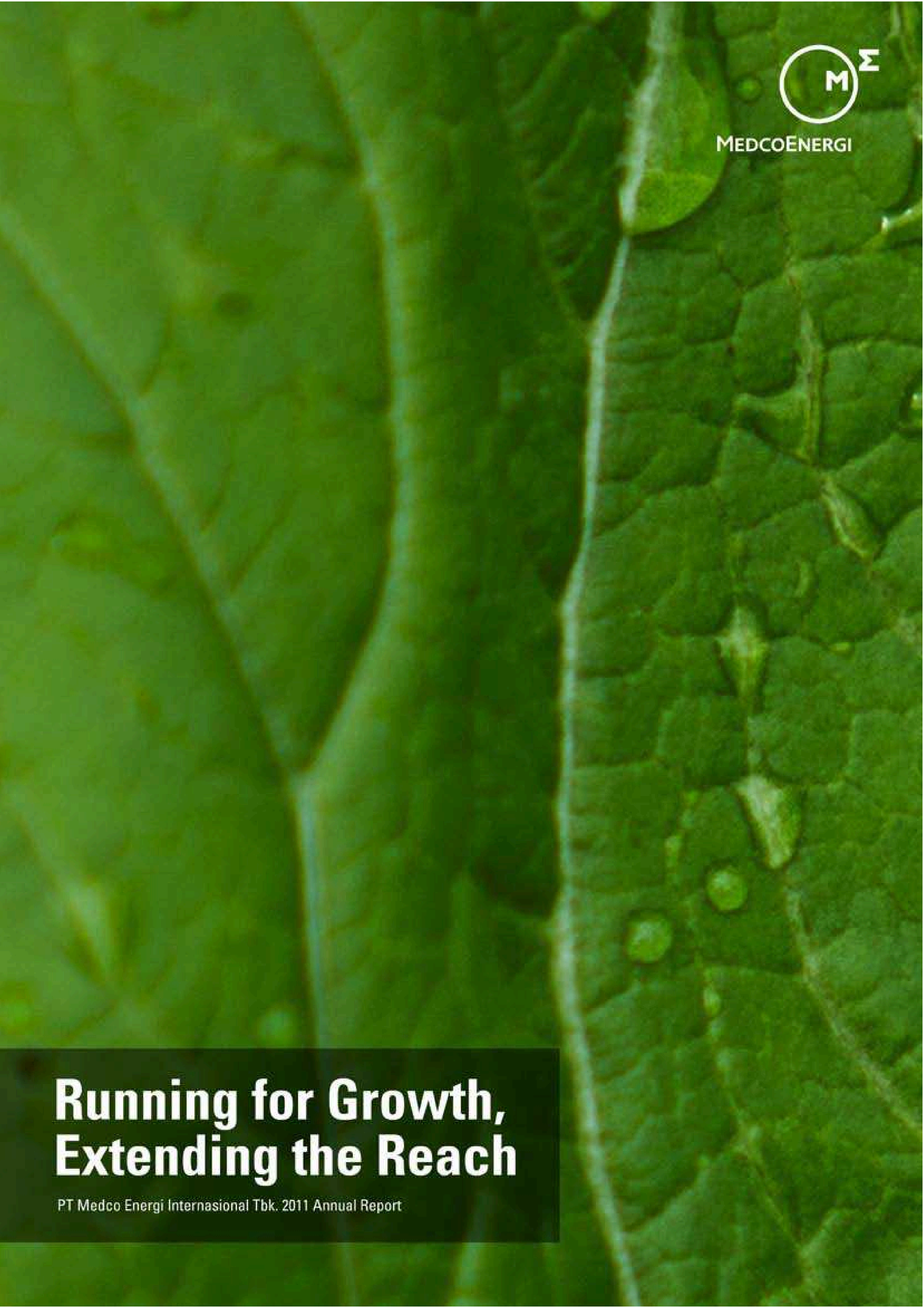


MEDCOENERGI

Running for Growth, Extending the Reach

PT Medco Energi Internasional Tbk. 2011 Annual Report

Contents

Photo:
The Energy Building
MedcoEnergi head office in Jakarta

About MedcoEnergi

MedcoEnergi was established in June 9, 1980 under the laws of the Republic of Indonesia, as the first Indonesian private drilling contractor.

The Company name has been changed three times, from PT Meta Epsi Pribumi Drilling Company when it was first established to PT Medco Energi Corporation prior to its 1994 Initial Public Offering (IPO); and then finally to PT Medco Energi Internasional Tbk in 2000, following the completion of the company's debt restructuring in late 1999.

In just about three decades, MedcoEnergi has grown to become a leading Indonesia-based integrated energy company focused on the exploration and production of oil & gas. MedcoEnergi has also diversified into other energy related businesses, such as electric power generation; LPG processing; high speed diesel trading and distribution; gas transportation; work-over drilling rigs and logging unit contractor; and coal mining. MedcoEnergi also saw an opportunity to diversify its other energy related business to new and renewable energy.

Today, MedcoEnergi has expanded its operations from Indonesia to Oman, Yemen, Libya, and The United States of America.

MedcoEnergi is set to double its current production rate by 2015 by delivering successful major development projects and growing its reserves organically and inorganically. In our quest for growth and expansion domestically and globally, we always uphold the highest safety, health, and environmental standards.

In 2011, MedcoEnergi successfully demonstrated its commitment to run the Company for growth and extend the reach by improving its performance and capability in all aspects, including utilizing advanced technologies. Hence, MedcoEnergi will be able to meet Indonesia's current and future energy demands, add value to the Company and deliver competitive returns to shareholders and stakeholders.

Photo: Singa Gas Processing Facility

Vision

To become the Energy Company of Choice for our investors, shareholders, partners, and employees as well as for the greater public community.

Mission

To develop profitable investment portfolios from energy resources.

Values

PROFESSIONAL

- Competent in one's area of expertise.
- Possessing a "champion spirit."
- Continously seeking self-improvement.
- Having professional ability and knowing one's limit.

ETHICAL

- Conducting business fairly with high moral integrity.
- Applying the highest ethical standards at all times.
- Understanding and following the Company's ethics and Good Corporate Governance policies.

OPEN

- Encouraging informality and openness in communication at all levels.
- Building an environment of trust among the employees and management in MedcoEnergi.
- Behaving with respect, open mind and highest work ethics.

INNOVATIVE

- Building a culture of trail-blazers.
- Continuously search for innovative solutions to achieve better, safer, more cost-effective, and faster outcomes.
- Possessing intellectual maturity.

Business Strategy

To continue strengthening the portfolio of producing assets, including through acquisitions.

To increase the reserve life index through high-graded exploration activities.

To complete all Major Projects as planned.

To accelerate the growth of other energy related assets through partnerships.

About this Annual Report
This Annual Report was prepared to comply with Article 66 of Indonesian Company Law No. 40/2007, Article 17 of PT Medco Energi Internasional Tbk's (MedcoEnergi) Articles of Association, Rule No X.K.6. of Bapepam Regulation regarding Requirement to File the Annual Report by Publicly Listed Companies (Bapepam's Rule No. X.K.6.), Point III.2 of Rule No. I-A of the Bursa Efek Jakarta (Jakarta Stock Exchange - JSX) Regulation.

The contents of the Annual Report were prepared in accordance with the requirement of Bapepam's Rule No. X.K.6. Meanwhile, the Audited Consolidated Financial Statements were prepared in conformity with Generally Accepted Accounting Principles (GAAP) that are covered by Indonesian Statements of Financial Accounting Standard (PSAK) and the Bapepam-LK Rule No. VIII.G.7 regarding Guidelines to Present the Financial Statement.

The reporting currency used in the preparation of the Annual Report and Consolidated Fnancial Statements is the United States Dollar (US$).

Disclaimer
Except for historical statements, this document contains financial conditions and results of operations as well as projections, plans, strategies, policies and objectives of the Company, which may be treated as forward looking statements within the meaning of applicable laws governing company disclosure.

Forward looking statements involve risks and uncertainties that could cause actual results and developments to differ materially from those expressed or implied by this Annual Report. The Company does not guarantee that the actions implied by the forward looking statements in this Annual Report will achieve specific results as documented.

2011 Achievements

1

Organization:

- Completed the Organization Restructuring, transformed MedcoEnergi from investment holding to operating holding.
- The Restructuring also translated into a more streamlined organization, centralized decision making process, and optimized resources allocation - resulting in lower operating costs.

2

Progress of Major Projects:

- Gas Development of Senoro Gas Field and Donggi-Senoro LNG plant, in Indonesia - The construction of the LNG plant is ahead of schedule, the EPC tender for the upstream facility is ongoing. First LNG drop is on schedule for the 4th quarter of 2014.
- Gas Development Block A, Indonesia - Completed the EPC package to go for bids, preparing site for exploration drilling, inaugurated ground breaking of hospital in East Aceh for the Community Development Program.
- Oil Development Area 47, Libya - Obtained approval for commercialization from National Oil Corporation (NOC) Libya to begin the development of production facilities.

3

Asset Optimization:

- Indonesia: Divested 20% participating interest in Senoro-Toili Block to Mitsubishi Corporation - US$260 million value.
- Tunisia: Divested 40% participating interest of Anaguid Exploration Permit and 20% Participating Interest of Dorra Concession to OMV, valued at US$58 million.
- Indonesia: Obtained US$112 million from Saratoga Power as capital injection to strengthen and support Medco Power's growth, in exchange for 51% ownership right in Medco Power.

4

Production:

- Maintained oil production levels through the continued revitalization of mature fields
- Kaji-Semoga EOR pilot project in pre-flush operation phase.
- CBM gas from Sekayu Block is now used to generate power in the field, an MoU has also been signed for further commercialization.

5

Funding Support:

- Granted stand-by loan facilities of US$390 million from Bank BRI, Bank BNI and Bank Mandiri.
- Emitted Shelf-registered Bonds of US$150 million.

6

SHE and Corporate Governance:

- Gold PROPER (highest category) Award for Rimau Block from the Indonesian Ministry of Environment, Green PROPERs for South & Central Sumatra Block and Tarakan Block, and Blue PROPER for Sembakung Block.
- Best Good Corporate Governance Award for Non-Finance Category from the Indonesian Institute for Corporate Directorship.

GOLD PROPER

MedcoEnergi receives one of Indonesia's highest environmental awards.

2011 was a year of memorable achievements culminating with the Government of Indonesia conferring Gold PROPER to MedcoEnergi.

The PROPER award (Corporate Performance Rating Program) follows a lengthy assessment by the Ministry of Environment. Gold PROPER is the highest level of attainment, in recognition of the Company's environmental efforts above and beyond regulatory standards in the Rimau Asset in South Sumatra. This is the first Gold PROPER given to an oil & gas upstream company, an acknowledgment of MedcoEnergi performance among international oil & gas companies operating in Indonesia. Concurrently, MedcoEnergi also received Green PROPER Awards for 3 assets and a Blue PROPER for 1 asset in its Sumatra and Kalimantan operations.

The Indonesian Vice President, Mr. Boediono, presented the Gold PROPER Award to Frila Berlini Yaman, COO of MedcoEnergi.

The awards underline MedcoEnergi's vision as "The Energy Company of Choice", not only for its contribution to energy in Indonesia, but also for its high commitment to preserving the environment.

Oil & Gas Companies Assesed for PROPER

High

Category	'08	'09	'10	'11	
Gold	**0**	**0**	**0**	**1**	**MedcoEnergi**
Green	7	10	11	19	
Blue	27	17	48	49	comply
Blue Minus	12	29			
Red	2	5	11	8	
Red Minus	3	5			not comply
Black	1	1	0	0	

Low

Source: Bulettin BP Migas No. 77, December 2011

Operating and Financial Highlights

OIL & GAS PRODUCTION

4%

25 MMBOE

REVENUE

23%

US$1,143 million

EBITDA

52%

US$338 million

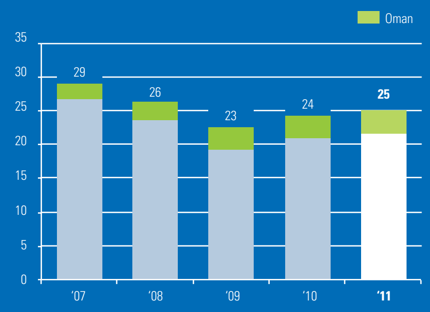
	'10	**'11**	**% Change**
Revenue (US$ million)	929.9	**1,143.3**	**23**
Operating Income (US$ million)	114.5	**224.3**	**96**
Cash flow from operation (US$ million)	89.3	**141.5**	**58**
Earning per share (US$/share)	0.0282	**0.0289**	**2**
Dividend per share (US$/share)	0.00288	**0.00748**	**160**
Cash flow per share (US$/share)	0.0303	**0.0481**	**58**
Equity* (US$ million)	786.1	**845.5**	**8**
Return on equity* (%)	10.6	**10.1**	**(5)**
Return on capital employed (%)	18.3	**16.7**	**(9)**

*Attributable to Equity holders of the parents

"Delivering greater value to shareholders"

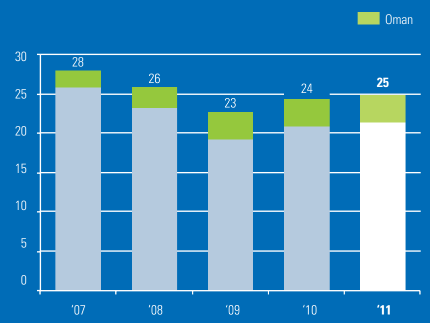
PRODUCTION VOLUME

25 MMBOE 4%



SALES VOLUME

25 MMBOE 4%



NET PROFIT*

2%

US$85 million

OPERATING CASH FLOW

58%

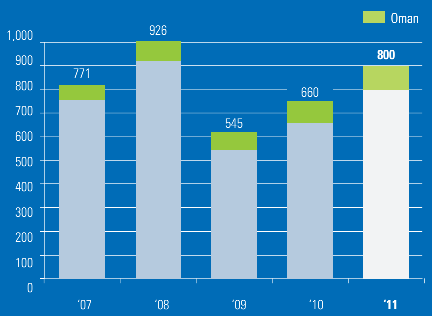
US$141 million

DIVIDENDS PER SHARE

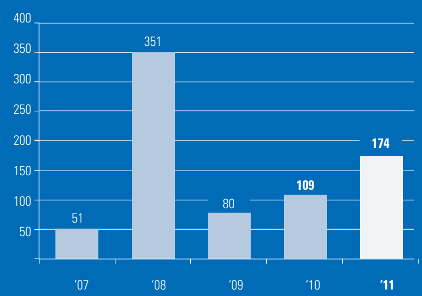
160%

US$0.00748

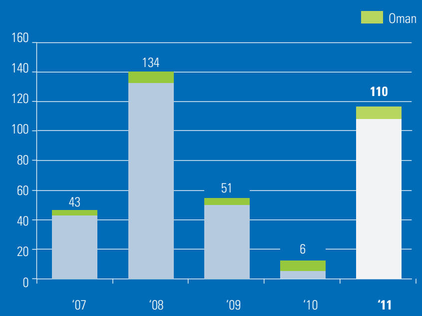
REVENUE (E&P)
US$800 million 21%



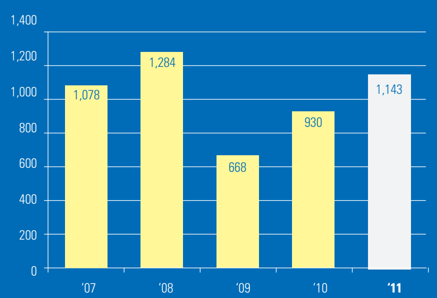
OPERATING CASH FLOW (E&P)
US$174 million 60%



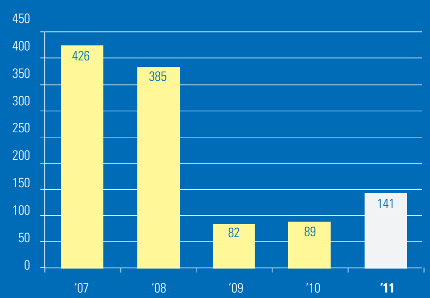
NET PROFIT AFTER TAX (E&P)
US$110 million 1,834%



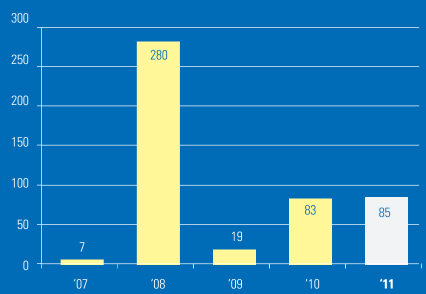
SALES & REVENUE (CONSOLIDATED)
US$1,143 million 23%



OPERATING CASH FLOW (CONSOLIDATED)
US$141 million 58%



NET PROFIT AFTER TAX (CONSOLIDATED)*
US$85 million 2%

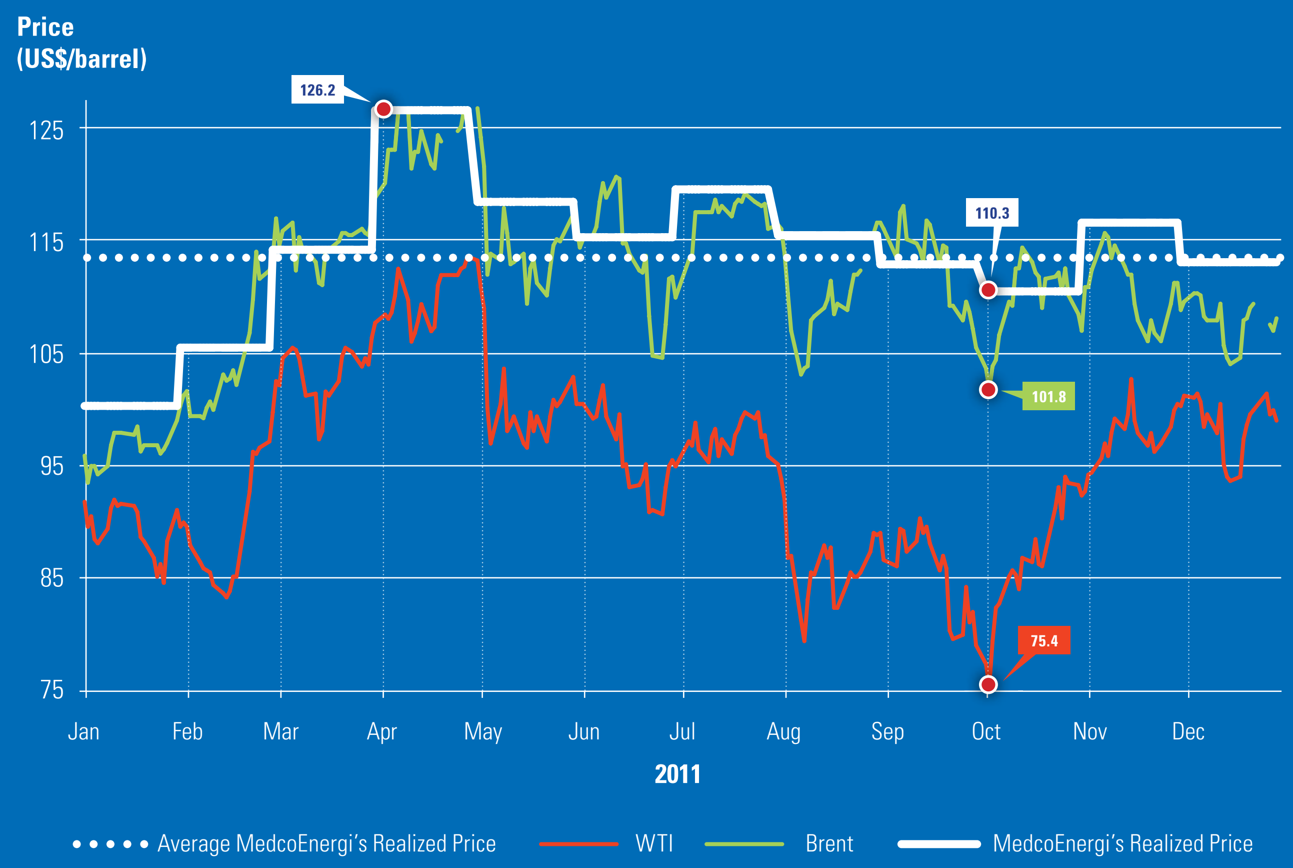


*Attributable to Equity holders of the parents

Share Price vs EBITDA Performance

"Strengthening performance to deliver competitive returns to shareholders"

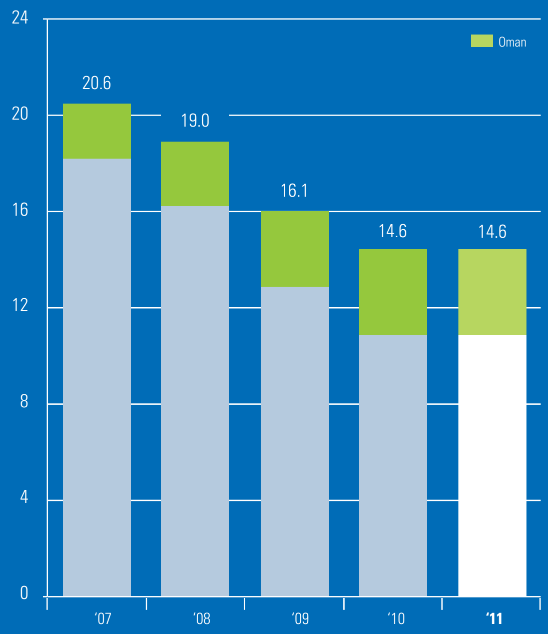
Oil Price of MedcoEnergi



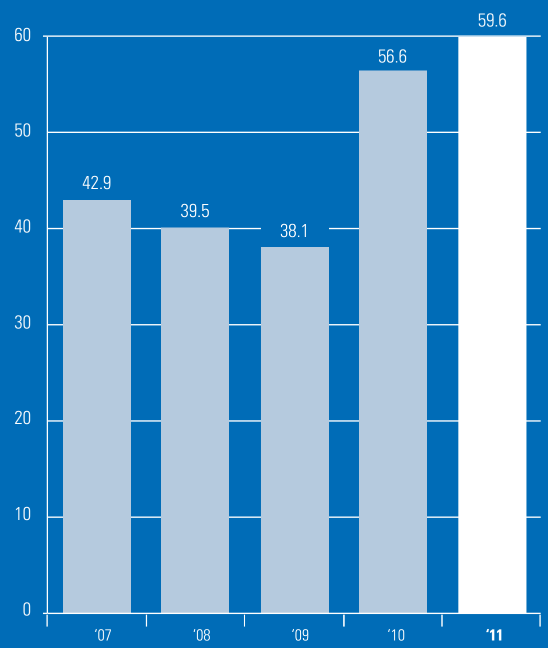
"Gain advantage from high quality crude oil produced from Kaji-Semoga fields"

Production Statistics

Oil Sales (MMBO)



Gas Sales (TBTU)



OIL SALES (MMBO)

	'07	'08	'09	'10	'11
Indonesia Assets					
Rimau	9.9	8.3	7.3	6.2	**6.0**
South and Central Sumatra	3.4	3.3	3.1	2.8	**2.7**
Bawean	0.0	0.2	0.2	0.4	**0.3**
Tarakan	0.5	0.8	0.7	0.7	**0.9**
Sembakung	0.9	0.7	0.7	0.7	**0.8**
Senoro Toili (Tiaka Field)	0.6	0.6	0.4	0.3	**0.2**
Langsa	0.2	0.4	0.2	D	**D**
Kakap	0.4	0.4	0.1	D	**D**
Tuban	0.6	0.3	D	D	**D**
Sangasanga	1.7	1.3	D	D	**D**
Total Sales from Indonesia	18.3	16.3	12.7	11.1	**10.9**
International Assets					
US Assets	0.1	0.1	0.1	0.1	**0.2**
Oman	2.2	2.6	3.3	3.4	**3.5**
Total Sales	**20.6**	**19.0**	**16.1**	**14.6**	**14.6**
OIL PRODUCTION (MMBO)					
Indonesia & US	18.5	15.8	13.0	11.2	**11.2**
Oman*	2.2	2.6	3.3	3.4	**3.5**
Total Production	**20.7**	**18.4**	**16.3**	**14.6**	**14.7**

D : Divested
* : Equivalent to net fee (revenue divided by crude price)

GAS SALES (TBTU)

	'07	'08	'09	'10	'11
Indonesia Assets					
Rimau	0.4	0.0	0.0	0.0	**0.0**
South and Central Sumatra	28.4	27.3	33.8	49.6	**49.4**
Lematang	0.3	0.0	0.0	2.6	**7.6**
Tarakan	6.3	7.0	2.2	1.9	**1.7**
Kakap	3.3	2.9	1.0	D	**D**
Sangasanga	0.8	D	D	D	**D**
Total Sales from Indonesia	39.4	37.3	37.1	54.2	**58.7**
International Assets					
US	3.5	2.2	1.0	2.5	**0.8**
Total Sales	**42.9**	**39.5**	**38.1**	**56.6**	**59.6**
GAS PRODUCTION					
Indonesia & US	42.9	46.3	37.1	56.5	**61.6**
Total Production	**42.9**	**46.3**	**37.1**	**56.5**	**61.6**

D : Divested

2P Reserves Statistics

2P OIL RESERVES (MMBO)

	'07	'08	'09	'10	'11
Indonesian Assets					
Blok A	0	0	0	1	**1**
Rimau Block	77	79	59	53	**47**
South and Central Sumatra	14	13	11	14	**11**
Bawean	15	15	15	15	**14**
Tarakan	1	3	5	4	**3**
Sembakung	3	6	3	2	**2**
Senoro-Toili (Tiaka Field)	4	4	3	2	**2**
Senoro-Toili (Senoro Field)	0	0	12	7	**7**
Langsa	3	3	D	D	**D**
Kakap	2	2	D	D	**D**
Tuban	7	D	D	D	**D**
Sangasanga	3	D	D	D	**D**
Total	**129**	**125**	**108**	**98**	**87**
International Asset					
US	2	2	4	5	**5**
Area 47, Libya	0	0	0	0	**44**
Total Proved & Probable Reserves	**131**	**127**	**112**	**103**	**136**
Reserves Life Index (Years)	**7**	**8**	**9**	**9**	**12**

D : Divested

GAS RESERVES (BCF)

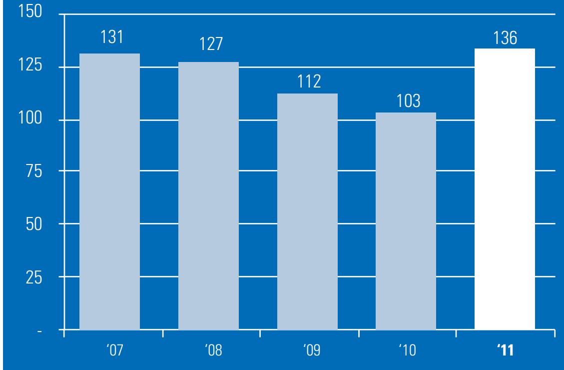
	'07	'08	'09	'10	'11
Indonesian Assets					
Blok A	0	0	0	122	**122**
Rimau Block	13	54	0	0	**0**
South and Central Sumatra	196	163	198	248	**202**
Lematang	114	80	77	72	**59**
Simenggaris	0	0	0	0	**57**
Tarakan	13	14	17	15	**13**
Senoro-Toili (Senoro Field)	0	0	626	376	**376**
Kakap	32	27	D	D	**D**
Sangasanga	4	D	D	D	**D**
Total	**372**	**338**	**918**	**832**	**829**
International Assets					
US	30	28	46	49	**27**
Area 47, Libya	0	0	0	0	**45**
Total Proved & Probable Reserves	**402**	**366**	**964**	**881**	**902**
Reserves Life Index (Years)	**9**	**8**	**26**	**16**	**15**

D : Divested

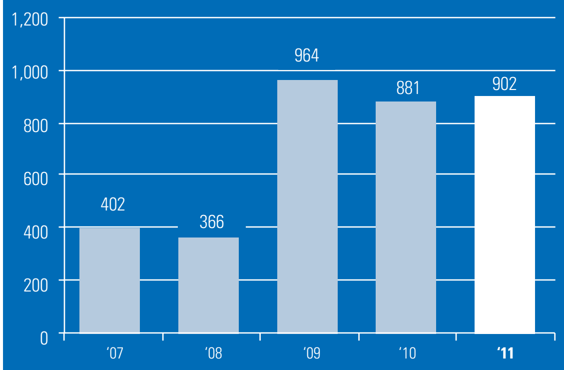
CONTINGENT RESOURCES

	'11	
	Oil (MMBO)	Gas (BCF)
Bangkanai	0	21
Bengara	0	10
Senoro Toili (Senoro Gas Field)	11	386
Area 47, Libya	60	115

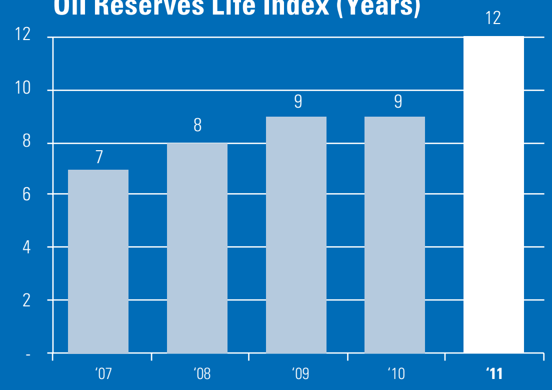
2P Oil Reserves (MMBO)



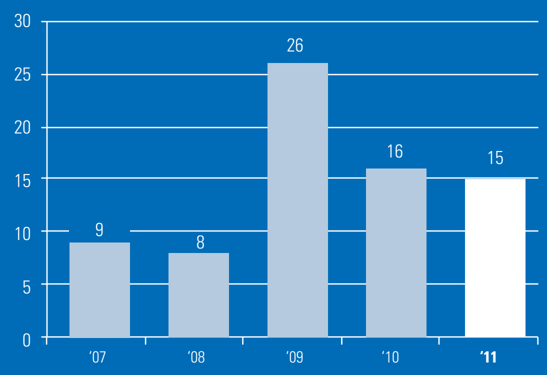
2P Gas Reserves (BCF)



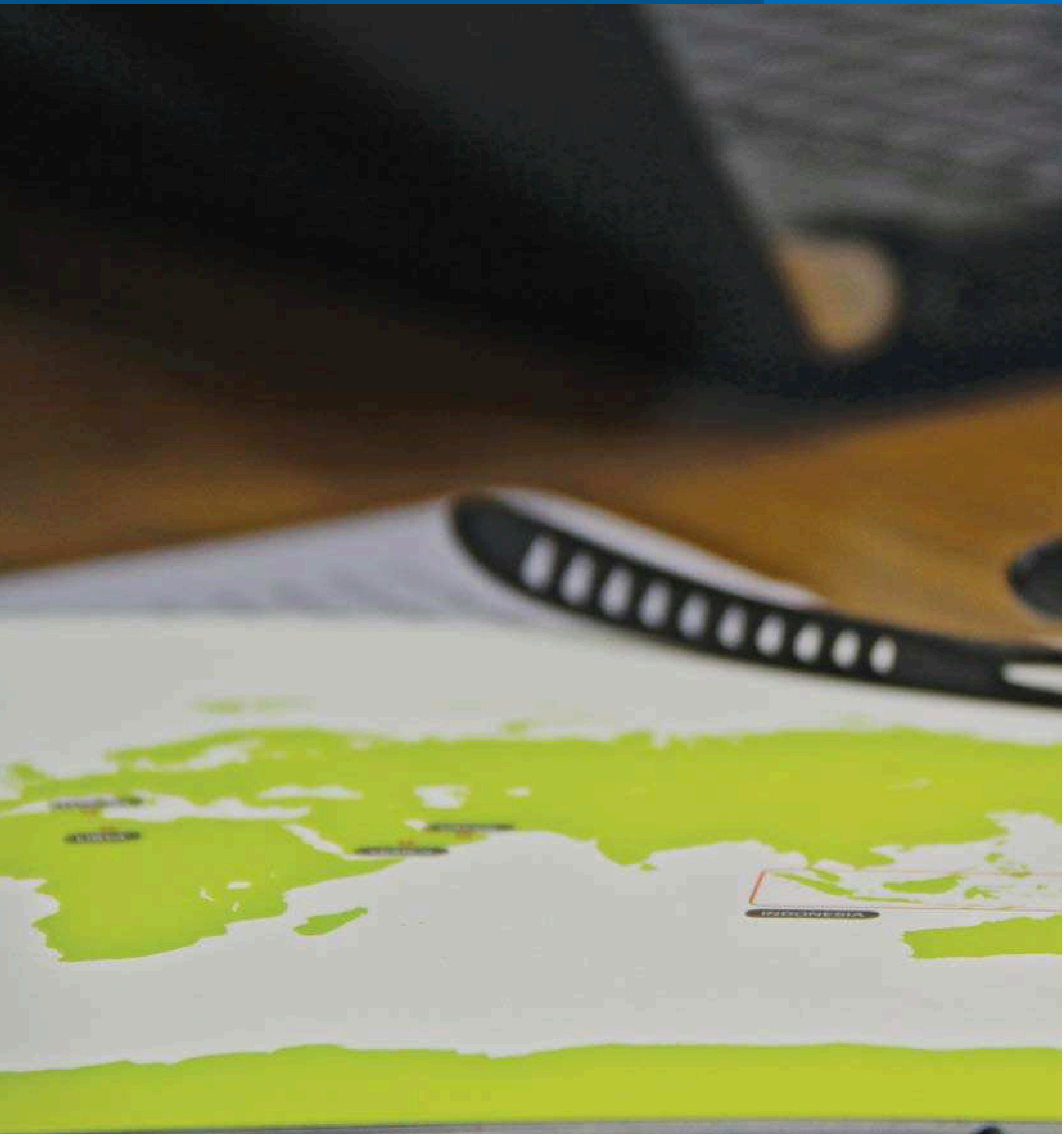
Oil Reserves Life Index (Years)

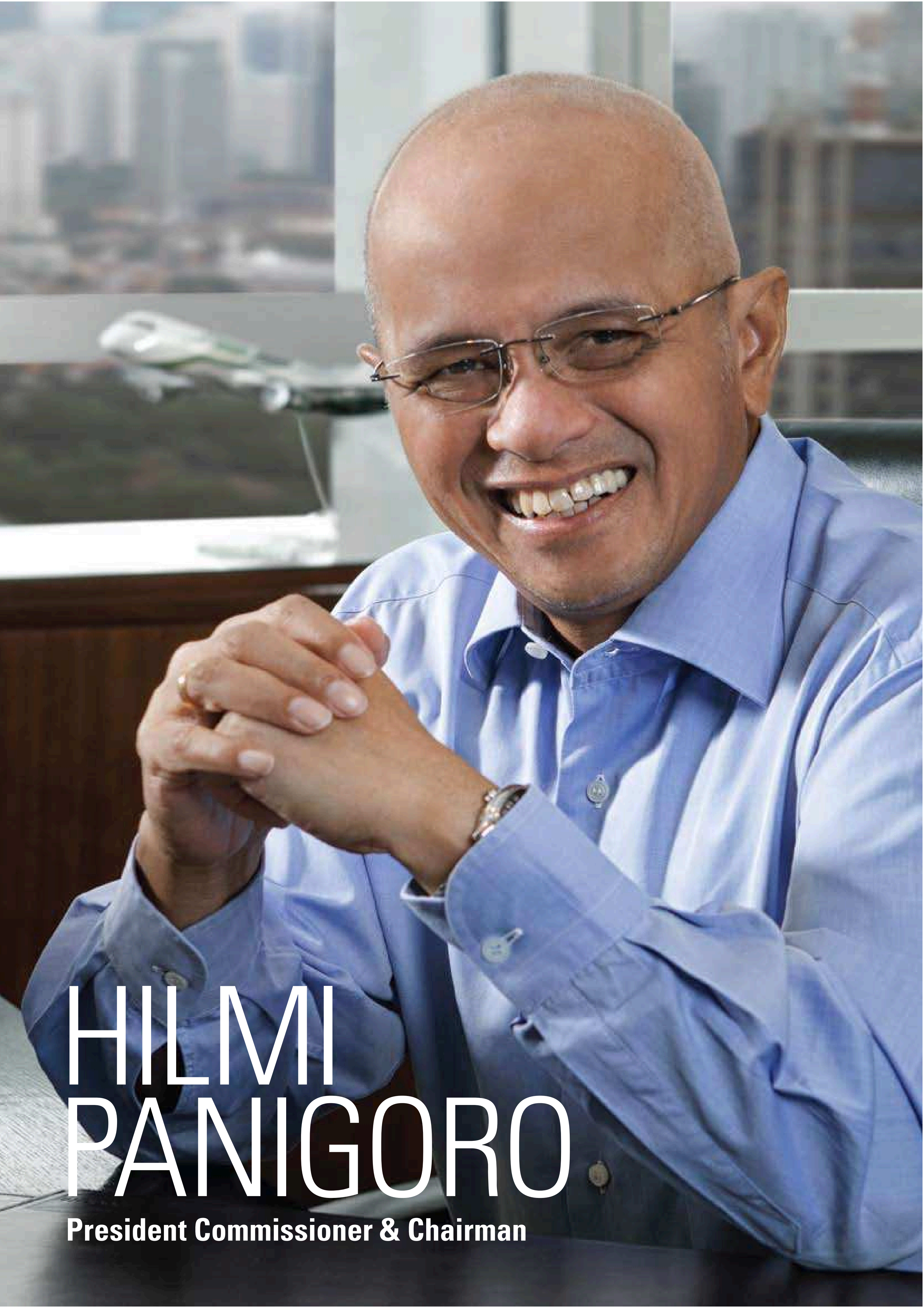


Gas Reserves Life Index (Years)



President Commissioner's and President Director's Reports





HILMI PANIGORO

President Commissioner & Chairman

Our commitment is reflected in the theme of this Annual Report, "Running for Growth and Extending the Reach."

Dear distinguished shareholders,

2011 marked MedcoEnergi's commitment to continually improve its business performance and capability for applying advanced technologies, and to grow the Company, today and in the future. We are thankful for your support during the last couple of years which has enabled us to continue delivering better returns.

Performance Review

On behalf of the Board of Commissioners, I am grateful to our new Board of Directors. They have united the deep know-how of MedcoEnergi's home-grown talents with new smarts honed from outside the Company. They have succeeded in infusing MedcoEnergi with innovative, out-of-the-box ideas and approaches in executing the Company's business strategies.

During the year, MedcoEnergi made significant changes to its organization. The new structure not only allows the Company to accelerate the growth of its core business in oil & gas, but also to improve its other energy related businesses. Furthermore, this organization is now more capable of extending its human capital proficiency in applying the advanced technologies, as well as identifying future talents.

The new composition of the Board of Directors and the organization structure have made it possible for MedcoEnergi to improve its performance and to build a more efficient operation with streamlined communication. We are delighted with the Board of Directors' success in refining the Company's performance improvements and delivering significant results in 2011. They have increased MedcoEnergi's production and sales, and at the same time effectively implemented cost containment programs. This has resulted in a sharp increase in operating income and lower costs of financing and other expenses in 2011 compared to the previous year. The Company has also recorded higher Net Income and Profit attributable to shareholders.

The Board of Commissioners also recognizes the Board of Directors' determination in ensuring that major projects in Indonesia and Libya achieve significant progress, and successfully recapitalizing the power business.

Business Prospect

The Board of Commissioners has been actively involved in the careful review of the 2012 onward Business Strategy developed by the Board of Directors. We have also reviewed and approved the work program and budget for 2012 proposed by the Board of Directors in the Annual Budget Meeting in November 2011. We hereby confer to the Board of Directors the mandate to carry on with the Business Strategy and 2012 work program as planned.

We maintain high expectations on the completion of the major projects. We also call for a special effort to capitalize on lucrative and feasible opportunities in the other energy related business, including new and renewable energy. We are confident that the proper execution of the strategy and work program set for 2012 onward will add greater value to the Company and deliver better returns to you, our shareholders, for the present as well as for the long term, beyond 2014.

GCG Implementation

I am pleased that MedcoEnergi has made remarkable progress in compliance and monitoring of GCG implementation. All of the Committees' members have worked hard to ensure that GCG principles are properly practiced. In addition, the implementation of the whistle-blowing platform has allowed us to take appropriate actions promptly and thoroughly with minimal friction.

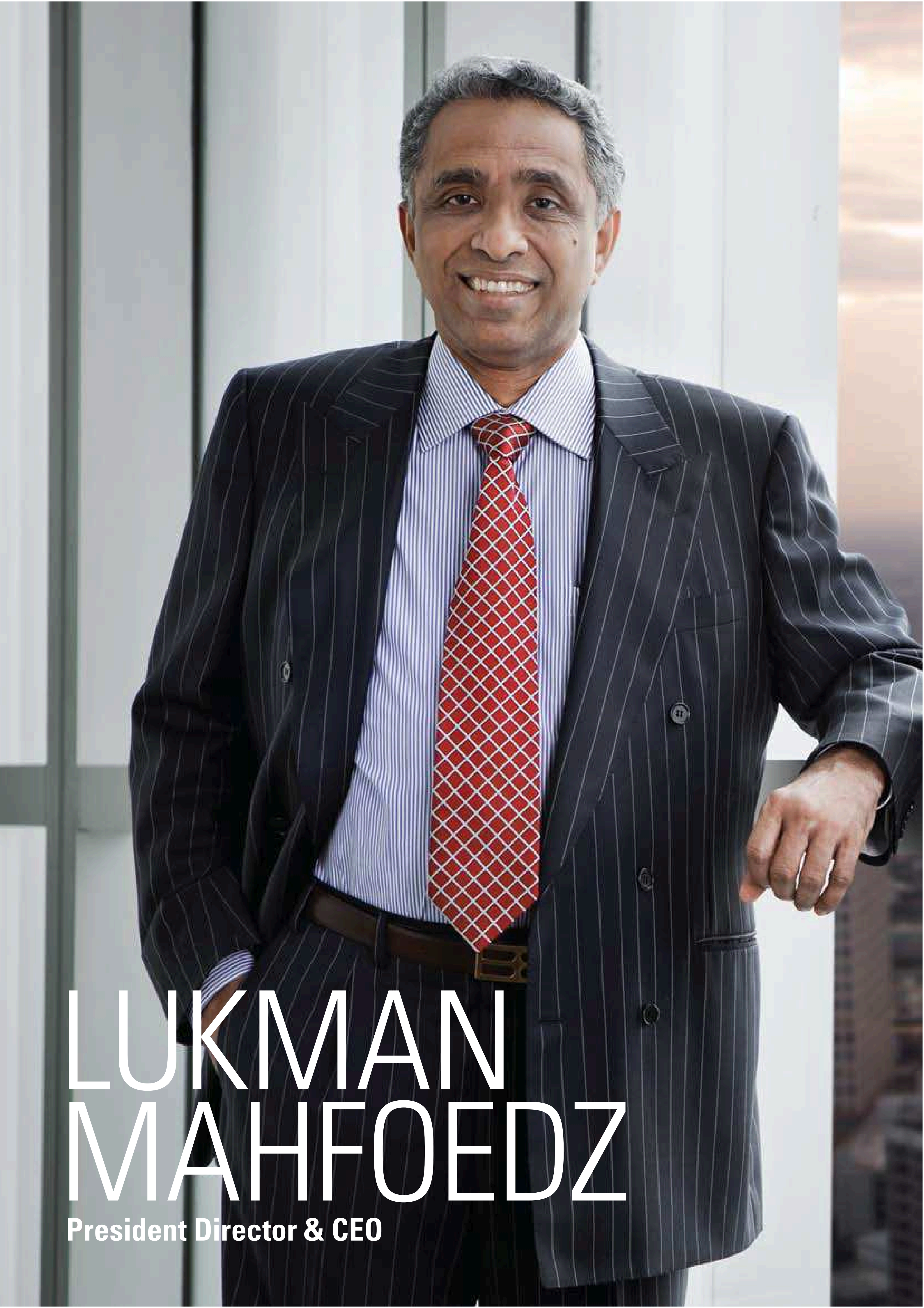
Closing Remarks

In this opportunity, I would like to express my deep gratitude to all our employees, the Board of Directors and my fellow members of Commissioners for their commitment and persistence, and to our stakeholders for their trust. Their strong support has made it possible for MedcoEnergi to run for growth and extend its reach, last year and in years to come.

Appreciation also goes to the former members of the Board of Directors, Darmoyo Doyoatmojo and D. Cyril Noerhadi, for their dedication to the Company in the last couple of years. We wish them all the best in their new endeavors.

Yours sincerely,

Hilmi Panigoro
President Commissioner & Chairman


LUKMAN
MAHFOEDZ
President Director & CEO

Our 2011 achievements reflected our efforts in running the Company for growth and for extending our reach. We are committed to continually improve our performance and capability to grow the Company by applying up-to-date technologies.

It is always a great pleasure to greet our shareholders, especially when MedcoEnergi has experienced such a successful year. I can proudly say that MedcoEnergi has closed the year of 2011 with exceptional achievements in areas of operations, finance, and organization development.

Today, MedcoEnergi is no longer just a holding and investment company, but is moving ahead as an operating holding company, directly managing and overseeing its operations in the oil & gas and other energy related sectors both in Indonesia and overseas.

This new corporate structure allows us to be more effective and efficient in our business process and to be faster in our strategy execution and decision-making.

As part of the Company's organization restructuring, we have also established a new Board of Directors of MedcoEnergi, where key responsibilities are divided into seven areas – Oil & Gas Operations, Finance, Human Capital, Planning, Exploration & New Ventures, Other Energy Related Operation, and Business Support – each headed by a director or chief officer. Our restructuring has translated into a more streamlined organization and optimized resource allocation, resulting in 18% reduction of our operating costs from US$173.3 million to US$150.9 million in 2011.

96%

Increase in Operating Income

In terms of MedcoEnergi's financial performance, I am pleased to announce that we closed 2011 with a robust revenue growth of 23%, from US$930 million in 2010 to US$1,143 million. A major contribution (70%) was from our oil & gas business.This increase was partly driven by higher international oil prices in 2011 and also by our successful efforts to maintain oil production at around 14.7 million barrels. The revenues from gas sales also improved, mainly due to an increased volume of 5% and an increase in the average realized gas price to US$3.80/MMBTU.

MedcoEnergi's other energy related business units contributed to total sales and operating revenues of US$334 million in 2011. This is an increase of 27% on 2010 sales, mainly due to increased sales of chemicals, petroleum products and power generation units.

Combining the higher sales and operating revenues in 2011 with our success in cost efficiency, the Company recorded an operating income of US$224 million in 2011, a substantial rise of 96% on the previous year; while the net profit amounted to US$89 million.

2011 in Review

In 2011 we continued our effort to ensure long-term sustainability while maintaining consistent and meaningful growth. The Company continued its efforts to ramp up exploration and development activities in existing production assets in Indonesia as well as abroad, while continuously looking for strategic partners for growing our other energy related business. At the same time, divesting under-performing assets and streamlining our operations were also part of our effort to strengthen the Company's financial performance.

In this respect, I would like to highlight a number of notable achievements in 2011. We made real progress in the development of major projects for Senoro gas, Donggi-Senoro LNG (DSLNG), Block A, Enhanced Oil Recovery (EOR) in Rimau and Libya as planned. By the end of 2011, Senoro upstream and DSLNG reached 20% and 35% progress completion respectively. The target for start-up continues to be the 4th quarter 2014. We have also completed Front End Engineering Design (FEED) for Block A project and first gas production is targeted for 2015. In December 2011 we successfully obtained commercial approval from NOC Libya for Area 47. This will kick-start the development of oil fields for A, D, L, and F structures in Ghadames Basin, where the production is targeted at 50,000 BOPD by 2015. In the same month, we commenced Pre-Flush activity as part of the EOR pilot program in Rimau Block. Upon the successful completion of Pre-Flush injection, the full development of EOR Project will commence. The addition of recoverable reserves is targeted to reach 60 MMBO.

Regarding the 2011 exploration program, the Company focused exploration drilling on South Sumatra operation areas, both in existing producing fields as well as in exploration blocks. Overseas we started 2D and 3D seismic data acquisition in Blocks 82 and 83 in Yemen, and performed completion and testing work on 2 appraisal wells in Libya. As a result of the exploration activities, the Company has successfully gained additional reserves of 14.4% in 2011, increasing our 2P Reserves to 290 MMBOE, mainly from commercialization of Libya Area 47.

As for production, we have successfully arrested the natural production decline of mature fields through various means, such as reservoir pressure maintenance, sand-fracing technique, infill drilling, minimizing pressure drawdown by horizontal drilling, and implementing waterflood as secondary recovery. Indeed, MedcoEnergi has surpassed the government's target for production at some of our fields.

New Business

In 2011 the Company started looking for acquisition opportunities. We did this selectively, focusing on producing assets in Indonesia and overseas, especially in the Middle East & North Africa (MENA countries). Our aim was to acquire sizeable reserves which have a potentially long production life-span and meet economic benefits requirement. The Company also ventured into unconventional hydrocarbons with the commencement of the Iliran Heavy Oil Project and exploration of 3 CBM blocks in South Sumatra. A study is currently underway to possibly add to our CBM portfolio in the near future.

Asset Optimization and Strategic Partnership

In September 2011, MedcoEnergi divested the entire shares of Medco Tunisia Anaguid Limited to OMV (Tunesien) Production GmbH. The sale transferred our 40% participating interest in Anaguid Exploration Permit and 20% Participating Interest in Durra Concession (Anaguid Block) to OMV. Later, in December 2011, MedcoEnergi concluded a strategic partnership with Saratoga Power, a subsidiary of Saratoga Capital. The partnership aimed to leverage our diversified energy operations in Medco Power, a power generation business, and to support the business growth of Medco Power in the future.

Corporate Financing

Throughout 2011, the Company successfully secured financing from various sources. In June 2011, we emitted offered an International Shelf-registration Bond within a maximum period of 2 years, with a principal of up to US$150 million. In June and July 2011 we signed 2 loan agreements for stand-by loan facilities with Bank BRI and Bank BNI to the amount of US$140 million and US$150 million respectively. The loans were directed toward the refinancing of maturing loans, as well as working capital, investment and operations. For the specific DSLNG project, MedcoEnergi, through its subsidiary PT Medco LNG Indonesia, acquired a US$120 million loan facility from Mitsubishi Corporation.

2012 Outlook: Focusing on *'Quality, not Quantity'*

In light of the dynamics of the global energy and financial markets, the Company has decided to focus on oil & gas exploration and production activities. Our current strategy is four-pronged i.e. to continue strengthening our portfolio of producing assets, including acquisitions; to increase the reserve life index through high-grade exploration activities; to complete all major projects as planned; and to accelerate the growth of other energy related assets through partnerships. We will emphasize 'quality' rather than 'quantity' in our upcoming initiatives and focus on commercial performance in every business decision to ensure profitability and sustainability.

With this in mind, last year we defined the Company's 2012 Work Program and Budget, including Key Performance Indicators (KPIs). The production target for Indonesia assets is maintained at 57 thousand BOEPD (barrels of oil equivalent per day), with operating cost at US$15.7/BOE.

We will also put maximum efforts to accelerate production from existing discoveries, while at the same time continue to make progress with all major projects to ensure their completion as planned. Selective divestments will continue, especially for non-strategic exploration assets. Likewise with Medco Power, we will diligently search for strategic partners for other energy related business units.

Corporate Governance

Our activities and business conduct have always been guided by a rigorous corporate governance and prudent risk management in various functions and responsibilities. Furthermore, we have employed a whistle blowing system, allowing people from within and outside the Company – in a confidential manner – to report any fraud, dishonesty, harassment, unethical behavior, safety hazards and any other issues that may have a negative impact on the Company or the public.

A Bright Future

As we enter 2012, I would like to emphasize that MedcoEnergi is ready to take on more challenges and to pursue exciting new targets, taking advantage of excellent opportunities that may arise in the future. With our strong financial base and range of operations, combined with our new, streamlined organization, a bright future is definitely within our reach.

Closing

In closing, on behalf of the Board of Directors, I would like to extend my appreciation to the shareholders, business partners and Board of Commissioners, as well as to all employees of MedcoEnergi for their dedication and for their trust. We are also thankful to the Government of the Republic of Indonesia, including BPMIGAS and the Department of Energy and Mineral Resources, for their support and guidance, and to the host governments in the countries where we operate.

Warm regards,

Lukman Mahfoedz
President Director & CEO

Management Discussion and Analysis

Management Discussion and Analysis

The Management Discussion and Analysis (MD&A) of MedcoEnergi shall be read together with the Company and Subsidiaries' Consolidated Financial Statements and selected consolidated financial and operational data as presented in this Annual Report.

In mid 2011, after the change in corporate structure, MedcoEnergi began to refocus its business in oil & gas. We herewith separate our operational review and analysis in this MD&A into oil & gas business and other energy related business.

The MD&A also contains an analysis of MedcoEnergi's financial position and discusses certain factors that may affect the Company's future prospects from the perspective of MedcoEnergi's Management.

In 2011, MedcoEnergi's Consolidated Financial Statements already adopted several new PSAKs in order to comply with Bapepam-LK's Regulation No. VIII.G.7. Therefore the Company's financial statements for the years ended December 31, 2009 and December 31, 2010 have been restated in the financial statement for the year ended December 31, 2011.

By adopting such standards, the Management is of the opinion that the Company's consolidated financial statements have been presented with the highest standard of reporting and already met the requirements demanded by the Indonesian Financial Accounting Standards Board (DSAK) in order to follow the International Financial Reporting Standard (IFRS) convergence process.

In 2011, the Management has reclassified the reporting of revenue and costs generated from the operation of exploration and production of oil & gas in the Sultanate of Oman from "Other Contract and Services" to "Exploration and Production of Oil and Gas."

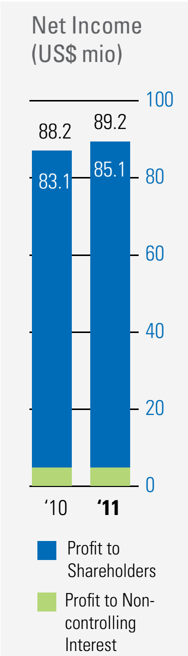
The reporting and functional currency used in the preparation of the consolidated financial statements is the United States Dollar (US$).

The Company's consolidated financial statements for the years ended December 31, 2011 and 2010 have been audited by the Public Accounting Firm of Purwantono, Suherman & Surja, Member of Ernst & Young Global ("E&Y"). They have given the opinion that the Company's consolidated financial statements have been presented fairly and in conformity with Indonesian Financial Accounting Standard.

Members of financial and accounting teams in MedcoEnergi's head office.

Financial Performance Analysis

Net Income & Profit Attributable to Shareholder



MedcoEnergi is very pleased with the high results of performance achieved in 2011. The new Board of Directors' commitment to refocus MedcoEnergi's business to oil & gas returned a better financial result in 2011 compared to 2010.

In 2011, the Company recorded a higher net income of USS$89.2 million, compared to a prior year net income of US$88.2 million, with profit attributable to the shareholders amounting to US$85.1 million, slightly higher than that of the prior year of US$83.1 million. Thus, the earning per share attributable to shareholders in 2011 increased to US$0.0289 from US$0.0282 last year.

The Company's net income in 2011 was entirely generated from the oil & gas business which recorded a net income of US$109.9 million. The oil & gas net income in 2011 increased significantly from US$5.7 million in 2010. The increase was due to a higher realized average oil price in 2011, amounting to US$113.68/ barrel, compared to US$81.41/ barrel in 2010, and the Company's successful efforts in cost efficiency.

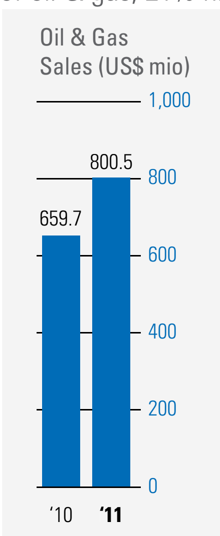
The high net income recorded from the oil & gas business offset by the adverse result from the non oil & gas business, and a gain on disposal of subsidiaries enabled the Company to achieve a higher net income in 2011.

Total Sales & Other Operating Revenues

In 2011 MedcoEnergi recorded a total sales and other operating revenues of US$1,143.3 million, 23% higher than US$929.9 million in 2010. The total sales of oil & gas and other energy related businesses are respectively 70% and 30% of the Company's total sales and other operating revenues.

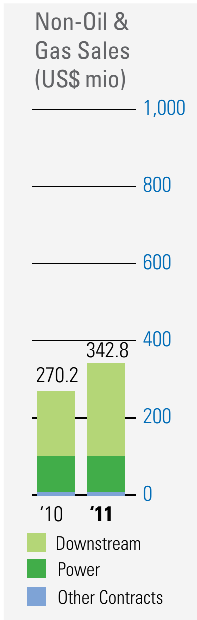
Oil & Gas Sales

In 2011, MedcoEnergi recorded US$800.5 million from the sales of oil & gas, 21% higher than 2010 sales of US$659.7 million. The main contributors were the higher realized oil price and the success of the Company in maintaining the oil sales volume at 14.6 million barrel. Additionally, the Company successfully negotiated an increase of the realized gas price to US$3.80/MMBTU and sold 59.1 BCF in 2011, compared to the realized gas price of US$3.62/ MMBTU and sales volume of 56.6 BCF last year.



Sales and Operating Revenues of Other Energy Related Businesses

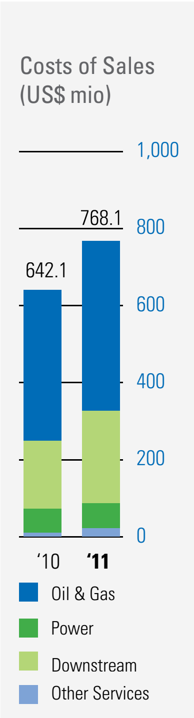
From the other energy related businesses, the Company recorded total sales and other operating revenues of US$342.8 million, 27% increase compared to USS$270.2 million in 2010.



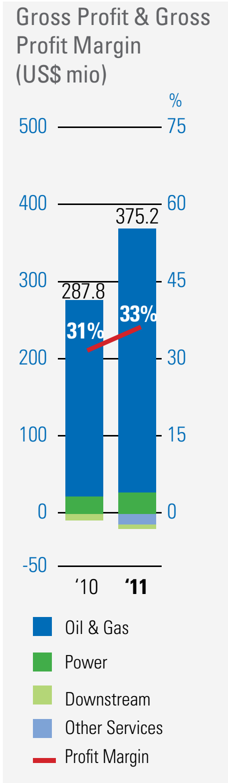
The largest contributor was the downstream business unit, which recorded USS$237.7 million in 2011 compared to US$170.1 million in 2010. Meanwhile the electric power and other energy related services business units contributed USS$96.5 million and USS$8.7 million, respectively, in 2011, compared to the sales and other operating revenues of USS$88.9 million and US$11.2 million last year.

Gross Profit & Gross Profit Margin

In 2011, the Company worked hard to operate its businesses in an effective and efficient manner. MedcoEnergi succeeded in overall limiting the escalation of the costs of sales and other direct costs to 20%. MedcoEnergi recorded consolidated cost of sales and other direct costs in 2011 of US$768.1 million compared to US$642.1 million in 2010. With a 21% growth in sales, MedcoEnergi succeeded in controlling the escalation of oil & gas costs of sales, resulting in an increase of only 12% to US$441.3 million from US$394.2 million in the previous year. In spite of best efforts to improve the performance of the other energy related businesses and to limit the operational and financial risks by reducing potential losses of the businesses, cost of sales and other direct costs from the other energy related increased 32% to US$326.8 million in 2011 from US$247.8 million in 2010.



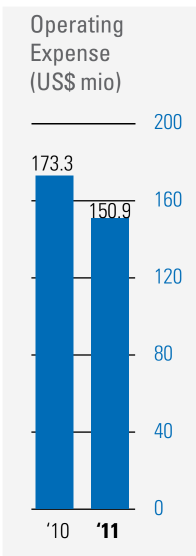
Overall, the Company achieved 30% higher gross profit in 2011, amounting to US$375.2 million compared to a gross profit of US$287.8 million in 2010. The increase resulted in an increase in gross profit margin to 33%, from 31% in 2010.

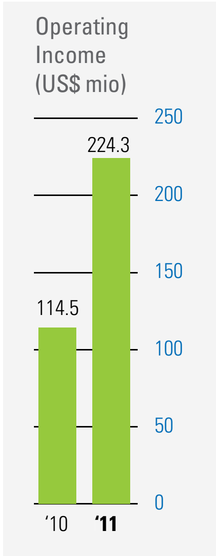


The Company's oil & gas business successfully achieved a 35% higher gross profit in 2011 and recorded US$359.2 million, compared to US$265.4 million in 2010. The increase resulted in an increase of gross profit margin to 45%, from 40% in 2010. The increase in costs resulted in a lower gross profit recorded by the Company's other energy related businesses in 2011, amounting to US$16.0 million compared to US$22.0 million in 2010.

Operating Income

The organization restructuring allowed the Company to reduce its operating expenses by 13%. The Company's operating expenses decreased to US$150.9 million in 2011, from US$173.3 million in 2010.

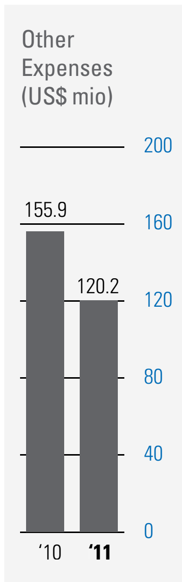




Consequently, MedcoEnergi recorded an operating income of US$224.3 million in 2011, representing an increase of 96% compared to US$114.5 million last year. Hence the operating margin increased to 20% in 2011 compared to 12% in 2010.

Other Income (Expenses)

In 2011, despite lower other income received during the year, amounting to US$110.2 million, compared to US$257.2 million in 2010, the Company successfully reduced its other expenses to US$120.2 million, compared to USUS155.9 million in 2010.



The Company's other income in 2011 was generated from: 1) net gains on disposal of 100% shares of its wholly-owned subsidiary, Medco Tunisia Anaguid Limited, and the recapitalization of 51% shares of PT Medco Power Indonesia, with a total amount of US$78.4 million; 2) gain from dilution of its investment in PT Donggi-Senoro LNG to 11.1% from 20%, amounting to US$8.5 million; 3) interest income booked in 2011 amounting to US$9.5 million; and 4) other income amounting to US$13.8 million.

Meanwhile, lower other expenses recorded in 2011 were mainly caused by lower financing costs and lower impairment assets costs.

Although MedcoEnergi booked US$10.0 million of other expenses in 2011, the high operating income recorded in 2011 allowed the Company to achieve a high net income and profit attributable to its shareholders, as explained in the analysis on Net Income.

Assets

Current Assets

MedcoEnergi's total current assets increased 72% at year-end 2011 to US$1,302.6 million from US$758.6 million at year-end 2010. The increase of US$544.2 million was mainly due to a significant increase in the Company's cash and cash equivalent to US$704.0 million at year-end 2011 from US$178.9 million at year-end 2010, and 32% increase of short term investments in the total amount of US$247.3 million at year-end 2011 from US$168.0 million at year-end 2010.

The Company booked the total cash and cash equivalent of US$704.0 million at year-end 2011 from a higher amount of net cash received from operating activities of US$141.5 million, net proceeds from disposal of subsidiaries amounting US$395.7 million, as well as proceeds received from bank loans and long-term debt in the total amount of US$925.7 million, offset with the cash used in investing activities and financing activities.

Non-current Assets

At year-end 2011, the Company's total non-current assets decreased by 15% to US$1,284.7 million from US$1,519.5 million at year-end 2010. The decrease was mostly caused by:

1. A significant decline of other receivables from related parties of US$216.4 million resulting in to US$46.8 million at year-end 2011 from US$263.3 million at year-end 2010, from the full payment of receivables from Mitsubishi Corporation of US$260.0 million for the sale of shares in the Company's subsidiary, Tomori E&P Limited (TEL), and full payment of receivables from TEL in the total amount of US$1.6 million for advances of TEL's activities in 2010;
2. A 117% or equivalent to US$136.4 million decline of property, plant and equipment at year-end 2011 to US$116.3 million from US$252.8 million at year-end 2010, as a result of deconsolidation of the Company's subsidiary, PT Medco Power Indonesia; and
3. A slight decrease of oil & gas properties to US$828.6 million at year-end 2011 from US$839.7 million at year-end 2010 due to the shares sales of the Company's subsidiary, Medco Tunisia Anaguid Limited.

Total Assets

In total, MedcoEnergi recorded total assets of US$2,587.4 million at year-end 2011, representing an increase of 14% compared to US$2,278.1 million at year-end 2010. The significant increase of cash and cash equivalents and short term investments, was the main contributor to the higher total assets in 2011.

Analysts from the risk management team performing risk analysis for investment/divesment projects.

Total Receivables and Collectability

The Company's total receivables at year-end 2011 decreased by 44% to US$324.0 million compared to US$578.0 million at year-end 2010. The Company successfully collected its outstanding receivables from third parties, including the outstanding receivables from Sabre Systems International Pte. Ltd., a subsidiary of PT Mitra Resources International Tbk, arising from the sale of the Company's 48.72% shares in PT Apexindo Pratama Duta Tbk in 2008.

The Company has booked allowance for impairment of all its outstanding receivables at year-end 2011 and Management is of the opinion that the allowance for impairment is adequate to cover possible losses from uncollectible accounts.

