			
Provision for branch profits tax	2,389	-	
<b>Non-current</b>			
Restoration	620	1,115	
Provision for branch profits tax	1,783	3,485	
	2,403	4,600	
<b>Reconciliation of movements</b>			
	Restoration US\$'000	Branch Profits Tax US\$'000	Total US\$'000
Balance at 1 January 2008	1,115	3,485	4,600
Unwinding of discount	23	-	23
Change in restoration assumptions	(518)	-	(518)
Provisions made during the year	-	687	687
Balance at 31 December 2008	620	4,172	4,792

**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.

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.

These costs are currently expected to be incurred in 2020 of US \$0.9 million (2007: 2020 of US \$1.9 million). The provision has been estimated using existing technology at current prices and discounted at 3.2% (2007: 4.37%).

**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.

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.



**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**15. Deferred Tax Liabilities**

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	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	-	-	1,124	2,378	1,124	2,378
Net deferred tax liabilities	-	-	1,124	2,378	1,124	2,378

	1 January 2008 US\$000	Recognised in income US\$000	31 December 2008 US\$000
Movement in deferred tax during the year			
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	2,378	(1,254)	1,124
	2,378	(1,254)	1,124

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

**16. Reconciliation of movements in equity**

	Share Capital US\$000	Share Premium US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2007	-	10,208	8,493	18,701
Total recognised income and expense	-	-	4,445	4,445
Balance at 31 December 2007	-	10,208	12,938	23,146
Balance at 1 January 2008	-	10,208	12,938	23,146
Total recognised income and expense	-	-	10,025	10,025
Dividends to shareholders	-	-	(14,000)	(14,000)
Balance at 31 December 2008	-	10,208	8,963	19,171

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**16. Reconciliation of movements in equity (continued)**

	2008 US\$000	2007 US\$000
<b>Authorised and issued capital</b>		
<b>Share capital</b>		
251 (2007 251) fully paid \$1 ordinary shares	-	-

**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**

A dividend of \$14,000,000 (\$55,776 89 per share) was distributed on 31 December 2008 to the parent entity, Santos (SPV) Pty Ltd

The director's have declared to distribute a dividend of \$39,840 64 per share at a total cost of \$10,000,000 at the close of business on 10 March 2009

**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 2008 and 31 December 2007 were as follows

	2008 US\$'000	2007 US\$'000
Total interest-bearing loans and borrowings	-	-
Less		
Cash and cash equivalents (per cash flow statement)	-	-
Net debt	-	-
Total equity	19,171	23,146
Total capital	19,171	23,146
Gearing ratio	0%	0%

**NATUNA UK (KAKAP 2) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2008 US\$000	2007 US\$000
<b>17. Notes to the Cash Flow Statements</b>		
<b>(a) Reconciliation of cash flows from operating activities</b>		
Profit for the year	10,025	4,445
Add non-cash items		
Depreciation and depletion	1,284	2,747
Exploration and evaluation (write back)/expensed	(104)	2,148
Unwind of the effect of discounting on provision	23	170
Borrowing income charged to related entities	(805)	-
Increase in income taxes payable	128	1,948
Net increase in deferred tax liability	(1,254)	(380)
Foreign currency fluctuations	2	25
Net cash flows from operating activities before change in assets or liabilities	9,299	11,103
Add/(deduct) change in operating assets or liabilities, net of acquisitions of businesses		
Decrease/(increase) in receivables	4,748	(3,343)
(Increase)/decrease in inventories	(116)	91
(Decrease)/increase in payables	(1,733)	607
Net cash flows from operating activities	12,198	8,458
<b>(b) Non-cash financing and investing activities</b>		
Dividends to related entities	(14,000)	-
Borrowing income charged to related entities	805	-

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**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%

	2008	2007
	US\$000	US\$000

The amount of capital expenditure commitments and lease commitments in respect of the Company's unincorporated joint venture are

Capital expenditure commitments	2,762	-
Lease commitments	413	-
	<u>3,175</u>	<u>-</u>

**(b) Related party balances**

*Non-current*

Loan receivable from parent entity	-	7,721
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*Current*

Loan receivable from parent entity	20,100	-
Loans receivable from related entities	-	12,553
Loan payable to related entities	(1,433)	(315)

Loans 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.

Loans receivable from/payable to other related entities are interest bearing, have no fixed terms and are repayable on demand.

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

Subsequent to the year end the related parties of the company have changed with Natuna UK (Kakap 2) Ltd now within the Star Energy Group, rather than within the Santos Ltd Group.

