

NOVUS UK (KAKAP 2) LIMITED

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 December 2003

Registered Number 3115420



NOVUS UK (KAKAP 2) LIMITED

Directors' Report

The Directors present their annual report and the audited accounts for the year ended 31 December 2003.

Principal Activity and Review of Business

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

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

Production/Exploration

The Kakap PSC, in the West Natuna Sea, continues to deliver steadily, although lower oil production remained evident during 2003. Production averaged 552 bopd (603 bopd in 2002), the decrease being a result of natural decline. The impact of this decline was offset by strong deliveries from the West Natuna Gas scheme which averaged a production rate of 611 boed, an increase on the 2002 average of 502 boed.

As in the prior year 2003 was a year of consolidation on the development efforts & costs associated with the West Natuna gas scheme & accordingly no exploration wells were drilled. Indeed the exploration effort centered on improving the existing knowledge base regarding the Kakap North area.

Results

The results for the year to 31 December 2003 are summarised below:

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Turnover	<u>10,739</u>	<u>10,465</u>
Profit on ordinary activities before taxation	3,498	3,313
Tax on profit on ordinary activities	(1,773)	(1,825)
Profit for the year	<u><u>1,725</u></u>	<u><u>1,488</u></u>

Dividends

During the year no dividend was paid or declared (2002 : nil).

Fixed Assets

Changes in tangible fixed assets are shown in Note 9 to the accounts.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Likely Future Developments

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

Events since the balance sheet date

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

Subsequent to the Balance Sheet Date, and as a consequence of the sale of Novus Petroleum Limited to Medco Energi International, it was agreed that the Company would be sold to Santos Limited with an effective date of 1 January 2004.

Directors and their Interests

The Directors who served during the year were:

James T. Hornabrook
Keith J. Goodwin
Robert C. Williams (resigned 9 July 2004)

None of the Directors had any interest in the shares of the Company at 31 December 2003 or at the date of signing this report.

Messrs. Williams and Hornabrook were Directors of Novus Petroleum Limited, the ultimate parent company at 31 December 2003, and accordingly their and their families' interests in the ordinary shares of that company are disclosed in its accounts.

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 2003, the Company had an average of 45 days purchases outstanding in trade creditors.

Auditors

Ernst & Young LLP was re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under section 386 Companies Act 1985.

By order of the Board



K. J. Goodwin
Secretary
34 South Molton Street
LONDON W1K 5RG

October 1, 2004

NOVUS UK (KAKAP 2) LIMITED

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- _ select suitable accounting policies and then apply them consistently;
- _ make judgments and estimates that are reasonable and prudent;
- _ prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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 AUDITORS' REPORT TO THE MEMBERS OF NOVUS UK (KAKAP 2) LIMITED

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Company Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read the 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

1 October 2004

NOVUS UK (KAKAP 2) LIMITED

Profit and Loss Account

For the Year Ended 31 December 2003

	NOTES	2003 US\$'000	2002 US\$'000
Turnover	3	10,739	10,465
Cost of sales	4	<u>(7,241)</u>	<u>(7,153)</u>
Gross Profit		<u>3,498</u>	<u>3,312</u>
Operating Profit		3,498	3,312
Bank interest received		<u>-</u>	<u>1</u>
Profit on ordinary activities before taxation		3,498	3,313
Tax on profit on ordinary activities	8	<u>(1,773)</u>	<u>(1,825)</u>
Profit for the year		<u>1,725</u>	<u>1,488</u>
Dividends		<u>-</u>	<u>-</u>
Retained Profit for the year		<u>1,725</u>	<u>1,488</u>

All profits and losses included in the profit and loss account derive from activities of a continuing nature.

The Company has no recognised gains and losses other than the profit or loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 12 are an integral part of this profit and loss account.

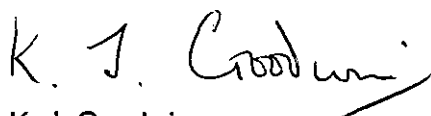
NOVUS UK (KAKAP 2) LIMITED

Balance Sheet

At 31 December 2003

	NOTES	2003 US\$'000	2002 US\$'000
Fixed Assets			
Tangible assets	9	<u>12,679</u>	<u>14,528</u>
Current Assets			
Cash		758	302
Debtors	10	8,944	6,636
Stock	11	<u>441</u>	<u>390</u>
Total Current Assets		<u>10,143</u>	<u>7,328</u>
Current Liabilities			
Creditors - amounts falling due within one year	12	<u>(1,661)</u>	<u>(2,410)</u>
Net Current Assets		<u>8,482</u>	<u>4,918</u>
Total Assets Less Current Liabilities		21,161	19,446
Provisions for liabilities and charges	13	<u>(4,990)</u>	<u>(5,000)</u>
		<u><u>16,171</u></u>	<u><u>14,446</u></u>
Represented by:			
Capital and Reserves			
Called up share capital	14	-	-
Share Premium Account	15	10,208	10,208
Profit and loss account	18	<u>5,963</u>	<u>4,238</u>
Shareholders' Funds - Equity Interests	19	<u>16,171</u>	<u>14,446</u>