Total Receivables and Collectability

	'10	**'11**	**%**
Trade Receivables			
Current			
Related Parties	49.1	**69.7**	42
Third Parties	131.6	**132.6**	1
Subtotal	180.7	**202.3**	11
Other Receivables			
Current			
Third Parties	129.9	**62.2**	(52)
Non Current			
Related Parties	263.3	**46.8**	(82)
Third Parties	4.1	**12.7**	210
Subtotal	397.3	**121.7**	(69)
Total	**578.0**	**324.0**	**(44)**

The Company holds quarterly analyst meeting to update the latest performance

Liabilities

Current Liabilities

The Company's total current liabilities at year-end 2011 increased by 62% to US$811.5 million compared to US$500.3 million at year-end 2010. The rise was mainly due to a significant increase of current maturities of long-term debt totaling US$413.2 million at year-end 2011 compared to US$110.3 million at year-end 2010.

Non-current Liabilities

At year-end 2010, the Company's total non-current liabilities slightly declined to US$920.5 million from US$962.9 million at year-end 2010. The decline in non-current liabilities was mainly caused by a lower amount of long-term debts recorded at year-end 2011, amounting US$764.4 million, compared to US$788.4 million at year-end 2010.

During the year, the Company paid US$381.8 million of its matured long-term debts, while the remaining US$413.2 million will be paid in 2012 and recorded under current liabilities.

Total Liabilities

In total, the Company recorded higher total liabilities at year-end 2011, amounting to US$1,732.1 million, compared to US$1,463.2 million at year-end 2010. The increase in liabilities was mainly due to a higher amount of long-term debts that will mature in 2012 and additional long-term debts obtained in 2011.

Debts and Re-payment Capability

At year-end 2011, MedcoEnergi recorded US$1,299.1 million of debts, 32% higher than the year-end 2010 debts of US$984.3 million. During the year, the Company paid off US$621.6 million of its debts and obtained additional US$863.8 million of debts. Total debts to mature in 2012 will be US$534.6 million.

In 2011, the Company succeeded in obtaining financing with lower interest rate and recorded a decrease in financing costs, US$89.5 million from US$91.5 million in 2010.

In 2012, the Company will put its best effort to obtain more financing from local and international banks in the form of standby loans with lower interest rate to refinance its mature debts in 2012.

The signing of Stand by Loan from Bank BRI

Total Debts and Re-payment Capability

	'10	'11	%
A. Total Bank Loans	**668.7**	**879.5**	**32**
Current	175.4	**413.1**	136
Non Current	493.3	**466.4**	(5)
B. Other Obligations	**315.6**	**419.6**	**33**
Current			
MTN	20.5	**64.9**	216
Rupiah Bonds	-	**56.6**	-
Non Current			
Related Parties	-	**70.0**	-
MTN	128.9	**40.3**	(69)
Rupiah Bonds	166.2	**108.4**	35
US$ Bonds	-	**79.4**	0
Total	**984.3**	**1,299.1**	**32**

Capital Expenditures

During the year 2011, the Company's capital expenditures increased by 9% to US$156.3 million, from US$143.9 million in 2010. The largest amount of capital expenditures were spent to maintain and improve the production of oil & gas, as well as to meet the Company's commitment to execute its major projects and explore for new oil & gas reserves. Meanwhile the remaining amount was spent to improve the operation and production, as well as the development of its other energy related businesses.

All of the capital expenditures were funded by our internal cash. To ensure the availability of such cash at any time, the Company invested its cash in time deposit and short-term investment, as explained in notes 4 and 5 of the Company's Consolidated Financial Statements.

Capital Expenditures

	'10	'11	%
Oil & Gas Business	127.1	143.9	13
Other Energy Related Businesses			
- Downstream	5.4	1.3	(76)
- Power	4.3	4.4	1
- Other services	7.1	6.8	(5)
Subtotal	16.8	12.4	(36)
Total	**143.9**	**156.3**	**9**

Other material financial information

No other material financial information recorded in 2011 other than what has been explained in this MD&A and Consolidated Financial Statements.

Subsequent Events

Between January 1, 2012 and up to April 23, 2012, the Company carried out the following events:

i. In February 3, 2012, the Company paid in full MTN I Serie A Phase II amounting US$7.4 million.

ii. In February 2012, the Company signed a Loan Agreement with PT Bank Mandiri (Persero) Tbk (Mandiri) to roll over the mature Working Capital Credit facility amounting to US$50 million. This facility will mature on March 12, 2013.

iii. In February 2012, the Company signed a Loan Agreement with PT Bank ICBC Indonesia to roll over the matured Working Capital Credit facility amounting to US$10 million. This facility will mature on February 25, 2013.

iv. In March 2012, PT Medco Ethanol Lampung, early repaid its working capital and investment obligations to Indonesia Eximbank amounting to US$3 million and US$28 million respectively.

v. Based on Notarial Deed No. 3 dated January 4, 2012 of Karlita Rubianti, S.H., PT Medco Energi CBM Indonesia established PT Medco CBM Rimau with total paid-in capital amounting to Rp1 billion. PT Medco Energi CBM Indonesia investment together with that of PT Medco Energi Nusantara in PT Medco CBM Rimau amounted to Rp1 billion, representing equity interest of 100%.

vi. Based on Certificate of Incorporation No. ET-265735 dated January 19, 2012 of Joy A. Rankine, Assistant Registrar of companies of the Cayman Islands, Medco Strait Services established PT Medco Petroleum Services Limited with total paid-in capital amounting to US$50 thousand. Medco Strait Services investment amounted to US$50 thousand, representing equity interest of 100%.

vii. Based on registered number 1694649, on February 7, 2012, Medco Yemen Holding Limited incorporated Medco Yemen Malik Limited under the British Virgin Islands (BVI) Business Companies Act 2004 with authorized shares of 50,000 shares and no par value.

viii. In February 2012, PT Bio Jathropa Indonesia (BJI), a subsidiary of Medco Power, signed a power purchase agreement with PT PLN (Persero) to provide and sell electric power from a power plant at Cibalapularang, Cianjur, West Java, with the price at Rp656 per kWh for the period of 15 years started from its Commercial Operating Date (COD).

ix. On March 14, 2012, PT Medco Energi CBM Indonesia, a subsidiary of the Company, signed a Memorandum of Understanding (MOU) with Korea Gas Corporation (KOGAS) for the development of Coal Bed Methane (CBM). MedcoEnergi and KOGAS will jointly identify and study all the best possibilities in implementing projects that can monetize and add value to CBM, including business opportunities relating to CBM industry, such as: Liquefied Natural Gas (LNG), pipelined gas, Dimethyl Ether (DME).

Dividend Policy and Distribution

It is the Company's commitment to distribute net income recorded at year end to the shareholders as dividend with a maximum ratio of 50% of the Company's net income.

In 2011, the Company declared and paid cash dividend for the 2010 net income in the total amount of US$21.9 million to 2,941,996,950 shares. Meanwhile in 2010, the Company declared and paid cash dividend for the 2009 net income in the total amount of US$8.5 million to 2,941,996,950 shares.

Use of US$ Bonds Proceeds

In 2011, the Company issued Shelf- Registered Bond US$ I in the total amount of US$150 million which will be issued in several series within a period of two years. However during the year the Company has withdrew US$80 million in two stages:

- First Stage - amounting to US$50 million – maturity in July 14, 2016
- Second Stage - amounting to US$30 million – maturity in November 11, 2016.

The Bonds proceeds net after cost related to the bonds issuance, will be utilized to refinance the Company's maturing debts and capital expenditures.

During the year, the Company used US$77.33 million for:

a. Refinancing US$59.41million
b. Capital Expenditures US$17.92 million

Other Material Information

In 2011, the Company executed the following transactions which are considered material information:

1. The Shares Sale of Medco Tunisia Anaguid Limited

   On September 14, 2011, the Company through its wholly owned subsidiary, Medco Tunisia Holding Ltd (Medco Tunisia), signed a Shares Sale Purchase Agreement (SSPA) with OMV (Tunesien) Production GmbH (OMV) for the entire issued share capital (Shares) of Medco Tunisia Anaguid Limited (Medco Anaguid) with total consideration value of US$58 million.

   On October 27, 2011, the sale and purchase of Medco Anaguid shares was completed. On October 28, 2011, the Company received a total payment of US$56.3 million from OMV.

   Effective on October 27, 2011, the entire issued shares capital of Medco Anaguid was transferred to OMV, including the 40% participating interest in Anaguid Exploration Permit and 20% participating interest

The implementation of MedcoEnergi's Open values creates solid team work among MedcoEnergi's employees.

in Durra Concession (Anaguid Block) held by Medco Anaguid.

The gain on divestment is recognized in the Statement of Comprehensive Income during the year 2011 ammounting to US$35.4 million.

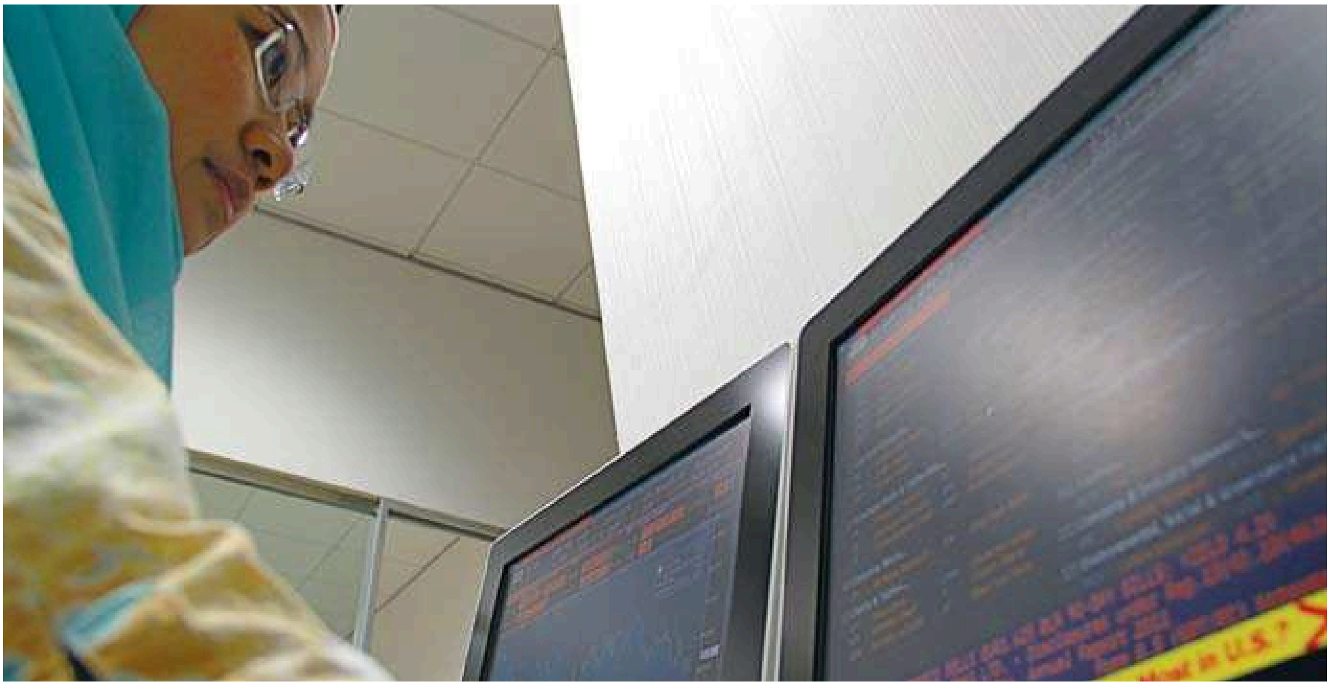
2. The Divestment of 51% Shares in PT Medco Power Indonesia

   On December 16, 2011, the acquisition of the Company's 51% shares in PT Medco Power Indonesia (Medco Power), and subscription of Phase I of Medco Power's new shares amounting to US$87 million effectively took place as all requirements specified in the Shares Purchase and Subscription Agreement which was executed on 14 November 2011 between the Company, PT Saratoga Power (Saratoga), and Medco Power had been fulfilled.

The total amount of the acquisition of 51% shares and subscription of new shares in Medco Power by Saratoga is US$112 million. It is carried out in three (3) stages:

1. The purchase of 51% shares of the Company effective as of December 16, 2011 valued at US$54.88 million;
2. The subscription of new shares issued in Phase I by Medco Power in pro rata according to the ownership of each shareholders, Saratoga for 51% (worth US$32.12 million) and the Company for 49% (worth US$30.86 million); and
3. The subscription of new shares issued in Phase II by Medco Power in pro rata at the latest on March 2012 according to the ownership of each shareholders, Saratoga for 51% (worth US$25.00 million) and MedcoEnergi for 49% (worth US$24.02 million).

Completion of Share Purchase and Subscription of Medco Power



We utilize the most up to date technology to monitor the share price and shares movement.

Upon the effective acquisition and subscription of Phase I by Saratoga and the Company, the shareholders structure of Medco Power becomes the following:

- Saratoga: 51%; and
- MedcoEnergi: 49%

US$43 million is recognized from the divestment of 51% interest in Medco Power in statement of comprehensive income.

In 2011, the Company still consolidated the sales and revenues of electrical power generated from Medco Power. But starting year 2012, the Company will not consolidate Medco Power into its financial statements.

Affiliated Party Transaction

During the year 2011 and 2010, the Company conducted several transactions with the following affiliated parties:

1. PT Bank Himpunan Saudara 1906 Tbk
2. PT Medcopapua Industri Lestari
3. Mitsubishi Corporation (MC) as one of the indirect controlling shareholders of the Company through Encore Energy Pte Ltd Petro Diamond Co Ltd, Hong Kong (PDH), Petro Diamond Singapore Pte Ltd (PDS) and Tomori E&P Ltd (TEL) are subsidiaries of MC.
4. PT Donggi Senoro LNG (DSLNG), an entity under the same common control with the Company.
5. PT Medco Inti Dinamika (INTI), which has the same key members of management as the Company.
6. PT Medco Duta (DUTA), a stockholder of the Company.

The followings are the transactions made with such affiliated parties:

1. Cash deposit, time deposit and bank loan with Bank Saudara amounting to US$8.8 million, US$21.9 million and 0.7 million, respectively in 2011 and US$3.5 million, US$26.7 million and US$0.6 million in 2010.
2. High speed diesel sales to PT Medcopapua Industri Lestari amounting to US$2.1 million and US$2.8 million in 2011 and 2010, respectively.

3. Long term debt from Loan Facility Agreement with MC amounting to US$70 million in 2011.
4. Advance for operational activities and to finance the DSLNG amounting to US$46.8 million and US$1.7 million in 2011 and 2010, respectively.
5. PT Medco Duta held 20,589,000 shares of the Company, representing 0.70% ownership in 2011, while it held 4,089,173 shares of the Company, representing 0.14% ownership in 2010.

The management is of the opinion that transactions with related parties are undertaken at arm's length, at similar prices and conditions as those done with third parties.

New PSAK

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those made in the preparation of the Company and its subsidiaries' consolidated financial statements for the year ended December 31, 2010, except for the adoption of several amended PSAKs effective January 1, 2011. The followings were PSAKs adopted effective January 1, 2011:

- PSAK No. 1 (Revised 2009), Presentation of Financial Statements

  The adoption of PSAK No. 1 (Revised 2009) has significant impact on the related presentation and disclosures in the consolidated financial statements. PSAK No. 1 (Revised 2009) regulates the presentation of financial statements as to, among others, the objective, components of financial statements, fair presentation, materiality and aggregation, offsetting, distinction between current and non-current assets and liabilities, comparative information and consistency, and introduces new disclosures, such as key estimations and judgments, capital management, other comprehensive income, departures from accounting standards and statement of compliance.

- PSAK No. 2 (Revised 2009), Statement of Cash Flows

  The implementation of PSAK No. 2 (Revised 2009) does not have significant impact on the consolidated financial statements.

- PSAK No. 4 (Revised 2009), Consolidated and Separate Financial Statements

  The adoption of PSAK No. 4 (Revised 2009) has a significant impact on the financial reporting, including the related disclosures, in the consolidated financial statements.

- PSAK No. 5 (Revised 2009), Operating Segments

  The adoption of PSAK No. 5 (Revised 2009) has no significant impact on the consolidated financial statements. PSAK No. 5 (Revised 2009) requires disclosures that will enable users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which operates.

- PSAK No. 7 (Revised 2010), Related Party Disclosures

  The adoption of PSAK No. 7 (Revised 2010) did not have a significant impact on the related disclosures in the consolidated financial statements. PSAK No. 7 (Revised 2010) requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, and also applies to individual financial statements.

- PSAK No. 8 (Revised 2010), Events After the Reporting Period

  The implementation of PSAK No. 8 (Revised 2010) does not have significant impact on the consolidated financial statements.

- PSAK No. 12 (Revised 2009), Interests in Joint Ventures

Based on PSAK No. 12 (Revised 2009), adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint venture.

- PSAK No. 19 (Revised 2010), Intangible Assets

  The implementation of PSAK No. 19 (Revised 2010) does not have significant impact on the consolidated financial statements.

- PSAK No. 22 (Revised 2010), Business Combinations

  In accordance with the transitional provision of PSAK No. 22 (Revised 2010), starting January 1, 2011, the Group:

  - ceased the goodwill amortization;
  - eliminated the carrying amount of the related accumulated amortization of goodwill; and
  - performed an impairment test of goodwill in accordance with PSAK No. 48 (Revised 2009), "Impairment of Assets".

- PSAK No. 23 (Revised 2010), Revenue

  The adoption of PSAK No. 23 (Revised 2010) has no significant impact on the consolidated financial statements. PSAK No. 23 (Revised 2010) identifies the circumstances in which the criteria on revenue recognition will be met and, therefore, revenue may be recognized, and prescribes the accounting treatment of revenue arising from certain types of transactions and events, and also provides practical guidance on the application of the criteria on revenue recognition.

- PSAK No. 15 (Revised 2009), Investments in Associates

  The implementation of PSAK No. 15 (Revised 2009) does not have significant impact on the consolidated financial statements.

- PSAK No. 25 (Revised 2009), Accounting Policies, Changes in Estimates and Errors

  The implementation of PSAK No. 25 (Revised 2009) does not have significant impact on the consolidated financial statements.

- PSAK No. 48 (Revised 2009) Impairment of Assets

  PSAK No. 48 (Revised 2009) prescribes the procedures to be employed by an entity to ensure that its assets are carried at no more than their recoverable amounts. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

- PSAK No. 57 (Revised 2009) Provision, Contingent Liabilities and Contingent Assets

  PSAK No. 57 aims to provide that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand the nature, timing and amount related to the information.

- ISAK No. 9, Changes in Existing Decommissioning, Restoration & Similar Liabilities

  ISAK No. 9 applies to changes in the measurement of any existing decommissioning, restoration or similar liability recognised as part of the cost of an item of property, plant and equipment in accordance with PSAK No. 16 and as a liability in accordance with PSAK No. 57.

- PSAK No. 58 (Revised 2009), Non-current Assets Held for Sale and Discontinued Operations

  The implementation of PSAK No. 58 (Revised 2009) does not have significant impact on the consolidated financial statements.

Financial Review & Strategy

SYAMSURIZAL MUNAF
Director & Chief Financial Officer

Prudent yet Flexible Financial Strategy

2011 was a great year for MedcoEnergi. The new composition of Board of Directors elected in May 2011, complemented by the organization restructuring completed in August 2011, has succeeded in making significant improvements in the Company's operational and financial results. Furthermore, a more prudent financial strategy implemented by the new Board of Directors provided wider financial flexibility to the Company.

Improvement in Financial Results

MedcoEnergi's financial results recorded significant improvement compared to the previous year. The Company's sales and other operating revenues increased to US$1,143.3 million in 2011 from US$929.9 million in 2010. The increase was mainly caused by a slightly higher oil & gas sales volume which reached 25 MMBOE in 2011 compared to 24 MMBOE in 2010 which was also complemented with the increase in 2011 average realized price of oil & gas to US$113.68/barrel of oil and US$3.80/MMBTU of gas, respectively, from US$81.41/barrel and US$3.57/MMBTU in 2010.

During 2011, MedcoEnergi succeeded in managing its costs of sales and other direct costs effectively, particularly its costs of oil & gas sales.

23%

decrease in other expenses (including a lower funding cost)

The Company successfully reduced its operating expenses to US$150.9 million in 2011, from US$173.3 million in 2010, which resulted in a higher operating income recorded by MedcoEnergi, amounting to US$224.3 million in 2011, an increase of 96% compared to US$114.5 million in the previous year.

In conclusion, our 2011 net income increased to USS$89.2 million, compared to the 2010 net income of US$88.2 million, with profit attributable to the shareholders amounting US$85.1 million, compared to US$83.1 million last year. Thus, the earning per share attributable to shareholders in 2011 increased to US$0.0289 from US$0.0282 last year.

Prudent Financial Strategy

No less importantly, 2011 was the year in which MedcoEnergi focusing on debt management, access to competitive funding, and liquidity. This was particularly crucial as the Company moved further to completing the Senoro Upstream and LNG Project, which require high capital, while preparing to meet its maturing debts in 2012.

Accordingly, in 2011 the Company completed a number of key initiatives, which were as follows:

- Securing US$650 million of cost-effective, bilateral standby loan, maturing in 5 years with interest between LIBOR +300 bps and 6% flat.
- Issuance of US$150 million of Domestic Shelf-registered bonds listed at the Indonesian Stock Exchange, first in Indonesia market.
- Generating more than US$300 million in cash by divesting marginal/non-performing assets.

As a result, at year end the Company maintained US$704 million of cash and cash equivalents, with over US$250 million of the figure in committed line. In the long term, this structure is expected to reduce funding cost substantially. Supported with robust liquidity, MedcoEnergi commands sufficient resources to meet its obligation while executing its strategy of effectively ensuring the timely completion of key development projects.

In 2011, Standard and Poor's on its affirmation of MedcoEnergi's long-term credit rating, stating that the Company has "a long history and strong track record in meeting its obligations".

US$
704
MILLION
Cash and Cash Equivalent

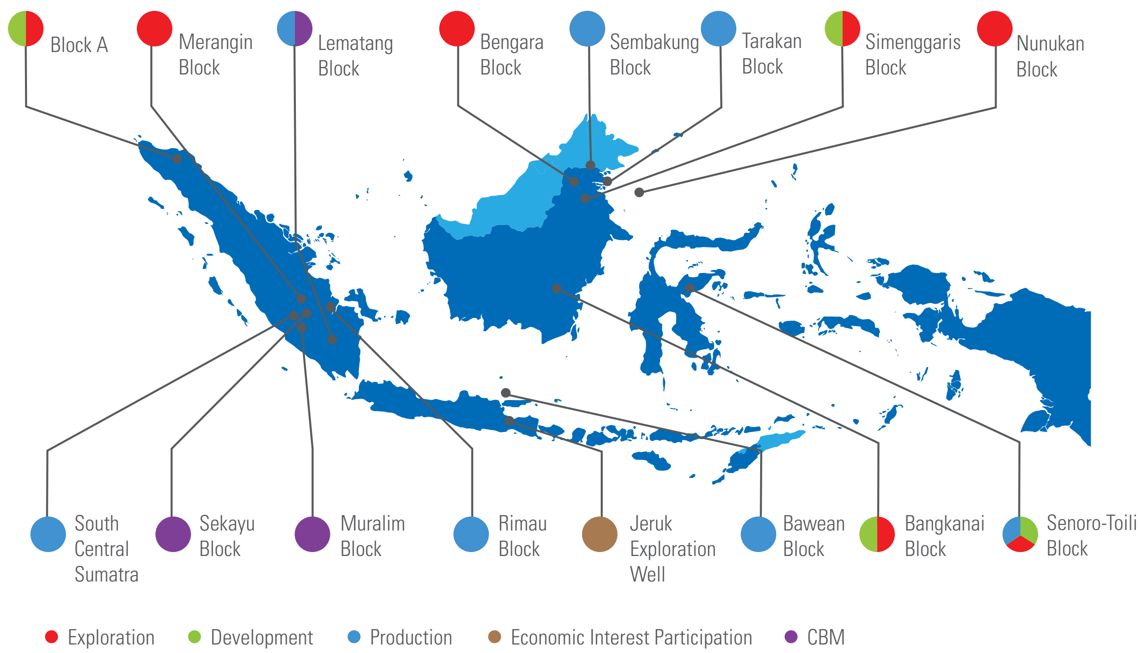
Moving Forward
The Company intends to reinforce its focus on oil & gas business, by pursuing the following initiatives:

- Maintaining strong liquidity to meet obligations and securing funding to facilitate near-term growth.
- Continuing the effort to reduce funding cost.
- Maintaining prudent capital structure by long-term de-leveraging story.

Going forward, as world oil price projected to stay above US$100/barrel, and Indonesian political and economic conditions expected to remain favorable in 2012, Management believes that the Company will be in the position to continue its operations effectively with better managed risks.

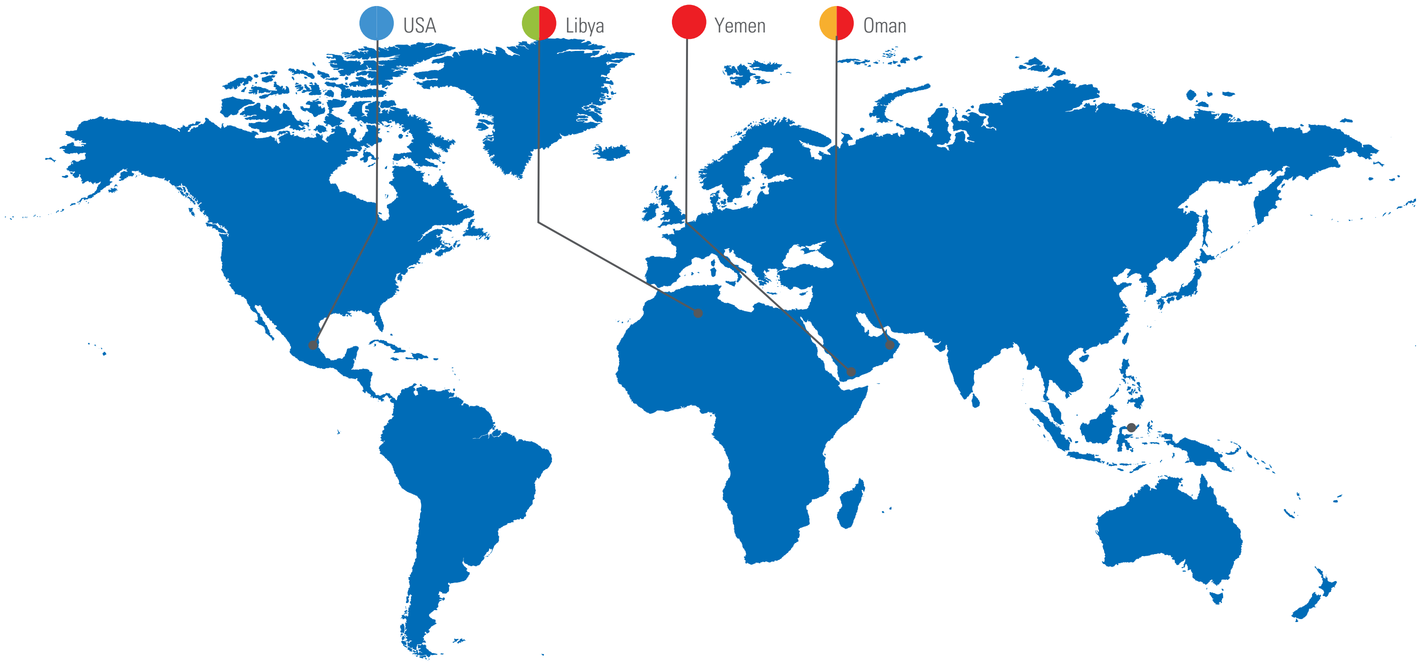
The Company expects that major projects will be the key to maintain long-term growth and sustainability.

Oil & Gas Operation Areas



Indonesia Operation (as of December 31, 2011)

No	Location	Name of Block	Activity	Description
1	**Aceh**	Block A		The Company through PT Medco E&P Malaka holds 41.67%, Type of contract PSC, with total areas 1,803 Km2, Contract expiry 2031
2	**South Sumatra**	Rimau Block		The Company through PT Medco E&P Rimau holds 95%, Type of contract PSC, with total areas 1,103 Km2, Contract expiry 2023
3		South and Central Sumatra		The Company through PT Medco E&P Indonesia holds 100%, Type of contract PSC, with total areas 5,493 Km2, Contract expiry 2033
4		Lematang Block		The Company through PT Medco E&P Lematang holds 74,12%, Type of contract PSC, with total areas 187 Km2, Contract expiry 2017
5		Merangin Block		The Company through PT Medco E&P Merangin holds 80%, Type of contract PSC, with total areas 2.577 Km2, Contract expiry 2033
6		CBM Lematang		The Company through PT Medco CBM Lematang holds 55%, with total areas of 800 Km2, Contract expiry 2041
7		CBM Sekayu		The Company through PT Medco CBM Sekayu holds 50%, Contract expiry 2041
8		CBM Muralim		The Company through PT MECI holds 50% with total areas of 982.7 Km2, Contract expiry 2041
9	**East Java**	Bawean Block		The Company through Camar Bawean Petroleum Ltd. holds 65%, Type of contract PSC, with total areas 3.025 Km2, Contract expiry 2031
10	**East Kalimantan**	Bengara		The Company through PT Medco E&P Bengara holds 35%, Type of contract PSC, with total areas 2,311 Km2, Contract expiry 2029
11		Nunukan		The Company through PT Medco E&P Nunukan holds 40%, Type of contract PSC, with total areas 3,196 Km2, Contract expiry 2034
12		Tarakan		The Company through PT Medco E&P Tarakan holds 100%, Type of contract PSC, with total areas 180 Km2, Contract expiry 2022
13		Sembakung		The Company through PT Medco E&P Sembakung holds 100%, Type of contract TAC, with total areas 23 Km2, Contract expiry 2013
14		Simenggaris		The Company through PT Medco E&P Seimenggaris holds 41.5%, Type of contract PSC JOB, with total areas 547 Km2, Contract expiry 2028
15	**Central Kalimantan**	Bangkanai		The Company through Bangkanai Petroleum (L) Berhad (BPLB) holds 15%, Type of contract PSC, with total areas 4,536 Km2, Contract expiry 2033
16	**Central Sulawesi**	Senoro - Toili		The Company through PT Medco E&P Tomori Sulawesi holds 30%, Type of contract PSC JOB, with total areas 451 Km2, Contract expiry 2027



Exploration Development Production Service Contract

International Operation (as of December 31, 2011)

No	Location	Name of Block	Activity	Description
17	**USA**	East Cameron 316	●	The Company through MedcoEnergi US LLC holds 100%, with total areas 23.23 Km2, No time limit, contract expires when production ends.
18		East Cameron 317/318	●	The Company through MedcoEnergi US LLC holds 75%, with total areas 40.5 Km2, No time limit, contract expires when production ends.
19		Main Pass 64/65	●	The Company through MedcoEnergi US LLC holds 75%, with total areas 28.4 Km2, No time limit, contract expires when production ends.
20		Mustang Island 758	●	The Company through MedcoEnergi US LLC holds 66.25%, with total areas 23.30 Km2, No time limit, contract expires when production ends.
21		Brazos 437	●	The Company through MedcoEnergi US LLC holds 100%, with total areas 23.30 Km2, No time limit, contract expires when production ends.
22		Brazos 451	●	The Company through MedcoEnergi US LLC holds 100%, with total areas 23.23 Km2, No time limit, contract expires when production ends.
23		West Delta 52	●	The Company through MedcoEnergi US LLC holds 53.84%, with total areas 0.5 Km2, No time limit, contract expires when production ends.
24		West Cameron 557	●	The Company through MedcoEnergi US LLC holds 100%, with total areas 20.23 Km2, No time limit, contract expires when production ends.
25	**Yemen**	Block 82	●	The Company through Medco Yemen Holding Ltd. holds 38.25%, with total areas 1,853 Km2, Contract expiry 2027
26		Block 83	●	The Company through Medco Yemen Holding Ltd. holds 38.25%, with total areas 346 Km2, Contract expiry 2027
29	**Libya**	Area 47	● ●	The Company through Medco International Ventures Ltd holds 50%, Type of contract PSA, with total areas 6,182Km2, Contract expiry 2030
31	**Oman**	Karim Small Fields	●	The Company through Medco Oman LLC holds 51% of exploration and production service agreement, contract expiry 2016

Ensuring Safety & Health

"SHE is number one. Get it right and other performance will follow"

(Frila Berlini Yaman - COO)

SHE Performance in the Company's Oil & Gas Assets in Indonesia

	'07	'08	'09	'10	**'11**
Total Recordable Injury Rate (1)	2.06	1.67	1.52	1.30	**1.83**
Lost Time Incident Frequency Rate (2)	0.52	0.22	0.40	0.37	**0.42**
Severity Rate (3)	16.67	175.11	497.44	584.83	**8.41**

Notes:

(1): The number of accidents that result in: Medical Treatment, Limited Work Hour, Loss Time Incident and Fatality per one million hours worked.

(2): Number of accidents with Lost Time Incident which causes the worker inability to perform its original task or result in permanent disability (either partially or completely) per one million hours worked.

(3): The number of days lost (due to an accident with death + crash with Loss Time Incident) per one million hours worked.

The Company's Safety Health & Environment (SHE) management system, Performance Integrity of MedcoEnergi (PRIME), covers 15 SHE management processes required for safe, effective, and efficient operations. It complies with international standards including ISO 9001 (Quality Management System), ISO 14001 (Environmental Management System), OHSAS 18001 (Occupational Health and Safety Management System), PAS 55 (Asset Management System), and GRI (Corporate Social Responsibility Reporting System).

In 2011 the domestic oil & gas operations recorded an Incident Rate higher than the previous 3 years, but the severity rate decreased significantly.

To address the root cause of incidents and improve performance in safety and health we focused on the following:

1. SHE Passport issued to all field workers, to record the training requirement and fulfillment, critical for third party workers with very minimal knowledge of workplace safety.
2. Behavior Based Safety Cards, to reduce unsafe behavior by way of direct intervention.
3. Contractor Safety Management, to ensure contractors pass SHE requirements and perform to the required standards.
4. Facility Integrity Inspection, to inspect facilities and activities based on the potential risk exposure.
5. Health Risk Assessment, a program initiated in 2011 to determine the health hazards and to measure risk levels.

In Their Own Voice

"A successful company is one that is not only profit oriented, but one that also fosters a healthy, safe, and environmentally friendly corporate culture."

Zona Nuansa Adha Antariksa
Reservoir Engineer

isrs7

To measure performance the Company performs audits using the International Safety Rating System version 7. By 2012, the E&P Assets aim to improve their rating to level 5 (out of 10), to be achieved out in stages.

Preserving The Environment

"The world belongs to the next generation. Join us in our cause to save the world!"

(Banner in Medco Save the Earth 2011 Event)

Talk Less, Do More, Just Do It! This is MedcoEnergi's rallying cry for the environment. In 2011 Medco was the proud recipient of five PROPER environmental awards (see page 3). This was an acknowledgement of our capability in implementing a very good environment management system, deploying resources effectively, reducing greenhouse effects and launch community empowerment programs. In all our operations expectations are high and to include:

1. Commitment to preserve the environment by implementing international-standard practices in environmental protection and preservation.
2. Restore the ecological balance affected by the Company's operations, including air and water pollution and handling of hazardous solid waste.
3. Require all activities to comply with Government regulations such as studies for Environmental Impact Assessment (EIA) as well as Environmental Management and Environmental Monitoring (UKL-UPL).

All operation areas dilligently implement the 3R program: Reuse, Recycle and Recover. Other activities related to the environment include:

a. Greenhouse Gas Emissions Reduction: in an effort to forestall the diminishing environmental quality that leads to climate change, we reduce CO_2 emissions (a type of greenhouse gas) by minimizing flare gas and commercially utilizing the gas by-product as fuel for local power plants and by converting to LPG gas. We also inject the gas back into the formation for enhanced oil recovery.
b. Fuel Conversion: we have a pilot project to convert operational cars' fuel to natural gas, and implement the policy of non-CFC substance within the Company's work area. Another initiative is to supply City Gas to replace kerosene for domestic use in two main cities, Palembang and Tarakan.
c. Water Conservation: produced water is reinjected to avoid discharge as well as to maintain reservoir pressure. Biopores or absorption wells are used for rain catchment and to reduce the risk of flooding and soil erosion. Rain water and domestic wastewater is pooled in settling ponds and used in gardens and water hydrants.
d. Waste from operation activities is brought to waste treatment centers (equipped for treating hazardous and toxic materials), for waste storage, waste incineration, bioremediation, compost processing, and oil sludge recovery.

"We thank mother nature by making sure that the soil is dark, the leaves are green, the sea is blue, and the air is clear."

Happy Devi Thesly
Geologist

In Their Own Voice

Biodiversity Conservation

In 2010 the Company, in collaboration with Conservation International (CI), participated in the US Tropical Forest Conservation Act. A company donation of US$500,000 was credited to Indonesian foreign debt and allocated to the preservation of biodiversity in Sumatra forests, home to various endangered species such as the Sumatra rhinoceros, the Sumatra elephant and the Sumatra tiger. Through this engagement the Company participated in the efforts to restore the environment from damages caused by the exploitation of natural resources.

MedcoEnergi is commited to conduct revegetation by planting trees in an area equal to two times the area of the land cleared for its operations. As of 2011 the number of trees has reached nearly 290,000 covering a total area of 363.5 ha, capable of absorbing 48,000 tons of CO2 equivalent per year.

The Company cooperates with Sanggabuana Environmental Farmers Group to manage the environment along the Pesanggrahan River by improving the ecosystem and planting productive and rare plants. In 2011 the Company seeded 1,000 such plants.

3,750

The number of mangrove stems planted to date.

Celebrating Earth Day, the Company and the Environmental Agency of the City of Tarakan established a program to plant 15,000 mangrove stems to conserve the mangrove forest in Tarakan, Kalimantan

Plantation of flowers around Singa Gas Processing Facility

Nursery ground near the Rimau block important for the life cycle of the ecosystem.

Oil & Gas Operation Review

FRILA BERLINI YAMAN
Director & Chief Operation Officer E&P

Focus on exploring for more reserves, arresting the natural production decline in mature fields, and executing development projects

MedcoEnergi ended 2011 with good scores for Exploration & Production, both domestic and international. In 2011 we continued to focus our efforts on exploring for more reserves and arresting the natural production decline in our mature fields while at the same time executing development projects that will increase production in the future.

Assets in Indonesia and overseas in aggregate produced 25 MMBOE of oil & gas in 2011, 4% higher than last year. Production from Indonesia surpassed the level demanded by the Government, and operations in Oman continued a production streak of growth for three consecutive years. On a net basis, equivalent production was flat to 2011 but this must be viewed against a backdrop of 20% natural decline in all of our mature assets. Our production growth lies in the development projects that are currently under construction.

The Senoro gas development, which includes the Donggi-Senoro LNG Plant, is in Execution stage and has made good gains to achieve startup in 2014: land clearing for the Central Production Plant is 20 % done and the construction of the LNG plant is ahead of schedule, by 9%. We are optimistic to deliver first gas to the plant in 2014. Another gas development project, Block A, is in Define stage and has continued to advance on the many technical and commercial issues required for Final Investment Decision in 2012. A common denominator for all but one of our Indonesian projects is gas, which will be an increasing component of our domestic future production.

70,100 BOEPD

of oil & gas produced in 2011

Our tireless efforts to obtain commerciality for Area 47 Libya in the face of the geo-political situation of the country have finally achieved the desired result. The Declaration of Commerciality by NOC of Libya at the end 2011 marks the beginning of the development phase and validates our past investment in the exploration phase which raised high expectations when we drilled 20 wells with 90% success ratio.

Activities in exploration, production and development carry a common theme of smart technology deployment. This strategy is manifested in many ways: from the simple re-use of old data applied to new concepts (in Sembakung where production of 1,811 BOPD in May 2011 increased 60% in November); the combination of various artificial lift techniques tailored to the reservoir (in Rimau and South and Central Sumatra where once again the natural decline was arrested); and to the more challenging injection of chemicals in Enhanced Oil Recovery (in the pilot project in Rimau which began in late 2011). To the less-familiar environment of operations in Oman, we have brought our know-how honed from many years of operating mature fields in Indonesia (Oman production in 2011 improved 5% year-on-year).

Emerging exploration plays in our Indonesia assets such as tight sand, fractured fairways and hydrodynamic and diagenetic reservoirs are among the opportunities Medco is now pursuing. Success in any of these areas will also open avenues for success in other parts of the world. Technology plays a key part, as experienced eyes, leading edge hardware and software are some of the pre-requisites.

In the new frontier of unconventional hydrocarbon, specifically the Iliran High Heavy Oil Project, we are capturing smart technology through partnership with an entity of proven record. Two cores were taken in 2011 and sent to a lab where our technical staff work together with heavy oil experts to figure out the best way to assess and produce the thick wavy crude.

MedcoEnergi is always cognizant that our License to Operate in Indonesia and elsewhere comes with an obligation to contribute to the community with a meaningful CSR program. In 2011 Medco supplied gas for the needs of 4500 households in the city of Tarakan, Kalimantan. As we continue to develop capability in Coal Bed Methane (CBM), we have demonstrated the utility of methane gas produced from our first CBM block, Sekayu, as fuel for electricity in our facility. In 2012 this will be expanded to provide light to the surrounding villages.

We ended 2011 on a high note, by being honored with the Gold PROPER. With the four other PROPER awards received at the same time we can truly say that we are setting the pace for others to follow.

2012 will be a challenging year because many initiatives must come together and be delivered with continuous improvement from the last year: keep safe operations, increase production, ramp up exploration in Indonesia as well as overseas, acquire selective assets, and significantly progress the key development projects to build production growth. At the same time we will continue to respect the environment and implement a sustainable corporate social responsibility program for our communities. Not for any accolade, but because we believe it is the right thing to do.

Our Diverse Exploration and Production Activities

Operation in Karim Small Field, Oman

In 2012 Medco celebrates 20 years in the E&P business. In the two decades we have grown our portfolio and increased production from 5,500 barrels of 70,100 BOEPD oil equivalent per day (BOEPD) in 1992 to the current. Our operation is diverse in many ways: locally spread from Sumatra to Kalimantan to Sulawesi; in environments of land, swamp, tropical jungle, desert, and offshore; producing mature fields to new discoveries from exploration to secondary and tertiary recovery; producing sweet natural gas to sour gas, from condensate to oil. Furthermore, we are moving from conventional hydrocarbon to the unconventional, CBM and heavy oil.

With this vast and diverse experience, we have built a global presence and now have a portfolio of assets stretching from the USA, Middle East and Southeast Asia to our home base Indonesia.

Domestic Exploration – In Search of New Plays

MedcoEnergi is actively exploring for new hydrocarbon resources both in mature blocks and in new exploration blocks where no discovery has yet to be made. Our past successes with the Kaji – Semoga discoveries in 1996 suggest that there is still material hydrocarbon potential to be discovered even in mature basins. We are therefore deploying multidisciplinary teams using new technologies, computing power and a more structured approach to search for new plays and step-outs within existing plays.

In 2011 in our mature blocks in South Sumatra, we commenced a campaign to explore heavy oil accumulation by drilling Taba and Tala and slim hole wells for testing/coring. Core and oil samples were taken for laboratory test to get data to support the best choice of production technique. In conventional hydrocarbon, four step-out wells (Lica-1, Lica-2, North Temelat-2 and Rumbi-2) successfully found oil & gas in conventional hydrocarbon target zones. A plan to drill a more challenging deeper target is underway for Lagan Deep-1: the Lagan field is producing gas from shallow formations whilst Lagan Deep-1 is targeting Talang Akar sandstones at a depth of around 11,500 feet.

Drilling in the exploration blocks showed encouraging results such as South Sebuku-2 well (Bengara-I PSC) which found significant gas reserves and Solo-1 well (Merangin-I PSC) which encountered strong gas shows in the Air Benakat sandstones. These successful exploration efforts added more oil & gas to our reserves base.

Exploration Activities

No.	Blok	Well Name	Remarks
1	South and Central Sumatra	Lica-1	Tested 202 BOPD / Baturaja Limestone
		Lica-2	Tested 190 BOPD / Baturaja Limestone
		North Temelat-2	Tested 280 BOPD / Baturaja Limestone
		Lagan Deep -1	Suspended due to Technical Problem
2	Rimau	Rumbi-2	311 BOPD / Talang Akar Sandstone, 173 BOPD / Baturaja Limestone, 1.5 MMSCFD / Telisa Sandstones
		Taba-1	Heavy oil project
		Taba-2	Heavy oil project
		Tala-2	Heavy oil project
3	Bengara-I	South Sebuku-2	Tested 8 MMSCFD / Tabul Sandstones
4	Merangin-I	Solo-1	Strong gas shows / Air Benakat Sandstones

Note:
BOPD = Barrels Oil Per Day
MMSCFD = Million Standard Cubic Feet per Day

At the same time, as part of the efforts to discover new reserves, the Company started geophysical surveys in Rimau and Bawean PSC Blocks. Currently the survey is gathering onshore 2D seismic data along 400 km of the Rimau Block, while the 2D seismic acquisition 1000 km in the Bawean Block has been completed.

Overseas Exploration – Focus on Libya and Yemen

In Libya in early 2011 MedcoEnergi completed the drilling of well B2 – 47/02. When Libya revolution broke out in February 2011, we instructed all personnel to leave the area. However, our office in Tripoli remained in operation as we were in process of obtaining commerciality. On December 15, 2011 Medco was granted commerciality of Area 47 (for A,D, L and F structures), allowing us to start the exploitation activity to develop hydrocarbon pools in the field. Further exploration is expected to commence in late 2012.

In Yemen, the Company started field activities for 2D and 3D seismic data acquisition in Blocks-82 and 83. As we reached 20% of completion, everything was put into suspension due to the political situation. We project that all field activities will resume in first quarter of 2012 to complete the remaining work. However, the suspension of seismic data acquisition could delay the overall plan.

Production Activities - Extracting More Out of Mature Fields

In Indonesia, MedcoEnergi carries responsibility for producing oil & gas on behalf of the Government of Indonesia. In 2011 we successfully increased our production to 22.1 MMBOE, surpassing the target of 21.85 MMBOE set by the Government of Indonesia and achieving a 8% percent increase from 2010. The production was primarily from fields in South Sumatra and East Kalimantan (Rimau, South and Central Sumatra, Lematang, Tarakan, Sembakung), with lesser contribution from assets in offshore East Java (Bawean) and Central Sulawesi (Tiaka- Senoro/ Toili).

Overseas, the USA assets in Gulf of Mexico increased production by 43% to 0.2 MMBOE in 2011 compared to 0.1 MMBOE last year. Oil production came from Block Main Pass 64/ 65, and gas from East Cameron 317/ 318.
In Oman we have a production service contract and operate the Karim Small Fields on behalf of Shell PDO. Our team successfully increased production by 3% to 3.5 MMBOE in 2011. This achievement in Oman reflects MedcoEnergi's success in increasing production for the last three consecutive years.

Old Field – New Oil

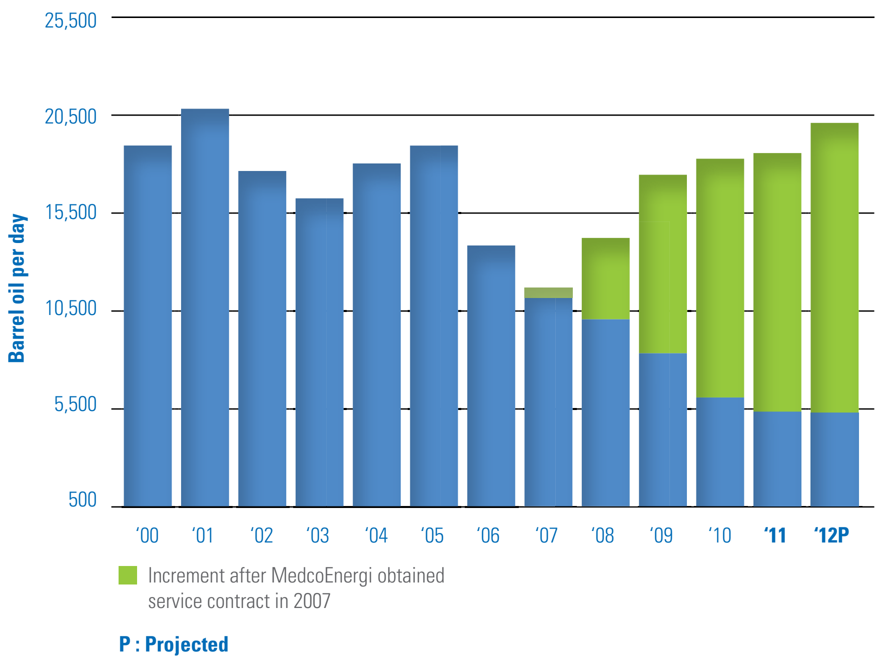
Over the years, we have successfully developed and deployed a core competence and skills in utilizing various production techniques to arrest the natural decline of mature fields and maintain, even increase, overall production. The spectrum of technology applied is wide, starting from the simplest (using mud logs to find perforation zones) to the sophisticated (tertiary recovery using chemical and polymers).

In Rimau Block, we apply artificial lift using Electric Submersible Pump combined with gas lift. Secondary recovery with waterflood is already on going there, to be followed by chemical injection (Enhanced Oil Recovery, EOR) in order to assist the reservoir to continue to produce.

In South and Central Sumatra Block the methodology of choice is water injection wells to maintain reservoir pressure. This method was so successful in Jene field that in the last four years it is back to producing at natural flow after 18 years of gas lift and intensive water injection for pressure maintenance.

A production success story which received the CEO Award for Best Improvement was about low tech with high success: The Sembakung Block, East Kalimantan, has been on production since 1977 and its potential was thought to be now limited. With minimal funds, a multidisciplinary team reviewed old data, dating back to the 1970s, took new data, tested a theory and found production layers that were previously overlooked.

Production Karim Small Field, Oman



After further successful tests, oil production increased by 60%.This has given new life to an old field and an enthusiasm for going back to basic engineering techniques.

High pressure and high temperature reservoirs with H2S and CO2 mixed in the production gas: these are the challenges faced by the Lematang operation. The facilities utilize a dual system for filtering H2S and constant monitoring is required to manage downhole pressures above 10,000 Psi and temperatures above 300 degree Fahrenheit. Since the start up in 2010 there has been no accidents and production has been steady. The lesson to operate in this challenging environment will be an advantage when we develop Block A in Aceh which has similar conditions.

In Oman, MedcoEnergi faced the challenge of old fields with steep decline rates. Since we started operating the Karim Small fields in 2006 gross production has increased from 11,750 to 18,700 BOPD in 2011.Overcoming the challenges that come from operating in a new country, to date Medco has drilled 137 new wells and 137 workover wells, with local manpower close to 80% of the total. In the near future we plan to implement waterflood and EOR technique to increase the recovery factor, building on our experience in Kaji.

Gas for the Community

MedcoEnergi in cooperation with the local government launched the City Gas Program in Palembang in 2010 and in Tarakan in 2011. Gas from MedcoEnergi's near fields supplies clean energy to more than 8,000 households.

The inauguration of gas city project in Tarakan utilizing natural gas as feedstock for local households.

The City Gas Program underlines MedcoEnergi's support for the Government's effort to reduce kerosene consumption. Replacing kerosene with LPG and City Gas will improve the quality of living of the local community by providing clean energy for everyday use.

Another visible commitment is a Memorandum of Understanding signed with a local power company to supply methane gas from our CBM fields in Sekayu (South Sumatra). CBM is very much a new development yet it is already participating in the welfare of the surrounding community.

Coal Bed Methane (CBM) field in Sekayu (South Sumatra).

MedcoEnergi's diverse and long operating experience brings value in the form of institutional knowledge and the mutual sharing of lessons between global assets. The stage is set for MedcoEnergi to become a true world-class operator.

Unconventional Hydrocarbons

Carefully and meticulously, MedcoEnergi has started to venture into unconventional hydrocarbons with the Iliran Heavy Oil Project and development of CBM in 3 blocks in South Sumatra. Other types of unconventional hydrocarbons (shale gas, gas in tight sands) are being studied.

Iliran Heavy Oil Project

The heavy oil in Iliran, South Sumatra is shallow and seeps to the surface; the remains of Colonial-era wells that were drilled to produce heavy oil can still be found in the area. The potential is significant with an areal coverage of 60 Km2.

A 3-year exploration effort has been undertaken in 2010 with the aim of mapping the distribution of the reserves and testing for the most appropriate production techniques. Included in this program are five exploration wells, two stratigraphic wells and 2D seismic. The use of continuous coring technique in order to get best rock samples, and the special completion techniques needed to move the thick sticky oil are but a few aspects that attest to the uniqueness of this project.

Coal Bed Methane

In contrast to conventional gas, CBM is gas trapped in the pores of coal. To force the gas out, water is sucked out of the pores– a

In Their Own Voice

Didit Ariady Firmansyah
Manager of Eastern South Sumatra Exploration

Puti Permata
Reservoir Engineer, Heavy Oil Project Co-Lead

When we got the assignment to be in the heavy oil project, initially we thought it would be like any other E&P project. We never thought that heavy oil would expose me to such complex challenges where we had to recalibrate most of our previous knowledge and skills in conventional oil, and learn a lot of new stuff.

We are proud of the solid multi-disciplinary team we are working in, where each team member has to get out of his comfort zone and work under the same spirit to "MAKE IT HAPPEN". Oil and rock samples are being analyzed at the lab and we expect that the lab measurements will guide us in selecting the appropriate production techniques to lift the heavy oil from under the ground and into the tank.

We strongly believe that our commitment and acceptance of new technologies will lead us to fruitful results; and when it happens and we commence producing heavy oil in 2014, we will be there to see it.

In Their Own Voice

Bramastra Lalean
CBM Subsurface Engineering Manager

Developing CBM in Indonesia is like waking up a sleeping giant, given the enormous CBM reserves of around 450 trillion cubic feet (TCF) in the country – a promising, untapped potential. Of the total resources, 240 TCF is contained in Sumatra and therefore, MedcoEnergi is well situated because we already have operating assets in the area and 3 CBM PSCs in South Sumatra.

In the present early stage, developing CBM in Indonesia is a challenging process as we have to get familiar with the unique reservoir, production and development technology. But when the moment arrives, CBM will deliver many potential benefits such as a new energy source for the nation, irrigation for local farms (from the dewatering process), and methane gas as an environmentally friendly fuel that reduces green-house effect and global warming.

In 2011 dewatering in the Sekayu CBM PSC produced enough methane gas to provide light in our well site, and in 2012 we will extend light to the surrounding community. We are a small operation now but already contributing to the welfare of our neighbors.

process known as dewatering. A lot of water is produced before the finally the gas is released. To date, the Company has three CBM blocks: Sekayu, Muralim and Lematang. MedcoEnergi is the operator of the Sekayu and Lematang blocks while the Muralim block is operated by Dart Energy. In Sekayu we have drilled three wells, with two undergoing dewatering.

Studies to search for other CBM blocks are under way and MedcoEnergi expects to add to its CBM portfolio in near future.

Major Development Projects

Medco aims to double production by 2016. In order to achieve this goal Medco must maintain current production to arrest natural decline, continue exploration efforts to find new resources and execute the major development projects successfully.

MedcoEnergi is developing four major projects in Indonesia three of which are gas: Senoro Gas Development Project in Senoro-Toili Block in Central Sulawesi province; Block A Gas Development Project in Aceh province; and Simenggaris Gas Development Project in East Kalimantan province. The gas comes from new fields that have not produced before. Our single oil project is an EOR pilot in Rimau block in South Sumatra province where the resources come from mature fields already in secondary recovery.

Internationally we are in process of commencing an oil project in Area 47, Libya, which will monetize resources from a successful Medco exploration campaign undertaken in 2006 – 2010.

MedcoEnergi uses a proven methodology in executing major projects called Medco Project Excellence Process (MPEP),

Major Project Locations

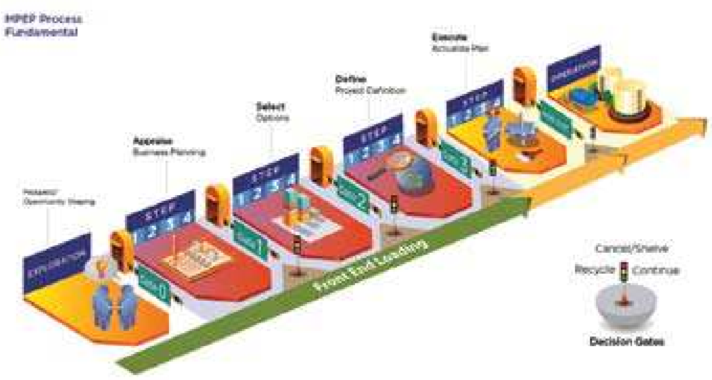
1. Senoro	2. Simenggaris	3. Rimau EOR	4. Block A	5. Area 47 Libya
Central Sulawesi, Indonesia	East Kalimantan, Indonesia	South and Central Sumatra, Indonesia	Aceh, Northern Sumatra, Indonesia	Northern Libya
Type of contract PSC JOB, with total areas 451 Km2,	Type of contract PSC JOB, with total areas 547 Km2	Type of contract PSC, with total areas 1,103 Km2	Type of contract PSC, with total areas 1,803 Km2	Type of contract PSA, with total areas 6,182Km2
Contract expiry 2027	Contract expiry 2028	Contract expiry 2023	Contract expiry 2031	Contract expiry 2030

which is based on internationally recognized process and procedures. MPEP mandates the use of a rigorous stage-gate decision process and a technical assurance process, all governed by a decision review board of relevant executives.

All projects have to go through five steps, from Appraise, Select, Define, Execute to Operate. The gate decision process ensures that projects are developed properly to maximize shareholder's value and are ready to be executed with solid grounding.

Block A Gas Development
Project Phase: Define

The Government of Indonesia last year granted MedcoEnergi an extension of the Production Sharing Contract of Block A of 20 years, until 2031. Two Gas Sales Agreements have been signed, one with the state-owned fertilizer plant PT Pupuk Iskandar Muda (PIM), and the other with the state-owned power company PT Perusahaan Listrik Negara (Persero) (PLN).



Medco Project Excellence Process is focused on three main factors: people, process and organization.

The current gas development is based on production from three gas fields and will include development drilling and gas facilities for sweetening the gas and managing the high pressure and high temperature operations. The Front End Engineering and Design (FEED) was completed in 2011 with production slated to start in 2015. MedcoEnergi sees great potential in this block and will proceed with an exploration program in 2012 and beyond.

In this venture MedcoEnergi is joined by partners Japex Block A Ltd and Premier Oil Sumatra (North) BV.

Simenggaris Gas Development
Project Phase: Execute

The Simenggaris block is jointly operated by MedcoEnergi and Pertamina. Development of this gas field began in 2008 with production expected to start in 2013. All development drilling was done in 2011 and facilities will be completed in 2012. The gas from this field will be supplied to Pertamina's methanol plant in Bunyu Island.

310 MMSCFD

Gas supply to the LNG plant will be 250 MMSCFD with an additional 60 MMSCFD allocated to domestic users.

Partnership

The same Pan-Asia companies are in partnership in the upstream and downstream

	UPSTREAM	DOWNSTREAM
MEDCOENERGI	30%	11.1%
PERTAMINA	50%	29%
Mitsubishi Corporation	10.1%	44.9%
KOGAS Korea Gas Corporation	9.9%	15%

Senoro Development

Breaking the Gas Market Barrier

Project Phase: Execution

MedcoEnergi innovatively orchestrated a market for its abundant gas reserves in the remote areas of Indonesia.

In 1997 MedcoEnergi's gas in Tarakan could not find a market because of its location in remote North Kalimantan. MedcoEnergi found a way by reviving and committing to operate Pertamina's near-idle Bunyu methanol plant, thus finding an outlet for Tarakan gas.

More recently with the Senoro development, where the gas is in Senoro-Toili Block at the northeastern tip of Central Sulawesi province, we have persisted since field discovery in 1999 to create a market to monetize the gas. Together with our partners, all Asian companies, we have put together the first Pan-Asian upstream to downstream LNG project. The Senoro gas field contains sufficient reserves and contingent resources to supply long-term natural gas to a 2 million ton liquefied natural gas (LNG) plant, which will start up in the fourth quarter of 2014 with a smaller volume.

The upstream and downstream execution is carefully planned to arrive at the same end point in the fourth quarter of 2014, with the startup of the upstream production and the first flow of gas into the LNG plant with first LNG drop in 2014. Gas of 250 MMSCFD will be converted to LNG under a long-term gas supply agreement. In addition, we will supply 60 MMSCFD to the domestic market. The same partners participate in both upstream and downstream thus ensuring that all parties work together to make it happen.

We are proud that we will soon be a member of the elite club of LNG producers.This will be the fourth Indonesian LNG plant and the first LNG project in Indonesia built by a national company, PT Donggi Senoro LNG.

We have indeed broken the gas market barrier once again.

90%

Success rate of 20 exploration wells, 2006 - 2011

50,000 BOPD

Planned development capacity, in 2 stages

Area 47, Libya

First to get commerciality declaration

Project Phase: Appraise

The successful outcome of MedcoEnergi's participation in Area 47, Libya is the addition of 352 MMBOE contingent resources in 2006 - 2008.

To date since 2006, we have drilled 20 exploration wells and 6 appraisal wells, and completed an extensive 2D and 3D seismic program. Of the exploration wells we managed to achieve an amazing success ratio of 90%.

MedcoEnergi in 2005 entered into the Exploration and Production Sharing Agreement IV (EPSA IV) of Area 47 with a participating interest of 50%. We became the operator in 2010 during the exploration period.

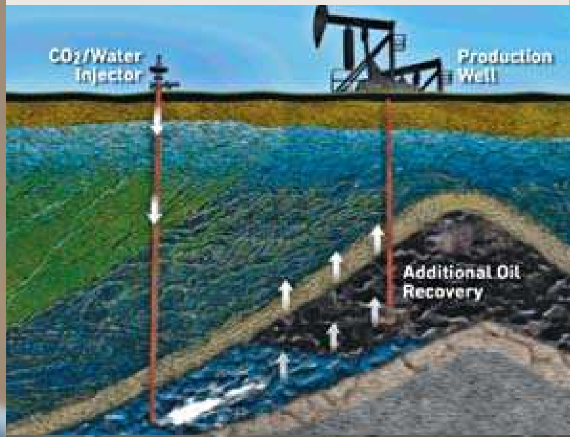
On December 19, 2011 MedcoEnergi released an important press statement. It informed that the Management Committee Area 47 Libya had issued a Declaration of Commerciality of oil fields A, D and F in the Ghadames Basin. With this declaration the holders of the participating rights, MedcoEnergi and the Libyan Investment Authority (LIA) can commence the development of the oil fields, and get recovery. Among all of the blocks granted under EPSA IV, Area 47 was the first to obtain a commerciality declaration from the Government of Libya.

This commercial resolution is the first step in the development of Area 47 Libya. It validates MedcoEnergi's determination and capability in running an overseas exploration program within a challenging geopolitical environment.

MedcoEnergi hosted a delegation of Libya officials prior to declaration of commerciality in October 2011.

MedcoEnergi and its partner plan a production facility with a capacity of 50,000 BOPD. Engineering will start in 2012 and construction in 2013.

We continued our efforts in the country to commercialize oil & gas discoveries in other fields of Area 47.

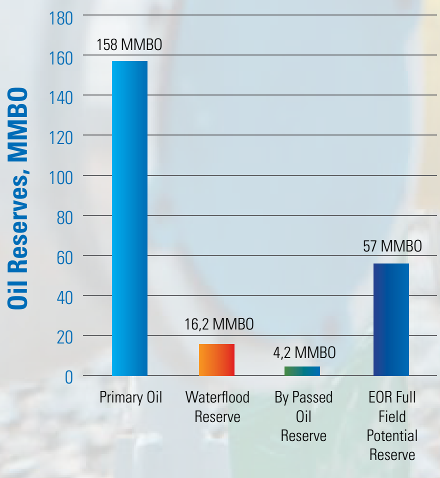


60%

By implementing EOR, we target to increase the recovery factor of Kaji-Semoga fields to 60% from the current 40%.

Primary to Tertiary Recovery

From 2004 - 2028



Rimau: Kaji-Semoga EOR

The Giant that Keeps on Giving

Project Phase: Select

From first discovery in 1996, the Kaji-Semoga field continues to produce with the application of increasingly advanced production technology.

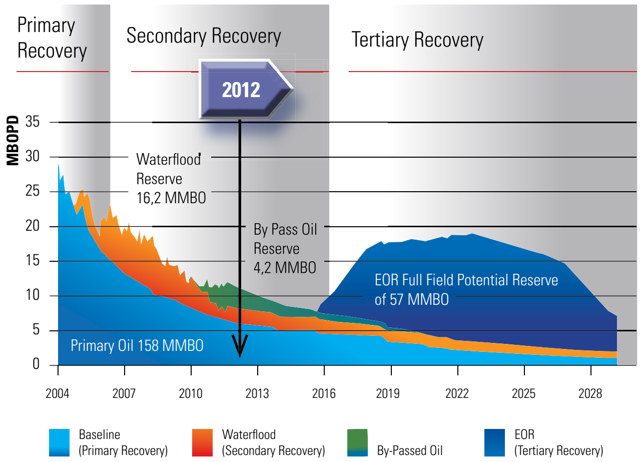
One of the first achievements in MedcoEnergi's successful history was the discovery of the huge Kaji-Semoga field in South Sumatra, which played a major part in MedcoEnergi achieving a position as one of the major oil producers in Indonesia.