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**18. Related Parties**

**(c) Key management personnel (continued)**

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 Directors of the Company and therefore key management personnel of the Company for the periods shown

<b>Name</b>	<b>Position</b>
Charles Frederick Woodhouse	Non-executive Director
David John Wissler Knox resigned 14 July 2009)	Executive Director (appointed 29 May 2008 and
Peter Christopher Wasow 2009)	Director (appointed 29 May 2008 and resigned 14 July
John Charles Ellice-Flint resigned 14 July 2009 )	Executive Director (resigned 25 March 2008 and
Keith John Goodwin 2009)	Director (appointed 3 June 2009, resigned 14 July
James Trevor Hornabrook 2009)	Director (appointed 3 June 2009, resigned 14 July
Darwin Cyril Noerhadi 2009)	Director (appointed 9 June 2009, resigned 14 July
Larry Lee Luckey 2009)	Director (appointed 9 June 2009, resigned 14 July
Bret Wayne Mattes	Director (appointed 14 July 2009)
Rudy Suparman	Director (appointed 14 July 2009)
Robin Gregory Baker	Director (appointed 1 October 2009)
Paul Francis Winship	Director (appointed 1 October 2009)
Hendra Soetjipto Tan October 2009)	Alternate Director to Rudy Spearman (appointed 1

Mr C Woodhouse received US\$6,267 as key management emoluments for the current year (2007 US\$6,005) for his services as a director of the Company

The Company employs no permanent staff

No other remuneration was paid to any Director directly for services to this company during 2007 or 2008

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**19. Financial Risk Management**

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk and liquidity risk arises in the normal course of the Company's business. Derivative financial instruments were used by Santos Ltd, the Company's ultimate parent entity, and Santos Finance Ltd, a subsidiary of Santos Ltd, as at the year ended 31 December 2008, to hedge exposure to fluctuations in foreign exchange rates, interest rates and commodity prices, on behalf of the Company. Subsequent to the year-end financial risk management procedures under the new parent company, Star Energy Holdings Pte Ltd will have been revised.

**(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.

In 2008 the company had surplus funds on short term deposit at floating rates at the balance sheet date, it is estimated that if the interest rates changed by +1%/-1% (2007 +1%/-1%) with all other variables held constant, the estimated impact on post-tax profit and equity would have been

	2008 US\$000	2007 US\$000
<b>Impact on post-tax profit:</b>		
Interest rates +1% (2007 +1%)	1	-
Interest rates -1% (2007 -1%)	(1)	-
<b>Impact on equity</b>		
Interest rates +1% (2007 +1%)	1	-
Interest rates -1% (2007 -1%)	(1)	-

This assumes that the change in interest rates is effective from the beginning of the financial year and the net debt position and fixed/floating mix is constant over the year. However, interest rates are unlikely to remain constant and therefore the above sensitivity analysis should be used with care.

The +1%/-1% sensitivity is the Company's estimate of reasonably possible changes in interest rates over the following financial year, based on recent interest rates trends.

Changes in interest rates over the following year may be greater or less than the +1%/-1%.

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**(c) Commodity price risk exposure**

The Company is exposed to commodity price fluctuations through the sale of petroleum product. The Santos Group may enter into commodity crude oil price swap and option contracts to manage the Group's commodity price risk.

At 31 December 2008, the Group had no open oil price swap contracts (2007: nil), and is therefore not exposed to movements in commodity prices on financial instruments. The Group continues to monitor oil price volatility and to assess the need for commodity price hedging.

**(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.

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
<b>2008</b>	
Trade and other payables	2,904
<b>2007</b>	
Trade and other payables	3,518

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**19. Financial Risk Management (continued)**

**(f) Fair values**

The financial assets and liabilities of the Company are recognised on the balance sheet at their fair value in accordance with the accounting policies in note 1

The significant methods and assumptions used in estimating the fair values of financial instruments are

*Trade and other receivables*

The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables

*Financial liabilities*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where the cash flows are in a foreign currency the present value is converted to US dollars at the foreign exchange rate prevailing at reporting date

**20. Parent Entities**

The Directors regarded Santos Ltd of Adelaide, Australia, a company incorporated in Australia, as the ultimate parent undertaking and whose principal place of business was at Ground Floor, 60 Flinders Street, Adelaide, SA 5000, Australia. The consolidated accounts of the Santos Group were available to the public and may be obtained from that address. The registered office of the Company was 66 Lincoln Inn Fields, London, WC2A 3LH.

The Company's immediate parent undertaking at 31 December 2008 was Santos International Holdings Pty Ltd, a company incorporated in Australia.

The smallest group into which the results of this Company were consolidated was Santos Ltd, a company incorporated in Australia.

Subsequent to the year end the ultimate parent undertaking has changed. See note 21 for details.

**21. Events Subsequent to Balance Sheet Date**

On 10 May 2009 the parent company, Santos SPV Pty Ltd, entered into a conditional contract to sell all of its interest in the Company subject to Medco exercising their pre-emptive rights.

On 29 May 2009, Santos SPV Pty Ltd, entered into a Share Sale Agreement with Medco Kakap Holdings Pte Ltd to sell 100% shares of Santos UK (Kakap 2) Ltd.

Subsequently on 3 June 2009, Star Energy Holdings Pte Ltd has entered into a Share Sale Agreement ("SSA") with Medco Kakap Holdings Pte Ltd to acquire 100% shares of Santos UK (Kakap 2) Ltd.

As part of the internal restructuring in the Star Energy Holdings Pte Ltd, the ownership of Santos UK (Kakap 2) Ltd has been transferred to Star Energy Kakap Holdings Ltd (a subsidiary of Star Energy Holdings Pte Ltd) on 23 December 2009.