Approved by the Board of Directors
on October (), 2004 and signed on its behalf by:



K. J. Goodwin
Director

The notes on pages 7 to 12 are an integral part of this Balance Sheet

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts

1) **Principal Accounting Policies**

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

(a) **Basis of preparation of accounts**

The accounts are prepared under the historical cost convention and in accordance with the applicable UK accounting standards. The Company has taken advantage of the exemption given in FRS 1 (Revised) "Cash Flow Statements" not to prepare a cash flow statement as a consolidated cash flow statement, which includes the cash flows of the Company, has been published by the Ultimate Parent Undertaking.

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

(b) **Joint Ventures**

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

(c) **Oil and Gas expenditure**

The successful efforts method of accounting is followed for costs incurred in oil and gas exploration and production operations.

Capitalisation Policy - Acquisition costs are capitalised when incurred. Exploration costs, including geological and geophysical costs and costs of carrying and retaining unproved properties, are charged to the profit and loss account as incurred. Exploratory drilling costs are capitalised initially; however, if it is determined that an exploratory well does not contain proved reserves, such capitalised costs are charged to expense, as dry hole costs, at that time. Development costs are capitalised. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed.

Depreciation, Depletion and Amortisation - All capitalised costs are depleted on a unit-of-production method based on proved reserves.

Disposal of Fixed Assets - Gains and losses on disposals of fixed assets are taken to the profit and loss account in the year in which they arise.

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

(d) **Deferred Taxation**

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

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

(e) Foreign Currencies

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

2) Related Party Transactions

Certain services were provided by Novus Management Services Pty Limited, a related company. A service charge of US\$ 68,596 has been included in the accounts to reflect the services provided by that company (2002 US\$ 81,929).

3) Operating Revenue

Sales of crude oil, which are stated net of value added tax are recorded on the entitlement method. When the company's share of production for a given period is greater than its entitlement, a royalty expense is recorded. When the volume of oil lifted is greater/(less) than the company's entitlement, a payable/(receivable) accrues.

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

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

4) Cost of Sales

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Operating Costs	2,556	2,093
Royalty Expense	2,314	2,640
Depreciation, depletion and amortisation	2,256	2,274
Other	115	146
	<u>7,241</u>	<u>7,153</u>

5) Employee Information

The Company had no employees, other than directors, during 2003 and 2002.

6) Directors' Remuneration

The Directors who served during the year ended 31 December 2003 received no fees or remuneration for their services as directors of the company (2002 - \$Nil).

Mr K Goodwin and Mr J Hornabrook are directors of Novus UK (Indonesian Holdings) Ltd, (the parent undertaking) in whose accounts information required by the Companies Act 1985 as to emoluments is given.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

7) Auditors' Remuneration

Auditors' remuneration (and fees for other services) are borne by Novus Management Services Pty Limited, a related entity and a member of the Novus Petroleum Limited Group.

8) Tax on Profit on Ordinary Activities

The tax charge is made up as follows:

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
<i>Current Tax:</i>		
UK Corporation Tax on Profits of the Period	887	928
Double Tax relief	<u>(887)</u>	<u>(928)</u>
	-	-
Foreign Tax	<u>1,783</u>	<u>1,651</u>
Total current tax	1,783	1,651
<i>Deferred Tax:</i>		
Origination and reversal of timing differences (note 13)	(10)	174
Tax on profit on Ordinary Activities	<u><u>1,773</u></u>	<u><u>1,825</u></u>

Factors affecting the tax charge for the period

The rate at which tax has been assessed for the period is lower than the standard rate of Corporation tax in UK. The differences are explained below:

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Profit/(Loss) on ordinary activities before tax	<u>3,498</u>	<u>3,313</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in Indonesia of 45% (2002: 45%)	1,574	1,491
<i>Effect of:</i>		
Items not deductible for tax purposes	84	119
Capital Allowances in excess of depreciation	314	41
Other timing differences	<u>(189)</u>	<u>-</u>
Current tax charge for the period	<u><u>1,783</u></u>	<u><u>1,651</u></u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