The fields were discovered in 1996 and started production in 1997. Primary recovery reached its peak in 2002. Secondary recovery with water flood has arrested the natural decline, and a future tertiary recovery will possibly give another peak in 2023. This is why Kaji-Semoga is the asset that keeps on giving.

MedcoEnergi's implementation of secondary and tertiary recovery techniques began in 2005. We have executed several key programs to offset oil production decline, for example by maintaining reservoir pressure through waterflood; stimulating the tight reservoir with fracturing; minimizing pressure drawdown by drilling horizontal wells; and finally implementing Enhanced Oil Recovery (EOR). By implementing EOR using surfactant and polymer flood, we expect to increase the recovery factor of Kaji-Semoga fields from 40% to 60%.

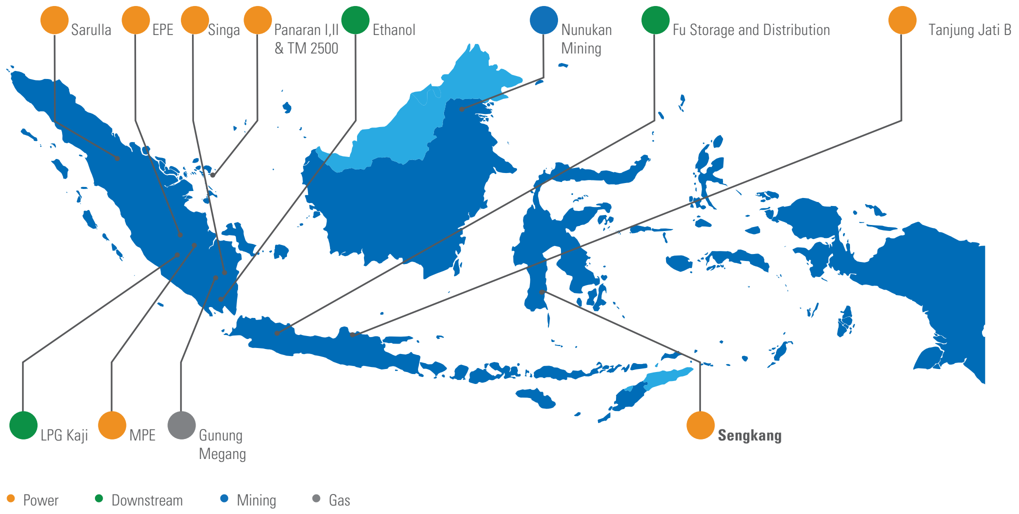
In late 2011 we started the EOR pilot program by pre-flushing the reservoir. The pilot consists of six patterns to cover the heterogenity of Kaji-Semoga reservoirs. Activities related to reservoir monitoring include tracer survey (to determine the direction of injection between injector and producer well); saturation log baseline (to determine the remaining reserves before injection); and laboratory analysis (to determine the quality and compatibility of the chemicals to be injected). In 2012 we will start the commissioning of the facilities to ensure all is ready before chemical injection in the middle of the year. In parallel with the pilot project, the design work for EOR full scale is also being prepared.

Kaji Semoga - Primary to Tertiary Recovery



MedcoEnergi is the first in Indonesia to attempt EOR in limestone reservoirs. Having the experience and capability in this unique technology will certainly be a competitive advantage in the mature production areas in Indonesia and elsewhere.

Other Energy Related Business Operation Areas



No	Location	Type of Assets	Activity	Description
Downstream				
1	**South Sumatra**	LPG Plant		Operated by PT Medco Downstream Indonesia. Production Capacity: LPG: 200 MT/day, Condensate: 400 BOPD, Lean Gas: 12 MMSCFD, Commencement of operations 2004
2	**Lampung**	Bio-ethanol Plant		Operated by PT Medco Downstream Indonesia Production Capacity 190 KL/day, Commencement of operations 2008
3	**Jakarta**	Fuel Storage Facility		Operated by PT Medco Downstream Indonesia Capacity 22.700 KL, Commencement of operations 2007
Power				
1	**North Sumatra**	Sarulla Project		The contract held through PT Medco Power Indonesia Design Capacity 3x110 MW, Commercial Operations 2013 - 2015
2		Singa Power Plant		Indirectly operated by PT Medco Power Indonesia (100%) Design Capacity 2x3.5 MW, Commercial Operations UNIT A Mar 31st 2010 & UNIT B Apr 22nd 2010
3	**South Sumatra**	PT Elnusa Prima Elektrika (EPE) Power Plant		Indirectly operated by PT Medco Power Indonesia (85%) Design Capacity 2x6 MW, Commercial Operations June 1st 2006
4		PT Multidaya Prima Elektrindo (MPE) Power Plant		Indirectly operated by PT Medco Power Indonesia (85%) Design Capacity 2x6 MW, Commercial Operations April 30th 2009
5		Panaran I Power Plant		Indirectly operated by PT Medco Power Indonesia (64%) Design Capacity 2x27.75 MW (GTG 1 & 2), Commercial Operations October 30, 2004
6	**Batam Island**	Panaran II Power Plant		Indirectly operated by PT Medco Power Indonesia (60%) Design Capacity 2x27 MW (GTG 3 & 4) & 7.5 MW chiller, Commercial Operations January 25, 2005
7		TM 2500 Power Plant		Indirectly operated by PT Medco Power Indonesia (60%) Design Capacity 19 MW truck mounted, Commercial Operations 2007
8	**Central Java**	Tanjung Jati B O&M		Indirectly operated by PT Medco Power Indonesia (80%) Design Capacity 2x660MW, Commercial Operations November 2006
9	**South Sulawesi**	Sengkang Power Plant		Indirectly owned by PT Medco Power Indonesia (5%) Design Capacity 135 MW (combine cycle) & 60 MW (simple cycle), Commercial Operations Combine Cycle Oct 1998 & Simple Cycle November 2008
Mining				
1	**East Kalimantan**	Nunukan Coal Mining		Held two mining rights through PT Medco Energi Mining Internasional Reserves: 5.7 million metric ton, Production Target: 540,000 MT/year, Started on February 2012
Oil & Gas Services				
1	**South Sumatra**	Gas Transportation		Owned and operated through PT Medco Gas Indonesia Capacity of Boaster compression station: 3 x 22.5 MMSCFD and 10" of 17.5 km pipeline
2		Workover Drilling Rigs and Logging Units		Owned and operated through PT Exspan Petrogas Intranusa. Workover drilling rigs: 6 units, electric wireline logging: 9 units, and 1 mud logging unit

Other Energy Related Businesses

BUDI BASUKI
Director & Chief Operation Officer Other Energy Related

We are committed to improve the performance of other energy related businesses and seek partnerships to accelerate growth

In 2011, the new Board of Directors of MedcoEnergi resolved to extend the capability of its other energy related businesses and accelerate growth through strategic partners. We remain confident that these businesses have a role in supporting MedcoEnergi's growth in years to come. To enable the expansion of the businesses, it is very important to optimize each venture and invite strategic partners who have expertise in the areas required.

The most important milestone recorded by the other energy related businesses in 2011 was the optimization of PT Medco Power Indonesia (Medco Power) which resulted in the joining of a new strategic partner, PT Saratoga Power, a subsidiary of Saratoga Capital (together called Saratoga), as a 51% shareholder of Medco Power at the end of November 2011. Saratoga became a shareholder of Medco Power through the acquisition of 51% of MedcoEnergi's shares in Medco Power amounting to US$54.9 million, and the subscription of 51% new shares in Medco Power amounting to US$32.1 million. The acquisition and subscription of new shares was completed in December 16, 2011, resulting in MedcoEnergi's share ownership in Medco Power to decrease to 49%. At the end of 2011, MedcoEnergi recognized a gain of US$43.0 million from this divestment. Such divestment allowed MedcoEnergi to deconsolidate the financial statement of Medco Power effective December 16, 2011.

Another milestone was the success of our liquefied petroleum gas (LPG) plant to maintain its steady operation and obtain carbon credit amounting to US$0.28 million which was recorded as other income in 2011, following its success in acquiring a Voluntary Emission Reduction (VER) certificate in 2010.

In addition, mining business also accomplished in obtaining the critical forestry and construction permit in the fourth quarter of 2011. With the permits in place, our mining business will start the construction and production phase in the first quarter of 2012 and we expect to launch the first shipment of coal in the second quarter of 2012.

Other businesses also made effort to improve. We strived to enhance the production performance of our pilot project bio-ethanol plant by studying alternate feedstock to cassava, such as molasses. We reduce the risk of our HSD trading business by limiting the trading volume and reducing the period of trade receivables. Meanwhile in the oil & gas service business, the Company succeeded in obtaining contracts for all of its work-over rigs and logging units, and in 2011 received the certification such as ISO 9001:2008, ISO 14001:2004 and OSHAS 18001:2007, that increased customers' confidence in our ability to operate to high standard. Additionally, the Company's gas transportation business continued to support the oil & gas production asset by distributing gas from South and Central Sumatra PSC.

In the near future, the key will be to ensure that the production of coal mining and its initial shipment can be realized as planned. In addition, MedcoEnergi will also strive to limit and reduce the costs of production and operation as effectively as possible. We are confident that by improving the performance of our other energy related businesses, as well as reducing costs in all areas of operation, we can optimize the value of our assets, and offer an attractive investment to potential strategic partners.

Downstream

	'10	'11	%
Associated gas processed (MMSCF)	2,232	**2,239**	**0.3**
Sales of High Speed Diesel (KL)	254,418	**269,389**	**5.9**
Production of Bio-ethanol (KL)	19,764	**16,097**	**-18.6**

MedcoEnergi downstream business comprises of the processing of associated gas produced from the Kaji and Semoga fields in the LPG plant, the development of our pilot project in producing bio-ethanol, and delivering high speed diesel (HSD) to our committed customers.

2011 Performance

LPG Processing Plant

The operation of our LPG Plant highly depends on the availability of associated gas from the Company's Kaji and Semoga fields. The Company's success in maintaining oil production of the Kaji and Semoga fields allowed the LPG plant to process slightly higher volume associated gas in 2011, amounting to 2,239 MMSCF, compared to 2,232 MMSCF in 2010. Moreover, the Company succeeded in operating the plant efficiently and achieved a positive net income.

MedcoEnergi also continued to find a partnership for the utilization of Kaji LPG Train-2 and a new gas sources.

Bio-ethanol Plant

MedcoEnergi's bio-ethanol plant was installed with dual system of feedstocks, cassavas and molasses. The plant produces Export Grade Rectified Alcohol (EGRA) and its side product, Technical Alcohol.

The production of bio-ethanol is highly reliant on the availability of raw materials. To secure the supply of feedstock, in 2011 the Company continued to engage with local land-owners to rent the land and plant the cassavas.

The continuous increase of cassava price in January through August 2011 has required the Company to lower its bio-ethanol production and undertake a study on using molasses as feedstock. The study concluded that the utilization of molasses as feedstock would allow the Company to produce bio-ethanol efficiently. Moreover, the market price of ethanol produced from molasses is higher than the ethanol produced from cassavas.

In 2011, the Company processed 75,248 tons of cassava to produce 12,759 KL of ethanol, and 11,326 tons of molasses to produce 3,338 KL, while in 2010 the Company processed 130,628 tons of cassava and produced 19,764 KL of ethanol.

The Company plans to continue utilizing molasses as feedstocks and looks forward to a better result of production and plant costs efficiency in 2012 onwards.

HSD Trading and Distribution

In 2011, the Company succeeded in limiting the operational and financial risks of operating the HSD trading business and maintaining gross profit margin of 3%. However, the increase of HSD trading volume in 2011 resulted in an increase of HSD cash cost per unit to US$0.83 per liter from US$0.62 per liter in 2010.


Bio-ethanol feedstock storage facility in Lampung, part of a strategy to enter renewable energy, includes technology to produce grade alcohol.


At our Lampung Bio Ethanol Plant, technical alcohol is tested to ensure deliver of good product.

During the year, the Company evaluated the performance of the HSD trading business and concluded that inviting a strategic partner who can take over the risks in growing the HSD trading business is essential. Thus, starting in 2012, the Company began to offer the business to potential strategic partners and expects the plan to be executed this year.

Merauke Initiative

In 2010, the Company took strategic steps to implement the Merauke Initiative program. The program essentially constitutes an earnest effort by the Company to enter the business of renewable fuels. The Company was granted a principal license from the Merauke Regent for 74,000 hectares of land to be converted into a sugar cane plantation in 2010.

Following the grant of principal license, in 2010 the Company conducted nursery activities and testing of several varieties of sugar cane plants in Kurik, Merauke. It also conducted improvements in pest and disease control, and developd an irrigation and watering system to provide a database that is both adequate and relevant for the plant to develop an integrated ethanol industry on a sustainable basis.

In 2011, the Company suspended its activity in Merauke initiatives. However, the plan to implement the concept of a mini-scale, integrated ethanol industry still remains.

Methanol Plant

Leveraging its success and competence in managing and operating a methanol plant for more than 10 years, in 2011 the Company won a tender process to become the operator of the re-operation project of PT Pertamina's Bunyu Methanol Plant. The plant will receive gas supplied from the gas field in Simenggaris.

Currently, the Company is finalizing negotiations with PT Pertamina on the Joint Operating Agreement of methanol plant and expects to be completed in 2012.

2012 Onwards

In 2012 onwards, the Company plans to continue improving the performance of its downstream business and offer attractive investments to its potential strategic partners in each business.

The Gas-fired Power Plant in Batam supports in meeting the increasing demand of electric power in the island.

Power Business

Our power business comprises of independent power producer (IPP), operating and maintenance (O&M) service contractor, and engineering, procurement and contractor (EPC).

2011 Performance

In 2011, our electric power business produced 1,201 GWH from 6 electric gas-fueled power plants in Batam Island and South Sumatra, a slight decline from 1,217 GWH produced in 2010. The lower number was due to the maintenance of generators in most of the power plants, and other mechanical problems.

In the effort to increase the production capacity of electric power in Batam, Medco Power continued its plan to install combined cycles to one of its existing power plans. The negotiation of Power Purchasing Agreement (PPA) is still under way and targeted to be signed in 2012.

Additionally, Medco Power continues its commitment to support the local government in meeting the demand of electric power in Batam and has obtained a Letter of Intent from PT PLN Batam in December 2011 to develop a 2x35 MW IPP Project. The negotiation PPA with PLN Batam is expected to complete in this year so that the construction can start in this year.

In O&M services, Medco Power recorded a lower capacity factor of 92.0%, compare to 94.5% in 2010.

In August 2011, the Company was awarded an EPC contract to build a 25 MW electric power plant from PT PLN Batam with a contract value of Rp114 billion and expected COD by September 2012.

Geothermal Projects Update

Currently, Medco Power holds two (2) geothermal projects in Indonesia, namely the Sarulla Project in North Sumatra, and the Ijen Project in East Java.

	'10	**'11**	**%**
Electric power			
Production of IPP electric power (GWH)	1,217	**1,201**	**-1.3**
Availability rate of O&M Services (%)	94.5	**92.0**	**-2.6**

Sarulla Project, North Sumatra

Medco Power and its partners in the consortium, Itochu, Ormat and Kyushu hold a contract to develop the 330 MW Sarulla Geothermal Power project. The project development will consist of three stages, with a planned COD of the first 110 MW unit in 2014, the second 110 MW unit in 2015, and the third 110 MW unit in early 2016.

The Deed of Assignment of the project was approved by the Ministry of Energy and Mineral Resources in August 2008 and the consortium has since carried out the development of the project. The consortium conducted surveys and topographic mappings of the project working area, technical soil testing for future power plant location, initial engineering for the construction of a power plant, and the study of the geothermal reservoir potential. The revised AMDAL document was officially approved by the Governor of North Sumatra in August 2009. The Principal Agreement on tariff was signed by PLN and Sarulla consortium in 2010, which was then followed by the finalization of tariff verification by the BPKP and the General Attorney of the Republic of Indonesia.

In 2011, the consortium continued the negotiation of ESC with PLN and JOC with PGE. In parallel, the financing negotiation process with the lenders was also carried out. The consortium expects negotiation could be finalized within the second quarter of 2012 so that the Project can then be executed.

Ijen Project, East Java

Medco Power was awarded the Ijen Project with a capacity of 2x55 MW by the Government of East Java province in June 2011.

Currently, Medco Power is discussing with the potential partner to support the development of the Project. At the same time, Medco Power is now conducting G&G study and expects for completion by May 2012.

2012 Onwards

The Company is confidence that electric power business is atractive and can add value to MedcoEnergi in the future. In line with the Company's business strategy, the performance of electric power business will be improved by increasing the performance of existing operational assets, completing the PPA for additional electric power production in Batam, and ensuring all the projects can be completed as planned.

Our model of Geothermal Power Plant plan to be constructed to provide power to North Sumatra.

We are committed to equip ourselves with different range of services in the oil & gas industry.

Oil & Gas Services

Gas Transportation Services

MedcoEnergi owns and operates a 17.5 kilometers 10" pipeline connecting the SSE gas facility at Gunung Megang to Singa gas facility, and a booster compression station at a capacity of 3x22.5 MMSCFD at Gunung Megang, South Sumatra with a pressure capacity of 1,100 psia.

2011 Performance

In 2011, the Company distributed 9,246 BBTU and compressed 11,809 BBTU of gas, lower than the volume of gas distributed and compressed in 2010 of 12,066 BBTU and 15.646 BBTU, respectively.

Simenggaris Gas Project

The Company and its consortium partner, Pertagas, established a joint venture company, PT Perta Kalimantan Gas in December 2009. This Company was established to manage and operate gas trading, develop gas pipeline, and transport gas from JOB Pertamina Medco EP Simenggaris to Pertamina's owned Methanol Plant in Bunyu Island.

The Sales and Purchase Agreement (SPA) between PT Perta Kalimantan Gas and JOB Pertamina Medco EP Simenggaris has been signed in 2010 to deliver 25 MMSCFD of gas from South Sembakung field to Methanol Bunyu Plant. The construction of 10" of 70 km pipeline is being prepared and targeted to complete in 2013.

Moving Forward

The Company plans to continue with the integration of its oil & gas business with the Company's gas transportation business. We are confident that such integration can add greater value to the Company. In this regard the Company will make every effort to complete the construction of Simenggaris gas pipeline as planned.

Workover Drilling Rigs and Logging Unit Rental Services

In the oil & gas services business, we strived to market and continue our commitment to deliver the best service in renting six (6) of our work-over drilling rigs, nine (9) electric wireline logging units and 1 mud logging unit to the various oil & gas exploration and production companies in Indonesia.

	'10	**'11**	**%**
Gas transportation services			
Gas distributed (BBTU)	12,066	**9,246**	**-23.4**
Gas compressed (BBTU)	15,646	**11,809**	**-24.5**
Workover drilling rigs and logging unit rental services			
Work-over drilling rigs utilization rate (%)	76%	**100%**	**32%**
Work-over drilling rigs effective rate (%)	63%	**79%**	**25%**
Logging units utilization rate (%)	86%	**96%**	**12%**
Logging units effective rate (%)	59%	**85%**	**44%**

2011 Performance

In 2011, the Company recorded 100% rigs utilization rate and achieved 79 % effective utilization rate, 20% higher and 10% more effective than in 2010. Meanwhile the logging units achieved a utilization rate of 96% and an effective utilization rate of 85%, 15% higher and 30% more effective than in 2010. In average, the utilization rate achieved 98% and the effective utilization rate achieved 82% in 2011, compared to 70% of utilization rate and 62% of effective utilization rate in 2010. Such increases were caused by new contracts of equipment obtained from Pertamina EP and the Company's oil & gas business which will expire in 2013.

Additionally, in 2011, the Company focused its business in work-over drilling rigs and logging unit services rental. Therefore, the Company began to hold discussions with potential buyers with the aim of divesting 100% shares of SVI and MRI. The divestment is expected to conclude in 2012.

To increase its capability in operating a bigger drilling rig services company, the Company acquired 3% of shares of PT Antareja International Services, a drilling rig services company in Indonesia, amounting to US$1.0 million, and purchased convertible bonds issued by PT Antareja International Services amounting to US$11.0 million with a coupon of 7% per annum.

2012 Onward

The Company plans to increase the performance of its oil & gas services rental business by integrating the existing business with the business of PT Antareja International Services. Having strong experience and expertise in operating a prominent drilling rig service rental company, the Company is confident that it will be able to operate a bigger sized drilling rig service rental in the future.

Coal Mining

MedcoEnergi holds 2 Mining Rights (IUP) for Coal in Nunukan, East Kalimantan, through its wholly-owned subsidiaries, PT Duta Tambang Sumber Alam (DTSA) and PT Duta Tambang Rekayasa (DTR).

DTR and DTSA's geological data and detailed exploration consisted of 384 drill holes (13,417m) with an average space of 70 meters, logging 301 holes (10,983m) and a topographic 1,052 Ha with a scale of 1:1,000. This area is capable of producing high calorie coal of 6,800 adb with a coal reserve discovery of 5,700,000 metric tons and a production target of 540,000 tons per year.

2011 Progress

In 2011, the Company successfully obtained the forestry and construction permit. The Company then began with the process of completing the planning of the mine and mine infrastructure.

2012 Plans

We plan to start the construction and production phase in the first quarter of 2012 and expect to launch the first shipment of coal in the second quarter of 2012.

We create added value through discovery and development on the coal mining business.

Planning & Strategy

AKIRA MIZUTA
Director & Chief Planning Officer

Focus on commercial performance by growing the business prudently

MedcoEnergi has successfully executed the strategic direction set at the Board Priority Setting (BPS) meeting in 2010, by implementing the 2011 Work Program and Budget approved by the Management by Objective meeting (MBO). The changes in the composition of the Board of Directors as approved at the Annual General Meeting of Shareholders in May 2011 as well as the new organization structure enacted in August 2011 facilitated the Company in achieving its 2011 objectives.

The new organization structure as described by our Human Capital Director & CHCO in his report, allowed MedcoEnergi to reduce operating costs, conduct its exploration and production businesses more prudently, strengthen its field operation capabilities, increase reserves, identify and assign new talents as successors of present leaders, as well as implement Medco Project Excellence Program (MPEP) effectively. All these, were reflected in our 2011 operational and financial performance as reported and discussed by our Finance Director & CFO and E&P Operation Director & COO.

Accordingly, in 2011 MedcoEnergi executed a number of relevant programs as planned. These include asset optimization program by divesting marginal and/or underperforming subsidiaries and forging a new partnership with a strategic partner, on top of securing new sources of funding from local banks and the bond market as described by the Finance Director & CFO.

Simultaneously, the Company successfully increased its oil & gas production volume and made encouraging progresses in relation to Major Projects, namely Senoro and Block A gas development projects, Enhanced Oil Recovery in Rimau, and Area 47 in Libya newly discovered oil development, as explained by our E&P Operation Director & COO.

The realization of the 2011 strategic direction and work program has definitely positioned the Company more strategically to overcome the challenges and capitalize on the opportunities ahead.

As agreed upon by all members of MedcoEnergi Board of Directors and Board of Commissioners at BPS meeting in August 2011 and translated into 2012 work program by the Board of Directors, going forward MedcoEnergi is committed to delivering “quality than quantity” in relation performance. The Company intends to pursue opportunities to increase reserves and production through organic and inorganic growth prudently given the risks, external factors and more importantly the Company’s financial capacity.

Realization of 2011 Plan

In 2011 MedcoEnergi continue to optimize its asset portfolio through investment/divestment strategies. The following initiatives were carried out during the year:

- Pursuing the plan to acquire producing assets, as well as assets with superior exploration opportunities.
- Divesting small, marginal assets and non-performing assets.
- Evaluating the plan to divest maturing assets.

Additionally, the Company continued its engagement with strategic partner that had strong technical and financial capabilities in operating its assets.

Divestment of Marginal Assets

Divestment of MedcoEnergi's Anaguid Interest in Tunisia

On September 14, 2011, MedcoEnergi through its wholly owned subsidiary, Medco Tunisia Holding Ltd, signed Shares Sale Purchase Agreement with OMV (Tunesien) Production GmbH (OMV) for the entire shares of Medco Tunisia Anaguid Limited (Medco Anaguid) with total consideration value of US$58 million. Such Agreement effectively transferred Medco's 40% Participating Interest in Anaguid Exploration Permit and 20% Participating Interest in Durra Concession (Anaguid Block) to OMV. Upon the Sale Completion Date, MedcoEnergi received a total cash proceeds of US$56.2 million from OMV, after taking into account the normal working capital adjustment between signing and closing date.

Strategic Partnership

Strategic Partnership with Saratoga Power

On December 16, 2011 MedcoEnergi announced a strategic partnership with PT Saratoga Power (Saratoga Power), a subsidiary of Saratoga Capital. The alliance is intended to leverage MedcoEnergi's diversified energy operations in power generation business managed by its subsidiary PT Medco Power Indonesia (Medco Power). It is expected to create a strong synergy for MedcoEnergi to continuously support the Government's programs and PLN in increasing electrification ratio in Indonesia.

Under Shares Purchase and Subscription Agreement signed on November 14, 2011, Saratoga Power would acquire 51% of MedcoPower's shares and a participation in Phase I and Phase II of its right issue. The total value of the share purchase and Phase I right issue was US$87 million and had been received on December 16, 2011. Saratoga Power would also disburse US$25 million for the Phase II right issue slated in January 2012.

The participation of Saratoga Power will create greater value for MedcoEnergi and Medco Power, assuring the completion of the project and increasing the electrification ratio in Indonesia.

MedcoEnergi announced a strategic partnerships with Saratoga Power to recapitalize its power business.
From left to right: Mr. Sandiaga Uno (Saratoga), Mr. Lukman Mahfoedz, Mr. Fazil Alfitri, Mr. Hilmi Panigoro (MedcoEnergi), Mr. Edwin Soeryadjaya, Mr. Suryadi (Saratoga)

2012 Strategies

In response to the identified challenges and goals, MedcoEnergi re-emphasized its focus on COMMERCIAL PERFORMANCE in every business decision in order to ensure sustainability of the Company and the energy industry.

As agreed upon by all members of MedcoEnergi and Board of Directors of all units at the BPS meeting in August 2011, for 2012 the Company intends to focus on delivering "Quality than Quantity" by implementing the following initiatives:

1. Dedicate efforts and attention to completion of Major Projects as planned.

2. Concentrate on good and sizeable assets through selective divestments; acquire producing assets and superior exploration projects.

3. Collaborate with strategic partners with exceptional technical and financial capabilities.

4. Optimize project development based on economic and strategic values by leveraging own financial (capital structure, funding), technical (technology, processes), and management capabilities; as well as extensive and capable external relations/ network.

5. Dedicate capital expenditures allocation to existing operations and Major Projects.

6. Maintain reasonable funding for exploration activities.

7. Continue to explore new projects and allocating capital to projects that generate immediate/short-term cash flow as well as substantial returns within reasonable time frame.

8. Maintain discipline on project execution and capital stewardship.

Key Performance Indicators

These initiatives have been incorporated into 2012 Work Program approved by the Board of Directors and Board of Commissioners of MedcoEnergi during the MBO meeting, and manifested in the targets and Key Performance Indicators (KPIs) as follows:

1. Total consolidated budget of US$1,174 million, which consists of Capital expenditures of US$356 million; and Cash Costs (Direct Cost + G&A) of US$818 million.

2. Total production of 57 MBOEPD with operating cost per unit of US$15.7/BOE.

3. Book reserves additions for commercial of 21 MMBOE and reserves additions from Libya of 75 MMBOE.

4. Record EBITDA of US$264 million and Net Income US$53 million

5. Conduct selective divestment

6. Major Projects as scheduled with start-up targets of: 2012 for Simenggaris gas and Rimau EOR Pre-flush; 2014 for Block A and Senoro Upstream gas; 2015 for Area 47 oil facility and production in Libya.

We are confident that with the vision, mission and corporate values of MedcoEnergi aligned with those of its business units, the Company will be able to execute the 2012 strategies and plans and achieve the KPIs target effectively. Ultimately, this will allow MedcoEnergi to generate competitive and sustainable returns for shareholders, provide employees with a conducive and rewarding working environment, support the Government in developing the communities surrounding its operation areas, and meeting energy demand in a responsible manner.

Risk Management

Business Risks

MedcoEnergi's operations are subject to numerous risks, many of which are beyond the Company's control and can adversely affect its operations and financial performance. The risks include but not limited to:

Industry Factors

Risks Associated with Oil & gas Exploration and Production: Oil & Gas operational risk, exploration risk, development risk, reserves replacement risk, contract renewal risk.

Risk Associated with Power Generation Business: Government regulations and contracts that affect the tariffs chargeable to off-takers, new market entrants, prices and fuel supply, operating risks.

Risks Associated with Downstream Business: Decline in oil production, fluctuations of foreign currency exchange rates, supply and price of raw material.

Market and Economic Factors

Price Volatility Risk: Fluctuation in global oil & gas prices and other product prices i.e Ethanol and HSD.

Global Economic Risk: Risk of global economic contraction

Interest Rate Risk: Fluctuation in interest rate.

Foreign Exchange Risk: Risks associated with the exchange rate of Rupiah against US dollar, risk of exchange rate fluctuations in foreign countries where the Company operates.

Competition Risk: Competition in the oil & gas, power generation and downstream industries.

Geopolitical Factors

Political Risk: Political uncertainty or lack of well-established and reliable legal systems, laws and regulations.

Legal Risk: Litigation from partnership with other companies, other lawsuits.

Social / Security Risk: Unrest in a country or a region where uncertainty of regulation/law exists

Regulation Risk: Oil & Gas Law No. 22/2001 and regulations on Production Sharing Contract (PSC), cost recovery arrangement and Domestic Market Obligation (DMO); regulations and interventions by governments around the world, risks associated six different foreign jurisdictions. Tax Policy Changes applied in countries where companies operated increase exposure related to the financial risk.

Environmental Factors
Environmental Risk: Environmental hazards resulting from disposal of oil & gas residuals and other plant (Ethanol, LPG, Electric generators) residual disposal forms of chemical and polluted materials

Global Climate Change Risk: Changes in laws and regulations on global climate change.

Natural Disaster Risk: Natural disasters such as storms, hurricanes, earthquakes, tsunamis, floods, well blow-outs and other calamities.

Risk Mitigation

In order to protect its operations and assets from losses resulting from the risks previously described, MedcoEnergi chooses to transfer certain risks to insurance companies. This risk transfer covers its operations and assets with insurance protection. The policies cover production facilities and supporting equipment of MedcoEnergi and its subsidiaries, and are regularly undergone re-assessment to be aligned with the risk dynamics.

MedcoEnergi and its subsidiaries are protected by the following insurance policies:

Energy Package Insurance Policy
This policy protects MedcoEnergi's from losses pertaining to its production facilities and machinery in oil & gas exploration and production activities. Valued at US$670 million, the policy covers assets and operations in Indonesia, the United States, Yemen, Libya and Oman.

Industrial All Risk (IAR) Policy
This policy protects MedcoEnergi's from losses pertaining to its production facilities and machinery in power generation and gas transportation business in Batam Island and South Sumatra. The value of this policy is US$234 million.

Comprehensive Machine Insurance Policy
This policy protects MedcoEnergi's from losses pertaining to its production facilities in downstream industry such as LPG production, Methanol and High-Speed Diesel trading. The value of this policy is US$95 million.

Marine Cargo Insurance Policy
This policy protects MedcoEnergi's from losses pertaining to its cargo transported by vessels during transportation, specifically general and high-speed diesel cargo of its subsidiaries. The value of this policy isUS$40 million.

Contractor Plant and Machinery Insurance Policy
This policy protects MedcoEnergi's from losses pertaining toequipment and machinery facilities in drilling services. The value of this policy is US$33 million.

Third Party Liability Insurance Policy
This policy covers the losses that MedcoEnergi has to compensate for, which result from a litigation with a third party in relation to its operations and the pertaining excesses. The value of this policy is US$248million.

Our operation in Tiaka field, Central Sulawesi ensures its risks are fully protected.

Human Capital

DASRIL DAHYA
Director & Chief Human Capital Officer

The organization restructuring supports MedcoEnergi in achieving optimum results.

In an industry where technical skills play a significant role in achieving optimum results, human capital competency is at the center stage in achieving the goals of MedcoEnergi. Indeed, human capital has always been instrumental in providing services that meet the standards stipulated in service level agreement with the clients.

In this respect, in 2011 we undertook a number of key projects in organization and people management, namely organization restructuring and succession plan, as well as continuing the traditional training programs.

The organization restructuring was definitely the milestone we documented last year. In contrast with its predecessor, the new structure features clear demarcation between key executive responsibilities: Eight C-level people including CEO who oversee finance, oil & gas operation, other energy related operation, human capital, and planning responsibilities.

With separation of Oil & Gas operation and other energy related operation responsibilities,induction of new designations in charge of human capital, exploration, new ventures and business support, the new structure will facilitate focus and coordination in exploring new reserves, new ventures, capitalizing on talents and of course, ensuring sustainable operation as a going concern.

For 2012 we expect to see the results of the succession plan currently implemented. Capitalizing on MedcoEnergi's own talent base, this approach ensures that management at the holding company and subsidiaries will run smoothly in the events of contingency, thanks to a readily available base of qualified candidates.

Organization Restructuring

The new organization is based on centralized decision making and functions and streamlined chain of command among MedcoEnergi, subsidiaries and business units – domestic as well as international.

The new organization structure complements the new corporate structure, dividing major responsibilities into seven chief executives in an equal level:Chief Financial Officer, Chief Human Capital Officer, Chief Operation Officer (Oil & Gas), Chief Operation Officer (Other Energy Related), Chief Planning Officer, Chief Exploration and New Ventures Officer, and Chief Business Support Officer.

Effective August 2011 following the decision of shareholders' general meeting on May 19, 2011, the new structure is essentially directed toward realizing MedcoEnergi'sobjective to maintain sustainable production volume and healthy revenue growth, by targeting the following areas:

Business Development:
Faster realization of business objectives.

- Streamlined and faster decision making: Executive decisions(of holding company and subsidiaries) will be made in less time by a single executive layer,the Board of Directors of MedcoEnergi, bypassing the otherwise lengthy process at the subsidiaries.

- Dedicated and focused efforts in exploration activities: With exploration directly under Chief Exploration and New Ventures Officer, MedcoEnergi will be able to find new reserves in much less time and capitalize on new opportunities optimally with adequate technical and financial support. In the past, exploration is tucked under Technical Support, where resources were fairly limited.

Human Capital:
Placement of employeesbased on skills and competencies.

Employees will be more effectively managed and nurtured. Training, career development, placement and succession programs especially at the top level will run more effectively in a timely manner. Critical issues such as skill gap will be easily pinpointed and talent can be designated to the right position in accordance with their specific skills and competencies.

Financial Management:
Discipline utilization of financial resources.

With authority over financialdecisions residing in Chief Financial Officer, MedcoEnergi will be able to directly monitor the utilization of financial resources according to budget, and secure the most efficient and flexible funding scheme from lenders.

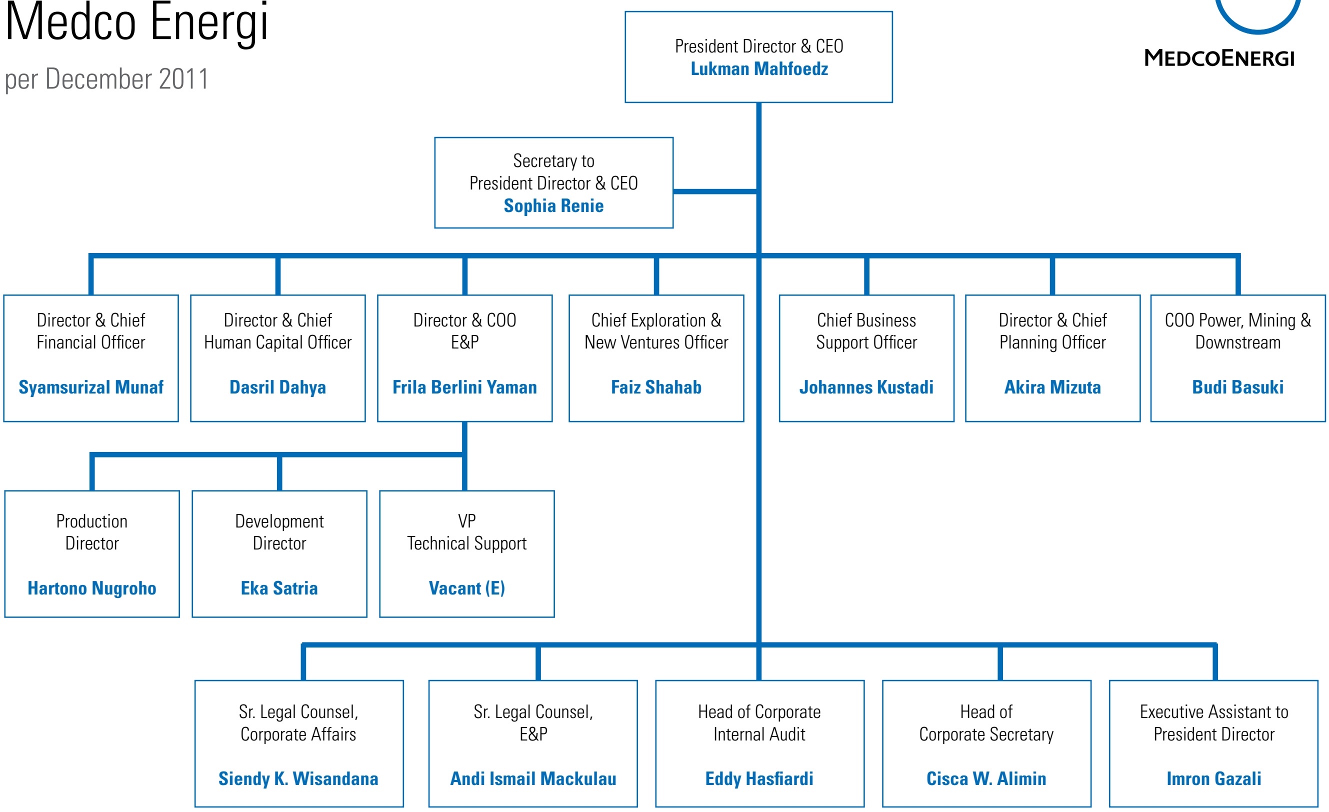
Project Management:
More effective and efficient project management.

With Business Support Service now centralized – as opposed to dispersed across business unitslike in the past – the support capabilities available to the holding company and subsidiaries are more comprehensive.As a result, project will be completed in much less time using much less resources. Operating costs and resource utilization are optimized, asthere are no more redundancies and overlaps.

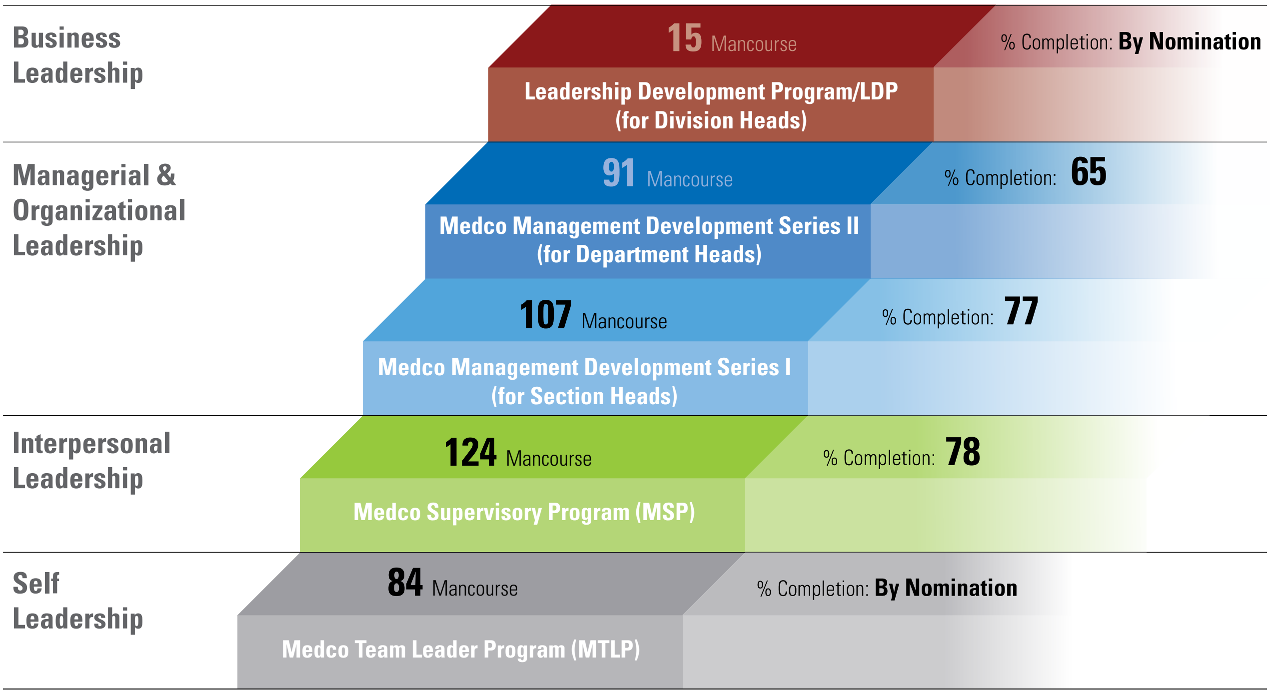
More importantly, projects canbe implemented in accordance with the Company's standard, Medco Project Excellence Process.

2011 Organization Chart Medco Energi

per December 2011



Leadership Development Program



Succession Plan: Capitalizing on Our Own Talent Base

Having completed the reorganization, MedcoEnergi is currently pursuing a succession plan. Targeting senior management level and above at the holding company and subsidiaries, the plan is essentially another crucial step toward achieving longterm sustainability as the energy company of choice.

The core of the succession plan is capitalizing on MedcoEnergi's own talent base to breed candidates for top management level. As opposed to drawing from outside sources, this approach enables MedcoEnergi to assemble a congregation of forthcoming leaders with proven technical and managerial qualifications, including knowledge of oil & gas business as well as familiarity with MedcoEnergi's business, corporate culture and management conduct.

Shining stars are identified, screened and prepared to sit for future assignments at the top level.

With available talent base ready to be dispatched at any time, MedcoEnergi ensures that corporate management at the holding company and subsidiaries will run smoothly with minimal interruption in the events of contingency, particularly when a director/ senior manager files an unforeseen withdrawal or receives a notification for discharge.

Most importantly, management duties will be thoroughly fulfilled, given the fact that the candidates are already familiar with MedcoEnergi's business and oil & gas industry.Communications with subordinates and fellow directors/ senior managers will proceed as usual with minimal interruption and gap.

Accordingly, the Company implements a number of training programs including not only leadership and technical trainings, but also open-ended sessions on corporate culture and vision. To consummate the plan, other methods are also subscribed to such as direct mentoring and internship at subsidiaries.

Training Programs

In accordance with the objectives to ensure ever-increasing improvement in organizational capabilities and to achieve sustainable corporate growth, in 2011 MedcoEnergi continued the long tradition in human capital management by carrying out various training and development programs. In conjunction with the regular programs, the Company consummated its aspiration by also launching a series of new programs, targeting the petrotechnical discipline.

For 2011 the Company invested US$2.9 million in training programs, or an increase by 13% from US$2.6 million in the previous year.

Technical Competency Development

Aiming to improve the competency of petro-technical team, the technical competency development started out with Petrotechnical Competency Profiling, by which the competencies of the personnel in the pertaining departments were analyzed and matched against the standard requirements.

With the competency profile updated, the Company continued with Petro-technical Competency Assessment.Involving more than 250 people within a 3-month time frame (August - November 2011), the project managed to gain 100% participation and completion rates.

Throughout the whole stages MedcoEnergi made use of the recently upgraded software solution MedcoEnergi Competency Interface (MCI), which facilitated users in such crucial functions as assessment, evaluation, and reporting.

The end results were explicated in the new and improved Competency Development Plan (formerly Individual Development Plan), which presented the technical competency of each personnel in an interactive, digital format.

Ultimately, the Competency Development Plan became the basis and direction in developing the career of each staff in accordance with individual skills and competencies. Indeed, with the ever-increasing importance of petro-technical professionals, MedcoEnergi now dedicates more attention and efforts to careerdevelopment.

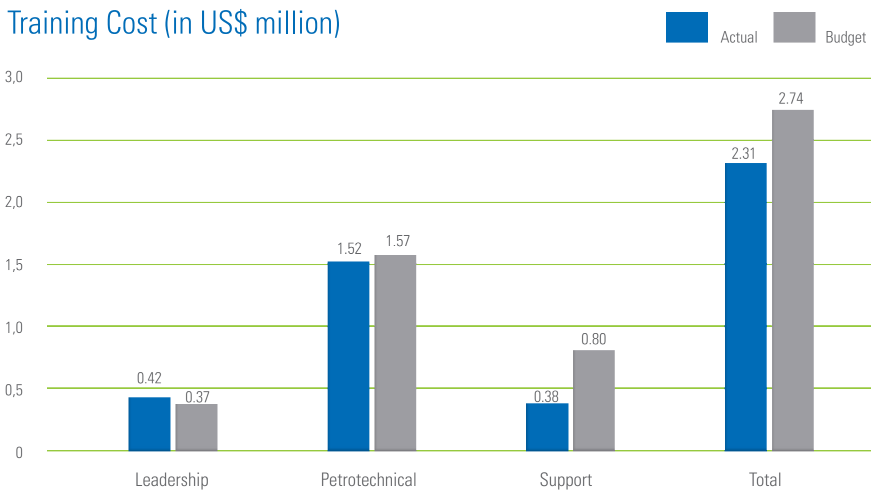
Non-technical/ Leadership Competency Development

Thisinitiative focused on the professionals at supervisory and managerial level, with the objective being to improve people management skill as well as to align their vision with that of the Company, as well as regulating their business conduct and team management skill.

Mancourse

	Actual Mancourse	Target Mancourse	Realization (%)
Leadership	429	481	89
PetroTechnical	1,458	1,374	106
Support	730	1,187	62
Total	**2,167**	**2,992**	**72**

Training Cost (in US$ million)



What's more, this program serves as an effective tool to achieve MedcoEnergi's long term purpose, which is to infuse and instill the spirit of "The Medco Way" into the mindset of each employee. The Medco Way consists of Good Corporate Governance, Performance Alignment, and Shareholder Return.

The trainings undertaken during 2011 are:

Medco Team Leader Program (MTLP)
MTLP covered various managerial topics including vision and mission, self understanding, co-worker understanding, communication, conflict management, problem solving, decision making, coaching, and five supervisory principles. It took place not less than 3 days and engaged non-structural staff supervising a number of people.

Medco Supervisory Program (MSP)
MSP trained and educatedthe staff transitioning to supervisory level, utilizing informative sessions on vision, mission and corporate values, as well as other topics such as Leadership& Management, Effective Communication, Effective Relationship, Team Work, Effective Decision Making, Delegation &Time Management, Effective Work Planning,Team Motivation, Coaching, Giving &Receiving Feedback,Human Resources, Finance, SCM and IS.

The 4-day sessions were attended by non-structural staff holding such positions as Supervisor, Foreman, Company Man and others of equal level.

Medco Management Development Series– L5
Attended by structural level employees holding Lead position as well as non-structural staff holding Group Lead positions, the series consisted of several batches divided into Program 1 (2 days), Program 2 (4 days), and Program 3 (4 days).

The topics covered include Strengthening Personal Effectiveness (Interaction Management Essential; Building an Environment of Trust), Enhancing the Team Development Capability (Making Effective Decision; Coaching for Success; Coaching for Improvement), and TheOrganization is YOU (Building Winning Partnership; Guiding Others; Boosting Business Results).

The programs were concluded with post-training behavioral change dan Leaders Cafe session to assess how far the participants were in terms of skill development. Every year the participants also engage in 'refreshing' and sharing sessions between L5-L4.

Medco Management Development Series – L4
This series was attended by structural employees holding Department Headposition or equivalent, and was also divided into several batches specifically Program 1 (2 days), Program 2 (4 days), and Program 3 (4 days).

The materials presented includeStrengthening Personal Effectiveness (Interaction Management Essential; Building an Environment of Trust), Enhancing the Team Development Capability (Developing Others; Delegating for Result; Networking of Enhanced Collaboration), and The Organization is YOU (Problem Analysis and Decision Making; Planning and Organizing).

Likewise, the programs were concluded with post-training behavioral change and Leaders Cafe session to assess how far the participants had gone in terms of skill development. Every year the participants also engage in 'refreshing' and sharing sessions between L4 –L3.

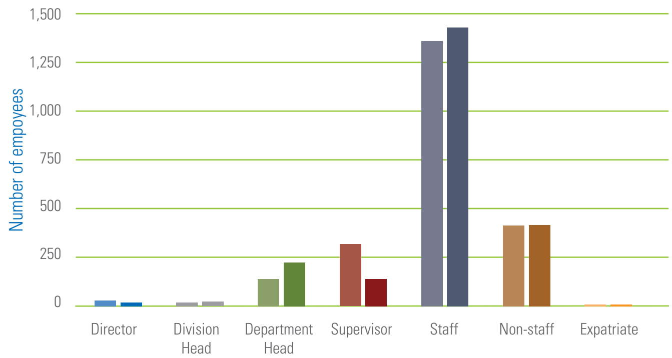
Leadership Development Program
Developed for employees holding Division Head position or equivalent, the program continuously runs over 9 months and covers such topics as Action Learning (Competition on Entrepreneurial & Innovation), Coaching (One-to-one assignment & cross –subsidiary pairing), Workshop (4 workshops at 1.5 days each) and Hard skill Development (Elective).

Employee Composition

In order to support the growth and demanding complexity of its business, MedcoEnergi continuously embrace new talents from various disciplines. In 2011 the Company once again returned to the recruiting floor that by year end the number of its permanent employees expanded by 3.1% to 1,916 from 1,858 employees in the previous year. Meanwhile the total number of contract employees decreased by 6.5% to 406 from 434 employees last year.

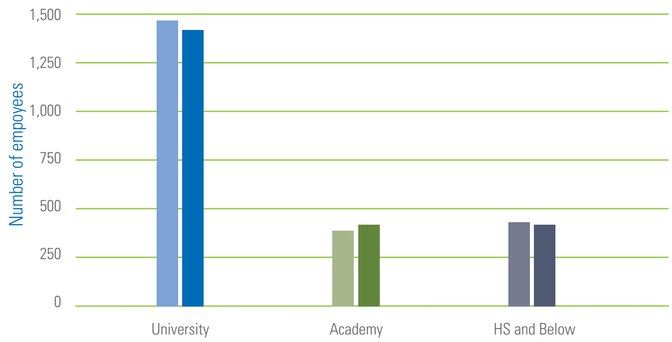
Employee based on position

	'10		'11	
Level	**Headcount**	**%**	**Headcount**	**%**
Director	30	1.3	**20**	**0.9**
VP/ Division Head	20	0.9	**23**	**1.0**
Department Head	140	6.1	**225**	**9.7**
Supervisor/Senior Staff	318	13.8	**140**	**6.0**
Staff	1,361	59.4	**1,430**	**61.6**
Non-staff	414	18	**475**	**20.5**
Expatriate	9	0.4	**9**	**0.4**



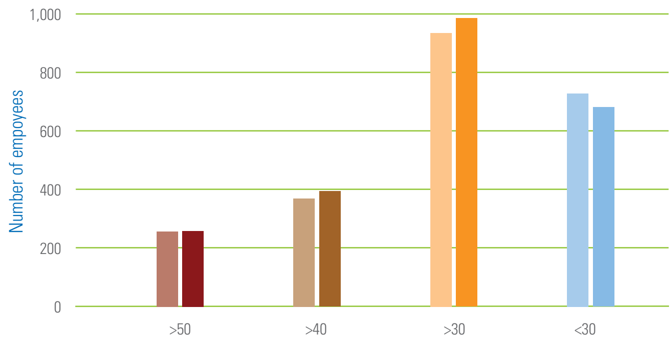
Employee based on education

	'10		'11	
Education	**Headcount**	**%**	**Headcount**	**%**
University	1,471	64.2	**1,420**	**61.2**
Academy	389	17.0	**420**	**18.1**
HS and Below	432	18.8	**482**	**20.8**



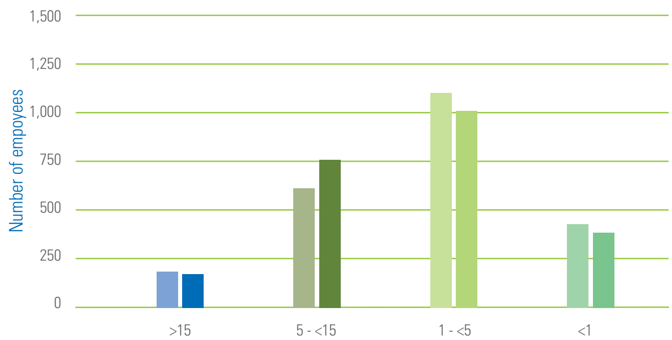
Employee based on age

	'10		'11	
Age	**Headcount**	**%**	**Headcount**	**%**
≥50	257	11.2	**259**	**11.2**
≥40	370	16.1	**395**	**17.0**
≥30	936	40.8	**986**	**42.5**
<30	729	31.8	**682**	**29.4**



Employee based on service year

	'10		'11	
Service year	**Headcount**	**%**	**Headcount**	**%**
>15	185	8.0	**172**	**7.4**
5 - <15	612	26.3	**758**	**32.6**
1 - <5	1,101	47.4	**1,008**	**43.4**
<1	427	18.4	**384**	**16.5**



With the current size and composition of human capital as well as the training programs and succession plan that are commensurate with the Company's near-term and long-term objectives, MedcoEnergi will be able to implement its business plan and pursue key projects thoroughly and effectively. Ultimately, this will facilitate the Company to maintain sustainability of its core businesses as defined in the vision "To Become The Energy Company of Choice".

Number of Employee

Company	Number of Personnel			Status					
				Permanent			Contract		
	'10	'11	%	'10	'11	%	'10	'11	%
Corporate	95	**109**	14.7	80	**95**	18.8	15	**14**	(6.7)
Oil & Gas	1,270	**1,181**	(7.0)	1,029	**999**	(2.9)	241	**182**	(24.5)
Downstream	342	**375**	9.6	299	**303**	1.3	43	**72**	67.4
Power	487	**456**	(6.4)	384	**411**	7.0	103	**45**	(56.3)
Gas Distribution	5	**24**	380	0	**17**	-	5	**7**	40
Oil & Gas Services	76	**91**	19.7	51	**69**	35.3	25	**64**	156
Mining	17	**86**	405	15	**22**	46.7	2	**3**	50
Total	**2,292**	**2,322**	**1.3**	**1,858**	**1,916**	**3.1**	**434**	**406**	**(6.5)**

Experienced engineers, such as the team in Lematang gas production facility coupled with implementation of best practices and operations discipline result in efficient operation.

Implementation of Good Corporate Governance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londay, January 09, 2012
0 Financial Hall, Graha CIMB Niaga, 2nd Flo

Good Corporate Governance

Prof. Sidharta Utama, PhD, CFA, Chairman of Indonesian Institute for Corporate Directorship (IICD) (left) and Etty Retno Wulandari, Ak. MBA, PhD, Head of Accounting Standards and Disclosure Bureau of BAPEPAM-LK (right) presented the GCG Award for the category of The Best Non-Financial Company.

Medco Energi is committed to implementing Good Corporate Governance (GCG) of the highest standards. The implementation of the GCG principles, namely Transparency, Accountability, Responsibility, Independence, and Fairness, is instrumental in realizing the Company's vision and therefore embedded in its corporate values and culture.

The implementation of GCG is based on developing responsibility in the management system, strengthening control functions and improving transparency. It is believed to deliver substantial benefits to the Company and stakeholders.

The principles of GCG is implemented pursuant to the Law No. 40 of 2007 on Limited Liability Corporation, Law No. 8 of 1995 on Capital Market, the Company's Articles of Association, regulations of the Indonesian Capital Markets and Financial Institution Supervisory Agency (Bapepam-LK), regulations of the Indonesia Stock Exchange (IDX), and other pertaining laws and regulations. The Company also adheres to the GCG principles instated by the Organization for Economic Cooperation and Development (OECD) as well as the Indonesian GCG Guidelines.

MedcoEnergi's Governance Framework

MedcoEnergi's Board of Commissioners and Board of Directors work within a clear framework described in the Company's Articles of Association and Guidelines of Good Corporate Governance and Code of Conduct (GCG & CoC). These stipulate the role and responsibility of the Board of Commissioners and Board of Directors, how they shall execute their functions and duties effectively, how they interact with each other and what are the main tasks of each committee.

In executing their functions and duties, the Board of Commissioners and Board of Directors shall focus on the followings main areas:

- Considering the long-term strategy.
- Monitoring the Company's performance.
- Identifying the Company's business risks and ensuring that risk management systems and internal control are in place to manage those risks.
- Managing the succession plan of the Board of Directors.

Subsequently, the Board of Commissioners and Board of Directors shall ensure that all the Company's businesses are operated safely, with high consideration for the environment and the health of employees.

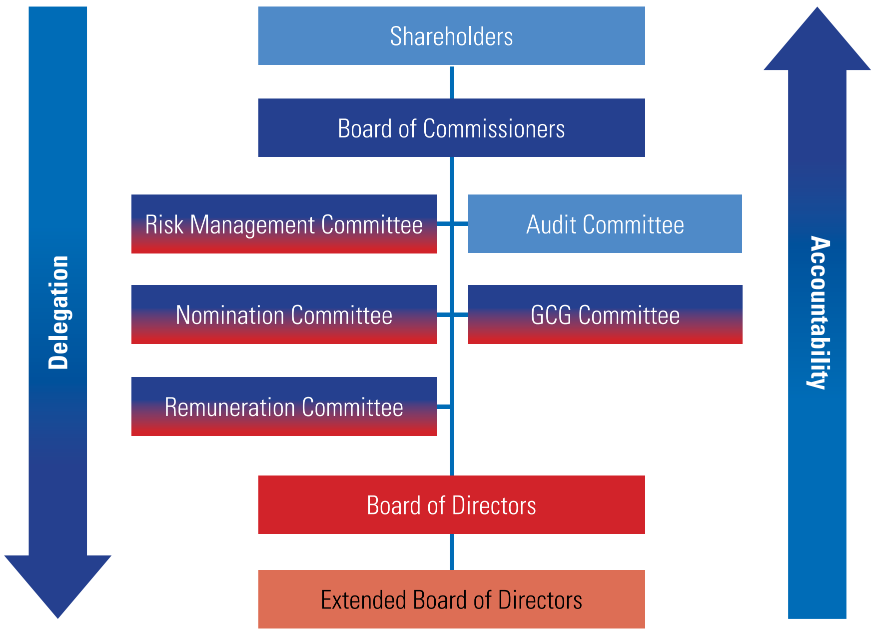
We regularly review our Corporate Governance and consider their effectiveness as part of the Company's annual Boards evaluation.

General Meeting of Shareholders

The General Meeting of Shareholders (GMS), consisting of Annual General Meeting of Shareholders (AGMS) and Extraordinary General Meeting of Shareholders (EGMS) have the authorities that are not transferable to the Board of Directors or the Board of Commissioners, as stated in the Law No. 40 of 2007 and the Company's Articles of Association.

In the GMS strategic decisions are determined, including the appointment and dismissal of the Board of Commissioners and the Board of Directors, the supervision report of the Board of Commissioners, the approval of the annual report, audited financial statements, amendments to the Articles of Associations, and material decisions related to investment and divestment, use of profits, and the Company's capital structure.

MedcoEnergi's Governance Framework



In the GMS, each shareholder whose name is registered in the share registry is entitled to exercise his/her rights, including the right to vote and the right to receive dividends paid out by the Company.

It is mandatory to hold AGMS each year no later than six months from the end of the Company's financial year. Strategic decisions taken in the AGMS include approval of annual report, financial statements, appropriation of net profit, appointment of public accountant, and appointment and dismissal of the Board of Commissioners and the Board of Directors.

EGMS is held on occasions based on the decision and interest of the Company. Decisions made in the EGMS concern changes in the Articles of Association, mergers, acquisitions, and spin offs.

Conforming to the Government regulation on capital market, the Company issues notification to the public at least in 2 national newspapers before holding a GMS, and provides Bapepam-LK and Indonesia Stock Exchange with information on the consensus achieved in the meeting.

In 2011 AGMS was held on May 19, 2011 with quorum of 72.78% or attended by 2,141,194,396 shares of the total 3,332,451,450 shares. The resolution of the AGMS is as follows:

1. For the first and second agenda, it was fully agreed to:

a) Accept in good faith the Board of Directors Report concerning the Company's performance for the year ended December 31, 2010 and approve and ratify the Balance Sheet and Income Statement of the Company and its subsidiaries for the year ended December 31, 2010 which has been audited by the Public Accountant Office PURWANTONO, SUHERMAN & SURJA as stated on its letter No. RPC-745/PSS/2011 dated March 22, 2011, with "UNQUALIFIED" opinion; and

b) Grant full release and discharge (acquit et de charge) to the members of Board of Commissioners and Board of Directors from their responsibilities with respect to the supervision and management performed during the year 2010, provided that such actions have been reflected in the Balance Sheet and Income Statement of the Company.

2. For the third agenda, majority vote approved to:

a) Utilize the Company's Net Income of US$83,059,576 (eighty three million fifty nine thousand five hundred seventy six United States Dollars) for the year ended December 31, 2010 as:

- Cash Dividend in the amount of US$21,998,312 (twenty one million nine hundred and ninety eight thousand three hundred and twelve United States Dollars), to be distributed to 2,941,996,950 (two billion nine hundred and forty one million nine hundred and ninety six thousand nine hundred fifty) shares or equivalent to US$0.00748 (zero point zero zero seven four eight United States Dollars) per share;
- Retained earnings in the amount of US$61,061,264 (sixty one million sixty one thousand two hundred and sixty four United States Dollars).

b) Delegate the power and authority to the Board of Directors to take necessary actions in distributing the cash dividend payment to each shareholder, including announcement in the daily newspapers concerning the procedure and schedule of payment of cash dividends.

In the Annual General Meeting of Shareholders 2011, Mr. Lukman Mahfoedz (second from left) replaced Mr. Darmoyo Doyoatmojo (second from right) as President Director, and Mr. Cyril Nurhadi (far left) was honorably discharged as Finance Director.

3. For the fourth agenda, majority vote approved to:
a) Delegate the authority to the Board of Commissioners and Board of Directors to:
   - Appoint one of the Public Accounting Firms registered at Bapepam and officially affiliated with the largest international Public Accounting Firms, to audit the Balance Sheet, Income Statement and any other parts of the Consolidated Financial Statement for the period ended December 31, 2011 of the Company and its subsidiaries; and
   - Determine the fee of the appointed Public Accounting Firm.

4. For the fifth agenda, majority vote approved to:
a) Discharge, with honor, Mr. Darmoyo Doyoatmojo from his position as the President Director and Mr. D. Cyril Noerhadi from his position as Finance Director of the Company effective as of the closing meeting.
b) Appoint the following new members of the Board of Directors:
   1. Mr. Lukman A. Mahfoedz;
   2. Mr. Syamsurizal Munaf;
   3. Mrs. Frila Berlini Yaman;
   4. Mr. Akira Mizuta; and
   5. Mr. Dasril Dahya.
c) Re-elect the current members of Board of Commissioners

   Such appointment of Board of Directors and re-election of Board of Commissioners were effective from the closing of the AGMS to the 2013 AGMS.

   The composition of the Board of Commissioners and the Board of Directors after the AGMS adjourned until the 2013 AGMS are as follows:

   Board of Commissioners:
   Mr. Hilmi Panigoro,
   President Commissioner

   Mr. Gustiaman Deru,
   Independent Commissioner

   Mr. Marsillam Simandjuntak,
   Independent Commissioner

   Mrs. Yani Y Rodyat,
   Commissioner

   Mrs. Retno Dewi Arifin,
   Commissioner

   Mr. Masayuki Mizuno,
   Commissioner

   Board of Directors:
   Mr. Lukman A. Mahfoedz,
   President Director

   Mr. Syamsurizal Munaf,
   Director

   Mrs. Frila Berlini Yaman,
   Director

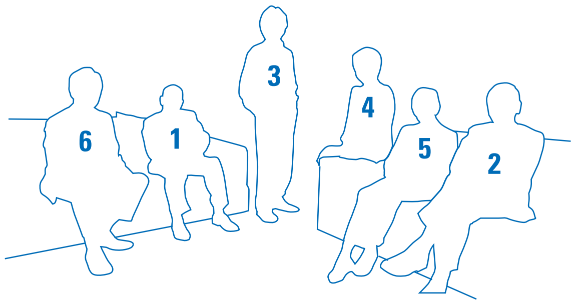
   Mr. Akira Mizuta,
   Director

   Mr. Dasril Dahya,
   Director
d) Authorize the Company to state in a separate deed drawn up before the Public Notary, to inform/register to the competent agency and to take other actions required in connection with the alteration of the composition of the Company's members of the Board of Commissioners and the Board of Directors.

5. For the sixth agenda, majority vote approved to:
a) Determine the salaries and benefits of the Board of Commissioners and the Board of Directors for the year 2011 (including tax) effective January 1, 2011 to December 31, 2011 at the maximum amount of US$ 5,800,000 (five million eight hundred thousand United States Dollars) and the payment of salaries and benefits to the Board of Commissioners and Board of Directors from January 2011 to April 2011; and
b) Delegate the authority to determine the policy to distributing bonuses, salaries and benefits to each member of the Board of Commissioners and Board of Directors, including other forms of benefits, to the Board of Commissioners, as well as the authority to distribute severance payment to the terminated Board of Directors members.

The Board of Commissioners:

1. **Hilmi Panigoro,** President Commissioner
2. **Marsillam Simandjuntak,** Independent Commissioner
3. **Gustiaman Deru,** Independent Commissioner
4. **Yani P. Rodyat,** Commissioner
5. **Retno D. Arifin,** Commissioner
6. **Masayuki Mizuno,** Commissioner



Hilmi Panigoro
President Commissioner

Indonesian citizen, born in 1955. He has been appointed as the President Commissioner since 2008.

Previously he served as the President Director of the Company since 2001. He also holds positions as Commissioner of PT Meta Archipelago Hotels and President Director of PT Medco Duta and PT Medco Intidinamika.

He has extensive experience in the oil & gas industry and held various key positions while working at VICO Indonesia in 1982-1996.

Hilmi Panigoro earned a Bachelor degree in Geological Science from the Institut Teknologi Bandung in 1981.

He received a Master of Science degree in Geological Science from the Colorado School of Mines, USA, in 1988, and took a core program in Business Administration at the Thunderbird University, USA, in 1984.

Main Role
Hilmi Panigoro's role is to supervise and advise the Board of Directors with regard to the operation and business development of the Company and subsidiaries, and the implementation of Corporate Governance and Risk Monitoring policy. The Chairperson of Remuneration and Risk Management Committees. He is also a member of Audit, GCG and Nomination Committees.

Marsillam Simandjuntak
Independent Commissioner

An Indonesian citizen, born in 1943. He was appointed as an Independent Commissioner in 2010.

Before joining MedcoEnergi, he served as a Special Staff to the Ministry of Finance for Tax Reform Initiative and Customs from 2006 - 2010, Head of the Presidential Working Unit Program and Reform Governance (UKP-PPR) in 2006 – 2009. He was a former Secretary of Cabinet and Minister of Justice and Attorney General of the Republic of Indonesia in 2001.

He also had experiences as President Commissioner of PT Garuda Indonesia from (2003-2005), President and Independent Commissioner of PT Gunung Agung Tbk from (2003-2005), and Senior Editor Consultant of TEMPO magazine from (2002-2006). He began his career as medical doctor at PT Garuda Indonesia (1971-1980).

He received a Medical Degree from the University of Indonesia in 1971, a Law Degree from the University of Indonesia in 1989 and a visiting scholar at the University of California, Berkeley, United States of America (1985-1987).

Main Role
To supervise and advise the Board of Directors with regard to the operations and business development activities of the Company and its subsidiaries and the implementation of Corporate Governance. He chairs the Audit and GCG Committees, and is also a member of the Risk Management Committee.

Gustiaman Deru
Independent Commissioner

An Indonesian citizen, born in 1960. He was appointed as the Company's Independent Commissioner in 2002. He previously held positions as a Director, Senior Investment Professional post in Matlin Patterson Advisers (Asia) Limited, Hong Kong (2002-2009); Commissioner of the Company (2000-2002), Director of Workout and Special Situation Group in Credit Suisse First Boston, Hong Kong (1998-2002); Director, for Asian Local Markets Trading of ING Barings, Hong Kong (1996-1998), and Director of Peregrine Fixed Income Limited, Singapore (1994-1996) and various others prominent positions.

He received a Master of Business Administration degree in Banking and Finance from the Rotterdam School of Management (Erasmus Universiteit – Rotterdam), the Netherlands in 1990, and a Bachelor degree in Civil Engineering from the Parahyangan University, Bandung in 1985.

Main Role
To supervise and advise the Board of Directors on financial issues. He is a member of the Audit Committee and Nomination Committee.

Yani Y. Rodyat
Commissioner

An Indonesian citizen, born in 1951. She has been a Commissioner of the Company since 1998. She currently also holds positions as Director of PT Medco Duta and PT Medco Intidinamika, Commissioner of PT Sentrafood Indonusa, Lecturer at the University of Indonesia, and Commissioner of PT Sarana Jabar Ventura. She has extensive experience in education and science, and is a lecturer at various reputable universities in Indonesia. She also worked in the Indonesian Science Institute (1975-1982).

She received a Master degree in Management from Sekolah Tinggi Manajemen, Bandung in 1977 and a Bachelor degree in Electrical Engineering from Institut Teknologi Bandung in 1973.

Main Role
As the Chairperson of the Nomination Committee, she supervises and advises the Board of Directors with regard to the Company's policy on employees' nomination and remuneration as well as develop and evaluate the policy for nomination of the Company's and its subsidiaries' Board of Directors. She is also a member of the Risk Management Committee.

Retno D. Arifin
Commissioner

An Indonesian citizen, born in 1945. She was re-appointed as the Commissioner of the Company in 2003 and currently also holds the position of Commissioner of PT Kreasi Megah Sarana. Joined Medco Group in 1990 and held the Commissioner position at the Company's drilling services subsidiaries (1990-1994), and served as Commissioner of the Company (1994-1998).

She received a Bachelor degree in Architecture Engineering from Institut Teknologi Bandung in 1972.

Main Role
To supervise and advise the Board of Directors on general business issues. She is a member of the Nomination and Remuneration Committees.

Masayuki Mizuno
Commissioner

A Japanese citizen, born in 1951. He was appointed as Commissioner in 2010. He is currently the Executive Vice President, Regional CEO, Asia & Oceania and Chief Representative for Indonesia in Mitsubishi Corporation.

He received a Bachelor of Economics from Nagoya University in 1974.

Main Role
To supervise and advise the Board of Directors with regard to the operations and business development activities of the Company and its subsidiaries, as well as to ensure and monitor the implementation of risk management at all business activities. He is a member of the Risk Management Committee.

Board of Commissioners

The Board of Commissioners is collectively responsible for the supervision of the Board of Directors and provides recommendations to the Board of Directors on the implementation of GCG. The Board of Commissioners is not allowed to participate in operational decision making.

Structure, Tenure and Election of the Board of Commissioners

As stipulated in the Articles of Association, the Board of Commissioners consists of a minimum of three members nominated by shareholders and appointed by the AGMS for a period of five years. Each member is eligible to be re-elected for the following period.

To achieve effective fulfillment of the duties and responsibilities, MedcoEnergi ensures that each member of the Board of Commissioners is an expert in certain disciplines related to the Company's business. In addition, pursuant to the regulation of the Indonesia Stock Exchange, at least 30 percent of all of the members of the Board of Commissioners are independent commissioners.

The AGMS has the authority to end the tenure of the members of the Board of Commissioners at any time before the term ends, if and when a member of the Board of Commissioners is unable to fulfill his/ her duties and responsibilities stipulated in the Company's Articles of Association or by the decision of the AGMS.

As stipulated in the decision of the AGMS on May 19, 2011 and May 27, 2010, the Board of Commissioners comprises six members, two of which (30 percent) are independent commissioners who are experts in oil & gas, corporate governance and finance. The composition of the Board of Commissioners is as follows:

- Hilmi Panigoro: President Commissioner
- Marsillam Simandjuntak: Commissioner (Independent)
- Gustiaman Deru: Commissioner (Independent)
- Masayuki Mizuno: Commissioner
- Yani Y. Rodyat: Commissioner
- Retno D. Arifin: Commissioner

The term of this Board of Commissioners will expire at the 2013 AGMS.

Remuneration of the Board of Commissioners

As stipulated in article 14 of the Articles of Association, the Board of Commissioners is entitled to for monthly remuneration.

The remuneration is based on the overall performance of the Company, benchmarked to the performance of similar industries in Indonesia and Asia Pacific.

In determining the amount, the Board of Commissioner collaborates with the Remuneration Committee and the result is submitted to the AGMS for approval.

For 2011 the Remuneration Committee recommended to the Board of Commissioners the remuneration for the Board of Commissioners and the Board of Directors to be proposed at the AGMS on May 19, 2011, in the amount of US$5.8 million, and delegated the authority for distribution of bonuses, salaries and benefits for each member of the Board of Commissioners and the Board of Directors to the Board of Commissioners.

During 2011 the Company paid a total of US$ 2.8 million in remuneration to the Board of Commissioners. The amount included salaries, benefits, bonuses on 2010 performance, and income tax.

Execution of Duties and Responsibilities of the Board of Commissioners

Pursuant to Article 15 of the Company's Articles of Association, the duties and responsibilities of the Board of Commissioners are as follows:

- To advise, monitor, approve, and evaluate the implementation of the strategies, policies, and plans of the Company.
- To provide advice on planning, approval of the Work Program and Budget.
- To provide opinion and advice to the Board of Directors in preparing financial statements, executing GMS resolutions,

The Board of Commissioners is actively involve in providing input to the Board of Directors at MBO meeting

and in relation to issues affecting the Company.

- To impose and ensure the implementation of risk management, internal control and GCG principles in each of the Company's activities at every organization level.
- To monitor and advise the talent management and succession planning program of the Board of Directors.
- To review and sign the Annual Report of the Company prepared by the Board of Directors.

In executing their duties and responsibilities, the Board of Commissioners is supported by the Audit Committee, Risk Management Committee, Remuneration Committee, Nomination Committee and GCG Committee.

During year 2011, the Board of Commissioners executed their duties and responsibilities effectively. The Board of Commissioners attended the Board Priority Setting (BPS) meeting to evaluate the implementation of the 2011 strategies, policies, and plans of the Company. At the BPS meeting, the Board of Commissioners also advised the strategies, policies, and plans of the Company in 2012 set by the Board of Directors. Following the BPS meeting, the Board of Commissioners met with the Board of Directors at the Annual Work Program and Budget to review and approve the Work Program and Budget that will be implemented in 2012.

In addition to BPS and Annual Work Program and Budget meetings, the Board of Commissioners through the Audit Committee met regularly with the Board of Directors to evaluate the quarterly performance of the Company prior to the issuance of quarterly financial statements. The Board of Commissioners also regularly met with the Board of Directors to provide their opinion and advice to the Board of Directors in relation to the execution of GMS resolutions, and issues affecting the Company.

The Board of Commissioners through the Risk Management Committee also continuously reviewed the Company's business risks and its mitigation plans. At the same time, the Board of Commissioners advised the Board of Directors to strictly implement risk management in every Company's activities. During 2011 the Board of Commissioners in the Risk Management Committee meetings reviewed every corporate action to be taken by the Board of Directors. The strict implementation of risk management enabled the Board of Commissioners to take the best business decisions to benefit the Company and its shareholders.

The Board of Commissioners through the Remuneration Committee executed the AGMS resolution related to the distribution of remuneration to each Board of Commissioners and Board of Directors members fairly and transparently, in accordance with the roles and responsibilities of each member. At the same time, the Board of Commissioners determined and executed the severance payment of the terminated Board of Directors in accordance with the Company's Boards Severance Policy.

In 2011 the Board of Commissioners through the Nomination Committee and with the assistance of an independent consultant reviewed and evaluated the effectiveness of the previous organization structure of the Company. The Board of Commissioners through the Nomination Committee has also continuously monitored the talent management and succession planning program of the Board of Directors. Therefore, when the Board of Commissioners advised the changes on the organization structure of the Company, they were able to identify, select and nominate the best candidates to replace the terminated Board of Directors from within the Company. However, due to unavailable candidates to fill certain positions, the Board of Commissioners, with the assistance of an independent consultant, selected and nominated external candidates. With the new organization structure, the Board of Commissioners nominated the new composition of the Board of Directors to be elected at the 2011 AGMS. The new members of the Board of Directors elected at the 2011 AGMS are deemed to be the best people in the industry who can bring MedcoEnergi to become a world class integrated energy company in the near future.

Meetings of the Board of Commissioners

Pursuant to article 16 of the Articles of Association and the Guidelines on GCG, the Board of Commissioners is required to convene regularly once every two months. When unable to attend, members of the Board of Commissioners should notify the President Commissioner and submit a written opinion on the agenda of the meeting.

The meetings can be held in conjunction with other meetings that are also attended by the members of the Board of Commissioners, namely the Audit Committee meeting, the Board Priority Settings (BPS) meeting, and the Management by Objective (MBO) meeting.

In 2011, the Board of Commissioners convened in 5 meetings held in conjunction with the Audit Committee meeting, the BPS meeting, and the MBO meeting.

The Board of Commissioners attended the BPS meeting hosted by the Board of Directors on August 25, 2011 to review the implementation of the strategy direction in 2011 and the strategy direction to be undertaken by MedcoEnergi and its subsidiaries in 2012.

The Board of Commissioners also attended the MBO meeting on November to review, assess and approve the annual work program and budget proposed by Board of Directors of MedcoEnergi and its subsidiaries for 2012.

The following table is the list of the Board of Commissioners meetings and attendances of each member:

Board of Commissioners Meeting 2011

No	Name	Title	List of Attendance in 2011 Board of Commissioners Meeting				
			Jan. 19	Mar. 18	Aug. 25	Nov. 9	Nov. 23
1	Hilmi Panigoro	President Commissioner	•	•	•	•	•
2	Marsillam Simandjuntak	Independent Commissioner	•	•	•	•	•
3	Gustiaman Deru	Independent Commissioner		•		•	•
4	Masayuki Mizuno	Commissioner	•	•	•	•	•
5	Yani P. Panigoro	Commissioner	•	•	•	•	•
6	Retno D. Arifin	Commissioner	•	•	•	•	•

Board of Directors

The Board of Directors is responsible for managing MedcoEnergi's best interest in line with the Company's objectives in accordance with the conditions stipulated in the Articles of Association, Law on Limited Liability Corporation, and capital market regulations.

Composition, Tenure and Election of the Board of Directors

As stipulated under article 11 of the Company's Articles of Association, the Board of Directors consists of three members at a minimum, each of which is appointed by the AGMS for a period of five years and eligible to be re-elected for the following period.

The AGMS has the authority to end the tenure of the members of the Board of Directors at any time before the term ends, if and when the member of the Board of Directors is unable to fulfill his/her duties and responsibilities as stipulated in the Company's Articles of Association or by the decision of the AGMS.

As stipulated in the decision of the AGMS on May 19, 2011, the Board of Directors comprises five members who are experts and knowledgeable in the fields of oil & gas, and finance.

Unleashing the Power Within: MedcoEnergi's Organizational Restructuring

Following a series of extensive discussions on MedcoEnergi's strategic focus for the long term and the leadership model best suited to facilitate the Company into the next stage of its business expansion, the Board of Commissioners and Board of Directors decided to reconstruct the organizational structure.

For this purpose, the Board of Commissioners through the Nomination Committee aided by external advisers, restructured the organization and identified qualified candidates for the Board of Directors.

At the AGMS on May 19, 2011, the Company proceeded to replace Darmoyo Doyoatmojo from his position as President Director with Lukman A. Mahfoedz. The Company also discontinued with honor D. Cyril Noerhadi from his position as Director of Finance, and inducted Syamsurizal Munaf as the new Director and Chief Financial Officer, and appointed Mr. Akira Mizuta as Director and Chief Planning Officer, a position which had been vacant.

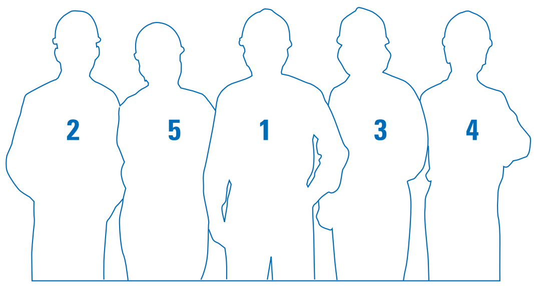
Lukman A. Mahfoedz has extensive experience in relevant fields, specifically in operations and geopolitical issues. Mr. Syamsurizal Munaf has proven background in financial management and accounting, as well as relevant experience in oil & gas industry, while Mr. Akira Mizuta has long been involved in strategic planning of energy businesses.

The Board of Commissioners also instated an operation director to oversee strategy execution, as well as a director responsible for human capital, both functions necessary to facilitate the Company's growth.

Accordingly, Frilla Berlini Yaman, known for her international experience in oil & gas exploration and production as well as extensive involvement with various major oil & gas concerns in Indonesia, was appointed as Director and Chief Operation Officer E&P. Dasril Dahya was entrusted with the duties of Director and Chief Human Capital Officer, considering his extensive experience in integrating the Company's exploration and production business units.

The Board of Directors:

1. **Lukman Mahfoedz,** President Director & Chief Executive Officer
2. **Syamsurizal Munaf,** Director & Chief Financial Officer
3. **Frila Berlini Yaman,** Director & Chief Operation Officer (E&P)
4. **Akira Mizuta,** Director & Chief Planning Officer
5. **Dasril Dahya,** Director & Chief Human Capital Officer



Lukman Mahfoedz
President Director & Chief Executive Officer

An Indonesian citizen, born in 1954.
Mr. Lukman Mahfoedz commands more than 30 years of experience in oil & gas industry, starting out at VICO Indonesia, Jakarta as Planning Engineer in 1983. Eventually, he raised to become Project Planning & Control Superintendent (1988), Assistant Manager Projects & Construction (1990), Engineering & Construction Manager (1991), and moved up to executive management position in operation and maintenance as Senior Manager (1993), then to Vice President Technical Support (1996) and Vice President Human Resources & General Support (1999-2001). In 2001 he started his assignment as Vice President of Java LNG Delivery Unit at BP Indonesia, Jakarta, and later he was appointed as Senior Vice President of Tangguh LNG, a position held until 2005. His engagement with MedcoEnergi commenced afterward in 2005 as President Director of PT Medco E&P Indonesia, and in 2008 Mr. Mahfoedz started serving at the holding company as Corporate Project Director, a position held until his appointment as President Director in May 2011. A graduate of Institut Teknologi Surabaya with a degree in Mechanical Engineering (1980), Mr. Mahfoedz is a member of the Board of Directors of Indonesian Petroleum Association. In the past, he had also served at DKT Consortium in Balikpapan as Planning & Scheduling Engineer and Construction Engineer (1981-1983), and Truba Jurong Engineering as Field Engineer (1980-1981).

Syamsurizal Munaf
Director & Chief Financial Officer

An Indonesian citizen, born in 1965, Mr. Syamsurizal Munaf has served at MedcoEnergi for 15 years, with the first position being Finance Manager in 1997. Prior to his appointment as Director & Chief Financial Officer in May 2011, he served as Director of Business Shared Services (2002-2011) and Director of Technical Shared Services (2010-2011), both at PT Medco E&P Indonesia. A graduate of Institut Teknologi Bandung with a degree in Civil Engineering (1989) and Sekolah Tinggi Manajemen Prasetya Mulya with Magister Management degree (1994), Mr. Munaf commenced his career as Assistant Supervisor of PT Total Bangun Persada (1989), followed by Civil Engineer of PT Nippon Steel Construction Indonesia (1990); Construction Manager, PT Dwima Mandiri Jayatama (1990-1993); Assistant Commercial Manager, PT Bakrie Pipe Industries (1994); General Manager, and PT Bahana Artha Ventura (1994).

Frila Berlini Yaman
Director & Chief Operation Officer (E&P)

An Indonesian citizen, born in 1956, Ms. Frila Berlini Yaman has 31 years of experience in Exploration & Production, with more than half spent in international assignments at senior management level with major international companies. She holds a Chemical Engineering Degree from Institut Teknologi Bandung, Indonesia (1981) and a Master in Management from Stanford University, USA (2000).

She started her career in Jakarta working for ARCO as a Petroleum Engineer, and since 1996 worked internationally with BP and Shell in commercial and operational roles. Her assignments have included: Manager Corporate Planning at ARCO Headquarters in Los Angeles (1996-2000); Commercial Manager San Juan CBM, BP America in Houston (2000-2003); President BP China E&P, in Shekou and Beijing (2003-2006); Director of Midstream Business, BP Vietnam in Ho Chi Minh City (2006-2009); and Regional Executive Shell Asia Pacific, in Singapore (2009-2010)

During her tenure with BP she was also concurrently Regional Head of BP Diversity & Inclusion in Asia (2004-2005), to pursue her interest in the promotion and development of national talent and leadership.

She received the prestigious Adhicipta Rekayasa Award for Engineering Excellence from the association of Indonesian Engineers PII (1995). She was also honored with an Award and Recognition for the Promotion of Education from the Vung Tau Provincial Government, Vietnam (2006) and Recognition of Performance in the Energy Sector from PetroVietnam (2008).

She is a past president of the Society of Petroleum Engineers (SPE) Indonesia (1995) and is an active member of various professional associations.

Akira Mizuta
Director & Chief Planning Officer

A Japanese citizen, born in 1956, Mr. Akira Mizuta has served as Director & Chief Planning Officer since May 2011, after previously serving as General Manager, Energy Business Group, Mitsubishi Corporation (2006-2011). In the past, he had served in various managerial positions in Mitsubishi Corporation, including General Manager, Alaska Project Unit & Leader, GTL Task Force, Coordination/ Strategy Unit, Natural Gas Business Division (2003); General Manager, GTL Task Force, Coordination/ Strategy Unit, Natural Gas Business Division (2002); General Manager, Alaska Project Unit & Senior Manager, LNG Shipping Project, Coordination/ Strategy Unit, Natural as Business Division (2001); Manager, Alaska Project Team, LNG Business Dept. A (2000); Manager, Asia Project Development Dept., Fuels Division C (1997); Manager, Downstream, Fuels Strategic Planning, Fuels Division A (1996); Manager, Project Coordination Team, Petroleum Feedstock Dept. (1995); as well as at Feedstock Section A (Tokyo) (1989); Manager Petroleum Trading, Singapore Branch (1985); Manager, Fuels Dept., Jakarta Representative Office (1984); and at Feedstock Section, Petroleum Product Dept. (1978). Mr. Mizuta graduated from Hitotsubashi University with a Bachelor of Economics degree in 1978.

Dasril Dahya
Director & Chief Human Capital Officer

An Indonesian citizen, born in 1954, Mr. Dasril Dahya has spent most of his professional career at MedcoEnergi, which culminated in his appointment as Director & Chief Human Capital Officer in May 2011. Mr. Dahya has previously served in various technical and senior executive positions including Director of Producing Assets (2008-2011), General Manager of S&CS Asset (2008), General Manager of Kalimantan and Sembakung Asset (2008), General Manager of Tarakan (2004-2007), Relations Vice President (1998-2003), Human Resources Manager (1996-1998), Benefits & Policies Section Head (1995-1996), Senior Petroleum Geologist (1990-1995), Senior Geologist (1986-1990), Geologist (1983-1986), and Associate Geologist (1981-1983). A graduate of Institut Teknologi Bandung (1981), Mr. Dahya has also completed numerous trainings in various topics including leadership, accounting, finance, human resources, and petroleum geology.

The composition of the Board of Directors is as follows:

- Lukman A. Mahfoedz: President Director and Chief Executive Officer
- Syamsurizal Munaf: Director and Chief Financial Officer
- Frila Berlini Yaman: Director and Chief Operation Officer
- Akira Mizuta: Director and Chief Planning Officer
- Dasril Dahya: Director and Chief Human Capital Officer

The term of this such Board of Directors will expire at the 2013 AGMS.

Execution of Duties and Responsibilities of the Board of Directors

Pursuant to the provisions of article 12 of the Company's Articles of Association, the duties and responsibilities of the Board of Directors are as follows:

- To manage the daily activities of the Company in accordance with its purposes and objectives as well as its rights and obligations.
- To implement the policies, plans, principles, values, strategies, objectives and performance targets that have been evaluated and approved by the Board of Commissioners.
- To implement risk management, internal control system and principles of Good Corporate Governance in every activity of the Company at all levels.
- To represent the Company in the court of law in accordance with the provisions stated in the Articles of Association.
- To devise the Company's organization structure, vision, mission, corporate values, and strategy direction in line with the corporate and business plan that conform to the Board Priority Setting.
- To achieve optimum growth of the Company in line with its business plan through feasible investment in Indonesia and abroad.

Details information on the execution of duties and responsibilities of the Board of Directors can be read on the Reports of each director member in this Annual Report.

Remuneration of the Board of Directors

As stipulated in article 11 of the Articles of Association, the Board of Directors entitles for monthly remuneration. The remuneration for the Board of Directors shall be determined and approved at the AGMS.

The remuneration for the Board of Directors of MedcoEnergi and its subsidiaries are based on the Key Performance Indicators of each member and overall performance of the Company, benchmarked to the performance of similar industries in Indonesia and Asia Pacific.

In computing the amount of the remuneration, the Board of Commissioner collaborates with the Remuneration Committee and the result is submitted to the AGMS for approval.

For 2011 the Remuneration Committee proposed to the Board of Commissioners the remuneration for the Board of Directors at the AGMS on May 19, 2011.

During 2011, MedcoEnergi paid a total of US$3.2 million in remuneration to the Board of Directors. The amount included salaries, benefits, bonuses on 2010 achievement, severance to the former Board of Directors, and income tax.

Meetings of the Board of Directors

Pursuant to article 13 of the Articles of Association and the Guidelines on GCG, the Board of Directors is required to convene regular meetings. When unable to attend, members of the Board of Directors should notify the President Director and submit a written opinion on the agenda of the meeting. The meetings are also attended by the directors of each business unit.

The restructuring of the Board of Directors members took place in May 2011. It required the Board of Directors to change the regular meeting schedules from twice a month to a weekly meeting. The weekly meeting was held every Monday morning, attended by all members of Board of Directors and Chief Officers. Additionally, the Board of Directors also conducted two meetings monthly with the subsidiaries' Board of Directors to review the financial and operational performance of each subsidiary and the progress of key development projects.

In order to ensure the proper implementation of the Corporate Planning Cycle, the Company held:

- BPS meeting – to review and adjust the Company's strategy so that it is relevant to current market condition as well as the condition of MedcoEnergi itself.
- MBO meeting – to review and approve the work plan and budget prepared by the Board of Directors of MedcoEnergi and its subsidiaries.
- Quarterly Review meeting – to review the financial and operational performance of MedcoEnergi and its subsidiaries against its KPIs target.

In 2011, the Board of Directors convened in 20 meetings. The Board of Directors held and attended the BPS meeting on 5 September 2011 to review the Corporate Strategic Direction.

The Board of Directors also held and attended the MBO meeting on 14 December 2012 to collectively adhere to and instate their commitment to implement the work program and budget for 2012.

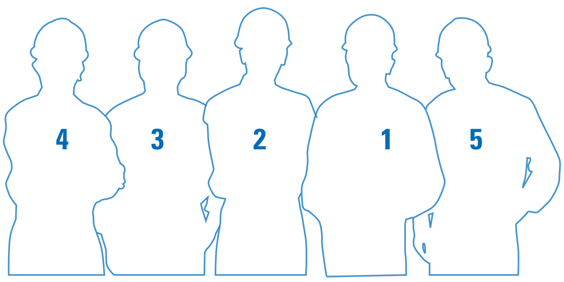
Board of Directors Meeting 2011

No	Name	Title	List of Attendance in 2011 Board of Directors Meeting																			
			1/6	2/3	2/24	3/3	3/24	4/7	5/5	5/26	6/9	6/23	7/7	7/21	8/4	8/25	9/29	10/6	10/20	11/10	12/10	12/23
1	Lukman A. Mahfoedz	President Director	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
2	Syamsurizal Munaf	Finance Director	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	-
3	Frila Berlini Yaman	Operation Director	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
4	Akira Mizuta	Planning Director	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
5	Dasril Dahya	Human Resource Director	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

• Attended by previous directors

Extended Directors:

1. **Budi Basuki,** Director & Chief Operation Officer Other Energy Related
2. **Faiz Shahab,** Chief Exploration & New Ventures Officer
3. **Johannes Kustadi,** Chief Business Support Officer
4. **Eka Satria,** E&P Development Director
5. **Hartono Nugroho,** E&P Operation Director



Budi Basuki

Director & Chief Operation Officer

Other Energy Related

An Indonesian citizen, born in 1953. Mr. Budi Basuki was appointed as Chief Operation Officer in May 2011. Previously, he was the President Director (2008-2011) and Operation Director (2003-2008) of PT Medco E&P Indonesia. In the period of 2001-2002 and 2000-2001, he served as West Operation VP and Oil Movement Manager respectively, also at PT Medco E&P Indonesia. After his graduation from Universitas Gajah Mada with a degree in Mechanical Engineering in 1980, Mr. Basuki joined PT Stanvac Indonesia as Engineer (1981-2000). He is also a graduate of LPPM Prasetya Mulya, majoring in Management, and currently active in a number of organizations namely Society of Petroleum Engineer (SPE), Ikatan Ahli Teknik Perminyakan Indonesia (IATMI), and Indonesian Petroleum Association (IPA).

Faiz Shahab
Exploration &
New Ventures Officer

An Indonesian citizen, born in 1954, Mr. Faiz Shahab first joined the Company via his engagement as Vice President – Project Development at Medco International Services Pte. Ltd. in Singapore (2010-2011). His experience overseeing exploration and development of overseas assets in Middle East and North Africa earned him international exposure that consummated his 30 years of experience in energy business. Before his appointment as Exploration & New Ventures Officer in May 2011, Mr. Shahab had served in various executive positions in major energy concerns including President Director of PT Prime Petroservices (2008-2010); CEO, PT Indogas Kriya Dwiguna (2007-2010); Director & CEO, PT Energi Mega Persada Tbk. (2005-2007); Senior Vice President – Development, EMP Kangean Limited (2004-2005); Vice President – Java LNG, BP Indonesia (2002-2004); Vice President & General Manager, Lapindo Brantas Inc. (2000-2002); Engineer, Maintenance Superintendent, Engineering & Construction Manager, Vice President Field Support & HSE, VICO Indonesia (1983-2000); and Field Electrical Engineer, PT Purna Bina Indonesia (1981-1983). He graduated from Electrical Engineering Department, Institut Teknologi Bandung and is a Certified Project Management Professional.

Johannes Kustadi
Chief Business Support Officer

An Indonesian citizen, born in 1959. He was appointed as Director in 2010. Kustadi joined MedcoEnergi in 2005. He previously served as Financial Controller at BP Indonesia (2002 – 2005), Finance Manager at Gulf Indonesia Resources Ltd. (2000 – 2002), Business and Planning Manager at VICO Indonesia (1997 – 2000), Joint Venture Accounting Manager at VICO Services, Inc. – Houston, Texas (1995 – 1997), Controller and various positions at VICO Indonesia (1991 – 1995).

He received a Master of Business Administration degree in Finance from the University of Texas, USA in 1997. Kustadi received a Bachelor degree in Accounting from Gajah Mada University, Yogyakarta in 1983.

Eka Satria
E&P Development Director

An Indonesian citizen, born in 1967, Satria was appointed as Director in 2010. Satria joined MedcoEnergi in 2008. He previously served as Vice President of Project Capability at Medco Energi Internasional, Tbk (2008 – 2010), Senior Project Manager of Tangguh LNG Gas Processing Facilities (Papua) at BP Indonesia, as well as various positions at ARCO (1989 – 2000) as Project and Engineering professional for various offshore and onshore E&P projects and developments in Indonesia.

Satria was involved in BP Executive Program – Major Project Leaders from the Massachusetts Institute of Technology (MIT), USA in 2004. He received a Master degree in Finance from the University of Indonesia in 2000. He received a Bachelor degree in Civil Engineering from the Bandung Institute of Technology (ITB), Indonesia in 1990.

Hartono Nugroho
E&P Operation Director

An Indonesian citizen, born in 1959. He was appointed as E&P Operation Director in 2011. Previously he held a number of positions including General Manager, Rimau Asset (2008); Senior Manager Drilling (2005); Area Manager, SSE & Rimau Block (2002); Area Manager, Sangasanga (2001); Operation Superintendent, SSE & Rimau Block (1996); Operation Support Department Head (1995); Production Engineer (1990); and Drilling & WO/ WS Engineer (1987). He graduated from California State University, USA, with a bachelor degree in Mechanical Engineering (1987).

Committees

The Audit Committee, the Risk Management Committee, the Nomination Committee, the Remuneration Committee, and the GCG Committee were established by the Board of Commissioners to assist in carrying out the specific duties, roles and responsibilities.

Audit Committee

The Audit Committee is responsible for assisting the Board of Commissioners in monitoring the management of MedcoEnergi. The Audit Committee evaluates the presentation of financial statements and overall company performance, discusses audit findings with the Board of Directors, and provides professional opinion and recommendation to the Board of Directors and the Board of Commissioners particularly regarding compliance with applicable rules and regulations.

The Audit Committee also interacts intensively with the Board of Directors, Internal Audit Unit and external auditors, from whom it relies for information.

Composition

Pursuant to Regulation No. IX.I.5 of Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK), members of the Audit Committee shall consist of at least 1 independent commissioner and 2 independent members from outside of the Company.

Members of the Audit Committee are appointed and terminated by the Board of Commissioners. The Chairman of the Audit Committee must be an independent commissioner of the Company.

Members of the Audit Committee are required to meet the following criteria:

1) Maintain high integrity and sufficient ability, knowledge and experience in accordance with educational background; and able to communicate effectively.
2) One member of the Audit Committee comes from accounting or finance educational background.
3) Have sufficient ability to read and understand financial statements.
4) Have sufficient knowledge on laws and regulations of capital market as well as other pertaining regulations.
5) Does not work in a Public Accounting Office, Legal Consulting Office, or other parties that provide auditing, non-auditing or other services to the pertaining Public Company within 6 (six) months before appointed by Commissioner.
6) Does not have the authority and responsibility to plan, manage or control the activities of a Public Company within 6 (six) months before appointed by Commissioner, except Independent Commissioner.

Zulfikri Aboebakar
Audit Committee Independent Member

Appointed as an external member of the Audit Committee since 2002 and re-elected by the the Board of Commissioners in 2003 and 2008. He has extensive experience as Auditor since 1975, for major companies, including PT Bimantara Citra, PT KODEL, Bank Internasional Indonesia Tbk., Bank Niaga Tbk., and Bank Lippo Tbk.

Djoko Sutardjo
Audit Committee Independent Member

Appointed as an external member of the Audit Committee since 2002 and re-elected by the the Board of Commissioners in 2003 and 2008. He has extensive experience as Public Accountant and Management Consultant since 1971, including in the oil industry and oil-related supporting industries, such as: PT Stanvac Indonesia, Scepter Resources Indonesia, Bumi Modern, and PT Exspan Kalimantan Group. As member of the Audit Committee, his function is to provide analysis of the Company's financial performance based on his expertise in finance and accounting as well as his in-depth understanding of the Company's laws and regulations.

7) Does not own shares either directly or indirectly in a Public Company. In an event that the member of the Audit Committee owns shares due to a legal incident, that member is required to transfer the ownership to other parties at the latest 6 (six) months after the acquisition of the shares.
8) Does not have:
    a) Family relationship as a result of marriage or pedigree up to second generation, horizontally or vertically, with Commissioner, Director, or Major Shareholder of a Public Company; and or
    b) Business relationship either directly or indirectly related to the operation of a Public Company.

The term of the Audit Committee shall not be longer than that of the Board of Commissioners and the members are eligible for reappointment only for one period.

Duties and Responsibilities
Pursuant to Rule No. IX.I.5 of Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK), the duties and responsibilities of the Audit Committee are as follows:
- To review the Company's financial information to be published, including financial statements, business projection and estimates.
- To review compliance towards prevailing laws and regulations as well as the Company's Code of Conduct,focusing on transparency and fairness.
- To approve the Charter of Internal Audit Unit, annual audit program and plan, and to review the feedback from management on audit findings.
- To review the appointment of external auditors, verifying their qualification and independence.
- To resolve all disputes on financial statements between the Management and independent auditors.
- To assist the Board of Commissioners in assessing the report of the Internal Audit Unit and the Risk Management Committee.
- To review the Audit Committee Charter periodically.
- To review all complaints addressed to the Company and report them to the Board of Commissioners.

Meetings

The Audit Committee regularly convenes in meetings to discuss issues related to GCG that need to be addressed by the Board of Commissioners and the Board of Directors, as well as other important matters such as implementation of accounting principles, information dissemination to the public, and appointment of public accountant. In 2011 the Audit Committee convened in seven meetings with attendance rate of 97.7%.

No	Name & Position	Term	List of Attendance in 2011 Audit Committee Meeting							Total	%
			3/18	4/27	6/26	9/8	10/7	10/26	12/16		
1	**Marsillam Simandjuntak** Independent Commissioner & Chairman	May 2008 - 2013	•	•	•	•	•	•	•	7	100
2	**Gustiaman Deru** Independent Commissioner & Member	May 2003 - 2008 May 2008 - 2013	•	•	•	•	•	•	•	7	100
3	**Hilmi Panigoro** President Commissioner & Member	May 2008 - 2013	•	•	•	•	•	•	•	7	100
4	**Djoko Sutardjo** Independent Member	May 2003 - 2008 May 2008 - 2013	•	•	•	•	•	•	•	7	100
5	**Zulfikri Aboebakar** Independent Member	May 2003 - 2008 May 2008 - 2013	•	-	•	•	•	•	•	6	86
Average Attendance Status (%)											**97.7**

Risk Management Committee

The Risk Management Committee is responsible for assisting the Board of Commissioners in ensuring that the Company has conducted thorough assessments of all transactions and corporate actions that contain material risks, and has given due consideration for contingency measures to mitigate the impact of the risks.

The Risk Management Committee has the right to full access to all personnel, documents, data, facilities and funds relevant to the discharge of its duties. In exercising these rights, the Risk Management Committee works together with the Internal Audit Unit. With the approval of the Board of Commissioner the Risk Management Committee has the right to seek third party expertise in discharging its responsibilities and duties.

No	Name & Position	List of Attendance in 2011 Risk Management Committee Meeting					Total	%
		2/21	4/6	5/5	8/10	12/22		
1	**Hilmi Panigoro** President Commissioner & Chairman	•	•	•	•	•	5	100
2	**Marsillam Simandjuntak** Independent Commissioner & Member	•	•	•	•	•	5	100
3	**Masayuki Mizuno** Commissioner & Member	•	•	•	•	•	5	100
4	**Yani P. Rodyat** Commissioner & Member	•	•	•	•	•	5	100
5	**Syamsurizal Munaf*** Director & Member				•	•	2	100
6	**Akira Mizuta*** Director & Member				•	•	2	100
Average Attendance Status (%)								**100**

* Appointed since August, 2011

Composition

The composition of the Risk Management Committee is required to meet the following criteria:

- The Risk Management Committee comprises 5 - 7 members of Commissioners and Directors, majority of whom are Commissioners and Department Heads.
- The members possess business knowledge/ skills and are familiar with accounting and financial practices and concepts.
- The members include the Head of Internal Audit and External Audit (Auditor General) representatives as members.

Duties and Responsibilities

The duties and responsibilities of the Risk Management Committee are as follows:

- To review and assess the risk profiles of MedcoEnergi and its subsidiaries.
- To review the effectiveness of the organization structure in managing potential risks.
- To review the risk management capability against best practices in related industries.
- To ensure that the identification, understanding and control of business and technical risks at every level of the organization have been conducted effectively.
- To ensure access to all personnel, documents, data, facilities and funds are in accordance with assigned responsibilities.

In 2011, the Risk Management Committee reviewed a number of transactions and corporate actions and gave its consideration on contingency measures needed to mitigate the resulting potential risks. Based on the recommendations of the Risk Management Committee, the Board of Commissioners gave its approval to undertake such transactions and corporate actions.

Meetings

The Risk Management Committee convenes regularly to evaluate risk management at MedcoEnergi and its subsidiaries. In 2011 the Risk Management Committee convened in five meetings with attendance rate of 100%.

Nomination Committee

The Nomination Committee is responsible for assisting the Board of Commissioners in selecting and nominating candidates for the Board of Directors and the Board of Commissioners. The Nomination Committee has the right to full access to all personnel, documents, data, facilities and funds relevant to the discharge of its duties.

In exercising these rights, the Committee works together with human resources and senior talent management.

Composition

The Nomination Committee is required to meet the following criteria:

- The members are "Independent" under the criteria set by any applicable law, regulation and/ or listing standard.
- The members also serve as Commissioners or Directors.
- The Nomination Committee comprises 3 - 5 members, the majority of whom are Commissioners.
- The Nomination Committee is chaired by a Commissioner.

Duties and Responsibilities

Pursuant to the Company's Articles of Association, the duties and responsibilities of the Nomination Committee are as follows:

- To identify and nominate the candidates for the Board of Commissioners and the Board of Directors, screening the qualifications and performing due diligence.
- To review the performance of the Board of Commissioners and the Board of Directors in line with the vision and mission of the Company.
- To terminate the members of the Board of Commissioners and the Board of Directors with reference to the Company's policies.
- To review and recommend the members for the committees of the Board of Commissioners.

- To develop training and basic orientation for the members of the Board of Commissioners and the Board of Directors.
- To prepare the succession plan for the Board of Directors and senior executives.

Meetings

In connection with Organization Revitalization Program, the Nomination Committee convenes regularly to evaluate the composition of the Board of Commissioners and the Board of Directors of MedcoEnergi and its subsidiaries.

In 2011 the Nomination Committee convened in four meetings with 100% attendance rate.

No	Name & Position	List of Attendance in 2011 Nomination Committee Meeting				Total	%
		1/27	5/11	6/30	7/17		
1	**Yani P. Rodyat** Commissioner & Chairman	•	•	•	•	4	100
2	**Hilmi Panigoro** President Commissioner & Member	•	•	•	•	4	100
3	**Gustiaman Deru** Independent Commissioner & Member	•	•	•	•	4	100
4	**Retno Dewi Arifin** Commissioner & Member	•	•	•	•	4	100
5	**Lukman Mahfoedz** President Director & Member	•	•	•	•	4	100
6	**D. Cyril Nurhadi**** Director & Member	•	•	•	•	4	100
7	**Syamsurizal Munaf*** Director & Member						
8	**Frila Berlini Yaman*** Director & Member						
9	**Dasril Dahya*** Director & Member						
Average Attendance Status (%)							**100**

** Discharged since Augus, 2011   * Appointed since August, 2011

Remuneration Committee

The Remuneration Committee is responsible for assisting the Board of Commissioners in formulating the policies on remuneration and in evaluating the remuneration of the Board of Directors and the Board of Commissioners. The Remuneration has the right to full access to the policies, system and remuneration of the Company's executives up to subsidiaries level.

Composition

The Remuneration Committee is required to meet the following criteria:

- The members are "Independent" under the criteria set by any applicable law, regulation and/or listing standard.
- The Remuneration Committee comprises of 3 - 5 members, the majority of whom are Independent Commissioners.
- The Remuneration Committee is chaired by an Independent Commissioner.

Duties and Responsibilities

The duties and responsibilities of the Remuneration Committee are as follows:

- To formulate a general reference for the Company's remuneration system to be approved jointly by the Board of Commissioners and the Board of Directors.
- To formulate and review the policies pertaining to the remuneration of the Board of Commissioners and the Board of Directors.

- To review and recommend the remuneration of the Board of Commissioners and the Board of Directors.
- To review and recommend incentive-driven compensations, including equity-based compensation.
- To review the remuneration policy and system of subsidiaries to ensure uniformity with the Company's general reference of remuneration system.

Meetings

The Remuneration Committee convenes regularly to evaluate the remuneration of the Board of Commissioners and the Board of Directors of MedcoEnergi and its subsidiaries.

In 2011 the Remuneration Committee convened in six meetings with 100% attendance record.

No	Name & Position	List of Attendance in 2011 Remuneration Committee Meeting						Total	%
		1/27	4/6	5/11	5/19	6/17	12/16		
1	**Hilmi Panigoro** President Commissioner & Chairman	•	•	•	•	•	•	6	100
2	**Yani P. Rodyat** Commissioner & Member	•	•	•	•	•	•	6	100
3	**Retno Dewi Arifin** Commissioner & Member	•	•	•	•	•	•	6	100
5	**Lukman Mahfoedz** President Director & Member	•	•	•	•	•	•	6	100
6	**D. Cyril Nurhadi**** Director & Member	•	•	•	•			4	100
7	**Syamsurizal Munaf*** Director & Member						•	1	100
8	**Dasril Dahya*** Director & Member						•	1	100
Average Attendance Status (%)									**100**

** Discharged since August, 2011   * Appointed since August, 2011

GCG Committee

The GCG Committee is responsible for assisting the Board of Commissioners and the Board of Directors in strengthening and ensuring that the implementation of GCG and corporate values has been consistently applied throughout MedcoEnergi.

Composition

No	Name & Position
1	**Marsillam Simandjuntak** Commissioner & Chairman
2	**Hilmi Panigoro** President Commissioner & Member
3	**Yani P. Rodyat** Commissioner & Member
4	**Lukman Mahfoedz** President Director & Member
5	**Syamsurizal Munaf*** Director & Member
6	**Frila Berlini Yaman*** Director & Member
7	**Dasril Dahya*** Director & Member
8	**Budi Basuki*** Member

* Appointed since August, 2011

Duties and Responsibilities

The duties and responsibilities of the GCG Committee are as follows:

- To develop and recommend GCG principles and standards for MedcoEnergi and its subsidiaries.
- To review the GCG principles and standards periodically based on global and local conditions.
- To review the GCG policies set by the Board of Directors to ensure that the policies are in line with recommended GCG

principles, standards as well as recommended adjustment/ amendment/improvement.

- To recommend changes to the GCG policies and guidelines and monitor the implementation of those guidelines.
- To evaluate any potential conflict of interest or any other potential violation among the members of the Board of Directors and recommend the resolution to the Board of Commissioners.
- To evaluate the report of the Board of Directors on GCG implementation on a quarterly and annual basis.
- To promote a consistent implementation of GCG practices within MedcoEnergi by setting the members of leadership as role models.
- To recommend appropriate standards for CSR programs and ensure that the CSR policies and programs are in line with global standards and maintain the implementation adequately.
- To evaluate the report of the Board of Directors on CSR implementation on a quarterly and annual basis.

Topic of Discussions of the Committees' Meetings

Audit Committee

No.	Meeting Held	Topic of Discussion
1	March, 18	Approval of MEI Consolidation Financial Statement 31 December 2010-Audited
2	April, 27	Approval of 1st Quarter 2011 MEI Consolidated Financial Statements (as of 31 March 2011)
3	July, 26	Review and Approval of 2nd Quarter 2011 MEI Consolidated Financial Statements (as of June 30, 2011)
4	September, 8	Appointment of Public Accountant for 2011 Financial Statements Audit
5	October, 7	Kick Off Audit Meeting for Year Book 2011
6	October, 26	Approval of 3rd Quarter 2011 MEI Consolidated Financial Statements (as of September 30, 2011)
7	December, 16	Update Audit Progress - Year End 2011

Risk Management Committee

No.	Meeting Held	Topic of Discussion
1	Feb, 21	Acquisition of Gajendra Power Services
2	Apr, 6	Standby Loan Facilitiy
3	May, 5	Investment in 350 HP Workover Rig
4	Aug, 10	1) MIR & SVI Divestment, 2) Energy Sengkang Divestment, 3) Tunisia Anaguid Divestment 4) Project Jasmine, 5) Project Jamz
5	Dec, 22	New Acquisition Proposal

Nomination Committee

No.	Meeting Held	Topic of Discussion
1	Jan, 27	a) Review Proposed Candidates for BOD Vacant Position in MEI's Sub/ Sub-Subsidiaries (EPI/SVI/MIR, DEB/MEB&TJB) b) Review Talent Management Status Report
2	May, 11	a) Review & recommend the new composition of MEI BOC BOD (for BOC endorsement to be forwarded to 2011 AGM/EGM approval) b) Review & recommend new Subsidiaries (MEPI, MDI, MPI, MEMI, EPI, MGI) Boards Structure (for subsidiaries' respective AGM/EGM)
3	Jun, 30	Review & recommend Subsidiaries Boards Structures (MGI, MCBM)
4	Jul, 17	Review, appointment &recommendation to BOC; the membership of Committees (Audit, Nomination, Remuneration, GCG, Risk Management)

Remuneration Committee

No.	Meeting Held	Topic of Discussion
1	27 Jan	Review & recommend on Subsidiaries
2	6 Apr	MSOP & ESOP
3	11 May	a) Review & recommend salary budget 2011 (total for BOC BOD) for BOC approval to be forwarded to AGM/EGMS b) Review & recommend Subs Director
4	19 May	Review & recommend on expat Director C&B package
5	17 Jun	Review & recommend severance compensation for MEI Boards
6	16 Dec	Review & recommend severance compensation for Subsidiaries Boards

Corporate Secretary

MedcoEnergi established a Corporate Secretary Division in 2005. The Corporate Secretary Division is headed by Head of Corporate Secretary who directly reports to the President Director & CEO. In line with the regulation of Bapepam-LK No. IX.I.4 regarding the establishment of a Corporate Secretary Function, the Corporate Secretary Division is responsible to assist the President Director & CEO, other Directors and Board of Commissioners in complying with capital market laws and regulations, complying with Indonesia Stock Exchange (IDX) and other self-regulatory organization (SRO) regulations, complying with company law and articles of association (AoA), reminding to uphold the highest standard of GCG principles, bridging communication with capital market, IDX and shareholders, and communicating with media and stakeholders (public in general, communities, central governments and private institutions). In addition, the Corporate Secretary Division is responsible for developing corporate image building and branding promotion, and arranging/coordinating any corporate meetings/events internally and externally.

Compliance and Upholding of GCG Principles

During 2011, the Corporate Secretary Division fully carried out its duties and responsibilities in assisting the Board of Directors to comply with all the regulations in capital market. MedcoEnergi fulfilled its obligations to file all the regulatory reports to capital market and stock exchange in due time, and minimized penalty due to late filing of 2010 Annual Report. Moreover, the Company disclosed and made available in due time all material informations pertaining to the Company's conditions which occured during 2011. Such efforts allowed MedcoEnergi to receive zero warning letter from the Bapepam-LK or IDX.

During the year, the Corporate Secretary assisted the Board of Directors and Board of Commissioners in convening and taking the minutes of their regular meetings, as well as in coordinating and preparing the AGMS appropriately.

Moreover, the Corporate Secretary represented the Board of Directors in meetings invited/held by the Bapepam-LK, IDX, and Association of Public Company pertaining to the implementation or information dissemination of certain Regulations. The Corporate Secretary, together with other representative of the Board of Directors, also represented the Board of Directors in meeting with/responding to the verbal inquiries from the Bapepam-LK or IDX to discuss certain material information that required clarification.

The Corporate Secretary Division and the Corporate Internal Audit and Corporate Legal Divisions,

Cisca W. Alimin
Corporate Secretary

An Indonesian citizen, Cisca W. Alimin was born in 1969. She was appointed as Corporate Secretary in 2007.

She previously served as Compliance Lead of MedcoEnergi (2005-2007). She joined MedcoEnergi in 1995 and served as Office Supervisor (1995-1998), Section Head in Investor Relations Department (1998 - 2000), and Section Head of Compliance (2000-2005). Prior to joining the Company, Cisca W. Alimin worked at PT Trisaka Adireksa as Assistant Executive (1994), and Mobil Oil Indonesia Inc. (1993).

She earned a Bachelor of Science degree in Business Administration from the University of Indianapolis in 1992, and obtained a Certificate of Corporate Secretary batch XII from Lembaga Management Fakultas Ekonomi Universitas Indonesia and Yayasan Pasar Modal Indonesia in 2001.

have continuously supported the Board of Directors in promoting and monitoring the practice of GCG principles and the implementation of Whistle Blowing System in MedcoEnergi.

Establishing Communication and Relationship with Stakeholders

MedcoEnergi is committed to disclose any information pertaining to the Company's current condition in a transparent manner. To communicate such information effectively, the Corporate Secretary continues to manage and update the Company's website (www.medcoenergi.com), to produce and distribute media releases, and to coordinate press conferences.

During 2011, the Company published all its regulatory reports and material information reports on the Company's website on the day of filing to Bapepam-LK and IDX. The Company distributed more than 20 media releases in 2011 and made them available on the website once published. All the Company's regulatory reports, material information reports, and media releases were prepared in Bahasa and English languages.

In 2011, the Corporate Secretary Division coordinated six press conferences regarding the Company's operation condition in Libya, 2011 AGMS results, the signing of Loan Facility Agreement with BRI, offering of Shelf-Registered Bonds, 2011 Annual Public Expose, and the joining of Saratoga Power as shareholder in Medco Power. Moreover, the Corporate Secretary Division continued to conduct regular visits to selected media, such as Koran Tempo, Republika, and Kompas.

Developing Corporate Image Building and Branding Promotion

The Company, under the coordination of the Corporate Secretary Division, has set policies to implement Corporate Social Responsibility (CSR) Program and sponsorship program which will create high impact to the Company's image. The executed CSR and sponsorship program of MedcoEnergi are available on the Corporate Social Responsibility section in this Annual Report.

Meanwhile for the Branding Promotion, in 2011, the Corporate Secretary coordinated the Company's participation in the exhibitions at the 2011 Java Jazz Festival, the 2011 Indonesian Petroleum Association (IPA), and the Anniversary of the Department of Energy and Mineral Resources of Indonesia.

Coordinating the Corporate Events

In 2011, the Corporate Secretary, in collaboration with other Divisions, coordinated several regular internal events, such as 2011 New Year Speech, Ramadhan Gathering, Eid al-Fitr Gathering, and Skip Level meeting with the President Director & CEO. Meanwhile for the external gathering, the Corporate Secretary coordinated the Corporate Dinner with the ambassadors of Middle East and North Africa countries, and the Corporate Dinner with the representatives of new Libyan Government.

We actively participate in the Indonesian Petroleum Association exhibition to share our knowledge and expertise with the oil & gas industry and surrounding communities.

Investor Relations deliver effective two-way communication to financial communities and other constituencies.

Investor Relations

The duty to act as the Company's point of contact with investors and potential investors is held by the Investor Relations Division. In this regard, the Investor Relations division is responsible for supporting the Board of Directors in conveying MedcoEnergi's past performance as well as present and future strategies.

As a repository of all information regarding the Company's performance and developments, Investor Relations maintains close relationships with analysts and investment managers and in some circumstances provides updates to rating agencies.

Investor Relations meets regularly with securities analysts to discuss MedcoEnergi's financial performance and other issues, and participates in conferences and road shows.

Internal Audit Unit

Pursuant to the resolution of the Board of Commissioners dated October 29, 2010, the position of Corporate Internal Audit and Head of Corporate Internal Audit Division is held by Eddy Hasfiardi.

The Internal Audit is defined as an independent and objective function to assure the provision of advice and recommendation to enhance the value and improve the Company's operating performance. The Internal Audit helps the Company achieve its objectives by bringing a systematic, disciplined approach in the evaluation and improvement of the effectiveness of Risk Management, Internal Control and Governance processes

The formation of the Internal Audit of MedcoEnergi complies with the Bapepam-LK regulation No. IX.I.7. on the formation of the Internal Audit Unit.

The Internal Audit Unit reports directly to the President Director. The Head of Corporate Internal Audit is appointed and replaced by the President Director as agreed by the Board of Commissioners and the Audit Committee. As of December 31, 2011, the Division consists of 11 personnel including the Head of Internal Audit.

The Internal Audit Charter of MedcoEnergi has been effective since 2003, with the last update made in January 2012. It elaborates the vision, mission and goal of the Internal Audit.

Audit performance always tries to refer to International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors (IIA). Based on the Standard, Internal Audit would evaluate the adequacy, effectiveness of control and risk exposure relating to the organization's governance, operations, and information systems which includes:

- The reliability and integrity of financial and operational information
- The effectiveness and efficiency of operations
- The safeguarding of assets
- The compliance with laws, regulations and contracts

Governance should also be evaluated to improve ethics and values in the organization.

In performing its duties the Internal Audit Unit is also authorized to conduct the following:
- To access all information about the Company.
- To communicate directly with the Board of Directors, Board of Commissioners, and/ or Audit Committee.
- To convene in regular and incidental meetings with the Board of Directors, Board of Commissioners, and/ or Audit Committee.
- To coordinate its activities with the external auditor.

The Internal Audit Unit also performs special audit or investigative audit if requested by MedcoEnergi. Throughout 2011, the Internal Audit Unit conducted 14 general audits and 2 special audits.

Audit findings are discussed with the persons pertaining to the audited process/ activity in order to obtain written confirmation along with agreed action plan and due date. For 2011 the number of Auditee Management responses accounted for 83 percent of all audit findings.

The summary of all audit findings is compiled into Internal Audit Report which is then submitted to the Management of each subsidiary with copies forwarded to the President Director and Chairman of the Audit Committee.

The Internal Audit report can be read by assigned external auditors as a reference for internal control assessment in the Company.

With regard to risk management, the Internal Audit Unit conducts the audit for Business Process Risk Assessment based on assessment of inherent risks (extreme, high, medium, low) in certain main business process of the Company, relative to the objectives and KPIs set by the Head Office. The resulting risk profile serves as a tool for the Company to help mitigate risks and realize objectives and KPIs.

Eddy Hasfiardi
Corporate Internal Audit

Indonesian citizen, Hasfiardi was born in 1963. He served as Head of Corporate Internal Audit since November 2010.

Hasfiardi has been working closely with the Company's management since 2004 and previously held the position of Head of Internal Audit & Compliance in PT Medco E&P Indonesia, the subsidiary of MedcoEnergi, from 2004 up to October 2010. Prior to joining the Company, Hasfiardi worked in the Indonesian Banking Restructuring Agency (IBRA) at its Forensic Asset Tracing Division (FORSAT) and the Asset Management Investment Division (AMI). He previously also worked in several national banks in different managerial positions.

Hasfiardi received his Bachelor degree in Economics from Jayabaya University in 1987 and Master of Business Administration from the Bandung Institute of Technology in 2001.

Material Litigation Cases

In 2011, the Company recorded the following legal cases :

Hamzah Bin M. Amin's lawsuit pertaining to Block A PSC.

In September 2008 Hamzah Bin M. Amin and five other villagers filed a legal claim against PT Medco E&P Malaka, a subsidiary of MedcoEnergi, alleging that land erosion from the exploration activities by Asamera Oil, the previous owner of the Block A PSC in the Alur Rambong I well, resulted in material damages to the Plaintiffs' land. The case was registered at the Idi District Court. The Plaintiffs demanded that the Defendant, as the operator of Block A pay the compensation from land erosion totaling approximately Rp4.8 billion. The Company's portion is 41.67 percent (in parallel with participating interests in Block A PSC) of the possible total compensation, amounted to approximately Rp1.99 billion.

The Idi District Court has issued its decision ordering that the defendant return the rice field into its original condition.

Responding to the ruling, the plaintiff and defendant have appealed the case to the Supreme Court. As of the date of the completion of the consolidated financial statements, the litigation process is still ongoing and no decision has yet been issued or made known.

The Management is unable to assess the ultimate outcome of the litigation. Nevertheless, the Management believes that the legal claim is without merit, and therefore the Company has not made any provision for the claim.

In relation with the process of selecting future investment partners for the Donggi-Senoro Project in 2005,

the Commissioners' Panel of the Business Competition Supervisory Commission (KPPU) decided on January 5, 2011, that the Company, together with its business partners, PT Pertamina (Persero) and Mitsubishi Corporation have allegedly violated the Articles 22 and 23 of the Law No. 5 / 1999 concerning Prohibition on Monopolistic Practices and Unfair Business Competition (Law No. 5/1999).

In its decision, the KPPU Commissioners' Panel, among other matters, imposed on the Company an administrative penalty in the amount of Rp6 billion. However, the Commissioners' Panel's decision does not nullify or stop the ongoing business consensus and even recommends the Government to encourage the Donggi-Senoro Project to be accomplished within the planned project time frame.

With regard to the KPPU's decision which has not been legally finalized neither was it binding (in kracht van gewijsde), on January 31, 2011, pursuant to the Law No. 5/1999 the Company officially filed an objection to the South Jakarta District Court.

As of the date of the completion of the consolidated financial statements, the investigation process for the objection of the KPPU's decision is still ongoing in the district court. At this stage, the Management is unable to assess the ultimate outcome of such litigation process.

Nevertheless, the Management believes that the decision imposed by the Commissioners' Panel on the Company has no legal merit and was inappropriately decided, and therefore the Company has yet to make any provision for the litigation process.

Corporate Values and Code of Conduct

In line with MedcoEnergi's commitment to uphold the highest standard of GCG principles, the Company adopted the GCG principles in its Corporate Values since 2004. Accordingly the Company complemented its Code of Ethics with a Code of Conduct.

MedcoEnergi requires all of its employees, Board of Directors and Board of Commissioners to carry out their roles and responsibilities in accordance with MedcoEnergi's Corporate Values and Code of Conduct.

Corporate Values

To strengthen MedcoEnergi's commitment in implementing GCG principles, the Board of Commissioners and Board of Directors sharpened the Company's Corporate Values and introduced them to all employees in early 2004. MedcoEnergi's Corporate Values contain the spirit of GCG principles namely transparent, accountable, responsible, independent, and fair. These Corporate Values are:

- Professional - Strong determination to succeed and supported by excellent capabilities and competency, as well as willingness to seek proficient advice from others.
- Ethical - Maintaining high standard of integrity and strict adherence to business ethics and GCG principles.
- Open - Encouraging communicative environment based on trust and openness, to continually improve the Company's performance.
- Innovative - Nurturing the ability to explore for new ideas and new ways of doing business.

Code of Conduct

To enable the employees to act in line with the Corporate Values, the Company adjusted the Code of Ethics introduced in 2003 to the Code of Conducts. The latest Code of Conducts was introduced in the beginning of 2009 at the New Year Speech. The Code of Conducts consists of policies in the following areas:

1. Protecting the Employees' Interest;
2. Safety, Health, and Environment;
3. Protecting the Company's Assets and Financial Integrity;
4. Respecting The Business Partners; and
5. Protecting the Interests of the Community and Government.

The Company's Code of Conduct is available on MedcoEnergi's website, www.medcoenergi.com.

Internalization Program

MedcoEnergi set an Internalization Program of GCG and Code of Conducts to all employees when the Company first launched the latest Code of Conducts in the beginning of 2009. The Internalization Program was divided into four (4) phases:

1. Awareness – in the 1st Half of 2009
2. Understanding – in the 2nd Half of 2009
3. Acceptance – in 2010
4. Commitment – in 2011

The Internalization Program includes the requirements to sign and file the electronic copy of Annual Adherence Form and Shareholding Report Form and the issuance of the Board of Director's regular Memos prior to

The President Director initiated the signing and filing the electronic copy of the Annual Adherence and Shareholding Report Forms through BPM the festive seasons (Eid ul-Fitr and Christmas) which prohibit everyone in the Company receive any gifts/ facilities from the vendors and give any gifts/facilities to Government officials. The Board of Directors introduced the Whistleblowing System at the Acceptance Phase of Internalization Program in 2010.

In 2011, the Company executed the Commitment phase and continued the requirement for all employees to sign and file the electronic copy of Annual Adherence Form Shareholding Report Form and issuance of Memos prior to the festive seasons. The Company also continued to promote the whistleblowing system and processed the complaint reports thoroughly.

In 2012, the Board of Commissioners and Board of Directors will continue to internalize the practice of GCG and Code of Conduct in MedcoEnergi. The Company has revised the Annual Adherence Form and prepared a better system to monitor the filing of electronic copy of Annual Adherence Form and Shareholding Report Form.

Whistleblowing System

To strengthen the implementation of GCG principles and internal control system, MedcoEnergi introduced the utilization of Whistleblowing System in 2010. The system requires the whistleblower to submit an initial report to the Company.

The whistleblowing report consist of disclosure about wrongdoings, violations of law, unethical/ immoral or other actions that may adversely affect the organization and/or stakeholders, conducted by the employees or Board of Directors. The report shall be addressed to the President Commissioner, President Director and Head of Corporate Internal Audit of the Company. Any report is treated as confidential.

Reporting Mechanism and Whistleblower Protection

To ensure the independency of whistleblowing report, the Company engaged with Deloitte Touche and Tohmatsu (Deloitte). The Company limits the reporting of whistleblowing to the following areas: 1) Fraud; 2) Corruption; 3) Breaches of Policy; 4) Conflict of Interest; 5) Financial Statement Fraud; 6) Bribery; 7) Misconduct; and 8) Any unethical behavior. Any one, internally and externally, may file the report on any violation that relates to the above areas to Deloitte through the Company's website: www.medcoenergi.com or intranet or email: lapor-medcoenergi@tipoffs.com.sg. Following the acceptance of the report, Deloitte is obliged to screen and categorize the reports and may require more information and supporting documents from the whistleblower. Once all the necessary information and supporting documents are obtained, Deloitte will report and submit the complete reports to the President Commissioner, President Director and Head of Corporate Internal Audit. The Company will process the complete reports and conduct the necessary investigation thoroughly. Once the investigation is completed, the Company, through Deloitte, will announce the results of the investigation.

As stated on the Company's GCG and Code of Conduct, any whistleblowing report will be treated confidentially and the Company will protect the right and security of the whistleblower from any potential friction.