9) Fixed Assets - Tangible Assets

	2003 US\$'000	2002 US\$'000
Interest in Petroleum Properties		
At 1 January	12,158	12,150
Additions	-	8
Disposals	(4)	-
At 31 December	<u>12,154</u>	<u>12,158</u>
Depreciation, depletion and amortisation		
At 1 January	6,797	6,098
Charge for the year	676	699
At 31 December	<u>7,473</u>	<u>6,797</u>
Net Book Value at 31 December	<u>4,681</u>	<u>5,361</u>
Property, Plant and Equipment		
At 1 January	18,071	17,486
Additions	411	585
At 31 December	<u>18,482</u>	<u>18,071</u>
Accumulated Depreciation		
At 1 January	8,904	7,329
Charge for the year	1,580	1,575
At 31 December	<u>10,484</u>	<u>8,904</u>
Net Book Value at 31 December	<u>7,998</u>	<u>9,167</u>
Total Net Book Value at 31 December	<u>12,679</u>	<u>14,528</u>

10) Debtors

	2003 US\$'000	2002 US\$'000
Trade Debtors	117	1,137
Fellow Subsidiary Undertakings	8,519	5,162
Other	308	337
	<u>8,944</u>	<u>6,636</u>

11) Stock

	2003 US\$'000	2002 US\$'000
Warehouse stock and drilling materials	<u>441</u>	<u>390</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

12) Creditors - Amounts Falling Due Within One Year

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Corporation Tax Creditor	105	1,600
Trade Creditors	<u>1,556</u>	<u>810</u>
	<u><u>1,661</u></u>	<u><u>2,410</u></u>

13) Provisions for Liabilities and Charges

	<u>Deferred</u> <u>2003</u> <u>US\$'000</u>	<u>Taxation</u> <u>2002</u> <u>US\$'000</u>
The movements in deferred taxation during the current and previous years are as follows:		
At 1 January	5,000	4,826
Charge for the year	<u>(10)</u>	<u>174</u>
At 31 December	<u><u>4,990</u></u>	<u><u>5,000</u></u>

The potential liability for deferred taxation is:

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Accelerated Capital Allowances	4,071	4,276
Deferred Branch Profit Tax Liability	<u>919</u>	<u>724</u>
	<u><u>4,990</u></u>	<u><u>5,000</u></u>

All of which has been provided for in the accounts for the year ended 31 December 2003.

14) Share Capital

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
Authorised, allotted, called up and fully paid 251 ordinary shares of \$ 1.	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

15) Share Premium Account

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
At 1 January and 31 December	<u>10,208</u>	<u>10,208</u>
	<u><u>10,208</u></u>	<u><u>10,208</u></u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

16) Ultimate Parent Undertaking

The Directors regard Novus Petroleum Limited of Sydney, Australia, a company incorporated in Australia, as the ultimate parent undertaking as of 31 December 2003 and whose principal place of business is at 321 Kent Street, Sydney 2000, Australia. The consolidated accounts of the Group are available to the public and may be obtained from that address.

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

The Company's immediate parent undertaking is Novus UK (Indonesian Holdings) Limited, a company incorporated in England and Wales.

17) Commitments

The Company conducts substantially all of its operations through memberships of a number of joint venture consortia. In the event of non-performance of obligations by another member, or members of such consortia, the Company would become subject to additional obligations. The Company does not anticipate non-performance by its joint venture partners. In terms of specific commitments, at the end of 2003, the company was committed to drilling one exploration well before the end of 2005 (total commitment of \$0.625m).

18) Profit and Loss Account

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
At 1 January	4,238	2,750
Profit for the year	<u>1,725</u>	<u>1,488</u>
At 31 December	<u><u>5,963</u></u>	<u><u>4,238</u></u>

19) Reconciliation of Movements in Shareholders' Funds

	<u>2003</u> <u>US\$'000</u>	<u>2002</u> <u>US\$'000</u>
At 1 January	14,446	12,958
Profit for the year	<u>1,725</u>	<u>1,488</u>
At 31 December	<u><u>16,171</u></u>	<u><u>14,446</u></u>

20) Post Balance Sheet Event

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

Subsequent to the Balance Sheet Date, and as a consequence of the sale of Novus Petroleum Limited to Medco Energi Internasional, it was agreed that the Company would be sold to Santos Limited with an effective date of 1 January 2004.