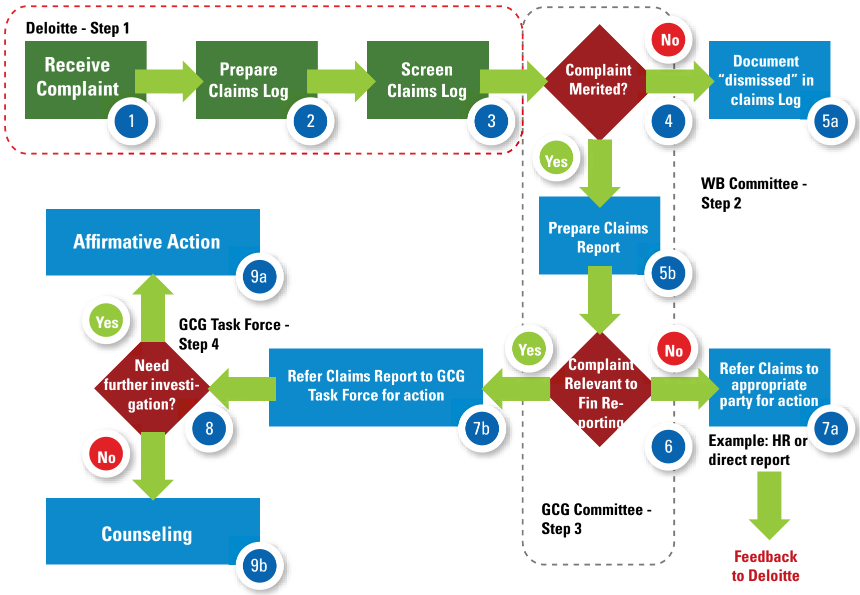
Complaints Handling and Management

In 2011 and 2010, MedcoEnergi received a number of whistleblowing reports from external and internal parties. The Company, through Corporate Internal Audit Division, processed and investigated several of the reports, specifically related to Fraud, Corruption, Breaches of Policy and Conflict of Interest cases. Meanwhile, reports regarding unethical behaviors were processed by the Human Capital Directorate.

The Company successfully completed the investigations of several cases reported, which resulted in employment termination of those proven to be at fault in such cases. The whistleblowing system helped the Company to identify areas of internal control system that need improvements.

In 2012, the Company will continue to investigate the remaining cases and promote the implementation of whistleblowing system. At the same time, the Company has set a work program to improve the internal control system, particularly in the areas that strongly need to be expanded immediately.

The following is the Whistleblowing System mechanism applied in MedcoEnergi:



Management & Employees Stock Option Program

At the Extraordinary GMS (EGMS) in May 27, 2010, the shareholders approved the proposal of the Board of Directors to offer the Stock Ownership Program through Stock Option Plan to the Employee, Board of Directors and Board of Commissioners (ESOP and MSOP).

The stocks that would be offered were a maximum of 166,622,572 of the Company's treasury stocks that was bought back in 2000 and 2001.

The EGMS also approved to delegate the authority to determine the policy and implementation of ESOP and MSOP to the Board of Commissioners and Board of Directors.

However, due to certain conditions, the Board of Commissioners and the Board of Directors are still holding back the exercise of the Company's ESOP and MSOP.

Corporate Social Responsibility: Empowering The Community

MedcoEnergi is fully aware of the significant impact of giving back to society as appreciation for the trust and support.

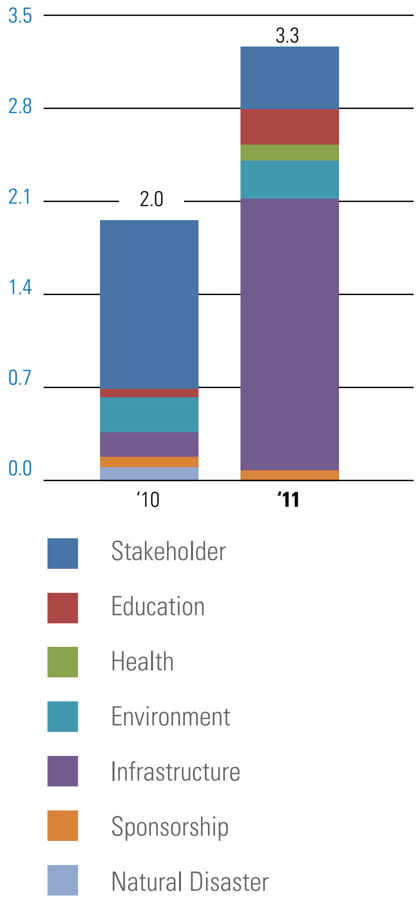
With substantial portions of its activities taking place in remote areas across the Archipelago, a long-term relationship with the surrounding communities is definitely vital to maintaining a sustainable and rewarding business. This is to be achieved by:

1. Reducing poverty and unemployment by empowering people and creating economic opportunities using local resources.
2. Providing the community with better quality of education, above-standard living condition as well as physical and spiritual health.
3. Developing public infrastructure.
4. Minimizing the destructive effects of abandoned sites on the environment and the community.

The philosophy underpinning the Company's Corporate Social Responsibility (CSR) programs extends beyond giving back, and strives for mutually beneficial relationship with various elements of society that will prevail over many generations. The programs are developed based on the principles of triple-bottom-line, encompassing economic, social and environmental considerations.

Furthermore, the programs are carried out within the framework of National Medium Term Development Plan (RPJMN) 2010-2015 enacted by the Government,

CSR Contribution (in US$ million)



We keep awareness in the importance of education through sustainable community development programs.

building capacity, science skills, and economic competitiveness. The developed programs are extensive and diverse. They are categorized into 7 major groups, namely Environment, Education, Health, Infrastructure, Stakeholders, Natural Disaster and Sponsorship & Contribution.

In 2011 MedcoEnergi invested approximately US$3.3 million in CSR programs, an increase of 66% compared to US$2.0 million in 2010.

2011 CSR Program

In 2011, MedcoEnergi continued to implement a series of CSR program that focused on the development of local communities around the area of operation. The Company also maintained the implementation of several programs on an ongoing basis. The following are the Programs carried out by MedcoEnergi during the year:

1. Empowering people and creating economic opportunities:

MedcoEnergi is committed to empowering the people at surrounding communities and help them in creating economic opportunities. In the last couple of years, the Company has been implementing several program related to the empowerment of the people at surrounding communities. Such program successfully supported them in achieving a better economic condition.

Organic Rice Intensification System

During the year, MedcoEnergi continued to promote the implementation of an innovative rice farming method called System of Intensification (SRI) which used no chemicals and no excessive water. Such program was implemented at the Company's oil & gas working areas in Riau, South Sumatra and East Kalimantan.

Indonesia CSR Award 2011

Platinum Award for Environment & Gold Award for Community Economic Empowerment

As an acknowledgement of its continuous efforts to build the community and environment surrounding its operation areas, particularly Rimau Block, South Sumatra, in 2011 MedcoEnergi received Indonesia CSR Award 2011 (ICA 2011) for 4 categories – 1 Platinum award for Environment category (organic rice program); 2 Gold awards for Community Empowerment in Economy (catfish cultivation) and Community Empowerment in Social aspect (bridge building); and Best Three award for Individual category Corporate Partner for Community Empowerment).

The award was presented by the Minister of Social Affairs of Republic of Indonesia, Salim Segaf Al-Jufri, to Julian Sudarmonegoro, Manager of Public Affairs and Security, Rimau Asset.

Organic rice intensification system implementation improved the rice production and the farmer's living standard

In 2011, 331 farmers from 8 regencies participated on the Company's SRI rice farming program. The program more than doubled rice production, and at the same time enhance the quality of rice produced. Hence, the successful implementation of the program helps to improve the living standard of the farmers, today and in the future. At the same time, the program also supports the Company's program in preserving the environment.

Fish Cultivation

In 2011, MedcoEnergi introduced the catfish cultivation program in its oil & gas working areas at South Sumatra and East Kalimantan. The program involved 70 fish farmers from the three regencies in South Sumatra and East Kalimantan. The program included the plantation, harvesting and training in catfish feed making.

A similar project is also underway in East Tarakan, East Kalimantan, involving a shrimp farm. As of the end of 2011, this program has managed to increase the output from 25 kg to 108 kg from 2 hectares of farming area.

The program assists the fish farmers in producing their own feed. As a result, feed cost is cut significantly and ultimately the famers will gain more significant profits.

2. Providing a better quality of education and facility

MedcoEnergi believes that by providing a better quality of education and better education facility, we can improve the quality of life of the people at surrounding communities. In 2011, the Company involved in the following CSR Program related to improving the level of education of the people at our surrounding communities.

Construction of Exhibition Hall School of Economics and Business Universitas Gadjah Mada

In harmony with the philosophy that education is an essential element to improve living standards as well as the quality of Indonesia's human capital, MedcoEnergi helped build the Exhibition Hall at the Faculty of Economics and Business of Universitas Gadjah Mada (UGM), Yogyakarta.

The contribution of MedcoEnergi will certainly enhance the learning process and the quality of future graduates of the School.

'Smart Cars' and 'Smart Houses'

The efforts to improve the education of the communities are evident in the innovative 'Smart

House' and 'Smart Car'. In line with the dynamics of technology and information progress, the program aims to develop the intellectual competency of the local people and facilitate them in entering the job market and developing a promising career path. As of the end of 2011, the participating regencies include Musi Banyuasin and Muara Enim in South Sumatra, Pelalawan in Riau, and Tarakan in East Kalimantan.

The programs provide a number of functions, mainly a learning platform and a library that serves as a repository of information relevant to the people's activities.

The benefits of this program to the future of the local communities are indeed staggering. In fact, Mamburungan Timur Sub District in Tarakan where farmers normally gather in study sessions has won accolade as "Inspiring Village" from Dompet Dhuafa, an institution dedicated to providing donation services to the poor.

Improving the quality of Teachers

MedcoEnergi again participated in the program to improve the quality of public education, specifically for Batui people in Banggai, Central Sulawesi in 2011. In cooperation with Islamic School Al-Khairaat, the Company continued the program to improve the quality of Al-Khairaat teachers by granting financial support to 50 non-civil servant teachers.

The program helped the teachers to enhance their teaching quality and supported them to improve their capability in obtaining the certificate of civil government teachers.

High School and University Scholarships

The Company enhances its education program by granting scholarships to students with extraordinary academic achievement but who are financially constrained. Covering elementary to university-level students, the program grants tuition as well as school supplies.

In 2011 the program continued pursuing its cause, this time involving 200 students in Musi Banyuasin and Banyuasin Sub Districts; 6 students from Pertanian Darul Fallah High School in SSE Block; 5 students from Bogor Institute of Agriculture, 1 student from UIN Syarief Hidayatullah, and 1 student from UIN Sunan Gunung Djati.

'Smart House' aims to develop intellectual competency.

MedcoEnergi 'Smart Car' for surrounding community


We believe that our work must benefit the surrounding communities where we operate.

Small Entrepreneurship Training

Simultaneously, training programs are also provided to students who aspire to hone their craftsmanship, ultimately facilitating them to start their own business.

The programs completed in 2011 include motorcycle repair training, catfish entrepreneurial training, and paper recycling training in Musi Banyuasin and Banyuasin Sub Districts; cellular telephone repair training in Indragiri Hulu and Pelalawan Sub Districts; organic fertilizer production training in Pelalawan Sub District and waste management training in Pesantren Hidayatullah, Mamburungan Timur Sub District.

3. Improving the community standard of living condition

Collaborating with local community health centers, the Company has extended its CSR programs to health care by organizing various projects targeted at improving the living condition of the local communities. In 2011 these projects focused not only on nutrition but also drug education:

- Free medication and supplementary food to pregnant women and senior citizens in Blang Simpo Village, Pereulak Regency, Aceh.
- Counseling on healthy living for the people in several sub districts in Tarakan, East Kalimantan.
- Counseling on the danger of drugs for high school students in Kerumutan Sub District, Pelalawan, Riau.
- Supplementary food for children under five years old in Indragiri Hulu Sub District, South Sumatera.
- Development of School Health Unit collaborating with local community health centers.
- Supplementary food for the students of Sukamenanti Elementary School and Bangun Sari Elementary School in Gunung Megang Sub District, Muara Enim, South Sumatera.
- Medical equipment for community health centers in Betung, Banyuasin, South Sumatera.
- Training on healthy living for health workers in Tarakan.

4. Developing public infrastructure

All of these programs are complemented with a number of development and renovation projects involving public facilities in various areas where the Company operates. These include development and renovation of a general hospital in East Aceh, worship houses, roads and bridges, clean water system, bathrooms and lavatories, sewage system, and sport facilities (soccer field and volley ball field). The Company also involved in the construction of a sports complex facility in Palembang used for the SEA Games in late 2011.

In international operation, the Company also helped the people of Libya to establish a radio station which can help them in promoting democratic education to the people of Libya.

5. Preserving the environment

In line with the Company's commitment to preserving the environment, the Company included the planting of trees in its CSR Program.

Planting 1 Billion Trees

In an effort to increase public awareness to preserve the environment by promoting the culture of planting trees, MedcoEnergi participated in the program in which the Company planted 1 billion trees. This program was particularly beneficial to the people living in the areas adjacent to forests as they were given the opportunity to take care of the forests.

Rubber Plantation

In the spirit of the 'Go-green' campaign that has become an increasingly preferred path taken by numerous companies nowadays, MedcoEnergi has distributed organic fertilizers to the rubber plantation in Sukamenanti Village, Muara Enim Regency, South Sumatera. Thanks to its natural composition, organic fertilizers induce the trees to nearly double the latex yield compared to chemical fertilizers.

6. Others

In addition to the CSR Program mentioned earlier, the Company also involved in the following program in 2011:

1. *Foster Parents for Street Children*
   Under the agreement between Medco Foundation and the Ministry of Social Affairs of the Republic of Indonesia, MedcoEnergi participated in Foster Parents for Street Children program.
   Unlike other programs, in this program the employees of MedcoEnergi Group participated actively by donating money out of their own funds.

MedcoEnergi CEO inaugurated the ground breaking of a hospital in East Aceh together with government officials and local dignitaries

Our CSR programs through foster parents encourage street children to actively improve their skill for future advancement.

2. *Golf Training for SEA Games XXVI*
   Ensuring the successful implementation of SEA Games XXVI, especially in the sport of golf, MedcoEnergi supported the preparation and training of the Indonesian golf team.

   In addition to helping the team prepare and enhancing the capability of Indonesian golfers, the Company's support effectively helped boost Indonesia's image at international level, especially among ASEAN countries.

3. *Indonesia Pusaka International Piano Competition*
   Organized by the Ministry of Culture and Tourism and Jaya Suprana Performing Arts School on 2-5 December 2011, Indonesia Pusaka International Piano Competition (IPIPC) involved participants and judges from 14 countries.

   The event culminated at the Palace of the Republic of Indonesia and was attended by the President of Republic of Indonesia as well as Government Ministers.

4. *2011 Java Jazz Festivals*
   The Company continued its commitment to participate in promoting the Government program "Visit Indonesia" by sponsoring the 2011 Java Jazz Festivals.

All of the Company's CSR Program supported MedcoEnergi to operate the business safely with minimum disturbances. In 2012 onward, the Company will continue its commitment to implement the on-going CSR Program and also to set other CSR Program that will create greater benefit and add value to the Company and communities surrounding our operation areas.

Performance Highlights and Company Profile

Historical Milestones of MedcoEnergi

1980 Incorporated as an Indonesian drilling contractor.

1992
- Established an Oil & Gas subsidiary
- Acquired TAC and PSC for two oil & gas blocks in East Kalimantan from Tesoro.

1994 Initial Public Offering as MedcoEnergi on the Indonesia Stock Exchange. Ticker symbol is MEDC.

1995 Acquired 100% shares of PT Stanvac Indonesia from Exxon and Mobil Oil.

1996 Discovery of the giant oil field, Kaji and Semoga, Rimau Block, South Sumatra.

1997 Entered into downstream industries through a Joint Management Agreement to operate Pertamina's Methanol Plant on Bunyu Island.

1999 Completed Corporate debt restructuring, followed by Rights Issue of 10:11.

2000
- Acquired three new working areas: Simenggaris, Western Madura and Senoro-Toili.
- Discovery of oil field in Soka, South Sumatra.

2001 Discovery of new oil field Matra-Nova, Sumatra.

2002
- Acquired 25% working interest of the producing Tuban block
- MEI Euro Finance Ltd, a subsidiary company of MEI issued US$100 million Eurobonds through the Singapore Stock Exchange.

2003
- Signed Gas Supply Agreement with PLN
- Won tender for Merangin-I Block
- MEI Euro Finance Ltd., a subsidiary company of MEI, issued US$250 million 144A Bonds through the Singapore Stock Exchange
- Made take-over bid for Novus
- Received PADMA award for Community Development work from the Indonesian President for E&P business unit.

2004
- Acquired Novus Petroleum Ltd
- Inaugurated the Company's first gas-fueled power plant in Batam Island, a Joint Venture with PLN Batam
- Inaugurated the LPG plant in Kaji, South Sumatra.

2005
- Acquired interest in Area 47 in Libya and Langsa Block and Sembakung Block in Indonesia
- Signed Tanjung Jati O&M power agreement with PLN
- Increased public shareholding to 42.60% and issued Global Depository Shares (GDS) at the Stock Exchange of Luxembourg
- Signed Exploration Joint Venture Agreement with Anadarko
- Won Best Overall 2004 Annual Report Award

2006

- Awarded 45% working interest in Blocks 82 and 83 in Yemen
- Commissioned Panaran II Gas-fired Power Plant 2x2.75 MW
- Awarded development of a geothermal project of 330 MW capacity in Sarulla, North Sumatra
- Won Best Overall 2005 Annual Report Award.

2007

- Launched exploration of Area 47 in Libya and made six discovery wells
- Launched pilot project for Enhance Oil Recovery (EOR) in Rimau
- Established PT Donggi-Senoro LNG (DSLNG).

2008

- Signed a Production Sharing Agreement with the Ministry of Oil and Minerals Republic of Yemen for Block 82 and 83.
- Completed the sale of APEXINDO shares.
- Signed the first Indonesian CBM PSC in Musi Banyuasin Regency, South Sumatra.

2009

- Signed Asset Purchase Agreement with Energy Resource Technology GOM, Inc. for the acquisition of Block 316, East Cameron Area, South Addition, OCS-G 23803, Gulf of Mexico, USA.
- Signed HoA between PT Medco Energi CBM Indonesia and Arrow Energy (Indonesia) holdings Pte. Ltd.
- Entered the gas distribution and coal mining business under the "Incubator Business" unit.

2010

- Completed the construction of Combined Cycle Power Plant in PLTGU Panaran II, Batam.
- Secured operatorship of Area 47 in Libya.
- Made new three oil & gas discoveries at Area 47, Libya.
- Received Contract Extensions for South and Central Sumatra PSC, Block A PSC in Aceh and Bawean PSC located in offshore East Java.
- Final Investment Decision (FID) for Senoro-Toili Gas and LNG Projects.

2011

- Issued the shelf-registration USD bond of up to USD 150 million.
- Signed CBM PSC of Lematang and Muralim Blocks.
- Completed the sale of Medco Tunisia Anaguid Limited.
- Invited PT Saratoga Power to become a shareholder of PT Medco Power Indonesia.
- Secured Commerciality declaration of Area 47, Ghadames Basin, Libya.

Five Year Financial Highlights

(in US$ million, unless stated otherwise)

Statements of Net Income	**'07**	**'08**	**'09**	**'10**	**'11**
Sales and other operating revenues	1,078.0	1,283.82	667.80	929.9	1,143.3
Cost of sales and other direct costs	(687.7)	(785.7)	(438.7)	(642.1)	(768.1)
Gross profit	390.3	498.1	229.1	287.8	375.2
Selling, general and administrative expenses	(141.6)	(154.4)	(156.9)	(173.3)	(150.9)
Income from operations	248.7	343.8	72.20	114.5	224.3
Other income (expenses)	(126.7)	153.5	(21.6)	101.3	(10.0)
Income before tax expense	122.0	497.2	50.6	215.8	214.3
Total tax expense	(95.4)	(208.2)	(28.2)	(127.7)	(125.1)
Profit Attributable to Non-controlling interests	(20.0)	(8.9)	(3.2)	(5.1)	(4.1)
EBITDA	466.7	471.1	155.2	222.5	338.2
Interest Expense	72.5	46.2	50.1	(77.4)	(75.0)
Net Income	6.6	280.2	19.2	83.1	85.1
Earnings per share (US$)	-	0.09	0.01	0.03	0.03
Outstanding shares (shares)	3,108,854,450	2,941,996,950	2,941,996,950	2,941,996,950	2,941,996,950
Balance Sheet					
Cash and cash equivalents	266.4	348.5	253.0	178.9	704.0
Current assets	743.2	862.8	789.5	758.6	1,302.7
Long term investment	16.9	10.5	9.9	11.0	132.3
Investment in project	36.2	31.7	22.4	17.5	30.3
Property and equipment - net	523.0	157.4	235.9	252.8	116.4
Oil & Gas assets- net	701.8	757.3	798.5	839.7	828.6
Other assets	39.6	35.5	38.6	41.8	38.9
Total Assets	2,179.8	1,980.2	2,040.5	2,278.1	2,587.4
Current liabilities	342.5	387.8	509.2	500.3	811.5
Non-current liabilities	1,188.6	847.1	803.7	962.9	920.5
Total debts	939.0	693.1	785.4	984.3	1,299.0
Total Liabilities	1,532.0	1,234.9	1,312.9	1,463.2	1,732.1
Minority interest in net assets of subsidiaries	126.5	12.2	18.9	28.8	9.9
Retained earnings	283.7	528.4	503.5	578.1	641.2
Total Equity	521.3	733.2	708.8	786.1	845.5
Cash Flow					
Cash generated from operations	425.9	384.8	76.6	87.9	141.5
Capital					
Capital expenditures	384.8	295.4	269.3	143.9	156.3
Average capital employed	1,365.7	1,445.4	1,460.2	1,632.3	1,957.4
Key Financial Indicators (in %)					
Return on assets	0.3	14.2	0.9	3.7	3.3
Return on equity	1.3	38.2	2.7	10.6	10.1
Return on investment	1.7	94.9	7.1	57.7	54.4
Return on average capital employed	0.5	19.4	1.3	5.1	4.3
Cash ratio	0.8	0.9	0.5	0.4	0.9
Quick ratio	1.9	2.1	1.4	1.8	1.6
Current ratio	2.8	2.2	1.6	1.5	1.6
Current liabilities to total assets ratio	0.2	0.2	0.2	0.2	0.3
Long-term liabilities to total assets ratio	0.4	0.3	0.3	0.3	0.4
Total liabilities to stockholders' equity ratio	2.9	1.7	1.9	1.9	2.0
Debt to equity ratio	1.8	1.0	1.1	1.3	1.5
Net debt to equity ratio	1.3	0.5	0.8	1.0	0.7
Debt to capital ratio	0.6	0.5	0.5	0.6	0.6

Five Year Operational Highlights

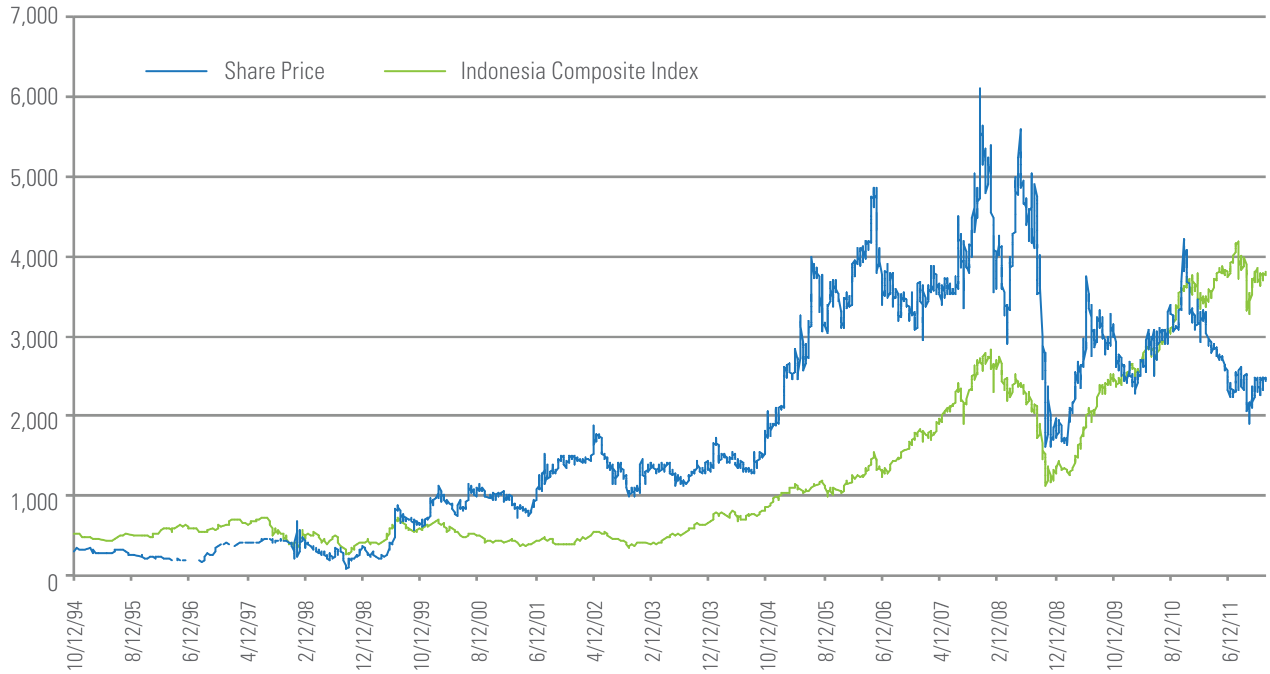
		'07	'08	'09	'10	**'11**
Oil & Gas Exploration & Production						
Proved reserves [1]						
Proved oil reserves	(MMBO)	99.2	74.9	89.8	82.8	71.6
Proved gas reserves	(BCF)	285.8	186.5	852.9	694.5	620.4
Lifting & gross sales (2)						
Oil	(MBOPD)	50.4	45.0	35.0	30.7	30.4
Gas	(BBTUPD)	117.5	108.1	104.3	155.2	163.2
LPG	(MTD)	73.70	45.3	45.2	42.0	41.8
Average realized price						
Oil	(US$/BBL)	72.5	101.0	64.0	81.5	113.7
Gas	(US$/MMBTU)	3.2	4.2	3.1	3.6	3.8
LPG	(US$/Mt)	440.1	713.9	447.5	651.0	787.5
Downstream						
Methanol [6]						
Production - metric ton	(Mt)	114,176.0	129,569.0	-	-	-
Sales metric ton	(Mt)	117,033.0	129,600.0	-	-	-
Average price (fob bunyu)	(US$/MT)	294.0	315.0	-	-	-
Ethanol						
Production	(Kl)	-	-	8,665.0	19,764.0	16,097.0
Average price	(US$/Kl)	-	-	488.6	559.1	649.0
LPG						
Gas processed	(MMCF)	4,250.0	2,619.0	2,458.0	2,332.0	2,339.0
LPG production [3]	(Mt)	26,803.0	16,682.0	16,424.0	15,359.6	15,265.3
Condensate production [3]	(Bbl)	96,536.0	61,644.0	76,146.0	73,857.5	73,915.0
Lean gas production [3]	(MMCF)	2,979.0	2,104.6	1,237.0	1,490.9	1,502.0
Processing fee	(US$/MCF)	7.2	2.1	2.1	1.7	1.7
Fuel Storage & Distribution [4]						
High Speed Diesel (HSD) Sales [4]	(Kl)	47,120.0	196,780.0	92,024.0	254,418.0	269,388.5
Power Generation						
Power supply	(Gwh)	918.0	900.0	870.0	1,217.0	1,201.5

(1) The volume of proved reserves which are attributable to the Company's working interest in each contract area, include the government's share of production.
(2) Gross lifting and sales represents the sum of the oil lifting and gas sales from each of the Company's effective interest in such block.
(3) All LPG, Condensate and Lean Gas production are delivered to and sold by Indonesia Oil & Gas business unit.
(4) Operated in June 2007
(5) Adjusted reserves due to GCA Certification as of January 1, 2007.
(6) Returned to Pertamina on December 17, 2009.

Share Information

Share Price Movement

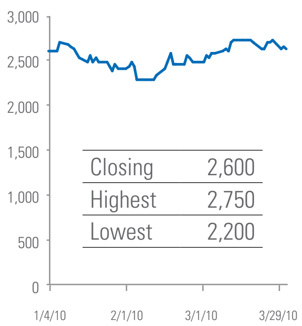
(in Rp)



(in Rp)

2010

Q1



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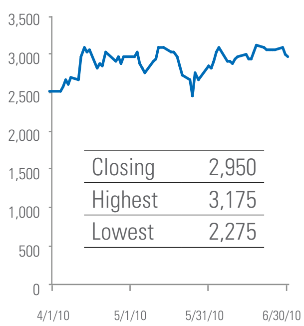

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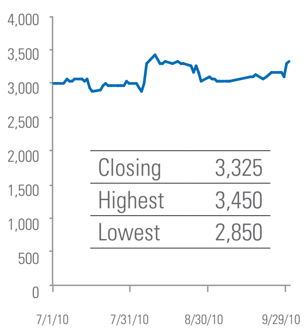

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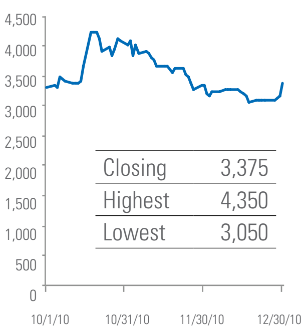
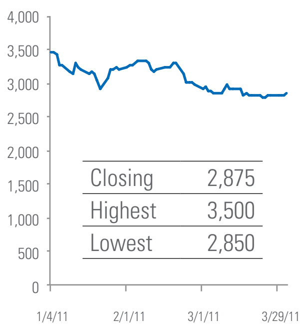


2011

Q1



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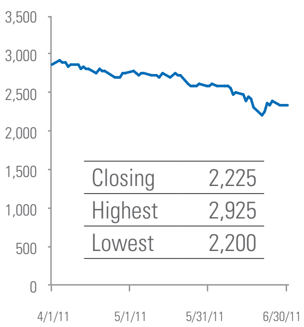

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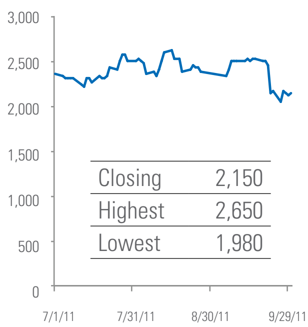

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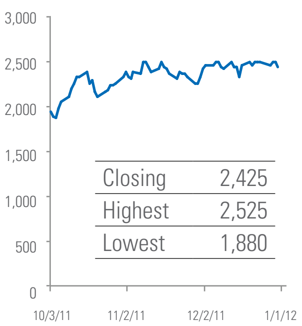


Historical Listing

Bursa Efek Indonesia

Currency : Rp
Indonesia Stock Exchange

Corporate Action	IPO	Bonus Shares	Stock Split	Right Issue	Stock Split
Date	October 12, 1994	July 18, 1996	August 18, 1998	December 2, 1999	June 2, 2000
Ratio	-	10:7	1:2	10:11	1:5
Number of Shares Outstanding	101,400,000.00	172,380,000.00	344,760,000.00	666,490,290.00	3,332,451,450.00
Par Value	1,000.00	1,000.00	500.00	500.00	100.00

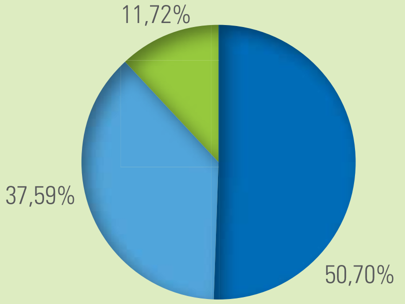
Dividend Payment and Total Return to Shareholders

	'07	'08	'09	'10	**'11**
Net income (US$)	6,544,508.00	280,204,095.00	19,231,994.00	83,059,576.00	**85,073,777.00**
Earnings per share (US$)	0.00	0.09	0.01	0.03	**0.03**
Dividend per share (US$)	0.01	-	0.02	0.00	**0.01**
Dividend per share (Rp)	51.32	-	148.43	26.04	**64.21**
Total dividend paid	17,804,628.00	-	44,129,956.00	8,472,951.00	**21,998,313.00**
- Dividend paid (US$)	14,314,309.00	-	33,311,613.00	6,602,910.00	**15,522,160.32**
- Dividend paid (Rp)	31,423,345,772.00	-	107,047,504,777.00	16,910,786,762.00	**41,585,727,541.35**
Dividend exchange rate (1 US$) (1)	9,003.00	-	9,895.00	9,043.00	**8,584.00**
Shares buyback (US$)	-	52,459,694.00	-	-	**-**
Shares buyback per share (US$)	-	0.31	-	-	**-**
Share price closing (Rp)	5,150.00	1,870.00	2,450.00	3,375.00	**2,425.00**
Share price exchange rate (1 US$) (2)	9,419.00	10,950.00	9,400.00	8,991(2)	**9,068.00**
Share price closing (US$)	0.55	0.17	0.26	0.38	**0.27**
Total return to shareholders (%) (3)	**40**	**(11)**	**61**	**45**	**27**

(1) Dividend exchange rate converted to US$ by using mid-rate Indonesian Central Bank on the recording date
(2) The stock price are in Rupiah and converted to US$ by using mid-rate Indonesian Central Bank on the last day of each respective years
(3) Total return to shareholders is calculated based on the difference on closing stock prices at year end plus the dividend per share paid on each respective years

Share Ownership

Shareholders Holding More Than 5% Ownership



Encore Energy Pte, Ltd 1,689,393,006.00	50.70%
Public 1,252,603,944.00	37.59%
Treasury Stock 390,454,500.00	11.72%

Founding Shareholders

Name of Shareholders	Number of Share	Percentage
PT Medco Duta	4,089,173	0.12%
PT Multifabrindo Gemilang	2,000,000	0.06%
	6,089,173	**0.18%**

Public Shareholders List Below 5% Ownership

Group of Shareholders	Number of Group Shareholders	Number of Shares	Percentage
Bank	1	696,500	0.02%
Foreign Individuals	93	4,909,500	0.15%
Local Individuals	6,245	185,500,449	5.57%
Pension Funds	83	50,568,500	1.52%
Mutual Funds	26	32,368,364	0.97%
Foundations	10	3,457,000	0.10%
Cooperative	1	12,500	0.00%
Insurances	19	46,610,500	1.40%
Broker	39	97,400,716	2.92%
	6,517	**421,524,029**	**12.65%**

Ownership by Commissioners and Directors

Name	Position	Number of Share	Percentage
Commissioner			
Hilmi Panigoro	President Commissioner	0	0
Gustiaman Deru	Independent Commissioner	0	0
Marsillam Simandjuntak	Independent Commissioner	0	0
Masayuki Mizuno	Commissioner	0	0
Yani Y. Rodyat	Commissioner	0	0
Retno Dewi Arifin	Commissioner	0	0
Director			
Lukman A. Mahfoedz	President Director	0	0
Syamsurizal Munaf	Director	0	0
Frila Berlini Yaman	Director	0	0
Akira Mizuta	Director	0	0
Dasril Dahya	Director	0	0

Other Securities

Number of Outstanding Shares

Currency : US$
Singapore Stock Exchange

	'07	'08	'09	'10	**'11**
144A - Bonds Interest 8.75% Due Date 22 May 2010					
Bonds ratings	B+	B+	B/B3	-	-
Total	325,411,000	325,411,000	325,411,000	-	-
Put option	-	(135,344,000)	(135,344,000)	-	-
Total of buyback	(87,863,000)	(100,863,000)	(101,863,000)	-	-
Unamortized discounts	(2,524,668)	(527,224)	(128,925)	-	-
Total outstanding	235,023,332	88,676,776	88,075,075	-	-
Total of interest expense	20,785,450	18,386,342	18,386,342	-	-
Convertible Bonds – RegS Interest 123.82% Due Date 12 May 2011					
Bonds ratings	-	B+	-	-	-
Total	198,746,497	213,416,782	-	-	-
Total of buyback	-	(64,302,513)	-	-	-
Unamortized discounts	(2,046,057)	(1,002,107)	-	-	-
Total outstanding	196,700,440	148,112,162	-	-	-
Accrual interest	21,326,352	25,514,270	-	-	-
Shelf-Registered Bond Interest 6.05% Due Date 14 July 2012					
Bonds ratings	-	-	-	-	AA-
Total	-	-	-	-	50,000,000
Total of buyback	-	-	-	-	-
Unamortized discounts	-	-	-	-	(410,562)
Total outstanding	-	-	-	-	49,589,438
Accrual interest	-	-	-	-	647,014
Shelf-Registered Bond Interest 6.05% Due Date 11 November 2012					
Bonds ratings	-	-	-	-	AA-
Total	-	-	-	-	30,000,000
Total of buyback	-	-	-	-	-
Unamortized discounts	-	-	-	-	(201,759)
Total outstanding	-	-	-	-	29,798,241
Accrual interest	-	-	-	-	247,042

Other Securities Registration Information

Currency : IDR
Indonesia Stock Exchange

	'07	'08	'09	'10	'11
Bonds-I Interest 13.125% Due Date 12 July 2009					
Bonds ratings	-	AA-	-	-	-
Total	1,350,000,000,000	1,350,000,000,000	-	-	-
Total of buyback	(168,000,000)	(168,000,000)	-	-	-
Unamortized discounts	(3,278,461,911)	(1,315,894,350)	-	-	-
Total of interest expenses	155,137,500,000	154,137,500,000	-	-	-
Bonds-IIA Interest 13.375% Due Date 17 June 2012					
Bonds ratings	-	-	AA-	AA-	AA-
Total	-	-	513,500,000,000	513,500,000,000	513,500,000,000
Total of buyback	-	-	-	-	0
Unamortized discounts	-	-	(2,858,424,209)	(925,615,460)	(329,247,317)
Total outstanding	-	-	510,641,575,791	512,574,384,540	513,170,752,683
Total of interest expenses	-	-	36,820,466,181	68,680,625,000	68,680,625,000
Bonds-IIB Interest 14.25% Due Date 17 June 2014					
Bonds ratings	-	-	AA-	AA-	AA-
Total	-	-	986,500,000,000	986,500,000,000	986,500,000,000
Total of buyback	-	-	-	-	0
Unamortized discounts	-	-	(5,492,216,191)	(2,528,647,892)	(1,301,948,233)
Total outstanding	-	-	981,007,783,809	983,971,352,108	985,198,051,767
Total of interest expenses	-	-	75,364,489,583	140,576,250,000	140,576,250,000

Medium Term Notes (MTN) Historical Listing

Stock Echange	**Indonesia Stock Exchange (IDX)**				
Corporate Action	**MTN I**		**MTN II**		**MTN III**
	Seri A	Seri B	Seri A	Seri B	
Principal	7,400,000	22,000,000	40,000,000	10,000,000	50,000,000
Interest Rate	7.25%	8%	7.25%	8%	6.375%
Maturity	February 2012	December 2012 and February 2013	March 2012	March 2013	October 2013
Ratings (PEFINDO)	AA-	AA-	AA-	AA-	AA-

The Advisors of MedcoEnergi

Arifin Panigoro

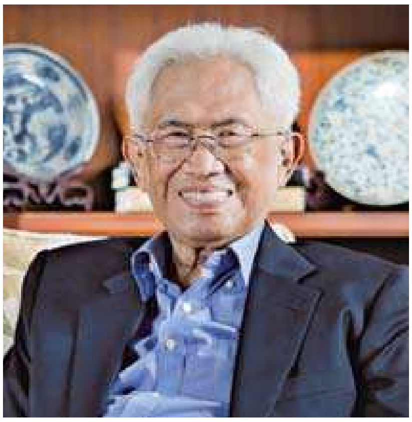
The founder of Medco Group began his stint in the oil & gas industry in 1980. In 1988, Panigoro withdrew from the Company's management and has since become an advisor, notably in identifying new oil & gas business opportunities.

Panigoro earned a bachelor degree in Electrical Engineering from the Bandung Institute of Technology in 1973 and was awarded his honorary degree (honoris causa) from the Bandung Institute of Technology on January 23, 2010 with a speech titled "Kuasai Teknologi, Bangun Ekonomi, Tegakkan Martabat Bangsa".

Alwi Shihab

Shihab is former Minister of Foreign Affairs of the Republic of Indonesia and Coordinating Minister of People's Welfare. He joined the Company as advisor in March 2007 with the main role of providing advice in penetrating the international oil & gas market.

Alwi Shihab earned a Bachelor of Arts degree and Master of Arts degree from the University of Al-Azhar, Cairo, Egypt in 1966 and 1968 respectively. He also earned a Bachelor degree in Islamic Philosophy from IAIN Alauddin, Ujung Pandang, Indonesia in 1986. He received a Doctor of Philosophy degree from the University of Ain Shams, Cairo, Egypt in 1990, then continued his study and received a Master of Arts degree from Temple University, USA in 1990 which was then followed by a Doctor of Philosophy degree from Temple University, USA in 1995. The year 1996 saw Shihab receive another post doctorate from the Center For the Study of World Religions in Harvard University, USA.



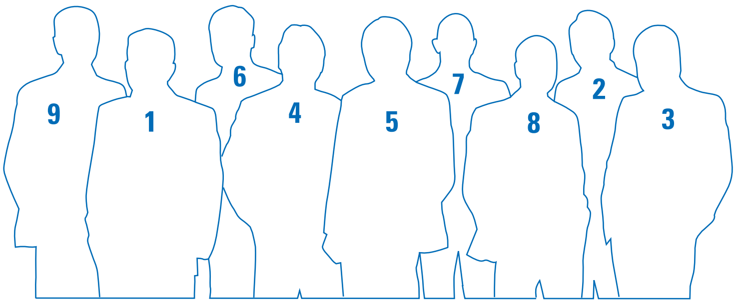
Subroto

A former Minister of Mining and Energy of the Republic of Indonesia and former Secretary General of the Organization of Petroleum Exporter Committee (OPEC), since 1997 he has been an advisor to the Company, mainly in providing information on macroeconomic issues and global developments in the oil & gas business.

A graduate from the Military Academy, Yogyakarta in 1948, he then continued his study to earn a Bachelor of Arts degree in Economics from the University of Indonesia in 1952. Subroto received a Master of Arts degree in Economics from McGill University in Montreal, Canada in 1956, followed by a Doctor of Philosophy degree in Economics from University of Indonesia in 1958. In 1963 he also received a post doctorate degree in Financial Management and Control from Stanford University and in 1964 a post doctorate degree from Harvard University for International Teachers Program.

Subsidiary Companies' Board of Directors

1. **Fazil E. Alfitri,** Chief Executive Officer Medco Power Indonesia
2. **Elan B. Fuadi,** Chief Financial Officer Medco Power Indonesia
3. **Kelana B. Mulia,** Director Medco Power Indonesia
4. **Aditya Mandala,** President Director Exspan Petrogas Intranusa
5. **Yunar Panigoro,** President Director Medco Gas Indonesia
6. **Yasirin Paeman,** Director Medco Gas Indonesia
7. **Noorzaman Rivai,** Director Medco Downstream Indonesia
8. **Bambang W. Sugondo,** Director Medco Downstream Indonesia
9. **Arie Prabowo Ariotedjo,** Director Medco Energi Mining



Fazil E. Alfitri
President Director Medco Power Indonesia

An Indonesian citizen, he was born in 1966. Alfitri has occupied the President Director post in December 2003. He previously served as the Country Manager for GE Power Systems Indonesia (2001-2003).

He received a Master of Science degree in Mechanical Engineering from Lehigh University, Pennsylvania, USA in 1990 and a Bachelor of Science degree in Mechanical Engineering from Wichita State University, Kansas, USA in 1988.

Elan B. Fuadi
Director Medco Power Indonesia

An Indonesian citizen, born in 1963, he was assigned as Business Development of PT Medco Power Indonesia in December 2011. Previously he served as Head of Project Financing of MedcoEnergi (2008-2011). He joined MedcoEnergi in 2001 as Vice President of Corporate Finance. He previously worked for Bank PDFCI with the last position as Vice President and Head of Corporate Finance (1994-2000).

Fuady graduated from Durham College, San Antonio, USA, with a degree in Business Administration.

Kelana B. Mulia
Director Medco Power Indonesia

An Indonesian citizen, born in 1954, he was assigned to the Operations Director post in June 2009. He previously held the position of Director in PT Medco Power Indonesia subsidiary from 2003 to 2009. His career with MedcoEnergi started in 2003 and previously held several positions in a data management company.

Mulia earned a bachelor degree from the Bandung Institute of Technology majoring in Physics in 1980. This was then followed by a master degree in Engineering, majoring in Computers at the Asian Institute of Technology, Bangkok, Thailand in 1984.

Aditya Mandala
Director Exspan Petrogas Intranusa

An Indonesian citizen, born in 1962. He was appointed as Director of PT Exspan Petrogas Intranusa in February 2011. Previously he served as Senior Manager of Relations Division in PT Medco E&P Indonesia (2007-2011). He first joined MedcoEnergi in 2000 as Section Head of Public Affairs and became a Manager Corporate Communications in 2002. In the past he had also served as Exploration Geologist and Geophysicist at Vico Indonesia (1991-2000) and as Seismologist at PT Elnusa Geoscience (1989-1991).

Mandala graduated from UPN Yogyakarta, with a bachelor degree in Geology (1988) and Sekolah Tinggi Manajemen Prasetya Mulya with Magister Management degree in International Business (2006).

Yunar Panigoro
President Director Medco Gas Indonesia

An Indonesian citizen, born in 1957. He was appointed as the President Director of PT Medco Gas Indonesia in 2006, and currently also serves as President Director of PT Mitra Energi Gas Sumatra (since 2009). He first joined Medco Group in 1993 as Project Manager and Control Manager at PT Meta Epsi Engineering (1993-1999). He then served as Manager at PT Medco Holding (2000-2004), President Director of PT Graha Citramas Tbk (2001-2003) and Deputy Project Director of PT Multifab (2003-2004).

He graduated from Institut Teknologi Bandung with a major in Physics (1983) and Sekolah Tinggi Manajemen Prasetya Mulya with Magister Management degree (2000).

Yasirin Paeman
Director Medco Gas Indonesia

An Indonesia citizen, born in 1969. He was appointed as Director of PT Medco Gas Indonesia in 2006. Currently he also holds a number of other positions including Director of PT Mitra Energi Gas Sumatra (since 2008), Director of PT Perta Kalimantan Gas (since 2009), Project/ Lead Director of Umbulan Water Main Pipeline Bidding (since 2011). He joined MedcoEnergi in 1996 as Business Development Manager (1996-1998), then transferred to PT Medco Methanol Bunyu as Vice President Technical – Operational (1998-1999) and Vice President for Technology Development & Procurement (2000-2002). He was assigned as Advisor to the Board of Directors of PT Medco E&P Indonesia and CNG Project Manager in 2005. Before joining MedcoEnergi, he worked for PT Pupuk Kaltim (1995-1996) and PT Aspros Binareka (1990-1993).

He graduated from Institut Teknologi Bandung with a degree in Chemical Engineering (1993) and Insititut Pengembangan Manajemen Indonesia (IPMI), Jakarta, with a major in International Business & Finance (2004).

Noorzaman Rivai
Director Medco Downstream Indonesia

An Indonesian citizen, born in 1968, Rivai was appointed as Director in August 2007. Rivai previously served as the President Director for Trada Group (2002- 2007) and key positions in several telecommunication companies.

He received a Certificate State of the Art of Telecommunications from the Northeastern University, Boston-Massachusetts, USA. Rivai earned his Master of Business Administration in General Management from National University, Los Angeles- California, USA, and Bachelor of Science in Electrical Engineering from Case Western Reserve University - Ohio, USA in 1990.

Bambang W. Sugondo
Director Medco Downstream Indonesia

An Indonesian citizen, born in 1951. He was appointed as President Director of PT Medco Downstream in 2010. He previously served as the Director of PT Medco Downstream (1999-2010), Vice President of Corporate Services at MedcoEnergi (1997-1999). He joined Medco Group in 1992 as Managing Director of PT Multifabrindo Gemilang and became an Operation Director in 1997. Before joining Medco Group he worked for PT Meta Epsi Engineering, PT Widya Pertiwi Engineering, and PT PBI.

Sugondo received a Bachelor degree in Physics Engineering from Institut Teknologi Bandung in 1976.

Arie Prabowo Ariotedjo
Director Medco Energi Mining

An Indonesian citizen, born in 1960. He was appointed as Director of PT Medco Energi Mining Internasional in 2009. He joined Medco Group in 2006 and served as President Director of PT Medco Mining (2006-2008).

Previously he worked at PT Wikaraga Sapta Utama and served as President Director (1996-2005) and Technical Director (1994-1996), PT Menara Wenang as General Manager (1992-2005), PT Citra Permatasakti Persada as General Manager (1992-1998), Citra Kontraktor Nusantara consortium as Deputy Chairman of Project Control (1991-1993), and PT Citra Marga Nusaphala Persada as Head of Operation Division (1989-1992).

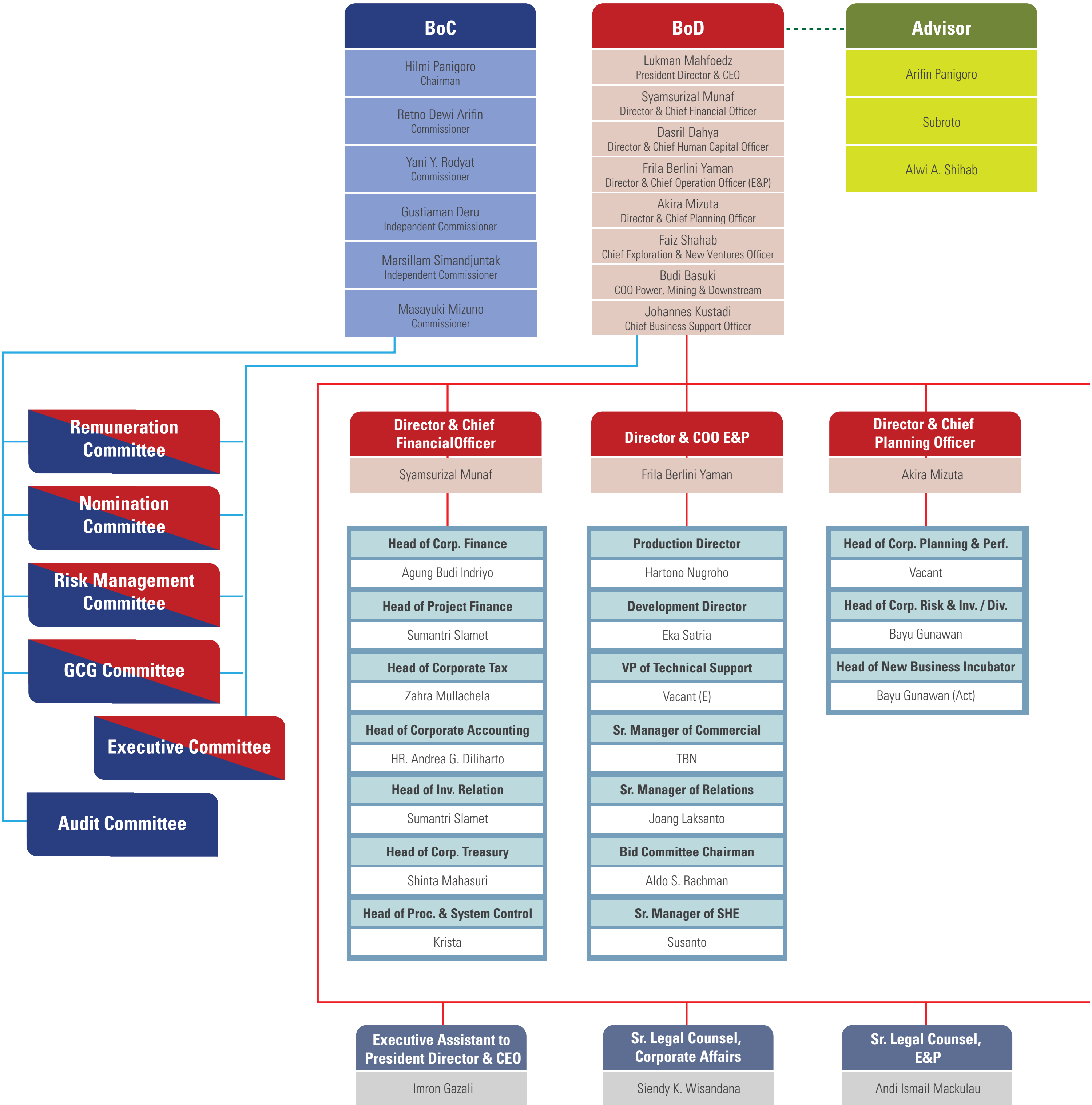
He graduated from University of Michigan, USA with Master of Science in Civil Engineering degree (1982) and Purdue University, USA with Bachelor of Science in Civil Engineering degree (1981).

Corporate Structure

Shares Ownership in Subsidiaries & Affiliated Companies

No.	Name of Subsidiaries	Name of Shareholder	Number of Share	Status
OIL & GAS				
Oil & Gas Indonesia				
1	PT Medco E&P Indonesia	PT Medco Energi Internasional Tbk	99.995%	Active company
2	PT Medco E&P Simenggaris	PT Medco Energi Internasional Tbk	99.90%	Active company
3	PT Medco E&P Malaka	PT Medco Energi Internasional Tbk	99.00%	Active company
4	Kuala Langsa (Block A) Ltd	PT Medco Energi Internasional Tbk	50.00%	Dormant Company
5	PT Medco E&P Tarakan	PT Medco Energi Internasional Tbk	99.99%	Active company
6	PT Medco E&P Rimau	PT Medco Energi Internasional Tbk	99.99%	Active company
7	PT Medco E&P Lematang	PT Medco Energi Internasional Tbk	99.99%	Active company
8	PT Medco E&P Merangin	PT Medco Energi Internasional Tbk	99.90%	Active company
9	BUT Medco Simenggaris Pty Ltd	PT Medco Energi Internasional Tbk	100.00%	Dormant Company
10	PT Medco E&P Nunukan	PT Medco Energi Internasional Tbk	99.90%	Active company
11	PT Medco E&P Bengara	PT Medco Energi Internasional Tbk	95.00%	Active company
12	Medco E&P Bangkanai	PT Medco Energi Internasional Tbk	99.00%	Dormant Company
13	Bangkanai Petroleum (L) Berhard	Medco E&P Bangkanai	100.00%	Active company
14	PT Medco E&P Tomori Sulawesi	PT Medco Energi Internasional Tbk	95.00%	Active company
15	BUT Medco Madura Pty Ltd	PT Medco Energi Internasional Tbk	51.00%	Dormant Company
16	PT Medco E&P Bawean	PT Medco Energi Internasional Tbk	99.99%	Active company
17	PT Medco E&P Madura	PT Medco Energi Internasional Tbk	99.90%	Paper company
18	PT Medco E&P Sembakung	PT Medco Energi Internasional Tbk	99.90%	Active company
19	Medco Bawean (Holding) Pte. Ltd	PT Medco Energi Internasional Tbk	100.00%	Dormant Company
20	Camar Bawean Petroleum Ltd	Medco Bawean (Holding) Pte. Ltd	100.00%	Active company
21	Medco Far East Ltd.	PT Medco Energi Internasional Tbk	100.00%	Dormant Company
22	PT Medco E&P Kalimantan	PT Medco Energi Internasional Tbk	99.99%	Dormant Company
23	Exspan Cumi-Cumi (L) Inc	PT Medco E&P Kalimantan	100.00%	Dormant Company
24	Perkasa Equatorial Sembakung Ltd	Medco Far East Limited	100.00%	Dormant Company
25	Sulawesi E&P Limited	PT Medco Energi Internasional Tbk	100.00%	Dormant Company
26	Lematang E&P Limited	Petroleum Exploration & Production Int. Ltd.	100.00%	Active Company
CBM				
27	PT Medco CBM Sekayu	PT Medco Energi CBM Indonesia	99.90%	Active Company
28	PT Medco CBM Pendopo	PT Medco Energi CBM Indonesia	99.99%	Active Company
29	PT Medco CBM Bengara	PT Medco Energi CBM Indonesia	99.99%	Dormant Company
30	PT Medco CBM Lematang	PT Medco Energi CBM Indonesia	99.99%	Active Company
31	PT Medco CBM Rimau	PT Medco Energi CBM Indonesia	99.99%	Dormant Company
Oil & Gas International				
32	Medco Strait Services Pte. Ltd.	PT Medco Energi Internasional Tbk	100.00%	Active Company
33	Medco Energi Global Pte. Ltd.	Medco Strait Services Pte. Ltd.	100.00%	Active Company
34	Medco Arabia	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
35	Medco International Services Pte. Ltd	Medco Energi Global Pte. Ltd.	100.00%	Active Company
36	Medco International Ventures Ltd.	Medco Energi Global Pte. Ltd.	100.00%	Active Company
37	Medco Yemen Holding Ltd.	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
38	Medco Yemen Amed Ltd.	Medco Yemen Holding Ltd.	100.00%	Active Company
39	Medco Yemen Arat Ltd.	Medco Yemen Holding Ltd.	100.00%	Active Company
40	Medco Yemen Malik Ltd.	Medco Yemen Holding Ltd.	100.00%	Dormant Company
41	Medco Cambodia Holding Limited	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
42	Medco Cambodia Tonle Sap	Medco Cambodia Holding Limited	100.00%	Dormant Company
43	Medco International Enterprise Ltd.	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
44	Medco LLC	Medco International Enterprise Ltd.	68.00%	Active Company
45	Medco International Petroleum Ltd.	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
46	Medco Energi USA , Inc	Medco Energi Global Pte. Ltd.	100.00%	Dormant Company
47	Medco Energi US LLC	Medco Energi USA , Inc	100.00%	Active Company
48	Medco Petroleum Management LLC	Medco Energi USA , Inc	100.00%	Dormant Company
49	Medco Energi (BVI) Ltd.		100.00%	Dormant Company
LNG				
50	PT Medco LNG Indonesia	PT Medco Energi Internasional Tbk	99.99%	Active Company
51	PT Donggi Senoro LNG	PT Medco LNG Indonesia	11.10%	Active Company
OTHER ENERGY RELATED				
Power				
52	PT Medco Power Indonesia	PT Medco Energi Internasional Tbk	49.00%	Active Company
53	PT Mitra Energi Batam	PT Medco Power Indonesia	64.00%	Active Company

54	PT Universal Batam Energy	PT Medco Power Indonesia	70.00%	Active Company
55	PT Dalle Panaran	PT Medco Power Indonesia	99.00%	Paper Company
56	PT Dalle Energi Batam	PT Medco Power Indonesia	60.00%	Active Company
57	PT Medco Power Sumatra	PT Medco Power Indonesia	99.00%	Paper Company
58	PT Medco Cahaya Geothermal	PT Medco Power Indonesia	99.90%	Active Company
59	PT Medco Geopower Sarulla	PT Medco Power Indonesia	99.90%	Active Company
60	PT Muara Enim Multi Power	PT Medco Power Indonesia	80.00%	Dormant Company
61	PT Medco Geothermal Sarulla	PT Medco Power Indonesia	99.90%	Active Company
62	PT Energi Prima Elektrika	PT Medco Power Indonesia	85.00%	Active Company
63	PT Multidaya Prima Elektrindo	PT Medco Power Indonesia	85.00%	Active Company
64	PT Indo Medco Power	PT Medco Power Indonesia	99.00%	Dormant Company
65	PT Energi Sengkang	PT Medco Power Indonesia	5.00%	Active Company
66	Sarulla Operation Ltd.	PT Medco Power Indonesia	37.25%	Active Company
67	PT Medco Geothermal Indonesia	PT Medco Power Indonesia	99.90%	Dormant Company
68	PT Medco Energi Menamas	PT Medco Power Indonesia	99.99%	Paper Company
69	PT Mitra Energi Batam	PT Medco Energi Menamas	54.00%	Active Company
70	PT Medco General Power Services	PT Medco Power Indonesia	9909.00%	Active Company
71	PT TJB Power Services	PT Medco Power Indonesia	80.10%	Active Company
72	Medco Power Venture Pte Ltd	PT Medco Power Indonesia	100.00%	Dormant Company
73	Biofuel Power Pte Ltd	PT Medco Power Venture Pte Ltd	65.00%	Dormant Company
Downstream				
74	PT Medco Downstream Indonesia	PT Medco Energi Internasional Tbk	99.90%	Dormant Company
75	PT Medco LPG Kaji	PT Medco Downstream Indonesia	99.99%	Active company
76	PT Medco Sarana Kalibaru	PT Medco Downstream Indonesia	99.00%	Active company
77	PT Medco Methanol Bunyu	PT Medco Downstream Indonesia	99.99%	Dormant Company
78	PT Medco Ethanol Lampung	PT Medco Downstream Indonesia	99.99%	Active company
79	PT Usaha Tani Sejahtera	PT Medco Ethanol Lampung	99.99%	Active company
80	PT Medco Services Indonesia	PT Medco Downstream Indonesia	99.90%	Dormant Company
Oil & Gas Services				
81	PT Exspan Petrogas Intranusa	PT Medco Energi Internasional Tbk	99.99%	Active company
82	PT Sistim Vibro Indonesia	PT Exspan Petrogas Intranusa	96.47%	Dormant Company
83	PT Medco Integrated Resources	PT Exspan Petrogas Intranusa	99.90%	Dormant Company
84	PT Medco Gas Indonesia	PT Medco Energi Internasional Tbk	99.90%	Dormant Company
85	PT Mitra Energi Gas Sumatera	PT Medco Gas Indonesia	99.90%	Active company
86	PT Perta Kalimantan Gas	PT Medco Gas Indonesia	30.00%	Paper Company
87	PT Satria Raksa Buminusa	Medco Sarana Balaraja	99.00%	Active company
88	PT Musi Raksa Buminusa	Medco Sarana Balaraja	99.00%	Active company
89	PT Mahakam Raksa Buminusa	Medco Sarana Balaraja	99.00%	Dormant Company
Mining				
90	PT Medco Energi Mining Internasional	PT Medco Energi Internasional Tbk	99.00%	Dormant Company
91	PT Duta Tambang Rekayasa	PT Medco Energi Mining Internasional	99.99%	Active Company
92	PT Duta Tambang Sumber Alam	PT Medco Energi Mining Internasional	99.99%	Active Company
Trading				
93	Medco Niaga International	PT Medco Energi Internasional Tbk	99.90%	Active company
94	Medco Sarana Balaraja	PT Medco Energi Internasional Tbk	99.99%	Dormant Company
95	Petroleum Exploration & Production Int. Ltd.	Medco Strait Services Pte. Ltd.	100.00%	Active Company
96	Synergia Trading International Pte. Ltd.	Medco Strait Services Pte. Ltd	100.00%	Dormant Company
97	Fortico International Limited	Petroleum Exploration & Production Int. Ltd.	100.00%	Dormant Company
98	PT Medco Energi CBM Indonesia	PT Medco Energi Internasional Tbk	99.99%	Dormant Company
99	Medco Petroleum Services Ltd.	Medco Strait Services Pte. Ltd	100.00%	Perusahaan Tidak Aktif
Investment				
100	MEI Euro Finance Ltd.	PT Medco Energi Internasional Tbk	100,00%	Paper Company
101	Medco CB Finance BV	PT Medco Energi Internasional Tbk	100,00%	Dormant Company
102	Sky Investment Venture Ltd	Medco Bawean (Holding) Pte. Ltd	100.00%	Dormant Company
103	PT Medco Energi Nusantara	PT Medco Energi Internasional Tbk	99.99%	Active company
104	International Power Venture Ltd	Medco Bawean (Holding) Pte. Ltd	100.00%	Dormant Company


BoC
Hilmi Panigoro
Chairman
Retno Dewi Arifin
Commissioner
Yani Y. Rodyat
Commissioner
Gustiaman Deru
Independent Commissioner
Marsillam Simandjuntak
Independent Commissioner
Masayuki Mizuno
Commissioner
BoD
Lukman Mahfoedz
President Director & CEO
Syamsurizal Munaf
Director & Chief Financial Officer
Dasril Dahya
Director & Chief Human Capital Officer
Frila Berlini Yaman
Director & Chief Operation Officer (E&P)
Akira Mizuta
Director & Chief Planning Officer
Faiz Shahab
Chief Exploration & New Ventures Officer
Budi Basuki
COO Power, Mining & Downstream
Johannes Kustadi
Chief Business Support Officer
Advisor
Arifin Panigoro
Subroto
Alwi A. Shihab
Remuneration Committee
Nomination Committee
Risk Management Committee
GCG Committee
Executive Committee
Audit Committee
Director & Chief FinancialOfficer
Syamsurizal Munaf
Head of Corp. Finance
Agung Budi Indriyo
Head of Project Finance
Sumantri Slamet
Head of Corporate Tax
Zahra Mullachela
Head of Corporate Accounting
HR. Andrea G. Diliharto
Head of Inv. Relation
Sumantri Slamet
Head of Corp. Treasury
Shinta Mahasuri
Head of Proc. & System Control
Krista
Director & COO E&P
Frila Berlini Yaman
Production Director
Hartono Nugroho
Development Director
Eka Satria
VP of Technical Support
Vacant (E)
Sr. Manager of Commercial
TBN
Sr. Manager of Relations
Joang Laksanto
Bid Committee Chairman
Aldo S. Rachman
Sr. Manager of SHE
Susanto
Director & Chief Planning Officer
Akira Mizuta
Head of Corp. Planning & Perf.
Vacant
Head of Corp. Risk & Inv. / Div.
Bayu Gunawan
Head of New Business Incubator
Bayu Gunawan (Act)
Executive Assistant to President Director & CEO
Imron Gazali
Sr. Legal Counsel, Corporate Affairs
Siendy K. Wisandana
Sr. Legal Counsel, E&P
Andi Ismail Mackulau

MEDCOENERGI

2011 Organization Chart of Medco Energi

Director & Chief Human Capital Officer
Dasril Dahya

- **Sr. Manager of Talent Dev.** — Iwan Prajogi
- **Sr. Manager of Perf. & Org. Eff.** — Tia N. Ardianto
- **Sr. Manager of HR Operation** — Vacant
- **Business Partner Domestic** — E. Tauriani Hendrik
- **Business Partner International** — Aviv Murtadho
- **Lead of Board Adm. Office** — Retno Perdanakusuma

Director, COO Power, Mining & Downstream
Budi Basuki

- **Downstream Director** — Bambang W. Soegondo
- **Power Director** — Fazil E. Alfitri
- **Mining Director** — Arie P. Ariotedjo
- **EPI Director** — Aditya Mandala
- **Medco Gas Director** — Yunar Panigoro

Chief Business Support Officer
Johannes Kustadi

- **Sr. Manager of Fin. Accounting** — Yoseph Kriswantoro
- **Sr. Manager of Information Service** — Trisakti Herlambang
- **Sr. Manager of Supply Chain Mgt.** — Mark Ivan Doll
- **Sr. Manager of Fin. Control & Gov. Audit** — Truelly Anriza
- **Manager of General Services** — Junuzar Rasyid

Chief Exploration & New Vent. Officer
Faiz Shabb

- **Sr. Manager of Exploration** — Mike Perkins
- **Sr. Manager of New Ventures** — A. Syaifudin
- **Sr. Manager of Expl. Projects** — Harmen Rashid
- **General Manager Yemen** — Dedi Sukmara (Act)
- **General Manager Libya** — Esaam Ben Ramadan

Head of Corporate Internal Audit
Eddy Hasfiardi

Head of Corporate Secretary
Cisca W. Alimin

Awards

2011

- Gold PROPER for Rimau Block in South Sumatra and Green PROPER for South Sumatra Extension Block (South Sumatra), Tarakan Block (East Kalimantan), and Kampar Block (Riau) from the Ministry of Environment of Indonesia.
- GCG Award - The Best Non-Financial from Indonesian Institute for Corporate Directorship
- Asia's Best Corporate Social Responsibility from Finance Asia Magazine
- Attained 4 awards for four different categories in CSR Award 2011 from CFCD for Rimau Block.

2010

- GCG Award - The Best Equitable Treatment of Shareholders from the Indonesian Institute for Corporate Directorship .
- Green PROPER for Rimau Block, South Sumatra Extension and Kampar from Ministry of Environment of Indonesia.
- Millennium Development Goals Award from Metro TV for category of Environmental Sustainability

2009

- GCG Award - Best Overall 2009 from Indonesian Institute for Corporate Directorship
- Annual Report Award 2008 as first runner-up in the category of private non-financial public and listed company.
- Millennium Development Goals Award from Metro TV for category Improvement Gender Equality and Women Empowerment through its community development program of Organic System of Rice Intensification (SRI).

2008

- Green Corporate Award in the category of Environment for Medco Methanol Bunyu from Asociation of Indonesian Engineers
- Environmental Management & Monitoring Award for Medco Power Indonesia from Ministry of Environment of Indonesia
- Zero Accident Award for PT Medco LPG Kaji from Department of Manpower RI

2007

- "No Lost Time Accident" awards from the Government for several assets including Tarakan and Rimau blocks
- Social Empowerment Award from the Coordinating Ministry of Peoples Welfare (Menko Kesra) in 2007.
- One of Indonesia's Most Admired Knowledge Enterprises (MAKE) 2007

2006

- The best Annual Report in the Annual Report Award 2005
- The best of top 10 Companies at GCG Perception Index by IICG and SWA Magazine

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2005

- The best Annual Report in the Annual Report Award 2004
- Zero Accident Award for PT Medco LPG Kaji from Department of Manpower RI

Abbreviations

Abbreviation	Defined Terms
ACE	Average Capital Employed
AGMS	Annual General Meeting Shareholders
AINC	Anadarko Indonesia Nunukan Company
AMDAL	Analysis on Environmental Impact
AoA	Articles of Association
BAE	Stock Administration Bureau
Bapepam-LK	Badan Pengawas Pasar Modal (or Capital Market and Financial Institutions Supervisory Board)
BBL	Barrel
BBTUPD	Billion British Thermal Unit per Day
BCF	Billion Cubic Feet
BoC	Board of Commissioner
BoD	Board of Director
BOPD	Barrel Oil Per Day
BPMigas	Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi, regulator of upstream oil & gas activities, for the Government of Indonesia
BPRA	Business Process Risk Assessments
BPS	Board Priority Setting
CBPL	Camar Bawean Petroleum Ltd
CCS	Cross Currency Swaps
CDM	Clean Development Mechanism
COD	Commercial Operation Date
CSR	Corporate Social Responsibility
DD&A	Depreciation, Depletion and Amortization
DEB	Dalle Energy Batam
DER	Debt Equity Ratio
DME	DiMethyl-Ether, a liquefied fuel derived from natural gas.
DMO	Domestic Market Obligations.
DNA	Designated National Authority
DoA	Deeds of Agreement
DOAG	Delegation Of Authority Guidelines
DPS	A list issue by KSEI which carries information on the ownership of all shareholders
DSLNG	Donggi Senoro Liquified Natural Gas
EBITDA	Earning Before Interest, Income Tax, Depreciation, Depletion and Amortization
EGMS	Extraordinary General Meeting of Shareholders
EPC	Engineering Procurement & Construction
EPSA	Exploration Production Sharing Agreement applicable in Libya
ESC	Energy Sales Contract
E&P	Exploration & Production
FEED	Front End Engineering and Design

Abbreviation	Defined Terms
FID	Final Investment Decision
FOB	Free On Board
FPSO	Floating Production, Storage and Offtake.
FSO	Floating Storage and Offloading vessel.
FTP	First Tranche Petroleum
GCA	Gaffney, Cline & Associates Pte Ltd. an independent reserves consultant
GCG	Good Corporate Governance
GDRS	Global Depository Receipts
GMS	General Meeting of Shareholders
Government	The Government of Indonesia
GSA	Gas Sales & Purchase Agreements
GTG	Gas Turbine and Generator
HoA	Heads of Agreement
HR	Human Resources
HSD	High Speed Diesel
IAI	Indonesian Institute of Accountants
ICP	Indonesian Crude Price
IDR	Rupiah, Indonesian's currency
IDX	Indonesian Stock Exchange
IFRS	International Financial Reporting Standards
Indonesia	The Republic of Indonesia
Indonesian GAAP	Generally Accepted Accounting Principles in Indonesia
IPM	Integrated Program Management
IPP	Independent Power Producer
IR	Investor Relations
ISO	International Standard Organization
ISRS7	7th edition of the International Safety Rating System
IT	Information Technology
JOB	Joint Operating Body
JOC	Joint Operations Contract
JSX	Jakarta Stock Exchange
KL	Kilo Liter
KM	Knowledge Management
KPI	Key Performance Indicator
KSEI	Kustodian Sentral Efek Indonesia
LNG	Liquefied Natural Gas.
LPG	Liquefied Petroleum Gas.
LTSA	Long Term Service Agreement
LuxSX	Luxembourg Stock Exhange
MBO	Management by Objective
MMBOE	Million Barrel Oil Equivalent
MBOPD	Thousand Barrel of Oil Equivalent Per Day
MDI	Medco Downstream Indonesia
MEB	Medco Energi Batam

Abbreviation	Defined Terms
MEFL	MEI Euro Finance Ltd
MEG	Medco Energi Global
MEI	Medco Energi Internasional
MEL	Medco Ethanol Lampung
MEPI	Medco E&P Indonesia
MEUS	Medco Energi United States LLC
MFS	Micro Financing Services
MIMS	MedcoEnergi Integrity Management System
MLK	Medco LPG Kaji
MMB	Medco Methanol Bunyu
MMBO	Million Barrel of Oil
MMBTU	Million British Thermal Unit
MMCF	Million Cibic Feet
MOECO	Mitsui Oil Exploration Company Ltd
MOPS	Mid Oil Platts Singapore
MoU	Memorandum of Understanding
MPI	Medco Power Indonesia
MSK	Medco Sarana Kalibaru
MT	Metric Tons
MTD	Metric Tons per Day
MW	Mega Watt
MWH	Mega Watt Hour
NFW	New Field Wildcat
NOC	National Oil Corporation (of Libya)
Novus	Novus Petroleum Limited
OECD	Organization for Economic Corporation and Development
O&M	Operation and Maintenance
OPEC	The Organization of Petroleum Exporting Countries
Pertamina	The Indonesian state-owned oil & gas company
PGE	Pertamina Geothermal Energy
PGN	PT Perusahaan Gas Negara Tbk., Indonesian State Gas Company
PLN	PT PLN (Persero), The Indonesian State Electricity Company
PMS	Performance Management System
POD	Plan of Development
PPA	Power Purchase Agreement
PSAK	Indonesian Statements of Financial Accounting Standard
PSC	Production Sharing Contract.
RMC	Risk Management Committee
RoA	Return on Assets
ROCE	Return on Average Capital Employed

Abbreviation	Defined Terms
RoE	Return on Equity
RPJMN	Rencana Pengembangan Jangka Menengah Nasional (National Mid Term Development Plan)
SCS	South and Central Sumatra
SHE	Safety Health Environment
SHEQ	Safety Health Environment Quality
SIAC	Singapore International Arbitration Center
SPE	Society of Petroleum Engineers
SPSA	Share Purchase and Sale Agreement
TBTU	Trillion British Thermal Unit
TAC	Technical Assistance Contract
TJB	Tanjung Jati B
TJBPS	Tanjung Jati B Power Service
TM 2500	Trailer Mounted Power Unit
TRADA	Trada International
US/USA	The United States of America
USD	United States dollars
WTI	West Texas Intermediate

Glossary

Oil & Gas Terms	Description
Contingent Resources	means volumes of recoverable hydrocarbons that are excluded from the reserve category due to some technical, market or economic contingency.
contract area	means a specified geographic area that is the subject of a production sharing arrangement pursuant to which an operator and its partners provide financing and technical expertise to conduct exploration, development and production operations.
delineation well or appraisal well	means a well drilled in a newly discovered or known discovery to gain further information.
development well	means a well that is drilled to exploit the hydrocarbon accumulation defined by an appraisal or delineation well.
dry well or dry hole	is an exploratory, development or appraisal well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.
EOR/Enhanced Oil Recovery	means a process carry out to increase the oil production from a reservoir through an energy addition compared to natural production.
gross production	represents the sum of the oil & gas production from each of the Company's blocks multiplied by the effective interest in such block.
Gross reserves	represents reserves attributable to the Company's effective interest prior to deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.
ICP-SLC	means the Indonesian Crude Price-Sumatra Light Crude/Minas, a reference price calculated using a formula determined by the Government.
lifting cost or production cost	means, for a given period, cost incurred to operate and maintain wells and related equipment and facilities.

Oil & Gas Terms	Description
Net production or net entitlement	represents the Company's share of gross production after deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement.
Net Reserves	represents reserves attributable to the Company's effective interest, after deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.
Proved plus probable reserves (2P)	are proved reserves plus those reserves that are unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.
Proved reserves (1P)	represents those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and Government regulations.
exploration well or wildcat well	means a well that is designed to test the validity of a seismic interpretation and to confirm the presence of hydrocarbons in an undrilled formation.

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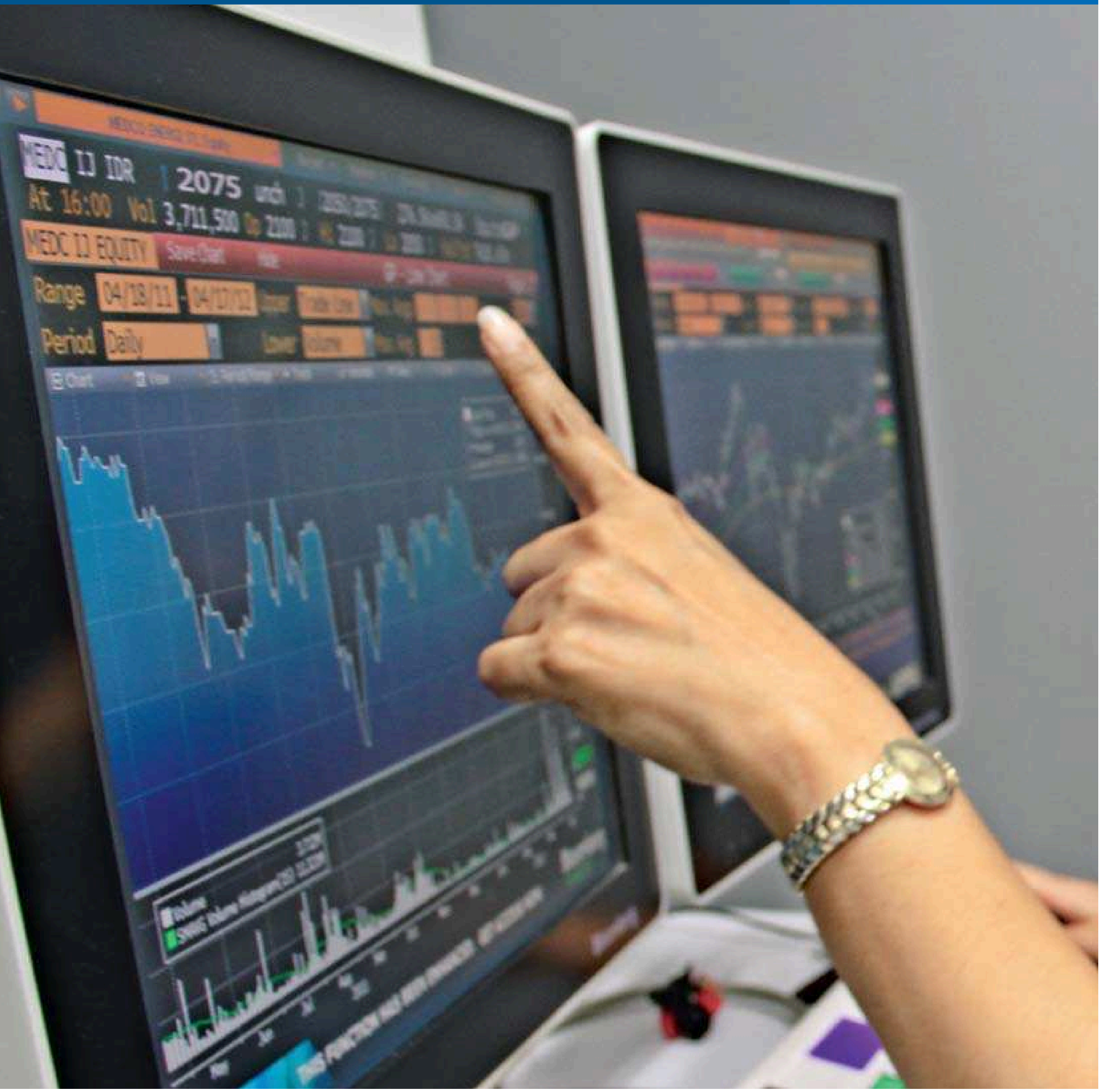
Financial Statements



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Indonesia

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MEDCOENERGI

FORM No. VIII.G.11-1

DIRECTORS' STATEMENT ON THE RESPONSIBILITY FOR PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT AS OF DECEMBER 31, 2011 AND 2010 AND JANUARY 1, 2010 / DECEMBER 31, 2009 AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 PT MEDCO ENERGI INTERNASIONAL TBK AND SUBSIDIARIES

We the undersigned,

1.	Name	: Lukman Ahmad Mahfud
	Id Number	: 09.5304.260254.0142
	Address	: Tanjung Mas Raya Blok.B 8/16 Rt. 002 / Rw. 001 Tanjung Barat, Jagakarsa, Jakarta Selatan
	Title	: President Director
2.	Name	: Syamsurizal
	Id Number	: 09.5308.281065.0270
	Address	: Komplek Suad H 45 12 No. 12 Rt. 009 / Rw. 003 Kalibata, Pancoran – Jakarta Selatan
	Title	: Finance Director

hereby declare :

1. We are responsible towards the preparation and presentation of the Consolidated financial statements with independent auditors' report as of December 31, 2011 and 2010 And January 1, 2010 / December 31, 2009 And for the years ended December 31, 2011 and 2010 PT Medco Energi Internasional Tbk And Subsidiaries ("The Annual Consolidated Financial Statements of the Company and Subsidiaries");

2. The Annual Consolidated Financial Statements of the Company and Subsidiaries has been prepared in accordance with the generally accepted accounting principles in Indonesia;

3. a. All the information in The Annual Consolidated Financial Statements of the Company and Subsidiaries have been fully and accurately disclosed;

   b. The Annual Consolidated Financial Statements of the Company and Subsidiaries does not contain any false information or material fact, and does not omit any information or material fact;

4. We are responsible towards the internal control system of the Company and Subsidiaries.

In witness whereof, the undersigned have drawn up this statement truthfully.

Jakarta, March 20, 2012
PT Medco Energi Internasional Tbk

METERAI TEMPEL
E9849AAF649344996
6000 RUPIAH

Lukman Ahmad Mahfud
President Director

Syamsurizal
Finance Director

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2011 AND 2010
AND JANUARY 1, 2010/DECEMBER 31, 2009
AND YEARS ENDED DECEMBER 31, 2011 and 2010

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ERNST & YOUNG

Purwantono, Suherman & Surja

Indonesia Stock Exchange Building
Tower 2, 7th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
Tel : +62 21 5289 5000
Fax: +62 21 5289 4100
www.ey.com/id

This report is originally issued in the Indonesian language.

Independent Auditors' Report

Report No. RPC-2048/PSS/2012

The Stockholders and the Boards of Commissioners and Directors
PT Medco Energi Internasional Tbk

We have audited the accompanying consolidated statements of financial position of PT Medco Energi Internasional Tbk ("the Company") and Subsidiaries as of December 31, 2011 and 2010 and January 1, 2010/December 31, 2009, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PT Medco Energi Internasional Tbk and Subsidiaries as of December 31, 2011 and 2010 and January 1, 2010/December 31, 2009, and the consolidated results of their operations and their cash flows for the years ended December 31, 2011 and 2010 in conformity with Indonesian Financial Accounting Standards.

Effective January 1, 2011, the Company and Subsidiaries adopted certain revised Indonesian Statements of Financial Accounting Standards, which were applied on a prospective or retrospective basis, as disclosed in Notes 2 and 47 to the consolidated financial statements. Therefore, the consolidated statements of financial position as of December 31, 2010 and January 1, 2010/December 31, 2009 were restated due to reclassification of certain accounts.

Purwantono, Suherman & Surja

Feniwati Chendana
Public Accountant Registration No. AP.0694

March 20, 2012

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in Indonesia.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010
and January 1, 2010/December 31, 2009
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010/ December 31, 2009
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2e,2f,2r,4,35,38	703,951,167	178,859,393	253,025,979
Short-term investments	2f,2r,5,38,40	247,304,920	168,047,197	191,626,219
Restricted cash in banks	2e,2g,2r, 11,35,38	25,278,063	36,716,355	3,066,399
Trade receivables	2h,2r,6,38			
Related parties	2e,22,35	69,701,987	49,132,431	19,433,501
Third parties - net of allowance for impairment of US$3,790,311 as of December 31, 2011, US$3,432,887 as of December 31, 2010 and US$1,903,339 as of January 1, 2010/December 31, 2009		132,626,242	131,575,614	100,942,089
Other receivables - third parties net of allowance for impairment of US$28,709,290 as of December 31, 2011, US$62,653,490 as of December 31, 2010 and US$6,123,836 as of January 1, 2010/December 31, 2009	2h,2r,7,38	62,216,151	129,886,928	148,927,694
Inventories - net of allowance for obsolescence and decline in value of US$3,143,430 as of December 31, 2011, US$2,657,732 as of December 31, 2010 and US$1,589,435 as of January 1, 2010/ December 31, 2009	2i,8	43,704,972	34,138,382	39,973,612
Prepaid taxes	2t,9	9,913,564	20,790,365	25,627,365
Prepaid expenses	2j,10	4,659,566	8,542,693	5,561,958
Derivative assets	2r,21,38	2,844,957	415,155	-
Other current assets	16	447,208	459,268	1,353,058
Total Current Assets		**1,302,648,797**	**758,563,781**	**789,537,874**
NON-CURRENT ASSETS				
Other receivables	2h,2r,7,38			
Related parties	2e,35	46,827,782	263,276,006	1,684,573
Third parties - net of allowance for impairment of US$210,195 as of December 31, 2011, December 31, 2010 and January 1, 2010/December 31, 2009		12,663,546	4,079,566	15,224,924
Restricted cash in banks	2g,2r,11,35,38	13,518,505	15,669,858	33,903,582
Deferred tax assets - net	2t,31	65,339,990	70,684,839	92,944,598
Long-term investments	2e,2r,12,38	132,315,027	10,966,515	9,884,678
Investments in projects	2r,13	30,324,414	17,487,632	22,356,855

The accompanying notes form an integral part of these consolidated financial statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2011 and 2010
and January 1, 2010/December 31, 2009
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010/ December 31, 2009
NON-CURRENT ASSETS (continued)				
Property, plant and equipment - net of accumulated depreciation of US$72,408,288 as of December 31, 2011, US$104,816,417 as of December 31, 2010 and US$77,790,576 as of January 1, 2010/December 31, 2009	2k,2l,2v,14 29c,30	116,347,753	252,757,374	235,921,275
Oil and gas properties - net of accumulated depreciation, depletion and amortization and allowance for impairment of US$913,671,712 as of December 31, 2011, US$836,260,544 as of December 31, 2010 and US$720,615,609 as of January 1, 2010/December 31, 2009	2c,2m,2q, 2v,2w,15,29c	828,552,860	839,660,802	798,472,696
Derivative assets	2r,21,38	-	3,105,281	2,018,869
Other assets - net	16,38	38,858,785	41,816,583	38,559,454
Total Non-current Assets		**1,284,748,662**	**1,519,504,456**	**1,250,971,504**
TOTAL ASSETS		**2,587,397,459**	**2,278,068,237**	**2,040,509,378**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2011 and 2010
and January 1, 2010/December 31, 2009
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010/ December 31, 2009
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans	2e,2r,22,35,38	121,399,984	85,620,671	60,982,254
Trade payables	2r,17,38			
Related party	2e,35	-	3,987,300	-
Third parties		113,004,919	128,637,226	95,374,974
Other payables	2l,2r,18a,38	35,430,475	27,671,863	31,294,599
Taxes payable	2t,19	41,569,149	65,028,789	27,033,024
Accrued expenses and other provisions	2p,2r,20, 34,38	67,734,171	45,420,442	43,644,138
Current maturities of long-term debt	2r,38			
Bank loans	22	291,675,148	89,741,220	67,265,025
Medium-term notes	23	64,928,129	20,523,889	-
Notes payable		-	-	88,075,075
Rupiah bonds	23	56,563,960	-	-
Derivative liabilities	2r,21	-	345,721	-
Advances from customers	2e,18b			
Related party	35	-	32,238,271	95,493,965
Third parties	18b	19,211,686	1,103,032	-
Total Current Liabilities		**811,517,621**	**500,318,424**	**509,163,054**
NON-CURRENT LIABILITIES				
Long-term debt - net of current maturities	2r,38			
Related party	2e,23,35	69,997,758	-	-
Bank loans	22	466,382,311	493,330,538	368,491,424
Medium-term notes	23	40,320,379	128,881,891	41,829,672
Rupiah bonds	23	108,354,996	166,236,215	158,686,102
US Dollar bonds	23	79,387,679	-	-
Advances from customers	18b			
Related party	2e,35	-	-	30,978,253
Third parties		-	21,028,543	20,951,067
Other payables	2l,2r,18a,38	10,511,274	20,753,538	58,240,915
Deferred tax liabilities - net	2t,31	78,248,136	68,060,310	72,175,948
Post-employment benefits obligations	2p,34	12,370,076	13,922,436	4,090,595
Derivative liabilities	21,38	1,202,270	-	-
Asset abandonment and site restoration obligations and other provisions	2q,42	53,757,992	50,705,914	48,254,501
Total Non-Current Liabilities		**920,532,871**	**962,919,385**	**803,698,477**
TOTAL LIABILITIES		**1,732,050,492**	**1,463,237,809**	**1,312,861,531**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2011 and 2010
and January 1, 2010/December 31, 2009
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2011	December 31, 2010	January 1, 2010/ December 31, 2009
EQUITY				
Capital stock - Rp100 par value per share				
Authorized - 4,000,000,000 shares				
Issued and fully paid - 3,332,451,450 shares	1b,25	101,154,464	101,154,464	101,154,464
Treasury stock - 390,454,500 shares	2o,25	(5,574,755)	(5,574,755)	(5,574,755)
		95,579,709	95,579,709	95,579,709
Additional paid-in capital	26	108,626,898	108,626,898	108,626,898
Effects of changes in equity transactions of subsidiaries/ associated companies	27	107,870	107,870	107,870
Translation adjustments	2d	(23,857)	3,651,276	947,501
Retained earnings				
Appropriated		6,492,210	6,492,210	6,492,210
Unappropriated		634,672,441	571,596,977	497,010,352
Total equity attributable to the equity holders of the parent company		845,455,271	786,054,940	708,764,540
Non-controlling interests	2b,24a	9,891,696	28,775,488	18,883,307
TOTAL EQUITY		**855,346,967**	**814,830,428**	**727,647,847**
TOTAL LIABILITIES AND EQUITY		**2,587,397,459**	**2,278,068,237**	**2,040,509,378**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2011 and 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2011	2010
SALES AND OTHER OPERATING REVENUES	2e,2s,28,36		
Net oil and gas sales		800,476,758	659,678,203
Net sales of chemical and other petroleum products		237,692,254	170,067,443
Electric power sales and revenue from related services		96,469,336	88,906,813
Revenues from other services		8,656,180	11,200,991
TOTAL SALES AND OTHER OPERATING REVENUES		**1,143,294,528**	**929,853,450**
COST OF SALES AND OTHER DIRECT COSTS			
Production and lifting costs	2s,29a	(279,931,765)	(267,561,241)
Cost of sales of chemical and other petroleum products	2e,2s 29d,35	(234,933,401)	(170,187,632)
Depreciation, depletion and amortization	2k,2m 14,15,29c	(109,424,152)	(102,747,239)
Cost of electric power sales and related services	2s,29e	(56,124,201)	(53,415,940)
Exploration expenses	2m,2s,29f	(34,527,314)	(24,057,135)
Cost of crude oil purchases	2s,29g	(34,225,485)	(18,077,395)
Cost of other services	2s,29b	(18,955,968)	(6,043,275)
TOTAL COST OF SALES AND OTHER DIRECT COSTS		**(768,122,286)**	**(642,089,857)**
GROSS PROFIT		**375,172,242**	**287,763,593**
Selling, general and administrative expenses	2s,30	(150,899,254)	(173,271,412)
Finance costs	22,23	(89,499,052)	(91,547,588)
Loss on impairment of assets - net	6,7,13,15	(16,996,544)	(56,397,448)
Share of net losses of associated entities - net	2e,12	(1,952,409)	(1,833,063)
Gain on dilution of equity ownership in an associated entity	12	8,472,496	-
Finance income		9,479,235	4,681,709
Gain on disposal of subsidiaries	2b,40	78,416,575	250,734,352
Other operating income		13,827,059	1,796,479
Other operating expenses		(11,742,762)	(6,098,007)
INCOME BEFORE INCOME TAX EXPENSE		**214,277,586**	**215,828,615**

The accompanying notes form an integral part of these consolidated financial statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (continued)
Years Ended December 31, 2011 and 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2011	2010
INCOME TAX EXPENSE	2t,31	**(125,058,051)**	**(127,671,353)**
PROFIT FOR THE YEAR		**89,219,535**	**88,157,262**
OTHER COMPREHENSIVE INCOME			
Translation adjustment		(2,097,858)	2,535,427
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**87,121,677**	**90,692,689**
PROFIT ATTRIBUTABLE TO			
Equity holders of the parent company		85,073,777	83,059,576
Non-controlling interests	2b,24b	4,145,758	5,097,686
		89,219,535	**88,157,262**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of the parent company		81,398,644	85,763,351
Non-controlling interests	2b,24c	5,723,033	4,929,338
		87,121,677	**90,692,689**
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	2z,32	**0.0289**	**0.0282**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years Ended December 31, 2011 and 2010
(Expressed in United States Dollars, unless otherwise stated)

		Attributable to the equity holders of the parent company								
				Retained Earnings						
	Notes	Capital Stock	Additional Paid-in Capital	Appropriated	Unappropriated	Effect of Changes in Equity Transactions of Subsidiaries/Associated Companies	Translation Adjustments	Total	Non-controlling Interests	Total Equity
Balance, January 1, 2010		**95,579,709**	**108,626,898**	**6,492,210**	**497,010,352**	**107,870**	**947,501**	**708,764,540**	**18,883,307**	**727,647,847**
Comprehensive income for the year		-	-	-	83,059,576	-	2,703,775	85,763,351	4,929,338	90,692,689
Cash dividend	33	-	-	-	(8,472,951)	-	-	(8,472,951)	-	(8,472,951)
Additional shares issued by a subsidiary		-	-	-	-	-	-	-	4,962,843	4,962,843
Balance, December 31, 2010		**95,579,709**	**108,626,898**	**6,492,210**	**571,596,977**	**107,870**	**3,651,276**	**786,054,940**	**28,775,488**	**814,830,428**
Comprehensive income for the year		-	-	-	85,073,777	-	(3,675,133)	81,398,644	5,723,033	87,121,677
Cash dividend	33	-	-	-	(21,998,313)	-	-	(21,998,313)	-	(21,998,313)
Effect of divestment of a subsidiary		-	-	-	-	-	-	-	(24,606,825)	(24,606,825)
Balance, December 31, 2011		**95,579,709**	**108,626,898**	**6,492,210**	**634,672,441**	**107,870**	**(23,857)**	**845,455,271**	**9,891,696**	**855,346,967**

The accompanying notes form an integral part of these consolidated financial statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2011	2010
Cash Flows from Operating Activities			
Cash receipts from customers		1,066,273,623	775,264,418
Advance from customers		-	4,446,561
Cash paid to suppliers and employees		(793,513,708)	(623,587,118)
Cash generated from operations		272,759,915	156,123,861
Income tax paid		(131,285,135)	(66,860,626)
Net cash provided by operating activities		**141,474,780**	**89,263,235**
Cash Flows from Investing Activities			
Additions to short-term investments	5	(232,236,461)	(112,135,143)
Proceeds from redemption of short-term investment	5	160,965,745	105,836,705
Additions to oil and gas properties	15	(127,139,984)	(154,134,874)
Acquisition of or investment in subsidiaries/ associated company	40	(76,995,827)	(2,208,440)
Additions to other assets		(6,125,239)	(8,853,396)
Acquisitions of property, plant and equipment	14	(29,156,910)	(59,869,790)
Increase in related party receivable		(12,116,752)	-
Proceeds from disposal of subsidiaries - net	40	395,683,731	3,325,547
Interest received		11,218,765	16,476,327
Proceeds from disposals of property and equipment	14	917,447	3,872,415
Net cash provided by (used in) investing activities		**85,014,515**	**(207,690,649)**
Cash Flows from Financing Activities			
Proceeds from:			
- Bank loans	22	775,013,440	357,510,318
- Other long-term debt	23	150,673,196	107,900,000
Payment of:			
- Bank loans	22	(485,987,172)	(203,604,736)
- Other long-term debt	23	(44,550,000)	(88,204,000)
Payment of interest and financing charges		(86,554,990)	(86,926,220)
Withdrawal of (increase in) restricted cash in banks		11,909,810	(35,436,759)
Dividend payment	33	(21,998,313)	(8,472,951)
Settlement of derivatives transaction		(120,136)	454,110
Additional paid-in capital from non-controlling interests		-	2,380,158
Net cash provided by financing activities		**298,385,835**	**45,599,920**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**524,875,130**	**(72,827,494)**
NET FOREIGN EXCHANGE DIFFERENCE		**216,644**	**(1,339,092)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	**178,859,393**	**253,025,979**
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**703,951,167**	**178,859,393**

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL

a. General Information

PT Medco Energi Internasional Tbk ("the Company") was established within the framework of the Domestic Capital Investment Law No. 6/1968 as amended by Law No. 12/1970, based on notarial deed No. 19 of Imas Fatimah, S.H., dated June 9, 1980. The deed of establishment was approved by the Ministry of Justice of the Republic of Indonesia in its decision letter No. Y.A.5/192/4 dated April 7, 1981 and was published in State Gazette No. 102, Supplement No. 1020 dated December 22, 1981.

The Company's Articles of Association has been amended several times, the latest amendments of which were made to comply with the current Limited Liability Company Law No. 40 issued in 2007. The latest amendments were covered by notarial deed No. 33 dated August 8, 2008, which were approved by the Ministry of Law and Human Rights in its decision letter No. AHU-69951.AH.01.02 TH 2008 and was published in the State Gazette of the Republic of Indonesia No. 12 dated February 10, 2009, Supplement No. 4180/2009.

The Company is domiciled in Jakarta and its head office is located at 52nd Floor, The Energy Building, SCBD lot 11A, Jl. Jenderal Sudirman, Jakarta 12190.

In accordance with Article 3 of the Company's Articles of Association, the scope of its activities comprises, among others, exploration for and production of oil and natural gas, and other energy activities, onshore and offshore drilling, and investing (direct and indirect) in subsidiaries. The Company started its commercial operations on December 13, 1980.

The Company and its Subsidiaries (the Group) have approximately 2,322 (unaudited) and 1,981 (unaudited) employees as of December 31, 2011 and 2010, respectively.

b. Company's Public Offering

The Company's shares of stock were initially offered to the public and listed on the Jakarta Stock Exchange (JSE) (now Indonesia Stock Exchange) on October 12, 1994. The Company's initial public offering of 22,000,000 shares with a par value of Rp1,000 per share, was approved for listing on September 13, 1994 by the Capital Market and Financial Institution Supervisory Agency (BAPEPAM and Lembaga Keuangan or BAPEPAM-LK, formerly known as Capital Market Supervisory Agency/BAPEPAM) in its letter No. S-1588/PM/1994.

The Company also made a Limited Public Offering I of a maximum of 379,236,000 shares which were approved for listing on November 16, 1999 by the Chairman of BAPEPAM-LK through letter No. S-2244/PM/1999. 321,730,290 new shares were issued and listed on the JSE on November 19, 1999.

As of December 31, 2011 and 2010, all of the Company's 3,332,451,450 shares are listed on the Indonesia Stock Exchange.

Encore International Limited, incorporated in British Virgin Islands, is the ultimate holding company of the Group. The immediate holding company of the Group is Encore Energy Pte Ltd, a company incorporated in Singapore.

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

c. Boards of Commissioners and Directors, and Audit Committee

The Company's Boards of Commissioners and Directors, and members of the Audit Committee are as follows:

	December 31, 2011	December 31, 2010
President Commissioner	: Hilmi Panigoro	Hilmi Panigoro
Independent Commissioners	: Gustiaman Deru Marsillam Simandjuntak	Gustiaman Deru Marsillam Simandjuntak
Commissioners	: Yani Yuhani Rodyat Retno Dewi Arifin Masayuki Mizuno	Yani Yuhani Rodyat Retno Dewi Arifin Masayuki Mizuno
President Director	: Lukman A. Mahfud	Darmoyo Doyoatmojo
Directors	: Syamsurizal Frila Berlini Yaman Akira Mizuta Dasril Dahya	Lukman A. Mahfud Darwin Cyril Noerhadi
Chairman of Audit Committee	: Marsillam Simandjuntak	Marsillam Simandjuntak
Members of the Audit Committee	: Hilmi Panigoro Gustiaman Deru Zulfikri Aboebakar Djoko Sutardjo	Hilmi Panigoro Gustiaman Deru Zulfikri Aboebakar Djoko Sutardjo

The Annual General Meeting of Stockholders (AGMS) which was held on May 19, 2011 approved the departures of Mr. Darmoyo Doyoatmojo as President Director and Mr. Darwin Cyril Noerhadi as Director. Furthermore, the AGMS approved the appointments of Mr. Lukman A. Mahfud as President Director and Mr. Syamsurizal, Mrs. Frila Berlini Yaman, Mr. Akira Mizuta and Mr. Dasril Dahya as Directors of the Company.

The total short-term benefits that were paid to the Commissioners and Directors amounted to US$5.0 million and US$4.1 million for the years ended December 31, 2011 and 2010, respectively. Post-employment benefits and other long-term benefits provided to them amounted to US$0.8 million for each year. Severance benefits for key management personnel recognized as expense amounted to US$1.9 million in 2011 and US$2.3 million in 2010.

d. Subsidiaries

i. As of December 31, 2011 and December 31, 2010, the Company has consolidated all of its subsidiaries in line with its accounting policy as described in Note 2b, "Principles of Consolidation". For presentation purposes, only subsidiaries which are material in terms of total assets/liabilities and/or revenue/net income to the Company's consolidated financial statements are presented in the table below:

1. GENERAL (continued)

d. Subsidiaries (continued)

	Start of commercial operations	Effective percentage of ownership		Total assets (before elimination) in millions	
		2011	2010	2011	2010
Exploration and production of oil and gas					
PT Medco E&P Tarakan (MEPT) Indonesia	1992	100.00	100.00	52.6	50.6
PT Medco E&P Kalimantan (MEPK) [4] Indonesia	1992	100.00	100.00	8.0	11.1
PT Medco E&P Indonesia (MEPI) Indonesia	1995	100.00	100.00	323.4	272.3
PT Medco E&P Tomori Sulawesi [2] Indonesia	2005	100.00	100.00	308.1	310.5
PT Medco E&P Sembakung Indonesia	2005	100.00	100.00	17.4	48.2
Medco Far East Limited [2] Cayman Islands	Non Active	100.00	100.00	77.6	115.6
PT Medco E & P Simenggaris Indonesia	2009	100.00	100.00	28.3	16.3
PT Medco E&P Bengara Indonesia	Exploration stage	95.00	95.00	9.5	4.6
PT Medco E&P Lematang (MEPL) Indonesia	2003	100.00	100.00	218.1	218.8
Medco Energi Global Pte Ltd [1) 2)] Singapore	2006	100.00	100.00	311.0	388.8
PT Medco CBM Sekayu Indonesia	Exploration stage	100.00	100.00	4.2	2.3
PT Medco E&P Merangin Indonesia	Exploration stage	100.00	100.00	8.8	4.6
PT Medco E&P Malaka Indonesia	Exploration and development stage	100.00	100.00	60.8	56.5
PT Medco E&P Rimau (MEPR) Indonesia	2005	100.00	100.00	477. 1	448.8
PT Medco E&P Nunukan Indonesia	Exploration stage	100.00	100.00	2.3	2.2
PT Medco E&P Bangkanai [1] Indonesia	Exploration stage	100.00	100.00	5.8	0.02
Medco Bawean (Holdings) Pte Ltd (MBHPL) [1] Singapore	2008	100.00	100.00	92.8	84.4

1. GENERAL (continued)

d. Subsidiaries (continued)

	Start of commercial operations	Effective percentage of ownership		Total assets (before elimination) in millions	
		2011	2010	2011	2010
Support services for oil and gas activities					
PT Exspan Petrogas Intranusa (EPI) [1] Indonesia	1999	100.00	100.00	51.7	35.8
PT Medco Gas Indonesia [1] Indonesia	2009	100.00	100.00	20.3	21.4
Chemical production and trading					
PT Medco Downstream Indonesia (MDI) [1] [2] Indonesia	2004	100.00	100.00	222.0	226.3
PT Medco Niaga Internasional Indonesia	2006	100.00	100.00	1.7	1.6
Electric power production					
PT Medco Power Indonesia (MPI) [1] [3] Indonesia	2005	49.00	100.00	-	216.9
Others					
MEI Euro Finance Limited (MEFL) [2] Mauritius	2002	100.00	100.00	67.4	67.4
Medco CB Finance B.V. [2] Netherlands	2006	100.00	100.00	0.4	0.4
PT Medco Energi Mining Internasional Indonesia	2009	100.00	100.00	22.6	5.3
Medco Straits Services Pte Ltd [2] Singapore	2007	100.00	100.00	976.9	835.7

1) and subsidiary/ subsidiaries
2) 90%-95% of the total assets represents intercompany accounts in the Group that are eliminated in the consolidation
3) 51% ownership in MPI is divested on December 16, 2011
4) TAC Kalimantan was relinquished in 2008

ii. The Group has interests in the following overseas petroleum joint venture operations or Service Contracts/Participation and Economic Sharing Agreements in 2011 and 2010:

Joint Venture	Country	Interest (%) 2011	Interest (%) 2010
Brazos Block 437/451	USA	100.00	100.00
East Cameron (EC) 317/318 lease	USA	75.00	75.00
East Cameron (EC) 316	USA	100.00	100.00
Main Pass (MP) 64/65 lease	USA	75.00	75.00
Mustang Island Block 758	USA	66.25	66.25
West Delta 52	USA	53.84	53.84
Walker Ranch lease	USA	58.96	58.96
West Cameron 557	USA	100.00	100.00
Block E off shore **)	Cambodia	41.25	41.25
Block 12 **)	Cambodia	52.50	52.50
Nimr – Karim Area	Oman	51.00	51.00
Block 47 Ghadames Basin	Libya	50.00	50.00
Block 82	Yemen	38.25	38.25
Block 83	Yemen	38.25	38.25
Anaguid Block *)	Tunisia	-	40.00

*) Company has sold its interest during the year

**) In process of relinquishment

1. GENERAL (continued)

d. Subsidiaries (continued)

iii. The Group has undertaken several acquisitions and divestments of assets as disclosed in Note 40a.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with Indonesian Financial Accounting Standards ("SAK"), which comprise the Statements of Financial Accounting Standards ("PSAK"), and Interpretations of Financial Accounting Standards ("ISAK") issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants and the Regulations and the Guidelines on Financial Statements Presentation and Disclosures issued by BAPEPAM-LK.

The financial statements are prepared in accordance with PSAK No.1 (Revised 2009), "Presentation of Financial Statements", which was adopted on January 1, 2011.

PSAK No. 1 (Revised 2009) regulates the presentation of financial statements as to, among others, the objective, components of financial statements, fair presentation, materiality and aggregation, offsetting, distinction between current and non-current assets and liabilities, comparative information and consistency, and introduces new disclosures, such as key estimations and judgments, capital management, other comprehensive income, departures from accounting standards and statement of compliance.

The adoption of PSAK No. 1 (Revised 2009) has significant impact on the related presentation and disclosures in the consolidated financial statements.

As disclosed further in the relevant succeeding notes, several other amended and issued accounting standards were adopted effective January 1, 2011, prospectively or retrospectively. Accordingly, the consolidated statements of position of the Group as of December 31, 2010 and January 1, 2010/December 31, 2009 have been restated to effect certain reclassifications as disclosed in Note 47.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended December 31, 2010, except for the adoption of several amended PSAKs effective January 1, 2011 as disclosed in this note.

The consolidated financial statements have been prepared using the accrual basis, and the measurement basis used is historical cost concept, except for certain accounts which are measured on the bases described in the relevant notes herein.

The consolidated statements of cash flows present cash receipts and payments classified into operating, investing and financing activities using the direct method.

Effective January 1, 2011, the Group adopted PSAK No. 2 (Revised 2009), "Statement of Cash Flows". The implementation of PSAK No. 2 (Revised 2009) does not have significant impact on the consolidated financial statements.

The reporting currency used in the preparation of the consolidated financial statements is the United States Dollar (US Dollar), the functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation

From January 1, 2011

Effective January 1, 2011, the Group retrospectively adopted PSAK No. 4 (Revised 2009), "Consolidated and Separate Financial Statements", except for the following items that were applied prospectively: (i) losses of a subsidiary that result in a deficit balance to non-controlling interests ("NCI"); (ii) loss of control over a subsidiary; (iii) change in the ownership interest in a subsidiary that does not result in a loss of control; (iv) potential voting rights in determining the existence of control; and (v) consolidation of a subsidiary that is subject to long-term restriction. PSAK No. 4 (Revised 2009) provides for the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, and the accounting for investments in subsidiaries, jointly controlled entities and associated entities when separate financial statements are presented as additional information.

As described herein, the adoption of PSAK No. 4 (Revised 2009) has a significant impact on the financial reporting, including the related disclosures, in the consolidated financial statements.

The consolidated financial statements include the accounts of the subsidiaries in which the Company has more than 50% share ownership, either directly or indirectly.

All material intercompany accounts and transactions, including unrealized gains or losses, if any, are eliminated to reflect the financial position and the results of operations of the Group as one business entity.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtained control, and continues to be consolidated until the date such control ceases. Control is presumed to exist if the Company owns, directly or indirectly through Subsidiaries, more than half of the voting power of an entity.

Losses of a non-wholly owned subsidiary are attributed to the NCI even if such losses result in a deficit balance for the NCI.

In case of loss of control over a subsidiary, the Group:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any NCI;
- derecognizes the cumulative translation differences recorded in equity, if any;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and,
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

NCI represents the portion of the profit or loss and net assets of the Subsidiaries attributable to equity interests that are not owned directly or indirectly by the Company, which are presented in the consolidated statements of comprehensive income and under the equity section of the consolidated statements of financial position, respectively, separately from the corresponding portion attributable to the equity holders of the parent company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

Prior to January 1, 2011

The proportionate share of minority shareholders in net assets of the consolidated subsidiaries was previously presented as "Minority Interest in Net Assets of Subsidiaries" between the liabilities section and equity section in the consolidated balance sheet. The proportionate share of minority shareholders in the net income or loss of the consolidated subsidiaries is presented as "Minority Interest in Net Income (Loss) of Subsidiaries" in the consolidated statement of income.

The losses applicable to the minority interests in a Subsidiary may have exceeded the minority interests in the equity of the Subsidiary. The excess and any further losses applicable to the minority interests were absorbed by the Company as the majority shareholder, except to the extent that minority interests had other long-term interest in the related Subsidiary or had binding obligations for, and were able to make good of, the losses. If the Subsidiary subsequently reported profits, all such profits were allocated to the majority interest holder, in this case, the Company, until the minority interests' share of losses previously absorbed by the Company were recovered.

c. Business Combinations

From January 1, 2011

Effective January 1, 2011, the Group prospectively adopted PSAK No. 22 (Revised 2010), "Business Combinations", applicable for business combinations that occur on or after the beginning of a financial year/period commencing on or after January 1, 2011.

In accordance with the transitional provision of PSAK No. 22 (Revised 2010), starting January 1, 2011, the Group:
- ceased the goodwill amortization;
- eliminated the carrying amount of the related accumulated amortization of goodwill; and
- performed an impairment test of goodwill in accordance with PSAK No. 48 (Revised 2009), "Impairment of Assets".

PSAK No. 22 (Revised 2010) stipulates the nature of a transaction or other event that meets the definition of a business combination to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

As described herein, the adoption of PSAK No. 22 (Revised 2010) did not have a significant impact on the financial reporting, including the related disclosures, in the consolidated financial statements.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are directly expensed and included in "Selling, General and Administrative Expenses".

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Business Combinations (continued)

From January 1, 2011 (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PSAK No. 55 (Revised 2006) either in profit or loss or as other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

At acquisition date, goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the Subsidiary acquired, the difference is recognized in consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date, to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those CGUs.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Prior to January 1, 2011

Acquisitions are accounted for by use of the purchase method in accordance with the requirements of PSAK No. 22, "Business Combinations". The cost of an acquisition is allocated to the identifiable assets and liabilities recognized using as reference their fair values at the date of the transaction. Any difference between the cost of the acquisition and the interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction is recognized as goodwill/negative goodwill. The NCI (formerly known as minority interests) was measured at the book value of the proportionate share of the acquiree's identifiable net assets.

Goodwill of the acquired oil and gas companies is presented as part of Oil and Gas Properties to the extent applicable for capitalization and is amortized over the period of the Production Sharing Contract using the unit-of-production method or equivalent contract or 18 years.

Goodwill of the acquired non-oil and gas companies is amortized over the operating life of the entity or 20 years, whichever is shorter.

Negative goodwill is amortized using the straight-line method over 20 years.

Assets and liabilities, which are acquired but which do not satisfy the criteria for separate recognition when the acquisition was initially accounted for, are recognized subsequently when they satisfy the criteria. The carrying amounts of assets and liabilities acquired are adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those assets and liabilities at the time of acquisition, and the goodwill or negative goodwill is adjusted, provided that the amount of the adjustment is probable of recovery based on the expected future economic benefits and such adjustments are made by the end of the first annual accounting period commencing after acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Business Combinations (continued)

Prior to January 1, 2011 (continued)

Business combinations achieved in stages are accounted for as separate steps. Any additional acquired equity interest does not affect previously recognized goodwill. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration is recognized if, and only if, the Group has a present obligation, the economic outflow has more likely than not will be required to settle such contingent consideration and a reliable estimate is determinable. Subsequent adjustments to the contingent consideration are recognized as part of goodwill.

d. Foreign Currency Transactions and Balances

Transactions during the year involving currencies other than US Dollar are recorded in US Dollars at the prevailing rates of exchange in effect on the date of the transactions.

At the consolidated statement of financial position date, all monetary assets and liabilities denominated in currencies are translated to US Dollar at the middle exchange rates prevailing on those dates. The resulting net foreign exchange gains or losses are credited or charged to current operations.

For consolidation purposes, assets and liabilities of subsidiaries which maintain their books/accounts in Indonesian Rupiah, are translated into US Dollars using the rates of exchange prevailing at the consolidated statement of financial position date, equity accounts are translated using historical rates of exchange, while revenues and expenses and cash flows are translated using average rates of exchange. The resulting foreign exchange differences are credited or charged to “Translation Adjustments” under the Equity section of the consolidated statements of financial position. For entities that maintain their books/accounts in Indonesian Rupiah and in Euro, but their functional currency is the US Dollar, for consolidation purposes, the accounts of these entities have been remeasured into the US Dollar in order to reflect more closely their economic substance.

As of December 31, 2011 and 2010, the rates of exchange used for significant foreign currency-denominated balances are as follows:

	2011	2010
Rupiah/US$1	9,068	8,991
Euro/US$1	1.2945	1.3298
Australian Dollar/US$1	1.0148	1.0169
Singapore Dollar/US$1	0.7691	0.7764
British Poundsterling/US$1	1.5405	1.5453
Japanese Yen 100/US$1	1.2881	1.2266

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Transactions with Related Parties

Effective January 1, 2011, the Group applied PSAK No. 7 (Revised 2010), "Related Party Disclosures", which superseded PSAK No. 7 (Revised 1994), "Related Party Disclosures". PSAK No. 7 (Revised 2010) requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, and also applies to individual financial statements. The adoption of PSAK No. 7 (Revised 2010) did not have a significant impact on the related disclosures in the consolidated financial statements.

A party is considered to be related to the Group if:

a. directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or, (iii) has joint control over the Group;
b. the party is an associate of the Group;
c. the party is a joint venture in which the Group is a venturer;
d. the party is a member of the key management personnel of the Group or its parent;
e. the party is a close member of the family of any individual referred to in (a) or (d);
f. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or,
g. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

The transactions are made based on terms agreed by the parties. Such terms may not be the same as those of the transactions between unrelated parties.

All transactions and balances with related parties are disclosed in the notes to the consolidated financial statements.

f. Cash Equivalents

Time deposits and other short-term investments with a maturity date of three months or less at the time of placement which are not used as collateral or are not restricted as to use, are classified as "Cash Equivalents".

g. Restricted Cash in Banks

Restricted cash in banks which will be used to pay currently maturing obligations are presented under current assets. Other current accounts and time deposits which are pledged or restricted as to use are presented under non-current assets.

h. Allowance for Impairment of Receivables

An allowance for impairment of receivables is provided based on a review of the status of the individual receivable accounts at the end of the year.

i. Inventories

Inventories of crude oil, chemicals and other petroleum products, spare parts and supplies used for operations are stated at cost or net realizable value, whichever is lower. Cost is determined using the weighted average method or the average method. Allowance for decline in value and obsolescence of inventories is provided based on a review of the individual inventory items at the end of the year.

(Expressed in United States Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Prepaid Expenses

Prepaid expenses are amortized over their beneficial periods using the straight-line method.

k. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs that do not meet the recognition criteria are recognized in consolidated statement of comprehensive income as incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings and land improvements	20
Machinery	20 - 25
Control panel equipment	12
Rig equipment and onshore drilling rigs *)	10 - 16
Telecommunication equipment	5
Vehicles	4 - 5
Leasehold improvements	3 - 8
Office and other equipment	3 - 5
Aircraft	20

*) starting January 1, 2011, the Group changed the estimated useful lives of its drilling rigs from 4-10 years to 10-16 years based on its technical assessment and industry comparative study.

Land is stated at cost and is not depreciated.

An item of property, plant and equipment is derecognized from the consolidated statement of financial position upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized to profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted prospectively, if appropriate, at each financial year end.

Construction in progress is stated at cost. The accumulated costs are reclassified to the appropriate property, plant and equipment accounts when the construction is substantially completed and the asset is ready for its intended use.

l. Assets under Finance Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of arrangement at inception date.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership; otherwise, the lease is classified as an operating lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Assets under Finance Lease (continued)

Under a finance lease, a lessee shall recognize assets and liabilities in its consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. Contingent rents shall be charged as expenses in the periods in which they are incurred. Finance charges are reflected in the consolidated statement of comprehensive income for the current year.

Assets under finance lease (presented under property, plant and equipment) are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

m. Oil and Gas Properties

Subsidiaries engaged in oil and gas exploration and production use the successful efforts method of accounting for oil and gas activities. Geological and geophysical costs and other exploration costs are charged to expense as incurred.

Costs to acquire rights to explore and produce oil and gas are recorded as unoperated acreage, which pertains to properties wherein proved reserves have not yet been discovered, or operated acreage if proved reserves have been discovered.

The costs of drilling exploratory wells, including the costs of drilling exploratory-type stratigraphic test wells, are initially capitalized and recorded as part of uncompleted wells, equipment and facilities. If the well locates proved reserves, the capitalized costs of drilling the well are included in wells and related equipment and facilities. However, should the efforts be determined to be unsuccessful, such costs are then charged to expense.

The costs of drilling development wells and development-type stratigraphic test wells, platforms, well equipment and attendant production facilities, are capitalized as uncompleted wells, equipment and facilities. Such costs are transferred to wells and related equipment and facilities upon completion.

Depreciation, depletion and amortization of oil and gas properties, except unoperated acreage and uncompleted wells, equipment and facilities, is calculated based on the unit-of-production method, using the gross production divided by gross proved developed reserves. Depreciation for support facilities and equipment is calculated using straight-line method over 4 (four) to 20 (twenty) years.

Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

Under PSAK No. 16 (Revised 2007), the initial estimated costs for dismantlement and site restoration are recognized as part of costs oil and gas properties and amortized/depleted as part of the overall cost of the asset (Note 2q).

n. Intangible Assets

Cost to acquire and prepare software for use is recorded as intangible asset and amortized over four to five years using the straight-line method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Treasury Stock

Reacquisition of capital stock to be held as treasury stock for future reissuance is accounted for under the par value method. Under this method, the par value of treasury stock is presented as a reduction from the capital stock account. If the treasury stock had been originally issued at a price above par value, the related additional paid-in capital account is adjusted. Any excess of the reacquisition cost over the original issuance price is adjusted to retained earnings.

p. Pension and Other Post-employment Benefits

The Group applies PSAK No. 24 (Revised 2004), “Employee Benefits”, in recognising liabilities and expenses relating to pension and other post-employment benefits.

i. Defined Contribution Pension Plan

Subsidiaries involved in oil and gas exploration and production have established defined contribution pension plans covering all of their local permanent employees. The plans are funded by contributions from both the subsidiaries and their employees based on a certain percentage of the employees’ salaries.

The costs of the defined contribution plans are accrued when incurred.

ii. Labor Law No. 13/2003 and Other Post-employment Benefits

The Group recognizes post-employment benefit liabilities for its employees in accordance with the requirements of Labor Law No. 13 Year 2003 and for its key management personnel in accordance with the Group policy.

Under the Revised PSAK No. 24 (Revised 2004), the cost of providing post-employment benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, if any. These gains or losses are recognized on a straight-line basis over the expected average remaining work lives of the employees. Furthermore, past service costs arising from the introduction of a defined benefit plan or changes in the benefits payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

q. Asset Abandonment and Site Restoration Obligation

The Group recognizes its obligations for future dismantlement and transfer of assets, and site restoration of oil and gas production facilities, wells, pipelines and related assets in accordance with the provisions in the production sharing contracts or in line with applicable regulations.

The initial estimated costs for dismantlement and site restoration of oil and gas properties are recognised as part of the acquisition costs of the assets, and are subsequently depreciated/depleted using the unit-of-production method in line with the selected assets depletion rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Asset Abandonment and Site Restoration Obligation (continued)

In most instances, the dismantlement and transfer of assets, and site restoration activities of oil and gas production facilities, wells, pipelines and related assets will occur many years in the future. The provision for future dismantlement and transfer of assets, and site restoration obligation is the best estimate of the present value of the future expenditures required to undertake the dismantlement and transfer of assets, and site restoration obligation at the reporting date, based on current legal requirements. The estimate of future dismantlement and transfer of assets, and site restoration obligation therefore requires management to make judgments regarding the timing of removal and transfer, the extent of restoration activities required and future removal and restoration technologies.

Such estimates are reviewed on an annual basis and adjusted each year as required. Adjustments are reflected in the present value of the dismantlement and transfer of assets, and site restoration obligation provision at the statement of financial position date, with a corresponding change in the book value of the associated asset.

The unwinding of the effect of discounting the provision is recognized as a finance cost.

Effective January 1, 2011, the Group adopted:

PSAK No. 57 (Revised 2009), “Provisions, Contingent Liabilities and Contingent Assets”, which aims to provide that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand the nature, timing and amount related to the information.

Interpretation of Statement of Financial Accounting Standards (ISAK) No. 9, “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, applies to changes in the measurement of any existing decommissioning, restoration or similar liability recognised as part of the cost of an item of property, plant and equipment in accordance with PSAK No. 16 and as a liability in accordance with PSAK No. 57.

r. Financial Instruments

Effective January 1, 2010, the Company and Subsidiaries adopted PSAK No. 50 (Revised 2006), “Financial Instruments: Presentation and Disclosure”, and PSAK No. 55 (Revised 2006), “Financial Instruments: Recognition and Measurement”, which supersede PSAK No. 50, “Accounting for Investments in Certain Securities”, and PSAK No. 55 (Revised 1999), “Accounting for Derivative Instruments and Hedging Activities”.

PSAK No. 50 (Revised 2006) contains the requirements for the presentation of financial instruments and identifies the information that should be disclosed. The presentation requirements apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. This PSAK requires the disclosure of, among others, information about factors that affect the amount, timing and certainty of an entity’s future cash flows relating to financial instruments and the accounting policies applied to those instruments.

PSAK No. 55 (Revised 2006) established the principles for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard provides for the definitions and characteristics of a derivative, the categories of financial instruments, recognition and measurement, hedge accounting and determination of hedging relationships, among others.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets

Initial recognition

Financial assets within the scope of PSAK No. 55 (Revised 2006) are classified into four types: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

The Group determines the classification of its financial assets at initial recognition and, if allowed and appropriate, re-evaluates the classification of those assets at each financial reporting date.

Financial assets are recognized initially at fair value plus, in the case of financial assets not classified at fair value through profit or loss, directly attributable transaction cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

- Financial assets at fair value through profit or loss

  Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as assets at fair value through profit or loss upon initial recognition.

  Derivative assets are classified as held for trading unless they are designated as effective hedging instruments.

  Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with gains or losses from changes in fair value recognized in the consolidated statement of comprehensive income.

  Short-term investments and derivative assets are classified under this category.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not quality as assets for trading, and have not been designated “at fair value through profit or loss” or as “available-for-sale”.

  After initial measurement, such financial assets are carried at amortized cost using the effective interest method, and gains or losses are recognized in the consolidated statement of comprehensive income when the loan and receivable is derecognized or impaired, as well as through the amortization process.

  The Group has cash and cash equivalents, restricted cash in banks and trade and other receivables under this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Subsequent measurement (continued)

- Held-to-maturity investments

  Held-to-maturity investments are non-derivative financial assets that have fixed or determinable payment and fixed maturity other than loans and receivables, for which there is a positive intention and ability to hold to maturity and which have not been designated as at fair value through profit or loss or as available-for-sale.

  The Group's investment in convertible bonds is under this category.

- Available-for-sale (AFS) financial assets

  AFS financial assets are non-derivative assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized in the shareholders' equity in the consolidated statement of financial position. When the asset is derecognized, the cumulative gain or loss previously recorded in the shareholders' equity shall be recognized in the consolidated statement of comprehensive income.

  The investments classified as AFS are as follows:

  - Investments in shares of stock that do not have readily determinable fair value in which the equity interest is less than 20% and other long-term investments which are carried at cost.

  - Investments in equity shares that have readily determinable fair value in which the equity interest is less than 20% are recorded at fair value.

  The Group has investments in shares of stock under this category.

Derecognition of financial assets

A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognized when:

i. The contractual rights to receive cash flows from such financial asset have expired; or

ii. The Group retains the right to receive cash flows from such financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or

iii. The Group has transferred its rights to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial asset

At each statement of financial position date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an “incurred loss event”) and that loss event has an impact on the estimated future cash flows from the financial asset or the group of financial assets that can be reliably estimated.

- Financial assets carried at amortized cost

  For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

  If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a ”loans and receivables” financial asset has a variable interest rate, the discount rate for measuring impairment loss is the current effective interest rate.

  The carrying amount of the financial asset is reduced through the use of an allowance for impairment account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment account. If a future write-off is later recovered, the recovery is recognized in profit or loss.

- AFS financial assets

  In the case of equity investment classified as an AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

  Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is reclassified from shareholders’ equity to profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognized in shareholders’ equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial asset (continued)

- AFS financial assets (continued)

  In the case of a debt instrument classified as an AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of the "Interest Income" account in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Financial Liabilities

Initial recognition

Financial liabilities within the scope of PSAK No. 55 (Revised 2006) are classified as financial liabilities at fair value through profit or loss and other financial liabilities that are not held for trading or not designated at fair value through profit or loss.

The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at the fair value of the consideration received and, in the case of loans and borrowings, less directly attributable transaction cost.

The Group's financial liabilities include trade payables, other payables, accrued expenses, bank loans, long-term loans, long-term liabilities, advances from customers and derivative financial liabilities.

Subsequent measurement

The measurement of financial liabilities depends on the classification as follows:

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

  Financial liabilities are classified as held for trading if they are acquired for the purposes of selling or repurchasing in the near term. Derivatives liabilities are also classified as held for trading unless they are designated as effective hedging instruments.

  Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

- Loans and borrowings

  After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. At statement of financial position date, the accrued interest is recorded separately from the respective principal amount of loans as part of current liabilities. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is currently an enforceable legal right to set off the recognized amounts and there is an intention either to settle on a net basis, or to realize the assets and the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at each reporting date.

For financial instruments where there is no active market, fair value is determined using valuation techniques permitted by PSAK No. 55 (Revised 2006), which may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

Credit risk adjustment

The Company and Subsidiaries adjust the price in the observable market to reflect any differences in counterparty credit risk between instruments traded in that market and the ones being valued for financial asset positions. In determining the fair value of financial liability positions, the Group's own credit risk associated with the instrument is taken into account.

s. Revenue and Expense Recognition

Effective January 1, 2011, the Group adopted PSAK No. 23 (Revised 2010), "Revenue". PSAK No. 23 (Revised 2010) identifies the circumstances in which the criteria on revenue recognition will be met and, therefore, revenue may be recognized, and prescribes the accounting treatment of revenue arising from certain types of transactions and events, and also provides practical guidance on the application of the criteria on revenue recognition. The adoption of PSAK No. 23 (Revised 2010) has no significant impact on the consolidated financial statements.

Revenue from sales of crude oil and gas is recognized upon delivery to the customer. For lifting imbalances with the Government, wherein the volume of oil lifted is less/greater than the Group entitlement, a receivable or payable is accrued.

Revenues from drilling and other related services are recognized when the service is rendered. Mobilization revenue is recognized when the rig has arrived in the drilling area and is ready to operate. Demobilization revenue is recognized when the drilling service has been completed and the rig has been moved from the last well drilled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Revenue and Expense Recognition (continued)

Revenue from sales of chemical and other petroleum products are recognized upon delivery to the customer.

Revenue from sales of electric power are recognized upon delivery to the customer.

Other incomes/revenues are recognized when earned.

Expenses are recognized as incurred on an accrual basis.

t. Income Tax

The Group determines their income taxes in accordance with the PSAK No. 46, "Accounting for Income Taxes".

Current tax expense is provided based on the estimated taxable income for the year.

Deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. Future tax benefits, such as the carry-forward of tax losses, are also recognized to the extent that realization of such benefits is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. The deferred tax assets and liabilities of each entity are shown at the corresponding net amounts in the consolidated financial statements.

Subsidiaries involved in oil and gas exploration and production in Indonesia are subject to income tax at rates ranging from 44% to 48%.

Subsidiaries involved in oil and gas exploration and production outside Indonesia are subject to various corporate income tax rates, up to maximum rate of 50%.

Subsidiaries involved in non-oil and gas activities in Indonesia are subject to corporate tax rate at 25% starting in 2010.

Amendments to tax obligations (i.e. tax assessments or claims) are recorded when an assessment is accepted, or as prepaid taxes when payments are made and are appealed against by the Group. Any amount recorded as prepaid taxes will be expensed only when a negative outcome is received from the Tax Office or Tax Court and further avenue is not sought.

u. Capitalization of Borrowing Costs and Foreign Exchange Losses

In accordance with PSAK No. 26 (Revised 2008), "Borrowing Costs", interest charges and foreign exchange differences incurred on borrowings and other costs incurred to finance the construction or installation of major facilities are capitalized. Capitalization of these borrowing costs ceases when the construction or installation is substantially completed and the asset is ready for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Impairment of Asset Value

Effective January 1, 2011, the Group prospectively adopted PSAK No. 48 (Revised 2009), "Impairment of Assets", including goodwill and assets acquired from business combinations before January 1, 2011. PSAK No. 48 (Revised 2009) superseded PSAK No. 48 (Revised 1998), "Impairment of Assets".

PSAK No. 48 (Revised 2009) prescribes the procedures to be employed by an entity to ensure that its assets are carried at no more than their recoverable amounts. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is considered impaired and PSAK No. 48 (Revised 2009) requires the entity to recognize an impairment loss. PSAK No. 48 (Revised 2009) also specifies when an entity should reverse an impairment loss and prescribes disclosures.

The Group assesses at each annual reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e., an intangible asset with an indefinite useful life, an intangible asset not yet available for use, or goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income as "impairment losses". In assessing the value in use, the estimated net 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. If no such transactions can be identified, an appropriate valuation model is used to determine the fair value of the assets. These calculations are corroborated by valuation multiples or other available fair value indicators.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. Impairment losses of continuing operations, if any, are recognized in the consolidated statements of comprehensive income under expense categories that are consistent with the functions of the impaired assets.

An assessment is made at each annual reporting period as to whether there is any indication that previously recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss for an asset other than goodwill is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Reversal of an impairment loss is recognized in the consolidated statement of comprehensive income. After such a reversal, the depreciation charge on the said asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Impairment of Asset Value (continued)

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Impairment losses relating to goodwill cannot be reversed in future periods.

w. Accounting for Restructuring of Entities Under Common Control

In accordance with PSAK No. 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control", any difference arising from a restructuring of entities under common control is recognized as a gain or loss if the conditions under the PSAK are met. Otherwise, any unrealized difference is recorded in Equity in the consolidated statement of financial position.

x. Joint Venture

The Group adopted PSAK No. 12 (Revised 2009), "Financial Reporting of Interests in Joint Ventures", starting on January 1, 2011. The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

y. Segment Information

Effective January 1, 2011, the Group applied PSAK No. 5 (Revised 2009), "Operating Segments". PSAK No. 5 (Revised 2009) requires disclosures that will enable users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which operates. The adoption of PSAK No. 5 (Revised 2009) has no significant impact on the consolidated financial statements.

A segment is a distinguishable component of the Group that is engaged either in providing certain products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Segment Information (continued)

Segment revenue, expenses, results, assets, and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intragroup balances and intragroup transactions are eliminated.

In accordance with the Group's organizational and management structure, the primary segment reporting of financial information is presented based on business segment as the risks and returns are dominantly affected by the different business activities. The secondary segment reporting is defined based on geographical location of the Group's business activities.

z. Earnings per Share

In accordance with PSAK No. 56, "Earnings per Share", basic earnings per share are computed by dividing net income by the weighted-average number of shares outstanding during the year.

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding as adjusted for the effects of all potential dilutions.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

The following judgments are made by management in the process of applying the Group's accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements:

Income Tax

Significant judgment is involved in determining the provision for corporate income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected corporate income tax issues based on estimates of whether additional corporate income tax will be due.

Classification of Financial Assets and Financial Liabilities

The Group determines the classifications of certain assets and liabilities as financial assets and financial liabilities by judging if they meet the definition set forth in PSAK No. 55 (Revised 2006).

Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies disclosed in Note 2r.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period/year are disclosed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

<u>Purchase Price Allocation and Goodwill Impairment</u>

Acquisition accounting requires extensive use of accounting estimates to allocate the purchase price to the reliable fair market values of the assets and liabilities purchased, including intangible assets. Under PSAK No. 22 (Revised 2009), “Business Combinations”, goodwill is not amortized and is subject to an annual impairment testing.

Impairment test is performed when certain impairment indicators are present. In case of goodwill, such assets are subject to annual impairment test and whenever there is an indication that such asset may be impaired; management has to use its judgment in estimating the recoverable value and determining the amount of impairment.

<u>Allowance for Impairment of Receivables</u>

The Group evaluates specific accounts where it has information that certain customers and debtors are unable to meet their financial obligations. In these cases, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer or debtor and or the customer’s or debtor’s current credit status based on third party credit reports and known market factors, to record specific provisions for customers or debtors against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts of allowance for impairment of receivables. The carrying amounts of the Group’s trade receivables before allowance for impairment as of December 31, 2011 and 2010 are US$206,118,540 and US$184,140,932, respectively. Further details are presented in Note 6. The carrying amounts of the Group’s other receivables before allowance for impairment as of December 31, 2011 and 2010, inclusive of current and non-current portions, are US$150,626,964 and US$460,106,185, respectively. Further details are presented in Note 7.

<u>Impairment of Non-Financial Assets</u>

The Group asseses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually, while other non-financial assets are tested for impairment when there are indicators that carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

<u>Pension and Other Post-Employment Benefits</u>

The determination of the Group’s obligations and cost for pension and other post-employment benefits is dependent on its selection of certain assumptions used by the independent actuaries in calculating such amounts. Those assumptions include discount rates, future annual salary increases, annual employee turn-over rate, disability rate, retirement age and mortality rate. While the Group believes that its assumptions are reasonable and appropriate, due to the long-term nature of these obligations, such estimates are subject to significant uncertainty. The carrying amount of the Group’s estimated liabilities for post-employment benefits as of December 31, 2011 and 2010 are US$12,370,076 and US$13,922,436, respectively. Further details are disclosed in Note 34.

<u>Depreciation of Fixed Assets</u>

The costs of fixed assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these fixed assets to be within 3 to 25 years. These are common expectancies applied in the industries where the Group conducts its businesses. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised. The net carrying amount of the Group’s fixed assets as of December 31, 2011 and 2010 are US$116,347,753 and US$252,757,374, respectively. Further details are disclosed in Note 14.

(Expressed in United States Dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The Company has tax loss carryforward amounting to US$34,359,518, US$105,757,320, US$75,259,654, US$8,632,807 and US$3,721,747 arising from the years 2011, 2010, 2009, 2008 and 2007, respectively.

Allowance for Decline in Value and Obsolescence of Inventories

Allowance for decline in value and obsolescence of inventories is estimated based on the best available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices, estimated costs of completion and estimated costs to sell. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated. The carrying amount of the Group's inventories before allowance for obsolescence and decline in value as of December 31, 2011 and 2010 is US$46,848,402 and US$36,796,114, respectively. Further details are disclosed in Note 8.

Asset Abandonment and Site Restoration Obligations

The Group has recognized provision for asset abandonment and site restoration obligations associated with its oil and gas wells, facilities and infrastructure. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates and the expected cost to dismantle and remove all the structures from the site, and restore the site. The carrying amount of the provision as of December 31, 2011 and 2010 is US$53,757,992 and US$50,705,914, respectively.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2011	2010
Cash on hand	55,427	96,740
Cash in banks		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	4,656,448	2,173,589
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	4,105,055	1,341,459
Third parties		
Rupiah		
Citibank, NA	1,330,056	2,353,599
PT Bank Mandiri (Persero) Tbk	1,061,277	5,278,937
PT Bank Negara Indonesia (Persero) Tbk	723,668	3,338,536
PT Bank Rakyat Indonesia (Persero) Tbk	579,642	-
PT Bank CIMB Niaga Tbk	420,877	4,131,597
PT Bank Internasional Indonesia Tbk	329,104	301,784
PT Bank Central Asia Tbk	17,512	910,776
PT Bank Panin Tbk	-	269,764
Others	98,928	74,062

(Expressed in United States Dollars, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

	2011	2010
Cash in banks (continued)		
Third parties (continued)		
United States Dollar		
PT Bank Negara Indonesia (Persero) Tbk	103,524,460	20,797,095
Citibank, NA	34,802,359	9,394,457
PT Bank Danamon Indonesia Tbk	30,812,829	20,795,860
PT Bank Mandiri (Persero) Tbk	30,500,580	26,122,679
Standard Chartered Bank	24,135,229	4,121,136
PT Bank Rakyat Indonesia (Persero) Tbk	20,775,585	-
Bank of Tokyo Mitsubishi - UFJ	20,569,283	-
Muscat Bank	8,630,225	11,740,954
PT Bank Central Asia Tbk	4,689,733	3,123,322
PT Bank CIMB Niaga Tbk	1,907,891	21,511,104
Capital One	1,369,619	3,093,968
PT Bank Internasional Indonesia Tbk	244,931	1,021,793
Bank Julius Baer & Co Ltd	-	1,112,675
UBS AG	-	401,453
Others	530,984	115,223
Other foreign currencies	21,037	181,285
Sub-total	295,837,312	143,707,107
Cash equivalents		
Time Deposits		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	7,873,255	4,659,695
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	14,000,000	21,999,872
Third parties		
Rupiah		
PT Bank Bukopin Tbk	5,477,291	950,951
PT Bank Rakyat Indonesia (Persero) Tbk	2,933,392	-
PT Bank Victoria Syariah	551,390	-
PT Bank Negara Indonesia (Persero) Tbk	-	556,112
PT Bank CIMB Niaga Tbk	-	222,445
PT Bank Mandiri (Persero) Tbk	-	105,661
United States Dollar		
PT Bank Negara Indonesia (Persero) Tbk	70,100,000	219,394
PT Bank Rakyat Indonesia (Persero) Tbk	50,000,000	1,000,000
PT Bank Internasional Indonesia Tbk	35,038,777	-
UBS AG	30,261,021	-
PT Bank Mandiri (Persero) Tbk	30,000,000	1,305,495
PT Bank CIMB Niaga Tbk	30,000,000	3,018,103
PT ANZ Panin Bank	30,000,000	-
PT Bank Muamalat Indonesia Tbk	20,500,000	-
PT Bank ICBC Indonesia	20,000,000	-
PT Bank UOB Buana	15,038,990	-
PT Bank Mega Tbk	15,000,000	-
PT Bank DKI	15,000,000	-
PT Bank Bukopin Tbk	10,000,000	-

(Expressed in United States Dollars, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

	2011	2010
Cash equivalents (continued)		
Time Deposits (continued)		
Third parties (continued		
United States Dollar (continued)		
Barclays Bank	4,987,427	-
Bank Julius Baer & Co Ltd	884,495	-
PT Bank Permata Tbk	-	1,017,818
Others	412,390	-
Sub-total	408,058,428	35,055,546
Total	**703,951,167**	**178,859,393**

	2011	2010
Interest rate per annum		
Time deposits		
Rupiah	6.00% - 9.25%	4.25% - 10.00%
United States Dollar	0.05% - 3.25%	0.23% - 3.75%

5. SHORT-TERM INVESTMENTS

This account consists of:

	2011	2010
Marketable securities – for trading		
Rupiah		
Mutual fund units	3,910,935	2,517,069
Bonds	338,553	222,445
United States Dollar		
Managed funds	243,055,432	165,307,683
Total	**247,304,920**	**168,047,197**

The marketable securities for trading (bonds) earned interest at rates ranging from 7.375% to 10.85% per annum in 2011 and 10.85% per annum in 2010.

Investments in managed funds comprise of shares publicly-listed companies, fixed income, money market and other financial instruments (Note 40c). For the year ended December 31, 2011, the unrealized gain from short-term investments amounted to US$8.6 million (2010: gain of US$2.1 million).

(Expressed in United States Dollars, unless otherwise stated)

6. TRADE RECEIVABLES - Net

The details of this account are as follows:

a. By Customer

	2011	**2010**
Related parties		
Petro Diamond Singapore Pte Ltd	68,177,731	31,674,957
PT Medcopapua Industri Lestari	1,524,256	922,232
Petro Diamond Ltd, Hong Kong	-	16,535,242
Sub-total	69,701,987	49,132,431
Third parties		
Local customers	79,511,401	76,163,390
Foreign customers	56,905,152	58,845,111
Sub-total	136,416,553	135,008,501
Allowance for impairment	(3,790,311)	(3,432,887)
Net	132,626,242	131,575,614
Total	**202,328,229**	**180,708,045**

b. By Aging Category

	2011	**2010**
Not yet due	160,764,787	116,639,095
1 - 30 days past due	28,670,841	46,830,585
31 - 60 days past due	1,882,527	2,451,861
61 - 90 days past due	1,180,380	2,176,812
91 - 120 days past due	731,890	1,092,869
More than 120 days past due	12,888,115	14,949,710
Total	206,118,540	184,140,932
Allowance for impairment	(3,790,311)	(3,432,887)
Net	**202,328,229**	**180, 708,045**

c. By Currency

	2011	**2010**
United States Dollars	182,458,151	153,172,039
Rupiah	23,660,389	30,457,511
Euro	-	167,927
Others	-	343,455
Total	206,118,540	184,140,932
Allowance for impairment	(3,790,311)	(3,432,887)
Net	**202,328,229**	**180,708,045**

(Expressed in United States Dollars, unless otherwise stated)

6. TRADE RECEIVABLES - Net (continued)

The changes in the allowance for impairment are as follows:

	2011	2010
Balance at beginning of year	3,432,887	1,903,339
Provision during the year	1,215,147	1,585,363
Write-off during the year	(412,491)	(55,815)
Reversal during the year	(445,232)	-
Balance at end of year	**3,790,311**	**3,432,887**

As of December 31 2010, trade receivables from PT Dalle Energy Batam and PT Mitra Energi Batam amounting to US$9.8 million, were used as collateral for bank loans (Note 22).

Management believes that there are no significant concentrations of credit risk involving third party receivables.

Based on the review of the status of the individual receivable accounts at the end of the year, management is of the opinion that the allowance for impairment of receivables is adequate to cover possible losses on uncollectible accounts.

7. OTHER RECEIVABLES - Net

This account consists of:

a. By Party/Nature

	2011	2010
Related parties – non-current		
PT Donggi Senoro LNG	46,827,782	1,711,030
Mitsubishi Corporation	-	260,000,000
Tomori E&P Limited (TEL)	-	1,564,976
Total	**46,827,782**	**263,276,006**
Third parties		
Reimbursable value added tax (VAT)	44,587,134	40,710,280
Underlifting receivable	28,925,675	7,640,576
Receivables from Joint Venture	11,196,348	24,378,747
PT Antareja Resources	5,973,188	5,021,656
PT Pertamina EP	3,872,595	4,497,918
Tax Office	2,670,233	3,401,401
Loans to employees	758,941	2,802,435
Sabre Systems International Pte Ltd	-	68,178,606
PT Andalan Artha Advisindo Sekuritas	-	29,694,149
PT Pelayanan Listrik Nasional Batam (PLN Batam)	-	2,768,612
PT Cenergy Power	-	2,380,158
Others (each below US$1,000,000)	5,815,068	5,355,641
Total	**103,799,182**	**196,830,179**

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES – Net (continued)

a. By Party/Nature (continued)

	2011	2010
Third parties (continued)		
Long-term portion	12,873,741	4,289,761
Allowance for impairment	(210,195)	(210,195)
Long-term portion - net	**12,663,546**	**4,079,566**
Current portion	90,925,441	192,540,418
Allowance for impairment	(28,709,290)	(62,653,490)
Current portion - net	**62,216,151**	**129,886,928**

b. By Currency

	2011	2010
United States Dollars	135,744,199	383,462,127
Rupiah	14,882,765	76,644,058
Total	**150,626,964**	**460,106,185**
Long-term portion	59,701,523	267,565,767
Allowance for impairment	(210,195)	(210,195)
Long-term portion - net	**59,491,328**	**267,355,572**
Current portion	90,925,441	192,540,418
Allowance for impairment	(28,709,290)	(62,653,490)
Current portion - net	**62,216,151**	**129,886,928**

The receivable from PT Donggi Senoro LNG (DSLNG) in the amount of US$46.1 million mainly represents advances to finance the DSLNG project. The receivable is charged interest at cost of funds plus 3.75%. The remaining balance represents advances for operational activities of DSLNG in 2011 and 2010.

The receivable from Mitsubishi Corporation (MC) as of December 31, 2010 represents receivable from the sale of shares in Tomori E&P Limited (TEL), previously a wholly-owned subsidiary of the Company, to MC in December 2010 (Note 40). The receivable was subsequently received in full in January 2011.

The receivable from TEL as of December 31, 2010 mainly represents advances for operational activities of TEL in 2010. The receivable was subsequently received in full in March 2011.

The receivable from Sabre Systems International Pte Ltd (SSI), a subsidiary of PT Mitra Recources International Tbk (MIRA), represents a receivable arising from the sale of the Company's 48.72% ownership interest in PT Apexindo Pratama Duta Tbk. The receivable earns interest at a certain amount as stipulated in the Sale and Purchase Agreement (the unpaid portion of which is presented as part of interest receivable). The receivable was settled in June 2011 for US$35 million. The remaining balance was written off against the allowance.

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES - Net (continued)

Reimbursable Value Added Tax (VAT) represents VAT paid by subsidiaries involved in oil and gas exploration and production in Indonesia which is reimbursable from BPMIGAS (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi).

Receivable from PT Andalan Artha Advisindo Sekuritas represents withdrawal of the Group's short-term investment at the end of December 2010. In January 2011, the receivable was received in full.

Receivables from Joint Venture represent receivables from joint venture partners relating to oil and gas exploration and production activities.

The underlifting receivable as of December 31, 2011 and 2010 from BPMIGAS relates to Tarakan and Rimau Blocks, respectively.

Receivable from PT Pertamina EP (Pertamina) mainly consists of the amounts billed for the expenditures incurred by a subsidiary for Pertamina oil and gas operations under the Kalimantan Technical Assistance Contract (TAC), subsequent to the relinquishment of Kalimantan TAC in October 2008.

Based on the review of other receivables at the end of the year, management is of the opinion that the allowance for impairment of other receivables is adequate to cover possible losses from uncollectible accounts.

8. INVENTORIES - Net

Inventories consist of:

	2011	2010
Spareparts, well supplies and others	30,907,816	28,437,717
Chemical and other petroleum products	15,940,586	8,358,397
Total	46,848,402	36,796,114
Allowance for obsolescence and decline in value	(3,143,430)	(2,657,732)
Net	**43,704,972**	**34,138,382**

The movement in the allowance for obsolescence and decline in value is as follows:

	2011	2010
Balance at beginning of year	2,657,732	1,589,435
Provision during the year	485,698	1,068,297
Balance at end of year	**3,143,430**	**2,657,732**

All inventories were insured with various insurance companies as of December 31, 2011 and 2010 (Notes 14 and 15). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

Based on the review of the physical condition and net realizable values of inventories at the end of the year, management is of the opinion that the allowance for obsolescence and decline in value is adequate.

(Expressed in United States Dollars, unless otherwise stated)

9. PREPAID TAXES

The details of this account are as follows:

	2011	2010
Company		
VAT	1,102,771	52,816
Corporate income tax overpayments	939,904	967,885
Sub-total	2,042,675	1,020,701
Subsidiaries		
VAT	6,903,288	12,455,495
Corporate income tax overpayments	967,601	7,314,169
Sub-total	7,870,889	19,769,664
Total	**9,913,564**	**20,790,365**

10. PREPAID EXPENSES

The details of this account are as follows:

	2011	2010
Insurance	3,597,120	4,349,501
Rental	489,897	3,620,616
Others	572,549	572,576
Total	**4,659,566**	**8,542,693**

11. RESTRICTED CASH IN BANKS

The details of this account are as follows:

	2011	2010
Current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	-	547,071
Third parties		
Rupiah		
PT Bank CIMB Niaga Tbk	-	2,555,832
PT Bank Central Asia Tbk	-	802,792
United States Dollar		
Citibank, NA	24,019,608	-
PT Bank Central Asia Tbk	1,258,455	10,271,086
PT Bank Negara Indonesia (Persero) Tbk	-	13,984,018
PT Bank Mandiri (Persero) Tbk	-	8,555,556
Total	**25,278,063**	**36,716,355**

11. RESTRICTED CASH IN BANKS (continued)

	2011	2010
Non-Current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	8,680,508	9,848,375
Third parties		
Rupiah		
PT Bank CIMB Niaga Tbk	3,297,089	4,059,170
PT Bank Mandiri (Persero) Tbk	40,908	40,980
PT Bank Negara Indonesia (Persero) Tbk	-	110,110
PT Bank Central Asia Tbk	-	111,223
United States Dollar		
PT Bank Mandiri (Persero) Tbk	1,500,000	1,500,000
Total	**13,518,505**	**15,669,858**

Restricted cash account (US Dollar) with Citibank, NA represents the cash related to the subscription of new shares issued in Phase II by MPI (Note 40a).

Restricted cash accounts (Rupiah) with PT Bank Himpunan Saudara 1906 Tbk in the amount of US$7,973,756 as of December 31, 2011 and PT Bank CIMB Niaga Tbk mainly represent the Subsidiaries' time deposit used as collaterals for employee loans.

Restricted cash account (US Dollar) with PT Bank Mandiri (Persero) Tbk represents the performance bond in relation to oil production in Camar Resources Canada, Inc.

Restricted cash account (US Dollar) with PT Bank Central Asia Tbk represents the debt service account of PT Medco E&P Lematang required under the loan agreement with this bank.

Restricted cash account (Rupiah) with PT Bank Himpunan Saudara 1906 Tbk amounting to US$441,113 as of December 31, 2011 represents collateral for the operations of PT Usaha Tani Sejahtera.

Restricted cash account (Rupiah) with PT Bank Mandiri (Persero) Tbk amounting to US$40,908 as of December 31, 2011 represents fund for site restoration escrowed to the Government for PT Duta Tambang Rekayasa.

	2011	2010
Interest rate per annum		
Restricted cash in banks		
Rupiah	6.00% - 7.25%	4.25% - 7.00%
United States Dollar	2.00%	0.25% - 1.50%

(Expressed in United States Dollars, unless otherwise stated)

12. LONG-TERM INVESTMENTS

This account consists of the following:

	2011			
	Percentage of Ownership (%)	Cost	Accumulated Share in Net Earnings	Net Carrying Value
Investments in shares of stock				
Equity Method				
Kuala Langsa (Block-A) Limited (KLL), formerly ConocoPhillips Aceh Ltd Bermuda Island	50	216,000	550,961	766,961
PT Medco Power Indonesia	49	83,205,695	-	83,205,695
Cost Method				
PT Antareja International Services	3.8	1,000,000	-	1,000,000
PT Donggi Senoro LNG (DSLNG) - Indonesia	11.1	36,463,500	4	36,463,504
Total		**120,885,195**	**550,965**	**121,436,160**
Investment in convertible bonds of PT Antareja International Services				10,878,867
Total Long-term Investments				**132,315,027**

	2010			
	Percentage of Ownership (%)	Cost	Accumulated Share in Net Earnings (Losses)	Net Carrying Value
Investments in shares of stock				
Equity Method				
PT Donggi Senoro LNG (DSLNG) - Indonesia	20	12,900,000	(6,382,831)	6,517,169
Kuala Langsa (Block-A) Limited (KLL), formerly ConocoPhillips Aceh Ltd Bermuda Island	50	216,000	413,709	629,709
Sarulla Operation Limited Cayman Islands	37.25	59,637	-	59,637
Cost Method				
PT Energi Sengkang - Indonesia	5	3,760,000	-	3,760,000
Total		**16,935,637**	**(5,969,122)**	**10,966,515**

The share of net losses of associated entities for the years ended December 31, 2011 and 2010 are as follows:

	2011	**2010**
KLL	137,252	128,731
DSLNG	(2,089,661)	(1,961,794)
Net	**(1,952,409)**	**(1,833,063)**

12. LONG-TERM INVESTMENTS (continued)

In April 2011, the Group equity ownership in DSLNG was diluted from 20% to 11.1% because the Company did not subscribe to the new shares issued by DSLNG in 2011. In accordance with the Indonesian Statements of Financial Accounting Standards, upon dilution of ownership, the Company measured and recognized its investment at fair value and recognized a gain of US$8,472,496 in the consolidated statement of comprehensive income. Furthermore, the Company has discontinued the use of the equity method of accounting and has accounted for the investment under cost method.

On August 18, 2011, the Group entered into Shares Sale and Purchase Agreement with the shareholder of PT Antareja International Services ("Antareja"), a third party, to purchase 3% of Antareja's shares for a total consideration of US$1,000,000. On the same date, the Group also purchased convertible bonds ("bonds") of Antareja denominated in United States Dollar with a nominal value of US$11,000,000. The bonds bear interest at 7% per annum which will be paid in full upon maturity of the bonds, with option to pay in cash or in kind.

The bonds will mature five years from the issuance date at their nominal value of US$11,000,000 plus interest or can be converted into shares of Antareja at the Company's option at a price calculated based on effective interest rate of return (after tax) with exchange rate of Rp8,500 to US$1.

The fair value of the debt component of the bonds is calculated using applicable interest rate on Antareja's loan from a third party bank at the date of issue. The residual amount, representing the value of the equity conversion component, is valued at zero. The carrying amount of the debt component of the convertible bonds in the consolidated statement of financial position is computed as follows:

	2011
Fair value of debt component on initial recognition on August 18, 2011	10,560,802
Interest income accrued	317,865
Carrying value as of December 31, 2011	**10,878,667**

13. INVESTMENTS IN PROJECTS

Investments in projects consist of the following:

	2011	2010
Jeruk Project - Indonesia	30,324,414	15,895,986
Other Power Projects Indonesia	-	1,591,646
Total	**30,324,414**	**17,487,632**

i. <u>Jeruk Project</u>

This account represents disbursements for the Jeruk Project made by the Group to Cue Sampang Pty Ltd (Cue) and Singapore Petroleum Company Ltd (SPC), in accordance with the Jeruk Economic Agreement entered into by the Group with Cue and SPC on January 4, 2006 [Note 40(a)(v)]. Under the agreement, the Group is entitled to recover such disbursements from Cue and SPC once the Oyong field in the Sampang Block of which both parties are participating owners, starts producing oil, and Cue and SPC have recovered their own costs.

(Expressed in United States Dollars, unless otherwise stated)

13. INVESTMENTS IN PROJECTS (continued)

i. Jeruk Project (continued)

The original investment cost of the Company in the Jeruk Project was US$35 million. However, it was impaired in 2008 when the exploration activities were stopped. In 2011, the Oyong field has already started production whereby Cue and SPC have fully recovered all of their costs related to the Jeruk field. In view of this development, the Company reversed the allowance for impairment of the investment in the Jeruk Project of approximately US$14.4 million to reflect the estimated recoverable amount of the Jeruk investment.

ii. Power Projects

This account represents expenditures for several power projects.

14. PROPERTY, PLANT AND EQUIPMENT - Net

This account consists of the following:

	2011						
	Beginning Balance	**Additions**	**Deductions**	**Reclassi-fications**	**Translation Adjustments**	**Effect of Deconsolidation of Medco Power Indonesia**	**Ending Balance**
Cost							
Land	4,695,090	144,698	-	-	(4,743)	(737,013)	4,098,032
Buildings and land improvements	30,785,265	43,610	-	76,476	(57,027)	(6,715,726)	24,132,598
Machinery	210,623,268	4,362,349	(1,737,842)	-	(1,380,880)	(162,806,633)	49,060,262
Control panel equipment	43,740,827	42,804	-	397,109	(258,261)	-	43,922,479
Drilling rigs and equipment	22,076,106	6,753,712	(1,997,122)	-	(1,042,346)	-	25,790,350
Vehicles	4,672,743	2,770,066	(300,445)	-	(414,937)	(711,972)	6,015,455
Office and other equipment	13,513,269	1,133,908	(35,765)	-	(378,935)	(3,166,129)	11,066,348
Leasehold improvements	6,839,957	2,923	(613)	-	(2,721)	(321,425)	6,518,121
Telecommunication equipment	74,230	-	-	-	-	-	74,230
Aircraft	-	14,004,200	-	-	-	-	14,004,200
Assets under finance lease	18,500,000	569,857	(18,500,000)	-	-	-	569,857
Construction in progress	2,053,036	2,543,969	-	(473,585)	(222,087)	(397,224)	3,504,109
Total Cost	357,573,791	32,372,096	(22,571,787)	-	(3,761,937)	(174,856,122)	188,756,041
Accumulated Depreciation							
Buildings and land improvements	7,093,148	1,451,461	-	-	(22,917)	(1,692,629)	6,829,063
Machinery	51,468,677	11,007,532	(1,736,506)	-	(1,663,588)	(36,390,735)	22,685,380
Control panel equipment	10,824,476	3,744,670	-	-	-	-	14,569,146
Drilling rigs and equipment	9,364,435	1,793,343	(1,814,876)	-	(728,298)	-	8,614,604
Vehicles	4,390,312	420,456	(222,020)	-	(77,144)	(377,844)	4,133,760
Office and other equipment	8,878,489	1,816,069	(26,808)	-	(319,915)	(1,897,247)	8,450,588
Leasehold improvements	6,007,769	289,364	(345)	-	(3,942)	(225,207)	6,067,639
Telecommunication equipment	41,239	-	-	-	-	-	41,239
Aircraft	-	700,212	-	-	-	-	700,212
Assets under finance lease	6,747,872	316,657	(6,747,872)	-	-	-	316,657
Total Accumulated Depreciation	104,816,417	21,539,764	(10,548,427)	-	(2,815,804)	(40,583,662)	72,408,288
Net Book Value	**252,757,374**						**116,347,753**

(Expressed in United States Dollars, unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT – Net (continued)

	2010						
	Beginning Balance	Additions	Deductions	Reclassi-fications	Acquisition of subsidiaries	Translation Adjustments	Ending Balance
Cost							
Land	3,847,822	792,934	(86,109)	-	134,894	5,549	4,695,090
Buildings and land improvements	24,288,416	69,160	(106,087)	1,896,361	4,529,297	108,118	30,785,265
Machinery	122,895,334	3,304,999	(24,094)	59,661,195	19,295,495	5,490,339	210,623,268
Control panel equipment	16,407,343	119,928	-	27,213,556	-	-	43,740,827
Drilling rigs and equipment	17,544,820	3,175,634	(2,998,984)	6,539,772	-	(2,185,136)	22,076,106
Vehicles	4,527,606	591,054	(555,435)	82,470	44,528	(17,480)	4,672,743
Office and other equipment	12,403,870	731,116	(641,803)	(3,440)	460,512	563,014	13,513,269
Leasehold improvements	6,816,627	9,745	-	-	-	13,585	6,839,957
Telecommunication equipment	74,230	-	-	-	-	-	74,230
Assets under finance lease	18,500,000	-	-	-	-	-	18,500,000
Construction in progress	86,405,783	8,638,746	-	(95,389,914)	-	2,398,421	2,053,036
Total Cost	313,711,851	17,433,316	(4,412,512)	-	24,464,726	6,376,410	357,573,791
Accumulated Depreciation							
Buildings and land improvements	4,883,534	1,458,648	-	-	728,746	22,220	7,093,148
Machinery	32,047,919	9,669,291	(12,283)	-	5,127,276	4,636,474	51,468,677
Control panel equipment	6,717,541	4,106,935	-	-	-	-	10,824,476
Drilling rigs and equipment	12,608,306	2,834,783	(1,827,296)	-	-	(4,251,358)	9,364,435
Vehicles	4,527,605	388,053	(568,359)	-	17,363	25,650	4,390,312
Office and other equipment	6,739,515	2,079,416	(468,961)	-	161,282	367,237	8,878,489
Leasehold improvements	5,715,545	285,580	-	-	3,533	3,111	6,007,769
Telecommunication equipment	41,239	-	-	-	-	-	41,239
Assets under finance lease	4,509,372	2,238,500	-	-	-	-	6,747,872
Total Accumulated Depreciation	77,790,576	23,061,206	(2,876,899)	-	6,038,200	803,334	104,816,417
Net Book Value	**235,921,275**						**252,757,374**

Allocation of depreciation expense is as follows:

	2011	2010
Cost of sales	16,993,244	17,848,164
Operating expenses (Note 30)	4,546,520	5,213,042
Total	**21,539,764**	**23,061,206**

PT Medco Sarana Kalibaru (MSK), PT Medco Methanol Bunyu (MMB) and PT Medco Ethanol Lampung (MEL) own several pieces of land located in Kalibaru, Cilincing, Jakarta, Pondok Indah, Jakarta and Talang Jati Village, Kotabumi, Lampung, respectively with Building Use Rights (Hak Guna Bangunan or HGB) for 20 years until 2012, 2019 and 2025, respectively. Management believes that the HGB certificates can be extended upon their expiration.

Construction in progress as of December 31, 2011 mainly represents the construction of drilling rigs and equipment which was 95% completed and construction of coal transportation port which was 51% completed. These projects are expected to be completed in 2012.

Interest and other financing costs capitalized as part of property, plant and equipment amounted to US$0.4 million in 2010. No borrowing cost was capitalized in 2011.

Property, plant and equipment amounting to US$56.1 million in 2011 and US$117.3 million in 2010 are used as collateral to the loans obtained by the Subsidiaries (Note 22).

All inventories and property, plant and equipment, except land, were insured against fire, theft and other possible risks for US$142 million and Rp153 billion in 2011 and US$255 million and Rp308 billion in 2010 (Note 8). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

(Expressed in United States Dollars, unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT - Net (continued)

The Company has a lease agreement with PT Airfast Indonesia (Airfast) for an aircraft with a lease term of 10 years [Note 40(c)(ii)]. In January 2011, Fortico International Limited (formerly known as Bawean Petroleum Limited), a wholly owned subsidiary of the Company, signed an aircraft sale and purchase agreement with Magnate International Investment Pte Ltd for the purchase of the aircraft which was previously leased from Airfast for a total value of US$14 million (Note 40c). With the execution of the agreement, the Company became the owner of the aircraft which is now recorded as part of property, plant and equipment.

There were disposals of property, plant, and equipment in 2011 and 2010 as follows:

	2011	2010
Net proceeds	917,447	3,872,415
Net book value	(271,232)	(1,535,613)
	646,215	**2,336,802**

Management believes that there is no impairment in the value of property, plant and equipment as of December 31, 2011 and 2010.

Based on comparison with other companies in the same industry and internal technical assessment, the Group changed the estimated useful life of its drilling rigs starting January 1, 2011. This change resulted in an increase in the income before income tax by US$1.7 million.

15. OIL AND GAS PROPERTIES - Net

a. This account consists of the following:

	2011	2010
Wells and related equipment and facilities	1,220,664,420	1,204,163,682
Uncompleted wells, equipment and facilities	333,070,850	284,742,141
Unoperated acreage	56,999,247	57,198,447
Operated acreage	56,611,136	56,801,172
Office equipment	17,332,765	15,762,351
Vehicles	1,067,734	775,133
Fair value adjustments	56,478,420	56,478,420
Total	1,742,224,572	1,675,921,346
Accumulated depreciation, depletion, and amortization and impairment reserves	(913,671,712)	(836,260,544)
Net Book Value	**828,552,860**	**839,660,802**

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS PROPERTIES – Net (continued)

The movements in oil and gas properties are as follows:

		2011			
Area of Interest	**Location**	**Beginning Balance December 31, 2010**	**Additions**	**Deductions**	**Ending Balance December 31, 2011**
Block A	Aceh	55,734,202	2,041,249	-	57,775,451
Kampar/S.S. Extension	South Sumatera	115,508,432	38,420,364	25,547,513	128,381,283
Rimau	Sumatera	132,777,450	38,817,645	20,132,357	151,462,738
Senoro Toili	Sulawesi	22,337,245	5,589,262	1,824,825	26,101,682
Lematang	Sumatera	129,134,684	8,581,370	21,090,034	116,626,020
Tarakan	Kalimantan	19,292,758	2,754,286	4,354,911	17,692,133
Merangin-I	Sumatera	1,363,181	5,766,301	-	7,129,482
Bawean	East Java	64,046,556	565,437	7,210,339	57,401,654
Bengara-I	Kalimantan	2,523,501	5,865,053	-	8,388,554
Simenggaris	Kalimantan	11,045,579	10,839,637	-	21,885,216
Nunukan	Kalimantan	2,277,228	-	-	2,277,228
Bangkanai	Kalimantan	-	3,231,270	-	3,231,270
Sembakung	Kalimantan	7,441,572	10,150	5,322,194	2,129,528
CBM Sekayu	Sumatera	1,550,691	1,914,589	-	3,465,280
CBM Pendopo (Muralim)	Sumatera	700,000	-	-	700,000
CBM Lematang	Sumatera	-	550,000	-	550,000
Main Pass	USA	40,196,657	1,147,538	1,704,258	39,639,937
East Cameron	USA	31,217,215	1,208,820	5,604,713	26,821,322
Mustang	USA	10,461,815	-	10,461,815	-
Brazos	USA	18,416,699	-	18,416,699	-
Other Blocks in the USA	USA	2,729,211	-	2,729,211	-
Area 47 Libya	Libya	150,418,758	4,651,835	-	155,070,593
Yemen	Yemen	529,124	1,294,365	-	1,823,489
Tunisia [1])	Tunisia	19,958,244	966,866	20,925,110	-
		839,660,802	**134,216,037**	**145,323,979**	**828,552,860**

		2010			
Area of Interest	**Location**	**Beginning Balance December 31, 2009**	**Additions**	**Deductions**	**Ending Balance December 31, 2010**
Block A	Aceh	53,755,217	1,978,985	-	55,734,202
Kampar/S.S. Extension	South Sumatera	113,285,600	26,192,116	23,969,284	115,508,432
Rimau	Sumatera	138,289,313	17,595,804	23,107,667	132,777,450
Senoro Toili [2])	Sulawesi	35,123,189	9,125,981	21,911,925	22,337,245
Lematang	Sumatera	118,933,429	24,622,568	14,421,313	129,134,684
Tarakan	Kalimantan	17,806,775	7,682,340	6,196,357	19,292,758
Merangin-I	Sumatera	942,126	464,182	43,127	1,363,181
Bawean	East Java	50,581,860	13,738,363	273,667	64,046,556
Bengara-I	Kalimantan	1,451,356	1,074,163	2,018	2,523,501
Simenggaris	Kalimantan	8,217,692	2,827,887	-	11,045,579
Nunukan	Kalimantan	2,277,228	-		2,277,228
Sembakung	Kalimantan	12,857,982	158,063	5,574,473	7,441,572
CBM Sekayu	Sumatera	852,645	698,046	-	1,550,691
CBM Pendopo (Muralim)	Sumatera	-	700,000	-	700,000
Main Pass	USA	34,877,514	6,175,220	856,077	40,196,657
East Cameron	USA	34,607,670	1,267,439	4,657,894	31,217,215
Mustang	USA	11,438,791	173,083	1,150,059	10,461,815
Brazos	USA	16,981,263	1,521,938	86,502	18,416,699
Other Blocks in US	USA	2,729,211	-	-	2,729,211
Area 47 Libya	Libya	126,265,071	24,153,687	-	150,418,758
Block 12 Cambodia [3])	Cambodia	1,732,738	-	1,732,738	-
Yemen	Yemen	339,464	189,660	-	529,124
Tunisia	Tunisia	15,126,562	6,423,034	1,591,352	19,958,244
		798,472,696	**146,762,559**	**105,574,453**	**839,660,802**

[1]) Working interests were divested in 2011
[2]) Working interests were divested in 2010
[3]) Working interests were relinquished in 2010

15. OIL AND GAS PROPERTIES – Net (continued)

b. Deferred Exploration Expenditures

The below amounts represent the significant deferred exploration expenditures pending ultimate result of either successful or dry hole wells in the respective blocks.

Location name	Contract holder	Year the license was granted	Contract expiry	Percentage of working interest	Accumulated exploration cost capitalised as oil and gas properties as of December 31, 2011 (In thousands)
Indonesia					
Kampar/S.S. Extension	PT Medco E&P Indonesia	1993	2033	100%	24,060
Rimau	PT Medco E&P Rimau	1993	2023	100%	5,103
Senoro Toili	PT Medco E&P Tomori Sulawesi	1997	2027	30%	5,651
Simenggaris	PT Medco E&P Simenggaris	1998	2028	41.50%	8,670
Merangin – 1	PT Medco E&P Merangin	2003	2033	80%	6,042
Bengara – 1	PT Medco E&P Bengara	1999	2029	58.33%	7,672
Sub-total - Indonesia					**57,198**
International					
Area 47 Libya	Medco International Venture Ltd	2006	2035	50%	155,071
Total					**212,269**

c. Others

The oil and gas property of Medco US LLC with a net book value of US$99.2 million in 2010 was used as collateral for the loan obtained by this Subsidiary from Compass BBVA Bank. The subsidiary has fully settled this bank loan in July 2011 (Note 22).

In September 2011, the Company sold its equity ownership in Medco Tunisia Anaguid Limited (“Medco Anaguid”) to OMV (Tunesien) Production GmbH (“OMV”). In this connection, the Group derecognized from its 2011 consolidated financial statements oil and gas properties associated with Medco Anaguid with net book value of US$20.9 million (Note 40a).

In October 2010, the Group obtained approvals from the Indonesian Government on the 20-year extension of the Production Sharing Contracts (PSCs) of South & Central Sumatra Extension (S&CS), Block A and Bawean. For S&CS (whereby the initial contract will end in 2013), the Group adjusted its proved reserves estimation (P1) to align with the extended term of the contract, which resulted in an increase in attributable proved reserves. The upward proved reserves adjustment resulted in a decrease in the 2010 depletion expense by US$15.9 million, and an increase in 2010 net income by US$8.8 million (compared to the amounts calculated based on previous estimated proved reserves).

In December 2010, through a share acquisition agreement, Mitsubishi Corporation (MC) acquired from the Group the entire equity of Tomori E&P Limited (TEL), a wholly-owned subsidiary which holds a 20% working interest in Senoro Toili Block (Note 40), with the effective date of December 31, 2010. In connection with this divestment, the net book value of oil and gas properties of US$15.4 million as of December 31, 2010 associated with the divested entity was derecognized from the Group’s consolidated financial statements.

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS PROPERTIES - Net (continued)

c. Others (continued)

In December 2010, the exploration license of the Cambodia 12 Block had expired and was not extended. As a result, the remaining net book value of US$1.7 million associated with this block was not expected to be recovered, and was written off as other expense in the 2010 consolidated statement of comprehensive income.

In 2011 and 2010, all wells and related equipment and facilities of Subsidiaries involved in oil and gas exploration and production activities were insured for US$1,561 million and US$1,492 million, respectively.

16. OTHER ASSETS

This account consists of the following:

	2011	2010
Current		
Advances	447,208	304,957
Others	-	154,311
Total	**447,208**	**459,268**
Non-current		
Signing bonuses - net	19,252,500	22,302,385
Advance payments for purchase/rental	3,052,186	2,470,621
Security deposits	1,402,736	2,782,906
Others	15,151,363	14,260,671
Total	**38,858,785**	**41,816,583**

The signing bonuses above related to a service contract entered into with Oman Oil Company and Petroleum Development Oman LLC, and to the Production Sharing Agreements for Blocks 82 and 83 in Yemen (Note 39b).

Advance payments for purchase/rental of property and equipment represent payments made in relation to the acquisition/rental of various assets.

Security deposits in 2010 included a deposit amounting to US$650 thousand for product transportation services paid by PT Medco Downstream Indonesia, a Subsidiary, to Synergia Trading International Pte Ltd (“Synergia”) (Note 35). In 2011, Synergia became a subsidiary of the Group after it was acquired by Medco Strait Services Pte Ltd.

(Expressed in United States Dollars, unless otherwise stated)

17. TRADE PAYABLES

This account consists of the following:

a. By Supplier

	2011	2010
Related party		
Synergia Trading International Pte Ltd (Note 35b)	-	3,987,300
Third parties		
Local suppliers	76,689,368	87,544,600
Foreign suppliers	36,315,551	41,092,626
Sub-total	113,004,919	128,637,226
Total	**113,004,919**	**132,624,526**

b. By Aging Category

	2011	2010
Up to 1 month	92,454,782	56,648,343
1 - 3 months	11,634,657	65,378,162
3 - 6 months	1,352,056	1,658,220
6 months - 1 year	7,310,381	7,057,314
More than 1 year	253,043	1,882,487
Total	**113,004,919**	**132,624,526**

c. By Currency

	2011	2010
United States Dollar	105,970,584	109,324,830
Rupiah	7,034,335	21,375,826
Others	-	1,923,870
Total	**113,004,919**	**132,624,526**

Trade payables to both local and foreign suppliers are unsecured and generally have credit terms of 30 to 60 days.

(Expressed in United States Dollars, unless otherwise stated)

18. OTHER LIABILITIES

a. Other payables

	2011	2010
Overlifting payable	27,826,121	1,955,849
Payables to Joint Ventures	6,588,174	17,501,129
BP	4,536,217	4,536,217
Cityview Energy Corp Ltd	1,008,980	1,008,980
Finance lease payable	-	12,501,710
AICCO, Inc	-	1,675,951
PTT Exploration and Production	-	1,182,144
Others (each below US$1,000,000)	5,982,257	8,063,421
Total	45,941,749	48,425,401
Current	**35,430,475**	**27,671,863**
Long-term	**10,511,274**	**20,753,538**

The overlifting payable to BPMIGAS in 2011 and 2010 primarily relates to Rimau, Tomori, and Tarakan Blocks.

Payables to Joint Ventures represent payables for exploration and production activities related to certain non-Group operated joint ventures.

Payable to BP represents the amount to be paid by PT Medco E&P Tomori Sulawesi, a Subsidiary, once the production from the Senoro Block has reached the volume stipulated in the agreement.

As of December 31, 2010, future minimum lease payments under the above-mentioned finance lease payable were as follows:

Year Due	
2011	3,330,000
2012	3,330,000
2013	3,330,000
2014-2016	7,492,500
Total	**17,482,500**
Amount applicable to interest	(4,980,790)
Obligation under finance lease	12,501,710
Portion due within one year	1,758,744
Long-term portion	**10,742,966**

As explained in Notes 14 and 40c, in January 2011, the Group purchased the aircraft (which was previously leased from Airfast).

(Expressed in United States Dollars, unless otherwise stated)

18. OTHER LIABILITIES (continued)

b. Advances from customers

	2011	2010
Related party		
Petro Diamond Singapore Pte Ltd	-	32,238,271
Third parties		
PT Perusahaan Listrik Negara (Persero)	19,082,950	20,995,933
Others	128,736	1,135,642
Total	19,211,686	22,131,575
Less portion due within one year	19,211,686	1,103,032
Long-term portion	**-**	**21,028,543**

Advances from Petro Diamond Singapore Pte Ltd ("PDS") as of December 31, 2011 and 2010 represent advance payments in relation to the Crude Oil Sale and Purchase Agreement and Prepayment Agreement (Note 40). In April 2011, the advances from PDS were fully settled.

19. TAXES PAYABLE

This account consists of:

	2011	2010
Company		
Income tax		
Article 4(2)	53,278	111,227
Article 15	16,136	54,866
Article 21	283,730	278,149
Article 23	191,748	165,043
Article 26	837,728	888,432
Sub-total	1,382,620	1,497,717
Subsidiaries		
Corporate income tax	31,048,246	52,089,469
Income tax		
Article 4(2)	116,925	110,536
Article 15	44,965	26,076
Article 21	1,378,508	1,429,997
Article 22	133,898	74,187
Article 23	743,176	593,061
Article 25	4,320	66,238
Article 26	30,830	-
Value added tax (VAT)	5,844,303	8,330,082
Tax penalties	841,358	811,426
Sub-total	40,186,529	63,531,072
Total	**41,569,149**	**65,028,789**

19. TAXES PAYABLE (continued)

Tax Assessments

Summarized below is the status of current significant tax audits and tax assessments within the Group:

a. The Company

For fiscal year 2005, the Tax Court has partially granted the VAT appeal for Rp1.1 billion and rejected the income tax Article 26 appeal. The Indonesian Tax Office (ITO) has filed to the Supreme Court a Reconsideration Request on the Tax Court Decision on the 2005 VAT dispute amounting to Rp707 million. No decision letter from the Supreme Court has yet been received to date.

The Company has two outstanding appeals to the Tax Court regarding its objections to the assessment letters for fiscal year 2007 which were turned down by the ITO amounting to US$65 million and Rp11.1 billion for disallowed tax deductions from corporate income tax and VAT, respectively.

For fiscal year 2007, the Tax Court has turned down the February, May, September and October VAT appeals amounting to Rp4.6 billion. For March, April, November and December VAT and corporate income tax appeals, no decisions from the Tax Court have yet been received. Nevertheless, management believes that the Company has a strong tax position and will be able to recover the remaining outstanding amounts.

The Company will file a Reconsideration Request to the Supreme Court for the 2007 Tax Court Decisions on the VAT.

The tax audits by the ITO for fiscal year 2006, 2008 and 2009 have been closed.

The tax audit by the ITO for fiscal year 2010 is still on-going and no assessment letter has been received to date.

b. PT Exspan Petrogas Intranusa (EPI)

The tax audits by the ITO for fiscal years 2004, 2005, 2006 and 2007 have been closed.

The tax audit by the ITO for fiscal year 2008 has been completed. EPI is in the appeal process to the Tax Court for its objections to the tax assessments which were turned down by the ITO amounting to Rp5.9 billion for corporate income tax. No decision letter from the Tax Court has been received to date.

The tax audit by the ITO on EPI for fiscal year 2009 has been completed, and EPI received a tax overpayment letter amounting to Rp3.1 billion for corporate income tax.

The tax audit by the ITO on EPI for fiscal year 2010, the VAT audit for the period from July to December 2010 and VAT audit for the period from January to June 2011 are still on-going and no tax assessment letter has been received to date.

The tax audit by the ITO for VAT for the period from January to June 2010 has been completed. EPI filed objections to the ITO tax assessments on VAT for the period from January to June 2010 amounting to Rp1.7 billion. No decision letter has been received to date.

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

c. PT Medco Downstream Indonesia (MDI) and its subsidiaries

The tax audit by the ITO on MDI for fiscal year 2009 had been completed. MDI received tax overpayment letter for corporate income tax amounting to Rp478 million.

The tax audits by the ITO on PT Medco LPG Kaji (MLK) for fiscal years 2007 and prior to 2006 have been closed.

For fiscal year 2008, the ITO has turned down MLK's objection on the corporate income tax assessments amounting to Rp8.7 billion. MLK filed an appeal to the Tax Court. No decision letter has been received to date.

For fiscal year 2009, the tax audit by the ITO has been completed. MLK received tax overpayment letter on corporate income tax amounting to Rp849 million and tax underpayment assessment on VAT amounting to Rp7.6 million. MLK filed objection letters to ITO on VAT assessments letter and no decision letter has been received to date.

The tax audits by the ITO on PT Medco Sarana Kalibaru (MSK) for fiscal years 2007, 2008 and 2009 have been closed. For fiscal year 2009, the ITO has fully accepted MSK objections to the VAT assessments for the months of March, April and May 2009 amounting to Rp21.1 billion.

The tax audit by the ITO on PT Medco Methanol Bunyu (MMB) for fiscal years 2005 and 2006 have been closed.

The tax audit by the ITO on MMB for fiscal year 2008 has been completed. MMB received tax overpayment letter for corporate income tax amounting to Rp1.9 billion.

The tax audit by the ITO on MMB for fiscal year 2009 has been completed. MMB received tax overpayment letter for corporate income tax amounting to Rp11.2 billion, tax assessment letters for underpayment income tax article 23 amounting to Rp3.1 billion and underpayment VAT for the months of January, February, March, April, October and November 2009 amounting to Rp3.4 billion. MMB filed objection letters to ITO for the tax assessments. No decision letter has been received to date.

The VAT audits by the ITO on MMB for the period from January to December 2010 have been completed. MMB received VAT overpayment letter for the period amounting to Rp9.3 billion.

The tax audits by the ITO on PT Medco Ethanol Lampung ("MEL") for fiscal years 2008 and 2009 have been completed. MEL received nil tax assessment letter for corporate income tax for the year 2008 and received tax overpayment letter for corporate income tax amounting to Rp71 million for the year 2009.

d. PT Medco E&P Lematang (MEPL)

The tax audit by the ITO for fiscal year 2006 is still on-going, and no assessment letter has been received to date.

The tax audit by ITO for fiscal year 2008 has been completed. MEPL is in the process of an appeal with the Tax Court for its administrative sanction abolition on the VAT Collection Letters which were turned down by the ITO amounting to Rp640 million. No decision letter has been received to date.

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

e. PT Medco E&P Tarakan (MEPT)

The tax audits by the ITO for fiscal years 2005, 2006, 2007 and 2009 are still on-going, and no assessment letter has been received to date.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPT received VAT assessment amounting to Rp418 million which was paid on February 7, 2011.

f. PT Medco Energi Nusantara

The tax audits by the ITO for the fiscal years 2005, 2006, 2007 and 2008 are still on-going and no assessment letter has been received to date.

g. PT Medco E&P Kalimantan (MEPK)

The tax audit by the ITO for the fiscal years 2006 is still on-going and no assessment letter has been received to date.

h. PT Medco E&P Rimau (MEPR)

The tax audits by the ITO for fiscal years 2005, 2006, 2007 and 2009 are still on-going and no assessment letter has been received to date.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPR received VAT assessment amounting to Rp1.5 billion which was paid on February 7, 2011.

i. PT Medco E&P Malaka (MEPM)

The tax audit by the ITO for fiscal year 2008 is still on-going and no assessment letter has been received to date.

j. PT Medco E&P Indonesia (MEPI)

The tax audit by the ITO for fiscal year 2009 has been completed. MEPI received tax assessments for income tax article 26 and VAT amounting to Rp1.4 billion which was paid on February 23, 2012.

k. Exspan Airsenda Inc (EAS) and Exspan Airlimau Inc (EAL)

The tax audits by the Internal Revenue Service of the United States (IRS) on EAS and EAL have not been officially closed but have been completed in August 2008 for fiscal year 2004, and in January 2009 for fiscal years 2005, 2006 and 2007. To date, the IRS has not issued the results of such audits.

The ITO is still conducting tax audits on the Permanent Establishments (PE) of EAS and EAL for the fiscal years 2005 and 2006. In 2011, ITO raised a finding of taxes deficiency in PE of EAS for 2005 totaling to Rp72 billion which comprises Rp49 billion Corporate Income Tax and Rp23 billion Income Tax article 26 relating to the transfer of the Rimau Block working interest to PT Medco E&P Rimau in 2005. The Group has sent its response letter to the ITO on October 6, 2011. To date, no tax assessment has been issued by the ITO.

(Expressed in United States Dollars, unless otherwise stated)

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

l. Exspan Cumi-Cumi and Medco Lematang Ltd

Exspan Cumi-Cumi Inc (ECCI) and Medco Lematang Ltd (MLL), Subsidiaries, received tax assessments totaling Rp17.4 billion in 2002 for the underpayment of Value Added Tax (VAT) for years prior to the acquisition of these working interests from the previous operators of the respective PSCs. Subsequently, ECCI has relinquished the PSC to the Government of Indonesia.

The Sales and Purchase Agreements with the respective previous PSC working interest owners provided that liabilities incurred prior to acquisition by ECCI and MLL remain the responsibility of the former owners. Accordingly, no provision or payment has been made by ECCI and MLL for these assessments.

Under the taxation laws of Indonesia, the Company and Subsidiaries compute, determine and pay their tax liabilities on the basis of self-assessment. Consolidated tax returns are prohibited under the Indonesia taxation laws. The ITO may assess or amend taxes for 2007 tax obligation and prior years not later than 2013. Starting January 1, 2008, the statute of limitation for tax assessment is amended to 5 years which was previously 10 years. Management believes the Group has fully complied with the tax requirements in Indonesia.

For other tax jurisdictions, management also believes the Group has substantially complied with the applicable laws in regard to tax reporting requirements.

20. ACCRUED EXPENSES AND OTHER PROVISIONS

This account consists of:

	2011	2010
Contract services	16,135,762	8,984,284
Rentals	13,996,666	11,210,920
Joint ventures	13,085,259	1,351,214
Other operating expenses	10,094,023	2,700,000
Repairs and maintenance of plant and equipment	5,644,209	5,644,209
Interest	4,586,775	2,926,956
Labor supply	1,604,083	1,673,663
Employee benefits (Note 34b)	217,708	8,014,396
Others (each below US$500,000)	2,369,686	2,914,800
Total	**67,734,171**	**45,420,442**

(Expressed in United States Dollars, unless otherwise stated)

21. DERIVATIVES

		2011			2010		
Counterparties	**Type**	**Derivative Assets**	**Derivative Liabilities**	**Gain (Loss)**	**Derivative Assets**	**Derivative Liabilities**	**Gain (Loss)**
Company							
PT ANZ Panin Bank	Cross-currency swap	2,844,957	-	(260,324)	3,105,281	-	1,086,412
Morgan Stanley & Co International PLC	Cross-currency swap	-	1,202,270	(1,202,270)	-	-	-
PT ANZ Panin Bank	Forward exchange contract	-	-	(256,320)	256,320	-	256,320
JPMorgan Chase, NA	Forward exchange contract	-	-	(158,835)	158,835	-	158,835
Morgan Stanley & Co International PLC	Non - deliverable forward transaction	-	-	345,721	-	345,721	(345,721)
Subsidiaries							
PT Bank CIMB Niaga Tbk	Currency forward contract	-	-	-	-	-	454,110
Total		2,844,957	1,202,270	(1,532,028)	3,520,436	345,721	1,609,956
Less current portion		2,844,957	-		415,155	345,721	
Long-term portion		-	1,202,270		3,105,281	-	

The Group entered into cross-currency interest rate swaps, cross-currency swaps, and foreign currency forward contracts as hedging instruments to manage its interest rate and foreign exchange currency risks. All contracts entered into by the Group have underlying obligations.

Further information relating to the derivatives undertaken by the Group is as follows:

Counterparties	Type	Notional amount In US$	Notional amount In IDR	Initial exchange date	Final exchange date	Terms and Conditions
Company						
PT ANZ Panin Bank	Cross-currency swap	20,000,000	202,400,000,000	September 8, 2009	June 15, 2012	The Company shall receive a fixed interest rate of 13.375% per year on the Rupiah notional amount and pay a fixed interest rate of 6% per year on the US Dollar notional amount every March 15, June 15, September 15 and December 15. On the final exchange date, the Company pays the US Dollar notional amount and receives the Indonesian Rupiah notional amount.
Morgan Stanley & Co International PLC, Singapore	Cross-currency swap	35,000,000	323,750,000,000	January 17 and 26, 2011	June 17, 2014	The Company shall receive a fixed interest rate of 14.25% per year on the Rupiah notional amount and pay a fixed interest rate of 10.35% and 10.75% per year on the US Dollar notional amount every March 17, June 17, September 17 and December 17. On the final exchange date, the Company pays the US Dollar notional amount and receives the Indonesian Rupiah notional amount with condition applied.
PT ANZ Panin Bank	Forward exchange contract	24,000,000	221,035,500,000	September 15, 2010	August 15, 2011	Sell Dollar/Purchase Rupiah
Morgan Stanley & Co International PLC, Singapore	Non-deliverable forward transaction	24,000,000	219,504,000,000	September 15, 2010	August 15, 2011	Sell Rupiah/Purchase Dollar
JPMorgan Chase, NA	Foreign exchange contract	23,000,000	215,371,000,000	June 15, 2010	December 15, 2011	Sell Dollar/Purchase Rupiah

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS

	2011	2010
Short-Term Bank Loans	121,399,984	85,620,671
Long-Term Bank Loans Current portion	291,675,148	89,741,220
	413,075,132	175,361,891
Long-Term Bank Loans Long-term portion	466,382,311	493,330,538
Total	**879,457,443**	**668,692,429**

a. Bank Loans

	2011			2010		
Lenders	**Total**	**Maturing Within One Year**	**Non-current**	**Total**	**Maturing Within One Year**	**Non-current**
US Dollar						
Third parties						
PT Bank Mandiri (Persero) Tbk	305,000,000	175,000,000	130,000,000	175,000,000	50,000,000	125,000,000
PT Bank Negara Indonesia (Persero) Tbk	299,943,662	149,943,662	150,000,000	98,000,000	-	98,000,000
Sumitomo Mitsui Banking Corporation Singapore Branch	-	-	-	40,000,000	40,000,000	-
Syndicated loan from PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk	43,400,000	12,400,000	31,000,000	81,000,000	18,000,000	63,000,000
PT Bank CIMB Niaga Tbk	3,413,939	3,413,939	-	7,588,484	4,174,545	3,413,939
PT Bank ICBC Indonesia	10,000,000	10,000,000		10,000,000	10,000,000	-
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	32,299,858	31,917,547	382,311	37,817,409	8,517,549	29,299,860
PT Bank Rakyat Indonesia (Persero) Tbk	110,000,000	-	110,000,000	-	-	-
PT Bank DKI	25,000,000	-	25,000,000	-	-	-
Bank of Tokyo – Mitsubishi UFJ	20,000,000	-	20,000,000	-	-	-
Compass BBVA Bank	-	-	-	12,900,000	12,900,000	-
Sub-total	**849,057,459**	**382,675,148**	**466,382,311**	**462,305,893**	**143,592,094**	**318,713,799**

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

	2011			2010		
Lenders	**Total**	**Maturing Within One Year**	**Non-current**	**Total**	**Maturing Within One Year**	**Non-current**
Rupiah/IDR						
Related Party						
PT Bank Himpunan Saudara 1906 Tbk (In original currency) 2011: Rp5.9 billion 2010: Rp5.3 billion	654,743	654,743	-	593,618	593,618	-
Third parties						
PT Bank Rakyat Indonesia (Persero) Tbk (In original currency) 2011: Rp206.7 billion 2010: nil	22,798,448	22,798,448	-	-	-	-
PT Bank Mandiri (Persero) Tbk (In original currency) 2011: Rp62 billion 2010: Rp250.1 billion	6,946,793	6,946,793	-	27,814,745	21,223,977	6,590,768
PT Bank Negara Indonesia (Persero) Tbk (In original currency) 2011: nil 2010: Rp904.7 billion	-	-	-	100,628,406	-	100,628,406
PT Bank CIMB Niaga Tbk (In original currency) 2011: nil 2010: Rp397.4 billion	-	-	-	44,201,009	5,893,176	38,307,833
Syndicated loan from PT Bank CIMB Niaga, Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero)) (In original currency) 2011: nil 2010: Rp297.7 billion	-	-	-	33,112,905	4,037,372	29,075,533
PT Bank Central Asia Tbk (In original currency) 2011: nil 2010: Rp 0.3 billion	-	-	-	35,853	21,654	14,199
Sub-total	**30,399,984**	**30,399,984**	**-**	**206,386,536**	**31,769,797**	**174,616,739**
Total	**879,457,443**	**413,075,132**	**466,382,311**	**668,692,429**	**175,361,891**	**493,330,538**

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Information relating to bank loans effectivity date and repayment schedule is as follows:

Lenders	Loan effectivity date	Repayment schedule	Security
Company			
PT Bank Mandiri (Persero) Tbk			
Working Capital Credit Facility	March 2011	March 2012	The loan facility is unsecured.
Investment Credit Facility	December 2007	December 2012	The loan facility is unsecured.
Special Transaction Credit Facility	April 2011	April 2016	The loan facility is unsecured.
Special Transaction Credit Facility	September 2011	September 2016	The loan facility is unsecured.
PT Bank Negara Indonesia (Persero) Tbk			
General Corporate Facility	June 2010	June 2013	The loan facility is unsecured.
Term Loan Facility	July 2007	July 2012 Fully paid in February 2011	The loan facility is unsecured.
Term Loan Facility	July 2007	July 2012	The loan facility is unsecured.
Term Loan Facility	February 2011	July 2012	The loan facility is unsecured.
Revolving Working Capital Loan Facility	July 2011	July 2016	The loan facility is unsecured.
PT Bank DKI			
Special Transaction Credit Facility	May 2011	June 2014	The loan facility is unsecured.
Sumitomo Mitsui Banking Corporation, Singapore Branch			
Term Loan Facility	August 2007	May 2011 Fully paid in May 2011	The loan facility is unsecured.
PT Bank ICBC Indonesia			
Fixed Loan on Demand	February 2011	February 2012	The loan facility is unsecured.
PT Bank Rakyat Indonesia (Persero) Tbk.			
Standby Loan	June 2011	June 2016	The loan facility is unsecured.
Bank of Tokyo – Mitsubishi UFJ			
Standby Loan	May 2011	May 2016	The loan facility is unsecured.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Medco Power Indonesia			
PT Bank CIMB Niaga Tbk Acquisition Financing	June 2010	6 monthly installments (2011-2012) and 78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and plant equipment of Elnusa Prima Electrika and Multidaya Prima Elektrindo (MPE)), fiduciary right over the accounts receivable of the debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Mitra Energi Batam (MEB)			
PT Bank Central Asia Tbk Consumer Credit Facility	August 2008	7 monthly installments (2008-2012) Partially paid in June 2011	Collateralized by the entity's motor vehicle (Note 14).
PT Bank Mandiri (Persero) Tbk Investment Credit Facility	December 2010	36 monthly installments (2011-2014)	Collateralized by all SCPP property and equipment of MEB, rights over receivables from Panaran I project, shares of stock owned by PT Medco Power Indonesia and PT Medco Energi Menamas in MEB, rights of project insurance, and all Bank Mandiri bank accounts related to the project.
PT Dalle Energy Batam (DEB)			
PT Bank CIMB Niaga Tbk Project Financing for Simple Cycle Power Plant (SCPP)	December 2005	24 monthly installments (2006-2013)	Collateralized by a fiduciary right over PLTG II machine, shares of DEB, power sale and purchase agreement with PLN Batam, rights on EPC contract, rights on project insurance, performance bonds and all Bank Niaga accounts related to the project (Notes 6, 11, and 14).
PT Bank CIMB Niaga Tbk, Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero)) Syndicated Loan Project Financing Combined Cycle Power Plant (CCPP)	July 2010	67 monthly installments (2010-2017)	Collateralized by new shares issued to DEB shareholders, conversion reserves account, debt reserves account and fiduciary right over receivable from PLN Batam related to power supply produced by CCPP (Notes 6, 11 and 14).
PT Energi Prima Elektrika (EPE)			
PT Bank CIMB Niaga Tbk Acquistion Financing	August 2010	78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and EPE's & MPE's plant equipment), fiduciary right over accounts receivable of debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Multidaya Prima Elektrindo (MPE)			
PT Bank CIMB Niaga Tbk Acquisition Financing	August 2010	78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and EPE's & MPE's plant equipment), fiduciary right over accounts receivable of debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Medco Sarana Kalibaru (MSK)			
PT Bank Mandiri (Persero) Tbk Trust Receipts	October 2011	January 2012	The loan facility is unsecured.
PT Bank Mandiri (Persero) Tbk Trust Receipts	November 2011	February 2012	The loan facility is unsecured.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Medco Sarana Kalibaru (MSK)			
PT Bank Rakyat Indonesia (Persero) Tbk			The loan is secured by (Note 14):
Trust Receipt	November 10, 2011	February 8, 2012	a. Land and building including complementary tools of blending plant with SHGB No. 113 in the name of PT Usaha Kita Makmur Bersama
Trust Receipt	November 16, 2011	February 14, 2012	
Trust Receipt	November 25, 2011	February 23, 2012	b. Equipment
Trust Receipt	December 7, 2011	March 6, 2012	c. Inventories
Trust Receipt	December 7, 2011	March 6, 2012	d. Accounts receivable
Trust Receipt	December 27, 2011	March 26, 2012	
Trust Receipt	December 12, 2011	March 11, 2012	
PT Medco E&P Lematang			
PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk	June 2010	42 monthly installments (2010 – 2015)	Collateralized by pledge over the debt service account and operational account, and fiduciary security over the receivables.
Syndicated Loan for financing the Singa Project		Partially paid in June 2011	
Medco US LLC (MEUS)			
Compass BBVA Bank	June 2008	June 2011	Secured by first mortgage on the Medco US' oil and gas properties in the United States (Note 15).
Reserve Based Lending		Fully paid in July 2011	
PT Usaha Tani Sejahtera			
PT Bank Himpunan Saudara 1906 Tbk	May 2011	May 2012	Secured by accounts receivable from sales and time deposit (Note 11).
Working Capital Credit Facility			
PT Mitra Energi Gas Sumatera			
PT Bank CIMB Niaga Tbk		10 monthly installments (2010-2012)	Secured by machinery and equipment, proceeds from the pipeline lease contract, shares, escrow account, and assignment of rights (Notes 6 and 15).
Project Financing	October 2009		
PT Medco Ethanol Lampung			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))			Collateralized by mortgage security over land and buildings thereon (including the machinery and bio-ethanol plant equipment), fiduciary right over inventories (including raw materials, goods in process and finished goods) and accounts receivable of debtor.
Working Capital Credit Facility	June 2011	June 2012	
Investment Credit Facility	June 2010	18 months quarterly installments (2010 – 2016)	
PT Exspan Petrogas Intranusa (EPI)			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	April 2010	17 monthly installments (2010 – 2013)	Collateralized by fiduciary right over rig, receivables and limited corporate guarantee by the Company.

	2011	2010
Interest rate per annum		
Rupiah	7.00% - 12.00%	9.00% - 12.00%
United States Dollar	3.58% - 6.75%	2.44% - 8.00%

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

b. Bank Facilities

As of December 31, 2011, the Group has the following outstanding bank facilities:

Bank	Facility	Maximum Facility Amount	Unused Portion of the Facility as of December 31, 2011
General Banking Facility			
Standard Chartered Bank, Jakarta	Banking Facility	US$50,000,000	US$39,900,000
Citibank, NA, Jakarta	Letter of Credit Facility	US$15,000,000	US$4,900,000
PT Bank Mandiri (Persero) Tbk	Non-Cash Loan Facility	US$100,000,000	US$74,105,097
PT Bank DBS Indonesia	Banking Facility	US$20,000,000	US$20,000,000
PT Bank Danamon Indonesia Tbk	Bank Guarantee Facility, Standby Letter of Credit Facility, Import Letter of Credit Facility	US$9,500,000	US$9,500,000
Subsidiaries' General Financing Facilities			
PT Medco Sarana Kalibaru (MSK)			
PT Bank Rakyat Indonesia (Persero) Tbk	Non-Cash Loan Facility	US$88,000,000	US$35,682,000

c. Others

The Group, under its loan agreements, is subject to various covenants, among others to obtain written approval from the lenders before entering into certain transactions such as mergers, takeovers, liquidation or change in status and Articles of Association, reducing the authorized, issued and fully paid capital; restrictions on lending money to third parties; negative pledges, with certain exceptions; restrictions on change in core business activities and payments of dividends; and requirement to comply with certain financial ratios.

As of December 31, 2011 and December 31, 2010, in management's opinion, the Group is in compliance with the covenants of all respective obligations.

As of December 31, 2011, PT Dalle Energy Batam (DEB) has obtained a waiver from PT Bank CIMB Niaga Tbk, for being unable to fulfill the financial ratio covenant under the loan agreement.

As of December 31, 2011, PT Medco E&P Lematang has also obtained a waiver from its creditors for being unable to fulfill certain financial ratio requirements as set forth in the covenants of the syndicated loan agreements obtained from BCA, Mandiri and BNI. Under the waiver, PT Medco E&P Lematang must provide monthly financial report to the creditors until the financial ratio requirements are fulfilled.

The working capital facility loan agreement of PT Medco Ethanol Lampung (MEL) with LPEI requires MEL to maintain debt-equity ratio at 3.5 times. As of December 31, 2011, MEL's debt-equity ratio reached 30.78 times. As such, the subject loans are presented as Current Liabilities in the 2011 consolidated statement of financial position. On March 19, 2012, the Company early repaid MEL's working capital and investment obligations to LPEI amounting to US$3,000,000 and US$28,000,000, respectively.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

c. Others (continued)

Effective December 16, 2011, in connection with the partial divestment of MPI and its subsidiaries, the Company no longer consolidated the accounts of MPI and its subsidiaries (Note 40).

23. OTHER LONG-TERM DEBT

	2011	2010
Related Party		
Mitsubishi Corporation		
Due in 2014	69,997,758	-
Third Parties		
Medium-Term Notes		
Due in 2011	-	20,600,000
Due in 2012	65,000,000	68,900,000
Due in 2013	40,450,000	60,500,000
Net	105,450,000	150,000,000
Less unamortized discount	201,492	594,220
Net	105,248,508	149,405,780
Less current portion	65,000,000	20,600,000
Less unamortized discount	71,871	76,111
Current portion - net	**64,928,129**	**20,523,889**
Long-term portion	**40,320,379**	**128,881,891**
Rupiah Bonds		
Due in 2012	56,627,701	57,112,668
Due in 2014	108,789,149	109,720,832
Net	165,416,850	166,833,500
Less unamortized discount	497,894	597,285
Net	164,918,956	166,236,215
Less current portion	**56,563,960**	**-**
Long-term portion	**108,354,996**	**166,236,215**
US Dollar Bonds		
Due in 2016	80,000,000	-
Less unamortized discount	612,321	-
Net	**79,387,679**	**-**
Interest rates per annum		
Rupiah	13.38% - 14.25%	13.38% - 14.25%
United States Dollar	3.25% - 8.00%	6.38% - 8.00%

(Expressed in United States Dollars, unless otherwise stated)

23. OTHER LONG-TERM DEBT (continued)

Further information relating to other long-term debt is as follows:

Long-Term Debt	Principal	Rating	Listed	Maturity	Coupon	Security
Company						
Rupiah Bonds II	Rp1,500,000,000,000 Tranche A amounting to Rp513,500,000,000 Tranche B amounting to Rp986,500,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	Indonesia Stock Exchange	Tranche A: June 2012 Tranche B: June 2014	Tranche A: 13.375% Tranche B: 14.25% Payable quarterly	These bonds are unsecured.
Medium-Term Notes I	US$50,000,000 Tranche A amounting to US$28,000,000 (US$20,600,000 has been paid in December 2011) Tranche B amounting to US$22,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	Tranche A: December 2011 and February 2012 Tranche B: December 2012 and February 2013	Tranche A: 7.25% Tranche B: 8.00% Payable quarterly	These notes are unsecured.
Medium-Term Notes II	US$50,000,000 Tranche A amounting to US$40,000,000 Tranche B amounting to US$10,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	Tranche A: March 2012 Tranche B: March 2013	Tranche A: 7.25% Tranche B: 8.00% Payable quarterly	These notes are unsecured.
Medium-Term Notes III	US$50,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	October 2013	6.375% Payable quarterly	These notes are unsecured.
Self Registered Bonds USD I	US$80,000,000 First Stage amounting to US$ 50,000,000 Second Stage amounting to US$ 30,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2011)	Indonesia Stock Exchange	July 14, 2016 November 11, 2016	6.05%	These bonds are unsecured.
PT Medco LNG Indonesia						
Mitsubishi Corporation	Term loan facility agreement amounting to US$120 million maximum	NA	NA	December 2014	NA	This is collateralized by pledge of DSLNG shares.

a. Debt Covenants

Under the terms and conditions of these long-term obligations, the Group is subject to various covenants, among others, obtaining approval from the lenders/designated trustees prior to undertaking certain actions such as: mergers or acquisitions, reducing the authorized, issued and fully paid capital stock of the Company, changing the main business activities; restrictions on granting loans to third parties, pledging and transferring the Company's assets, issuing senior debt, proposing to file for bankruptcy or delaying loan payments prior to the payment of bond interest and principal, and declaring and paying dividends in excess of a certain percentage of consolidated net income, and is required to comply with certain financial ratios.

As of December 31, 2011, in management's opinion, the Group is in compliance with the covenants of all long-term obligations.

(Expressed in United States Dollars, unless otherwise stated)

23. OTHER LONG-TERM DEBT (continued)

b. Trustees

The Group engaged Trustees to act as the intermediaries between the Group and the Bondholders. The Trustees for Rupiah Bonds II and self registered USD Bonds I are PT Bank CIMB Niaga Tbk and PT Bank Mega Tbk, respectively.

24. NON-CONTROLLING INTERESTS

a. Non-controlling interest in net assets of subsidiaries:

	2011	2010
Medco LLC	9,891,696	7,259,201
PT Dalle Energy Batam	-	10,593,311
PT Medco Energi Menamas	-	5,703,503
PT Medco Gajendra Power Services	-	5,219,367
PT Medco Cahaya Geothermal	-	106
Total	**9,891,696**	**28,775,488**

b. Non-controlling interest in net profit for the year of subsidiaries:

	2011	2010
Medco LLC	2,632,495	2,278,812
PT Dalle Energy Batam	667,913	438,055
PT Medco Gajendra Power Services	546,989	2,284,030
PT Medco Energi Menamas	297,270	96,789
PT Medco Cahaya Geothermal	1,091	-
Total	**4,145,758**	**5,097,686**

c. Non-controlling interest in net comprehensive income for the year of subsidiaries:

	2011	2010
Medco LLC	2,632,495	2,278,812
PT Dalle Energy Batam	1,890,393	299,230
PT Medco Gajendra Power Services	899,167	2,255,713
PT Medco Energi Menamas	299,879	95,583
PT Medco Cahaya Geothermal	1,099	-
Total	**5,723,033**	**4,929,338**

25. CAPITAL STOCK

	2011			
Shareholders	**Number of Shares**	**Percentage of Ownership**	**Amount**	
			Rp'000	US$
Encore Energy Pte Ltd	1,689,393,006	57.42%	168,939,301	51,285,313
PT Medco Duta	20,589,000	0.70%	2,058,900	222,540
PT Multifabrindo Gemilang	2,000,000	0.07%	200,000	60,693
Public (each below 5%)	1,230,014,944	41.81%	123,001,494	44,011,163
Total	2,941,996,950	100.00%	294,199,695	95,579,709
Treasury stock	390,454,500		39,045,450	5,574,755
Net	**3,332,451,450**		**333,245,145**	**101,154,464**

	2010			
Shareholders	**Number of Shares**	**Percentage of Ownership**	**Amount**	
			Rp'000	US$
Encore Energy Pte Ltd	1,689,393,006	57.42%	168,939,301	51,285,313
PT Medco Duta	4,089,173	0.14%	408,917	124,124
PT Multifabrindo Gemilang	2,000,000	0.07%	200,000	60,693
Public (each below 5%)	1,246,514,771	42.37%	124,651,477	44,109,579
Total	2,941,996,950	100.00%	294,199,695	95,579,709
Treasury stock	390,454,500		39,045,450	5,574,755
Net	**3,332,451,450**		**333,245,145**	**101,154,464**

On May 5, 2006, in an Extraordinary Shareholders' Meeting, the shareholders approved the changes to the resolutions of the Company's Extraordinary Meetings dated June 23, 2000 and June 25, 2001 with regard to the sale of the Company's treasury shares.

As decided in the Extraordinary Shareholders' Meeting, the shareholders granted authority to the Company's Board of Directors to carry out necessary actions related to the assignment, sale and exchange of the Company's treasury shares in compliance with applicable laws and regulations, including capital market regulations.

As stipulated in the Decision Letter of the Chairman of BAPEPAM-LK No. KEP-401/BL/2008 dated October 9, 2008 with respect to the buy-back of shares issued by a public company during potential market crisis conditions, a company is allowed to buy back its shares up to a maximum of 20% of paid-up capital during potential market crisis conditions. The share buy-back should be executed within 3 months from the submission of the disclosure of such plan to the BAPEPAM-LK.

In light of the above regulation, on October 13, 2008, the Company announced its plan to buy back 333,245,145 shares or equivalent to 10% of its paid-up capital. In order to implement its buy-back program, the Company set aside funds in the amount of US$100 million. The buy-back program was conducted within a period of 3 months from the announcement.

At the conclusion of the buy-back program, the Company bought back a total of 166,857,500 shares or 5.01% of its total issued and fully paid shares at a total cost of approximately Rp508 billion or equivalent to US$51.8 million consisting of:

a. 85,561,000 shares or 2.57% of the total issued and fully paid share capital purchased at an average price of Rp3,869 for share buy-back program based on Extraordinary Shareholders' Meeting in May 2008;

b. 81,296,000 shares or 2.44% of the total issued and fully paid share capital purchased at an average price of Rp2,178 for the second share buy-back program based on Decision Letter of the Chairman of BAPEPAM-LK No. KEP-401/BL/2008.

(Expressed in United States Dollars, unless otherwise stated)

25. CAPITAL STOCK (continued)

On May 27, 2010, the shareholders, in their Extraordinary Shareholders' Meeting, approved the utilization of treasury stock for employee and management stock option program at the maximum of 5%.

As of December 31, 2011 and 2010, the outstanding treasury shares totaled 390,454,500 shares representing 11.72% of the total issued and fully paid shares.

The Company adopted the par value method in recording its treasury stock transactions (Note 2o).

26. ADDITIONAL PAID-IN CAPITAL

This account consists of:

	2011	2010
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	139,908,988	139,908,988
Sale of 22,000,000 shares through public offering in 1994	33,500,000	33,500,000
Resale of shares	1,073,325	1,073,325
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)
Deduction of additional paid-in capital on treasury shares	(33,600,836)	(33,600,836)
Total	**108,626,898**	**108,626,898**

27. EFFECTS OF CHANGES IN THE EQUITY TRANSACTIONS OF SUBSIDIARIES/ASSOCIATED COMPANIES

This account mainly represents the effects of the receipt of capital injection in a Subsidary.

28. SALES AND OTHER OPERATING REVENUES

The breakdown of the sales and other operating revenues of the Group is as follows:

a. By nature of revenues

	2011	2010
Net oil and gas sales	800,476,758	659,678,203
Net sales of chemical and other petroleum products	237,692,254	170,067,443
Electric power sales and revenue from related services	96,469,336	88,906,813
Revenues from other services	8,656,180	11,200,991
Total	**1,143,294,528**	**929,853,450**

(Expressed in United States Dollars, unless otherwise stated)

28. SALES AND OTHER OPERATING REVENUES (continued)

b. By customers

	2011	2010
<u>Related parties</u>		
Petro Diamond Singapore Pte Ltd	386,213,887	279,872,608
Petro Diamond Ltd, Hong Kong	13,504,912	32,929,000
PT Medcopapua Industri Lestari	2,053,572	2,780,683
<u>Third parties</u>		
Local customers	572,924,921	476,995,588
Foreign customers	168,597,236	137,275,571
Total	**1,143,294,528**	**929,853,450**

The details of revenues from customers which exceeded 10% of the total reported revenues, are as follows:

	2011	2010
Petro Diamond Singapore Pte Ltd	386,213,887	279,872,608
PT PLN (Persero)	151,729,971	136,412,632
Total	**537,943,858**	**416,285,240**

29. COST OF SALES AND OTHER DIRECT COSTS

The Group incurred the following costs to operate, process and sell its products and services:

a. Production and Lifting Costs

This account consists of:

	2011	2010
Field operations overhead	116,711,604	111,443,239
Cost for oil and gas contracts	79,625,235	71,202,312
Operations and maintenance	41,877,837	56,278,621
Pipeline and transportation fees	32,644,474	22,083,878
Operational support	9,072,615	6,553,191
Total	**279,931,765**	**267,561,241**

b. Cost of Other Services

This account mainly represents operational costs of EPI.

(Expressed in United States Dollars, unless otherwise stated)

29. COST OF SALES AND OTHER DIRECT COSTS (continued)

c. Depreciation, Depletion and Amortization

This account represents depreciation, depletion and amortization for the following:

	2011	2010
Oil and gas operations	92,609,478	84,550,074
Electric power	9,182,665	7,159,090
Chemical and other petroleum products	4,080,988	5,163,295
Other contracts and related services	3,551,021	5,874,780
Total	**109,424,152**	**102,747,239**

d. Cost of Sales of Chemical and Other Petroleum Products

This account consists of:

	2011	2010
Cost of purchases of high speed diesel fuel	216,889,808	153,644,194
Raw material	5,528,768	8,165,295
Fuel	2,859,296	2,501,831
Materials and supplies	2,659,380	1,599,195
Salaries and other allowances	1,684,459	1,823,421
Processing plant operational costs	829,471	1,072,885
Contract labor	431,806	502,928
Rentals	-	62,886
Others	3,151,087	726,106
Total production costs	234,034,075	170,098,741
Inventories:		
At beginning of year	1,999,599	2,088,490
At end of year	(1,100,273)	(1,999,599)
Total	**234,933,401**	**170,187,632**

e. Cost of Electric Power Sales and Related Services

This account consists of the following:

	2011	2010
Electricity production costs	53,302,248	51,016,282
Salaries and benefits	2,821,953	2,399,658
Total	**56,124,201**	**53,415,940**

f. Exploration Expenses

This account consists of:

	2011	2010
Exploration overhead	24,070,826	15,311,700
Seismic	9,590,311	1,214,196
Geological and geophysical	866,177	780,719
Dry hole costs	-	6,750,520
Total	**34,527,314**	**24,057,135**

(Expressed in United States Dollars, unless otherwise stated)

29. COST OF SALES AND OTHER DIRECT COSTS (continued)

g. Cost of Crude Oil Purchases

This account consists of cost of crude oil purchased by the Group from BPMIGAS and Pertamina.

There were no purchases from a single vendor which exceeded 10% of revenues for the years ended December 31, 2011 and 2010, except for 2011 purchases from Synergia Trading International Pte Ltd which represent about 10.9% of the total revenues of the Group in 2011.

30. OPERATING EXPENSES

	2011	2010
General and administrative		
Salaries, wages and other employee benefits	70,374,690	89,925,216
Rental	11,353,162	11,688,542
Professional fees	10,710,421	7,692,770
Repairs and maintenance	10,208,705	6,247,640
Insurance	5,974,375	1,684,162
Depreciation (Note 14)	4,546,520	5,213,042
Contract charges	4,276,895	4,588,962
Impairment loss on receivables	3,035,325	6,365,351
Office supplies and equipment	937,997	2,248,405
Others (each below US$100,000)	5,459,843	16,197,881
Sub-total	126,877,933	151,851,971
Selling		
Export expenses	15,003,223	13,804,667
Business travel	4,301,790	3,602,340
Advertising and promotion	3,657,115	3,598,453
Entertainment	1,059,193	413,981
Sub-total	24,021,321	21,419,441
Total Operating Expenses	**150,899,254**	**173,271,412**

31. INCOME TAX

a. Income tax expense of the Company and Subsidiaries consists of the following:

	2011	2010
Current income tax expense		
Subsidiaries	(109,408,183)	(105,202,785)
Deferred tax benefit (expense)		
Company	(17,826,176)	-
Subsidiaries	2,176,308	(22,468,568)
Sub-total	(15,649,868)	(22,468,568)
Total Tax Expense	**(125,058,051)**	**(127,671,353)**

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

b. Current Income Tax

A reconciliation between income before tax expense as per the consolidated statements of comprehensive income and the Company's tax loss, is as follows:

	2011	2010
Consolidated income before income tax expense	**214,277,586**	**215,828,615**
Less income before income tax expense of Subsidiaries	(209,660,991)	(360,900,459)
Income (Loss) before income tax of the Company	**4,616,595**	**(145,071,844)**
Dividend from Subsidiaries	**-**	**87,813,414**
Total income (loss) before income tax of the Company	**4,616,595**	**(57,258,430)**
Temporary differences		
Unrealized (gain) loss from derivative transactions	1,462,861	(1,155,846)
Depreciation of property and equipment	202,737	2,530,476
Amortization of deferred charges	74,221	3,908,429
Employee benefits	(1,355,910)	6,952,120
Unrealized gain on marketable securities	(9,022,528)	(214,884)
Fair value adjustment of investment in associates	(29,962,178)	-
Permanent differences		
Non-deductible expenses	3,654,379	2,095,531
Non-taxable income	(335,945)	(87,917,041)
Income subjected to final income tax	(1,913,333)	(1,125,981)
Interest expense	(2,802,534)	7,570,176
Other provisions	1,022,117	34,820,004
Tax loss of the Company for the year	**(34,359,518)**	**(89,795,446)**
Prior years tax losses	(180,140,159)	(95,940,724)
Adjustment to prior year tax loss	(13,231,369)	5,596,011
Accumulated tax loss carry-forward at end of year-Company	**(227,731,046)**	**(180,140,159)**

No provision for current income tax was made by the Company for the years ended December 31, 2011 and December 31, 2010 because the Company is in a tax loss position.

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax

The details of the Group's deferred tax assets and liabilities are as follows:

	2011			
	December 31, 2010	**Cumulative deferred tax assets/liabilities of divested subsidiaries**	**Charged (credited) to consolidated statement of comprehensive income**	**December 31, 2011**
Company				
Deferred Tax Assets				
Tax losses	21,209,614	-	10,318,114	10,891,500
Employee benefit liabilities	2,231,891	-	338,977	1,892,914
Amortization of deferred expenses	1,748,119	-	(18,555)	1,766,674
Depreciation of property, plant and equipment	928,923	-	(50,684)	979,607
Sub-total	26,118,547	-	10,587,852	15,530,695
Deferred Tax Liabilities				
Unrealized income on marketable securities	(2,026,840)	-	130,853	(2,157,693)
Unrealized income from derivative transactions	(793,679)	-	(383,074)	(410,605)
Fair value adjustment of investment in associates	-	-	7,490,545	(7,490,545)
Sub-total	(2,820,519)	-	7,238,324	(10,058,843)
Net Deferred Tax Assets - Company	23,298,028	-	17,826,176	5,471,852
Subsidiaries	47,386,811	-	(12,481,327)	59,868,138
Deferred Tax Assets of the Group - Net	**70,684,839**	**-**	**5,344,849**	**65,339,990**
Deferred Tax Liabilities Subsidiaries	**(68,060,310)**	**-**	**10,187,826**	**(78,248,136)**
Deferred Tax Expense			**15,532,675**	
Effect of foreign exchange rate			**117,193**	
Net Deferred Tax Expense			**15,649,868**	

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax (continued)

	2010			
	December 31, 2009	**Cumulative deferred tax assets/liabilities of divested subsidiaries**	**Charged (credited) to consolidated statement of comprehensive income**	**December 31, 2010**
Company				
Deferred Tax Assets				
Tax losses	23,985,181	-	2,775,567	21,209,614
Employee benefit liabilities	493,860	-	(1,738,031)	2,231,891
Amortization of deferred expenses	771,012	-	(977,107)	1,748,119
Depreciation of property, plant and equipment	296,304	-	(632,619)	928,923
Sub-total	25,546,357	-	(572,190)	26,118,547
Deferred Tax Liabilities				
Unrealized income on marketable securities	(1,743,612)	-	283,228	(2,026,840)
Unrealized income from derivative transactions	(504,717)	-	288,962	(793,679)
Sub-total	(2,248,329)	-	572,190	(2,820,519)
Net Deferred Tax Assets - Company	**23,298,028**	**-**	**-**	**23,298,028**
Subsidiaries	**69,646,570**	**-**	**22,259,759**	**47,386,811**
Deferred Tax Assets of the Group - Net	**92,944,598**	**-**	**22,259,759**	**70,684,839**
Deferred Tax Liabilities Subsidiaries	**(72,175,948)**	**4,039,278**	**(76,360)**	**(68,060,310)**
Deferred Tax Expense			**22,183,399**	
Effect of foreign exchange rate			**285,169**	
Net Deferred Tax Expense			**22,468,568**	

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax (continued)

A reconciliation between the income tax expense and the amount computed by applying the statutory tax rate to income before income tax expense, is as follows:

	2011	2010
Consolidated profit before income tax expense	**214,277,586**	**215,828,615**
Less income before income tax expense of Subsidiaries	(209,660,991)	(360,900,459)
Income (loss) before income tax of the Company	4,616,595	(145,071,844)
Dividend from Subsidiaries	-	87,813,414
Total income (loss) before income tax of the Company	**4,616,595**	**(57,258,430)**
Tax benefit (expense) using statutory tax rates	(1,154,148)	14,314,607
Tax effects of permanent differences:		
Non-taxable income	83,986	21,979,260
Income already subjected to final income tax	478,333	281,495
Adjustment to tax loss	(16,765,856)	(25,453,934)
Other provisions	(255,529)	(8,705,001)
Non-deductible expenses	(913,595)	(523,883)
Interest expense	700,633	(1,892,544)
Tax expense:		
Company	(17,826,176)	-
Subsidiaries	(107,231,875)	(127,671,353)
Income Tax Expense - Net	**(125,058,051)**	**(127,671,353)**

The management is of the opinion that the deferred tax assets of the Company and Subsidiaries are recoverable.

32. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on 2,941,996,950 shares, representing the weighted average number of shares for the years ended December 31, 2011 and 2010, respectively.

	2011	2010
Earnings per share		
Profit for the year	85,073,777	83,059,576
Basic earnings per share	0.0289	0.0282

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no potentially dilutive ordinary shares (anti-dilutive).

(Expressed in United States Dollars, unless otherwise stated)

33. CASH DIVIDENDS

On May 19, 2011, the stockholders, in their Annual General Meeting (AGM) approved the distribution of cash dividends pertaining to book year 2010 in the amount of US$0.00748 per share or equivalent to approximately US$21.9 million. The dividends were paid in June 2011.

On May 27, 2010, the stockholders, in their Annual General Meeting (AGM) approved the distribution of cash dividends pertaining to book year 2009 in the amount of US$0.0028 per share or equivalent to approximately US$8.4 million. The dividends were paid in July 2010.

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS

a. Defined Contribution Pension Plan

Subsidiaries involved in oil and gas exploration and production activities have established defined contribution pension plans covering all their local permanent employees. These plans provide pension benefits based on salaries and years of service of the employees.

The pension plans are managed by Dana Pensiun Lembaga Keuangan (DPLK) PT Bank Negara Indonesia (Persero) Tbk and DPLK Jiwasraya whose deeds of establishment were approved by the Minister of Finance of the Republic of Indonesia in its decision letters No. Kep. 1100/KM.17/1998 dated November 23, 1998 and No. Kep.171-KMK/7/1993 dated August 16, 1993, respectively. The pension plans are funded by contributions from both the Subsidiaries at 6% and 7% of gross salaries and their employees at 2% and 3% of gross salaries, respectively.

The movements of the defined contribution pension plans of the Subsidiaries involved in the oil and gas exploration and production are as follows:

	2011	2010
Beginning balance	-	168,227
Pension cost	2,793,542	2,327,952
Loss on foreign exchange	2,044	1,703
Pension contributions paid	(2,795,586)	(2,497,882)
Ending balance	**-**	**-**

b. Defined Benefit Pension Plan

The Group also recognizes defined benefit plan obligations for the employees involved in oil and gas operations in accordance with applicable regulations. The defined benefits plan is being funded by placing funds in PT AIG Life, PT Asuransi Allianz Life Indonesia and PT Asuransi Jiwa Manulife Indonesia.

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan (continued)

The Group also recognized post-employment benefits for non-members of the defined benefit plan in accordance with Labor Law No. 13 Year 2003 and the prevailing Group policy.

The number of people eligible for the benefits is 1,880 and 1,095 as of December 31, 2011 and 2010, respectively.

i. An analysis of defined benefit plan obligations recognized in the consolidated statements of financial position is as follows:

	2011	2010
Present value of defined benefit plan obligations	105,616,686	92,721,383
Fair value of plan assets	(105,052,194)	(84,042,022)
Unfunded defined benefit plan obligations	564,492	8,679,361
Unrecognized actuarial loss	(346,784)	(664,965)
Defined benefit plan obligations - net (Note 20)	**217,708**	**8,014,396**

ii. An analysis of the defined benefit plan costs in the consolidated statements of comprehensive income is as follows:

	2011	2010
Current service cost	10,447,942	9,351,283
Interest expense	8,207,118	7,484,854
Actuarial loss (gain) recognized	(6,107,263)	3,993,728
Expected return on plan assets	(4,988,700)	(4,138,715)
Others	(515)	(161,688)
Total	**7,558,582**	**16,529,462**

iii. An analysis of the movements of defined benefit plan obligations in the consolidated statement of financial position is as follows:

	2011	2010
Balance at beginning of year	8,014,396	2,166,790
Employee benefit costs	7,558,582	16,529,462
Contributions for the year	(15,148,253)	(9,916,344)
Benefits paid	(101,115)	(145,672)
Effect of foreign exchange	(105,902)	(619,840)
Balance at end of year (Note 20)	**217,708**	**8,014,396**

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan (continued)

iv. The defined benefit plan obligations in 2011 and 2010 were calculated using the following assumptions:

	2011	2010
Discount rates	4.0% - 7.7%	6.5% - 9.0%
Expected rate of return on assets:		
- IDR Portfolio	0% - 6%	0% - 6%
Salary increment rate	9% - 12%	6% - 10%
Mortality rate	TMI 1999 and GAM'71	TMI 1999 and CSO'80
Morbidity rate (disability rate)	0.03% - 10% mortality rate	0.03% - 10% mortality rate
Resignation rate	0.028% - 6% primarily in line with age profile	0.05% - 1% primarily in line with age profile
Proportion of normal retirements	100%	100%

c. Labor Law No. 13/2003 and Other Post-employment Benefits

The Group also recognizes post-employment benefits for non-members of the defined benefit plan in accordance with Labor Law No. 13 Year 2003 and the prevailing Group policy.

The number of people eligible for the benefits is 1,880 and 928 as of December 31, 2011 and 2010, respectively.

i. An analysis of the Labor Law No. 13/2003 and other post-employment benefits obligations recognized in the consolidated statements of financial position is as follows:

	2011	2010
Present value of unfunded post-employment benefits obligations	17,200,174	14,952,802
Unrecognized past service cost-non-vested	(172,404)	(89,738)
Unrecognized actuarial loss	(2,899,091)	(940,628)
Effect of deconsolidating Medco Power Indonesia	(1,758,603)	-
Total post- employment benefits obligations	**12,370,076**	**13,922,436**

ii. An analysis of the Labor Law No. 13/2003 and other post-employment benefits costs in the consolidated statements of comprehensive income is as follows:

	2011	2010
Current service cost	3,348,932	9,642,280
Interest expense	990,899	429,189
Compensation expense	184,996	272,952
Past service cost recognized	(110,112)	67,690
Amortization of actuarial losses (gain)	(1,277,344)	7,544
Curtailments	(282,548)	(251,595)
Others	47,973	(101,017)
Total	**2,902,796**	**10,067,043**

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

c. Labor Law No. 13/2003 and Other Post-employment Benefits (continued)

iii. An analysis of the movements of Labor Law No. 13/2003 and other post-employment benefits obligations in the consolidated statements of financial position is as follows:

	2011	2010
Balance at beginning of year	13,922,436	4,090,595
Labor law No. 13/2003 and other post-employment benefit costs	2,902,796	10,067,043
Benefits paid	(2,701,396)	(600,610)
Effect of deconsolidating Medco Power Indonesia	(1,758,603)	-
Effect of foreign exchange	4,843	365,408
Balance at end of year	**12,370,076**	**13,922,436**

iv. The Labor Law No. 13/2003 and other post-employment benefits obligations in 2011 and 2010 were calculated using the following assumptions:

	2011	2010
Discount rates	6.5% - 7.0%	6.5% - 9.4%
Salary increment rate	6% - 10%	6% - 10%
Mortality rate	TMI 1999	TMI 1999 and CSO'80
Morbidity rate (disability rate)	10% of mortality rate	10% of mortality rate
Resignation rate	0.05% - 1% primarily in line with age profile	0.05% - 1% primarily in line with age profile
Proportion of normal retirements	100%	100%

35. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

a. Nature of Relationships

i. The major stockholder and management of PT Bank Himpunan Saudara 1906 Tbk and PT Medcopapua Industri Lestari are the same as those of the Company.

ii. Mitsubishi Corporation (MC) is one of the indirect controlling shareholders of the Company through Encore Energy Pte Ltd. Petro Diamond Co Ltd, Hong Kong (PDH), Petro Diamond Singapore Pte Ltd (PDS) and Tomori E&P Ltd (TEL) are subsidiaries of MC.

iii. PT Donggi Senoro LNG (DSLNG) is an entity under significant influence of the Group as of December 31, 2010 in which the Group owns 20% equity as of that date. As of December 31, 2011, the Group ownership was reduced to 11.1%.

iv. PT Medco Inti Dinamika (INTI) has the same key members of management as the Company.

v. PT Medco Duta (DUTA) is a stockholder of the Company.

vi. Synergia Trading International Pte. Ltd. (Synergia) has the same key member of management of a Subsidiary (PT Medco Sarana Kalibaru) as of December 31, 2010. In November 2011, Synergia became a subsidiary of the Group after it was acquired by Medco Strait Services Pte Ltd.

(Expressed in United States Dollars, unless otherwise stated)

35. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

b. Transactions with Related Parties

In the normal course of business, the Group entered into certain transactions with its related parties.

It is management's policy that transactions with related parties are undertaken on an arm's length basis, at similar prices and conditions as those done with third parties. A summary of related party accounts and transactions is as follows:

	2011		2010	
	Amount	Percentage to related totals (%)	Amount	Percentage to related totals (%)
Assets				
Cash and cash equivalents				
PT Bank Himpunan Saudara 1906 Tbk	30,634,758	1.18	30,174,615	1.32
Trade receivables				
Petro Diamond Singapore Pte Ltd	68,177,731	2.63	31,674,957	1.39
Petro Diamond Ltd, Hong Kong	-	-	16,535,242	0.73
PT Medcopapua Industri Lestari	1,524,256	0.06	922,232	0.04
Restricted cash in bank				
PT Bank Himpunan Saudara 1906 Tbk	8,680,508	0.34	10,395,446	0.46
Other receivables				
Mitsubishi Corporation	-	-	260,000,000	11.41
PT Donggi Senoro LNG	46,827,782	1.81	1,711,030	0.08
Tomori E&P Limited	-	-	1,564,976	0.07
Security deposit				
Synergia Trading International Pte Ltd	-	-	650,000	0.03
Liabilities				
Advances from customer				
Petro Diamond Singapore Pte Ltd	-	-	32,238,271	2.20
Trade payables				
Synergia Trading International Pte Ltd	-	-	3,987,300	0.27
Bank loan				
PT Bank Himpunan Saudara 1906 Tbk	654,743	0.04	593,618	0.04
Long-term debt				
Mitsubishi Corporation	69,997,758	4.04	-	-
Transactions				
Net oil sales				
Petro Diamond Singapore Pte Ltd	386,213,887	33.78	279,872,608	30.10
Petro Diamond Co Ltd, Hong Kong	13,504,912	1.18	32,929,000	3.54
High speed diesel sales				
PT Medcopapua Industri Lestari	2,053,572	0.18	2,780,683	0.30
Purchase of high speed diesel and transportation services				
Synergia Trading International Pte Ltd	124,654,659	10.90	9,968,853	1.55

36. SEGMENT INFORMATION

The Group classifies and evaluates its financial information into two major reportable segments which are the business segment as the primary segment and the geographical segment as the secondary segment.

a. Business Segment

The Group is presently engaged in the following business activities:

i. Exploration for and production of oil and gas

ii. Other services

iii. Chemicals

iv. Electric power generation

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

v. Trading

vi. Funding for Group operations

Segment information of the Group is as follows:

	2011							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
External sales	400,757,957	8,656,180	237,692,254	96,469,336	399,718,801	-	-	1,143,294,528
Inter-segment sales	393,378,163	4,924,876	6,509,748	908,237	6,486,969	-	(412,207,993)	-
Total sales and other operating revenues	794,136,120	13,581,056	244,202,002	97,377,573	406,205,770	-	(412,207,993)	1,143,294,528
Gross profit	328,320,763	2,851,597	5,561,638	32,293,372	6,144,872	-	-	375,172,242
Selling, general and administrative expenses	(82,654,584)	(6,444,719)	(10,642,176)	(18,814,962)	(32,279,499)	(63,314)	-	(150,899,254)
Gain on disposal of subsidiaries	35,375,803	-	-	-	43,040,772	-	-	78,416,575
Finance income	1,872,906	345,484	759,720	472,222	9,028,903	-	(3,000,000)	9,479,235
Finance costs	(6,261,648)	(869,402)	(5,593,779)	(12,814,763)	(66,959,460)	-	3,000,000	(89,499,052)
Loss on impairment of assets	(16,996,544)	-	-	-	-	-	-	(16,996,544)
Other operating income	2,593,832	606,373	(3,753,142)	2,183,396	12,196,600	-	-	13,827,059
Other operating expenses	(9,742,561)	(825,407)	870,146	(80,415)	(1,964,525)	-	-	(11,742,762)
Gain on dilution of ownership in an associated entity	-	-	8,472,496	-	-	-	-	8,472,496
Share of net losses of associated entities – net	137,252	-	(2,089,661)	-	-	-	-	(1,952,409)
Income (loss) before tax expense	252,645,219	(4,336,074)	(6,414,758)	3,238,850	(30,792,337)	(63,314)	-	214,277,586
Tax expense	(104,751,101)	-	(77,426)	(2,403,348)	(17,826,176)	-	-	(125,058,051)
Non-controlling interest	(2,632,495)	-	-	(1,513,263)	-	-	-	(4,145,758)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**145,261,623**	**(4,336,074)**	**(6,492,184)**	**(677,761)**	**(48,618,513)**	**(63,314)**	**-**	**85,073,777**
Segment assets	3,182,367,560	38,806,244	257,847,072	-	1,995,717,767	35,347,132	(3,085,327,757)	2,424,758,018
Investments in securities	766,961	11,878,867	36,463,504	-	326,929,271	-	(243,723,576)	132,315,027
Investments in projects	30,324,414	-	-	-	-	-	-	30,324,414
TOTAL ASSETS	**3,213,458,935**	**50,685,111**	**294,310,576**	**-**	**2,322,647,038**	**35,347,132**	**(3,329,051,333)**	**2,587,397,459**
LIABILITIES								
Segment liabilities	2,244,704,275	4,695,161	244,514,681	-	1,716,861,803	217,333,830	(2,696,059,258)	1,732,050,492
Capital expenditures	143,144,184	6,753,712	1,266,583	4,362,349	770,066	-	-	156,296,894
Depreciation, depletion and amortization	95,362,076	1,975,210	4,347,178	10,279,155	2,007,052	-	-	113,970,671
Non-cash expenses other than depreciation, depletion and amortization	38,535,531	508,680	611,599	561,887	6,913,778	-	-	47,131,475

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2011							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
Net cash provided by (used in) operating activities	174,346,507	5,939,462	(11,574,423)	21,103,884	(48,340,650)	-	-	141,474,780
Net cash provided by (used in) investing activities	175,047,831	(7,352,173)	(68,417,875)	(24,509,200)	10,245,932	-	-	85,014,515
Net cash provided by (used in) financing activities	(24,013,217)	(546,465)	71,256,180	(18,054,637)	269,743,974	-	-	298,385,835

	2010							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
External sales	346,592,996	11,200,991	170,067,443	88,906,813	313,085,207	-	-	929,853,450
Inter-segment sales	304,964,678	1,971,326	3,880,362	708,015	-	-	(311,524,381)	-
Total sales and other operating revenues	651,557,674	13,172,317	173,947,805	89,614,828	313,085,207	-	(311,524,381)	929,853,450
Gross profit	254,724,650	3,727,784	(855,383)	29,039,798	6,149,462	-	(5,022,718)	287,763,593
Selling, general and administrative expenses	(99,233,372)	(3,854,729)	(10,648,075)	(18,773,240)	(41,399,472)	(872,820)	1,510,296	(173,271,412)
Net gain on disposal of subsidiaries	250,734,352	-	-	-	-	-	-	250,734,352
Finance income	2,057,961	17,901	133,314	409,846	3,338,738		(1,276,051)	4,681,709
Finance costs	(9,419,746)	(1,316,265)	(2,689,376)	(7,788,580)	(68,764,444)	(2,845,228)	1,276,051	(91,547,588)
Loss on impairment of assets	(21,324,556)	-	(983,589)	-	(34,089,303)	-	-	(56,397,448)
Other operating expenses	3,765,934	(174,225)	(842,177)	460,015	(9,305,471)	(2,083)	-	(6,098,007)
Other operating income	1,511,498	(697,009)	(131,711)	1,973,555	(1,438,898)	30,660	548,384	1,796,479
Equity in net income (losses) of associated entities - net investment - net	128,731	-	(1,961,794)	-	-	-	-	(1,833,063)
Income (loss) before tax expense	382,945,452	(2,296,543)	(17,978,791)	5,321,394	(145,509,388)	(3,689,471)	(2,964,038)	215,828,615
Tax expense	(124,250,167)	14,660	(851,523)	(2,584,323)	-	-	-	(127,671,353)
Non-controlling interest	(2,278,922)	-	-	(2,818,764)	-	-	-	(5,097,686)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	**256,416,363**	**(2,281,883)**	**(18,830,314)**	**(81,693)**	**(145,509,388)**	**(3,689,471)**	**(2,964,038)**	**83,059,576**

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2010							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
OTHER INFORMATION								
ASSETS								
Segment assets	3,090,214,674	33,991,412	221,921,910	211,678,881	1,854,084,289	68,226,365	(3,230,503,441)	2,249,614,090
Investments in shares	629,709	-	6,517,169	3,819,637	283,541,049	-	(283,541,049)	10,966,515
Investments in projects	15,895,986	-	-	1,591,646	-	-	-	17,487,632
TOTAL ASSETS	**3,106,740,369**	**33,991,412**	**228,439,079**	**217,090,164**	**2,137,625,338**	**68,226,365**	**(3,514,044,490)**	**2,278,068,237**
LIABILITIES								
Segment liabilities	2,224,343,636	33,114,681	166,928,610	132,227,411	1,719,321,494	217,270,511	(3,029,968,534)	1,463,237,809
Capital Expenditures	126,944,208	7,101,401	5,374,560	4,320,805	195,915	-	-	143,936,889
Depreciation, depletion and amortization	85,206,035	5,874,780	5,416,078	8,079,752	3,383,636	-	-	107,960,281
Non-cash expenses other than depreciation, deplation and amortization	42,795,759	752,852	4,786,786	751,161	41,817,430	775,049	-	91,679,037
Net cash provided by (used in) operating activities	108,916,004	10,034,991	(21,355,750)	24,403,889	(32,735,899)	-	-	89,263,235
Net cash provided by (used in) investing activities	(154,999,809)	(377,883)	(8,158,811)	(52,437,000)	8,282,854	-	-	(207,690,649)
Net cash provided by (used in) financing activities	14,232,742	1,162,185	40,660,571	19,181,852	60,882,846	(90,520,276)	-	45,599,920

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

b. Geographical Segment

The following table shows the distribution of the Group's revenues by geographical market and the Group's assets by geographical location:

Revenues

Geographical segment	**2011**	**2010**
Indonesia	576,038,965	504,260,881
Overseas		
Asia	399,718,799	314,687,761
Middle East	146,701,826	90,291,296
United States of America	20,834,938	20,613,512
Total	**1,143,294,528**	**929,853,450**

Total Assets

Geographical location	**2011**	**2010**
Indonesia	4,140,981,167	4,046,348,410
Overseas		
Asia	1,454,931,246	1,341,883,043
Middle East	221,778,440	247,287,882
United States of America	98,757,939	156,593,392
Total	5,916,448,792	5,792,112,727
Elimination	(3,329,051,333)	(3,514,044,490)
After Elimination	**2,587,397,459**	**2,278,068,237**

The Group's activities are concentrated into several major geographic locations (Asia, USA and the Middle East). The main concentration of activities is in Indonesia.

Intersegment transactions are set with normal terms and conditions as if conducted with third parties.

37. MONETARY ASSETS OR LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group has monetary assets and liabilities denominated in foreign currencies as follows:

	2011			
	in original currency (in million)			US$ equivalent (Full amount)
	Rupiah	Euro	others	
Assets				
Cash and cash equivalents	236,247	0.03	-	26,073,877
Short-term investments	38,534	-	-	4,249,488
Trade receivables	214,552	-	-	23,660,389
Other receivables	134,957	-	-	14,882,765
Restricted cash in banks	108,984	-	-	12,018,505
Liabilities				
Trade payables	(63,787)	-	-	(7,034,335)
Bank loans	(275,667)	-	-	(30,399,984)
Other long-term payables	(1,495,485)	-	-	(164,918,956)
Net Liabilities	**(1,101,665)**	**0.03**	**-**	**(121,468,251)**

	2010			
	in original currency (in million)			US$ equivalent (Full amount)
	Rupiah	Euro	others	
Assets				
Cash and cash equivalents	227,720	0.24	-	25,508,793
Short term investment - net	24,631	-	-	2,739,514
Trade receivables	273,843	0.22	0.36	30,968,893
Other receivables	689,107	-	-	76,644,058
Restricted cash in banks	162,517	-	-	18,075,553
Liabilities				
Trade payables	(192,190)	-	(2.93)	(23,299,696)
Bank loans	(1,855,621)	-	-	(206,386,536)
Other long-term payables	(1,494,630)	-	-	(166,236,215)
Net Liabilities	**(2,164,623)**	**0.46**	**(2.57)**	**(241,985,636)**

38. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

The following table presents the classification of financial instruments and sets forth the carrying amounts and estimated fair values of the financial instruments of the Group that are carried in the consolidated statements of financial position as of December 31, 2011 and 2010:

	2011		2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Current assets				
Cash and cash equivalents	703,951,167	703,951,167	178,859,393	178,859,393
Short-term investments	247,304,920	247,304,920	168,047,197	168,047,197
Restricted cash in banks	25,278,063	25,278,063	36,716,355	36,716,355
Trade receivables	202,328,229	202,328,229	180,708,045	180,708,045
Other receivables	62,216,151	62,216,151	129,886,928	129,886,928
Derivative assets	2,844,957	2,844,957	415,155	415,155

(Expressed in United States Dollars, unless otherwise stated)

38. FINANCIAL INSTRUMENTS (continued)

a. Fair values of financial instruments (continued)

	2011		2010	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Non-current assets				
Other receivables	59,491,328	59,491,328	267,355,572	267,355,572
Restricted cash in banks	13,518,505	13,518,505	15,669,858	15,669,858
Long-term investments	48,342,371	48,342,371	3,760,000	3,760,000
Derivative assets	-	-	3,105,281	3,105,281
Other assets	1,402,736	1,402,736	2,782,906	2,782,906
Total Financial Assets	**1,366,678,427**	**1,366,678,427**	**987,306,690**	**987,306,690**
Financial Liabilities				
Current liabilities				
Short-term bank loans	121,399,984	121,399,984	85,620,671	85,620,671
Trade payables	113,004,919	113,004,919	132,624,526	132,624,526
Other payables	35,430,475	35,430,475	27,671,863	27,671,863
Accrued expenses and other provisions	67,734,171	67,734,171	45,420,442	45,420,442
Current maturities of long-term debt				
Bank loans	291,675,148	291,675,148	89,741,220	89,741,220
Medium-term notes	64,928,129	64,928,129	20,523,889	20,523,889
Rupiah Bonds	56,563,960	56,563,960	-	-
Derivative liabilities	-	-	345,721	345,721
Non-current liabilities				
Long-term debt				
Bank loans	466,382,311	468,766,481	493,330,538	483,649,249
Payable to a related party	69,997,758	69,997,758	-	-
Medium-term notes	40,320,379	41,479,003	128,881,891	130,302,536
Rupiah bonds	108,354,996	108,354,996	166,236,215	175,477,516
US Dollar bonds	79,387,679	80,678,385	-	-
Derivative liabilities	1,202,270	1,202,270	-	-
Other payables	10,511,274	10,511,274	20,753,538	20,753,538
Total Financial Liabilities	**1,526,893,453**	**1,531,726,953**	**1,211,150,514**	**1,212,131,171**

i. Financial instruments carried at fair value

Fair values of derivative instruments are determined by calculating the present value of future cash flows based on their terms and conditions.

ii. Financial instruments with carrying values approximating their fair values

All current assets and current liabilities listed above, excluding derivatives, as well as non-current restricted cash in banks and other receivables approximate their fair values due to the short-term maturity and nature of such financial instruments.

iii. Financial instruments recorded at acquisition cost

Investments in common shares with no quoted market price representing ownership below 20%, are recorded at cost because fair value cannot be measured reliably.

iv. Financial instruments carried at amortized cost

The fair values of long-term debt (bank loans, medium-term notes, Rupiah bonds), are determined based on discounted cash flows method.

38. FINANCIAL INSTRUMENTS (continued)

a. Fair values of financial instruments (continued)

v. Other financial instruments

The fair values of non-current other receivables, other assets and other payables listed above are the same as their carrying amounts because their fair values cannot be measured reliably.

b. Risk Management

The principal financial liabilities of the Group consist of short-term loans and long-term loans, trade and other payables and accrued expenses. The main purpose of these financial liabilities is to raise funds for the operations of the Group. The Group has various financial assets such as trade receivables and cash and cash equivalents, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange rate risk, price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in both Indonesian and international financial markets. The Company's Directors review and approve the policies for managing these risks which are summarized below:

i. Interest rate risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rates on its short-term and long-term borrowings.

The Group policy relating to interest rate risk is to manage interest cost through a mix of fixed and variable rate debts. The Group evaluates the comparability of the fixed rate to floating rate of its short-term bank loans and long-term loans in line with movements of relevant interest rates in the financial markets. Based on management's assessment, new financing will be priced either on a fixed rate or floating rate basis.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term receivable and obligations with floating interest rates.

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

	December 31, 2011 (in thousand US$)				
Description	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**
Receivable from a related party	-	-	46,828	-	46,828
Payable to a related party	-	-	69,998	-	69,998
Derivative assets	2,844	-	-	-	2,844
Derivative liabilities	-	-	1,202	-	1,202
Short-term bank loan	89,745	-	-	-	89,745
Long-term bank loans	279,275	75,382	360,000	-	714,657

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

38. FINANCIAL INSTRUMENTS (continued)

b. Risk Management (continued)

ii. Foreign exchange rate risk

The Group maintains its accounts in US Dollar, therefore, a portion of its revenues, expenses, assets and liabilities which are denominated in other than US Dollar are exposed to currency exchange rates against US Dollar. The oil and gas exploration and production activities of the Group in various countries are also exposed to the currency exchange fluctuations of the local currencies.

To manage foreign exchange rate risks, the Group enters into several swap contracts and forward contracts. These contracts are accounted for as transactions not designated as hedges, wherein the changes in the fair value are charged or credited directly to the current year consolidated statement of comprehensive income (Note 21).

iii. Credit risk

Credit risk is the risk that one party to financial instruments will fail to discharge its obligation and will incur a financial loss to other party. The Group is exposed to credit risk arising from the credit granted to its customers. The Group trades only with recognized and creditworthy third parties. It is the Group’s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce the exposure to bad debts. The most significant exposure to the credit risk is represented by the carrying amounts of financial assets as shown in Notes 6 and 7.

iv. Liquidity risk

The liquidity risk is defined as a risk when the cash flow position of the Group indicates that the short-term revenue is not enough to cover the short-term expenditures. The Group liquidity requirements have historically arisen from the need to finance investments and operational and capital expenditures.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group’s operations and to mitigate the effects of fluctuations in cash flows. The Group also regularly evaluates the projected and actual cash flow, including long-term loan maturity profiles, and continuously assesses the conditions in the financial market to maintain flexibility in funding by keeping committed credit facilities available. These activities may include bank loans and equity market issues.

v. Price volatility risk

The selling price of the Group’s oil is based on the price of Indonesian Crude Price (ICP) that is determined by the Ministry of Energy and Mineral Resources (ESDM) on a monthly basis. As a result, the price of oil that is produced by the Group will depend largely on factors beyond the control of the Group.

The natural gas produced in Indonesia is largely sold on contract basis with fixed price that allows certain level of escalation annually. There exists a potential risk of opportunity loss when the market price of oil and gas increases well above the escalation cap in the contract.

The Group’s gases produced in the United States are sold on the spot market on the basis of the Henry Hub market price. Therefore, the risk faced by the Group is similar to the effects of oil and gas price fluctuation.

38. FINANCIAL INSTRUMENTS (continued)

c. Capital Management

The Group's objectives when managing capital are:

- To maintain a strong capital base so as to maintain investor, creditor and market confidence
- To sustain future development of the business.

The Group regularly reviews and manages their capital structure to ensure optimal structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

Management regards total equity as capital, for capital management purposes. The amount of capital attributable to owners of the parent company as of December 31, 2011 amounted to US$845,455,271 which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities. Also, over the past years, earnings before income tax, interest, depreciation and amortization (EBITDA) has become an important control figure for the Group as well as for the lending banks. The continuing optimal development of the Group depends on its strong self-financing ability (EBITDA).

There are no changes in the Group's approach to capital management during the year.

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS

a. Production Sharing Arrangements - Indonesia

The majority of the Group's oil and gas subsidiaries are located in Indonesia and operate under various production sharing arrangements with BPMIGAS. A general description of those arrangements and applicable oil and gas law is as follows:

i. Production Sharing Contracts (PSC) - Indonesia

A PSC is awarded to explore for and to establish commercial hydrocarbon reserves in a specified area prior to commercial production. The contractor is generally required to relinquish specified percentages of the contract area by specified dates unless such designated areas correspond to the surface area of any field in which oil and gas has been discovered.

The responsibilities of a contractor under a PSC generally include financing all activities and preparing and executing the work program and budget. In return, the contractor may freely lift and dispose of its share of crude oil and gas production.

A sharing in the form of First Tranche Petroleum (FTP) of 20% out of total production before deduction of cost recovery is available to the Government and the contractor in line with their entitlement shares.

The balance of production after FTP is available for cost recovery for the contractor which is calculated by reference to the prevailing Indonesian crude price and actual gas prices. After the contractor has recovered all allowable costs, the Government is entitled to a specified share of the remaining natural gas and crude oil production and the contractor is entitled to the balance as its equity (profit) share.

The contractor is obligated to pay Indonesian corporate taxes on its specified profit share, generally, at the Indonesian corporate tax rate in effect at the time the PSC is executed.

(Expressed in United States Dollars, unless otherwise stated)

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

a. Production Sharing Arrangements – Indonesia (continued)

i. Production Sharing Contracts (PSC) - Indonesia (continued)

PSCs in Indonesia are subject to a domestic market obligation (DMO) under which the contractor is required to supply the domestic market with the lesser of 25% of (i) the contractor's before-tax share of total crude oil production and (ii) the contractor's profit share for oil.

ii. Joint Operating Body (JOB) - Indonesia

In a JOB, operations are conducted by a joint operating body headed by Pertamina and assisted by the contractor through their respective secondees to the JOB. In a JOB, 37.5%-50% of the production is retained by Pertamina, and the balance is the shareable portion which is split between the parties in the same way as for a PSC.

iii. Technical Assistance Contracts (TAC) - Indonesia

A TAC is awarded when a field has prior or existing production and is awarded for a certain number of years depending on the contract terms. The oil or gas production is first divided into non-shareable and shareable portions. The non-shareable portion represents the production which is expected from the field (based on historic production of the field) at the time the TAC is signed and accrues to PT Pertamina (Persero) (Pertamina). Under a TAC, the non-shareable portion of production declines annually. The shareable portion corresponds to the additional production resulting from the operator's investment in the field and is in general split between the parties in the same way as for a PSC.

Contractors are obliged to pay a production bonus to BPMIGAS if certain production levels are attained.

Upon the expiration or termination of the contract, relinquishment of part of the Contract Area, or abandonment of any fields, the contractors may be required to remove all equipment and installations from the Contract Area, and perform site restoration activities in accordance with the terms of the contract or applicable government regulations. The cost of abandonment and site restoration work is cost recoverable under the respective contracts.

The Group currently has 12 PSCs, 1 TAC and 2 JOBs in Indonesia.

The remaining commitment for exploration and development expenditures relating to the above contracts as of December 31, 2011 is US$156 million.

b. Production Sharing Arrangements - International

The Group has production sharing arrangements in Libya and Yemen and a service contract in Oman with the following fiscal arrangements:

				Production Sharing Agreement, Concession	
Subsidiary	**Block Ownership**	**Country**	**Contract Term**	**Local Government**	**Subsidiary**
Medco Oman LLC	Karim Small Field	Oman	10 years	96.02% of profit oil	3.98% of profit oil
Medco International Venture Ltd	Block 47	Libya	5 years	86.3% of total production	13.7% of total production

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

b. Production Sharing Arrangements - International (continued)

				Production Sharing Agreement, Concession	
Subsidiary	**Block Ownership**	**Country**	**Contract Term**	**Local Government**	**Subsidiary**
Medco Yemen Amed Ltd	Block 82	Yemen	20 years	80% of profit oil (for production over 25,000 bopd)	20% of profit oil (for production over 25,000 bopd)
Medco Yemen Arat Ltd	Block 83	Yemen	20 years	75% of profit oil (for production over 25,000 bopd)	25% of profit oil (for production over 25,000 bopd)

The total remaining commitment for exploration expenditures relating to the above contracts as of December 31, 2011 is US$65.8 million.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS

a. Major Acquisitions and Disposals

i. In February 2010, MPI signed a Share Sale and Purchase Agreement for the acquisition of 70% equity in PT Universal Batam Energi (UBE) for Rp999 million. This agreement took effect in February 2010.

ii. In July 2010, MPI signed a Share Sale and Purchase Agreement with PT Multi Sakadaya for the acquisition of 85% equity in PT Elnusa Prima Elektrika and PT Multidaya Prima Elektrindo.

iii. Initially, the Group, through PT Medco E&P Tomori Sulawesi (MEPTS), had a 50% working interest in the Senoro-Toili PSC.

In December 2010, MEPTS signed an agreement for the transfer of a 20% undivided interest in Senoro-Toili Production Sharing Contract to Tomori E&P Limited (TEL), a wholly-owned subsidiary of the Group. In December 2010, BPMIGAS granted confirmation on such working interest transfer, therefore, the composition of working interest ownership subsequent to the transfer becomes MEPTS-30%, TEL-20% and PT Pertamina Hulu Energi Tomori Sulawesi-50%.

In the same month, the Group signed an agreement for the divestment of 100% equity of TEL to Mitsubishi Corporation (MC) for US$260 million. As of December 31, 2010, all the sale conditions had been fulfilled and the divestment of TEL became effective. The Group recognized a gain on divestment in 2010 of about US$250 million. The Group received the payment of US$260 million for such divestment in January 2011.

At the effective date of the divestments, TEL and the assets and liabilities associated with the 20% working interest in Senoro-Toili PSC were no longer included in the Group's consolidated financial statements, and as a consequence, the Group's proved oil and gas reserves declined by 45,376 MBOE (thousand barrel oil equivalent) due to exclusion of the reserves associated with the divested working interest.

iv. In February 2011, MPI, as buyer, signed a Share Sale and Purchase Agreement with Gajendra Adhi Sakti (GAS), as seller, for the acquisition of 49% equity in PT Medco Gajendra Power Service (MGPS) for US$19 million. This agreement took effect in February 2011. With the effectivity of this agreement, the Group owns 99.90% equity in MGPS. MGPS owns 80.1% equity in PT Tanjung Jati B Power Services (TJB).

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

v. In early 2006, the Group entered into a commercial agreement (economic agreement) with the Singapore Petroleum Company (SPC) and Cue Energy Resources Limited (Cue) - involving the transfer of 18.2% and 6.8% interest out of their respective 40% and 15% interests in the Jeruk Field, which enabled the Group to gain an undivided, 25% economic interest in the Jeruk Field of Sampang PSC. SPC and Cue respectively are the direct holders of participating interest in Sampang PSC, in addition to Santos which is the operator of the PSC. In accordance with the economic agreement, the Group agreed to assume proportionate share of Jeruk costs.

   Whilst the Indonesian Authorities have sanctioned the commercial agreement between the participants, Sampang PSC interests (including Jeruk Field interests) remain unchanged.

   In early 2008, Santos, the operator of the Jeruk Field, disclosed that further drilling in the Jeruk Field had been put on hold pending the review of development scenarios and the resolution of commercial and technical issues that may impact the viability of any development.

   Nevertheless, under the PSC, Jeruk costs represent part of overall Sampang PSC cost pool, and therefore Jeruk costs can be recovered from the production proceeds of other fields within Sampang PSC. The Group is also entitled to such recovery of Jeruk project costs under and through the mechanism as set out in the “economic agreement”.

vi. In 2011 and 2010, the Company’s Directors have undertaken and continue to undertake asset optimization program through partial or complete divestments of certain assets of the Group. This optimization program pertains to some of the Group’s subsidiaries/assets amongst others, PT Medco Power Indonesia, Medco Tunisia Holding Ltd, and some of the Group’s PSCs. Through this optimization program, the Group expects to be able to maximize the value and to reduce the risks relating to those assets.

vii. In May 2011, MPI signed a Share Sale and Purchase Agreement for the acquisition of 70% equity in PT Sangsaka Agro Lestari (SAL) for Rp8 billion. SAL is a majority stakeholder in (i) PT Sangsaka Hidro Lestari (SHL), (ii) PT Bio Jathropa Indonesia (BJI), (iii) PT Sangsaka Hidro Selatan (SHS), and (iv) PT Sangsaka Hidro Kasmar (SHK).

viii. On September 14, 2011, the Company, through its wholly owned subsidiary, Medco Tunisia Holding Ltd (“Medco Tunisia”), has signed a Shares Sale Purchase Agreement with OMV (Tunesien) Production GmbH (“OMV”) for the sale of the entire issued share capital (“Shares”) of Medco Tunisia Anaguid Limited (“Medco Anaguid”).

   On October 27, 2011, the sale and purchase of Medco Anaguid shares has been completed. On October 28, 2011, the Company received the net payment from OMV amounting to US$56.28 million.

   Effective on October 27, 2011, the entire issued share capital of Medco Anaguid was transferred to OMV, including the 40% participating interest in Anaguid Exploration Permit and 20% participating interest in Durra Concession (“Anaguid Block”) held by Medco Anaguid.

   The gain on this divestment recognized in the 2011 consolidated statement of comprehensive income amounted to US$35.4 million.

ix. On December 16, 2011, the Company’s sale of its 51% equity ownership in PT Medco Power Indonesia (“MPI”), the Company’s subsidiary which operated the electricity power generation business, to PT Saratoga Power (Saratoga) under the Shares Purchase and Subscription Agreement became effective.

(Expressed in United States Dollars, unless otherwise stated)

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

The agreement provides for the following which will be carried out in three (3) stages:

1. The acquisition of 51% equity ownership in MPI by PT Saratoga Power for the amount of US$54,880,000;

2. The subscription to new shares to be issued in Phase I by MPI pro rata according to the ownership of each shareholder, i.e., Saratoga at 51% for a subscription price of US$32,120,000 and the Company at 49% for a subscription price of US$30,860,392; and

3. The subscription to new shares to be issued in Phase II by MPI at the latest in March 2012 pro rata according to the ownership of each shareholder, i.e., Saratoga at 51% for a subscription price of US$25,000,000 and the Company at 49% for a subscription price of US$24,019,608.

Based on the above agreement, the Company shall compensate Saratoga and/or MPI for outstanding receivables of MPI from Menamas Consortium already in existence prior to the sale of MPI amounting to Rp47 billion, should Menamas Consortium be unable to pay its debt to MPI within one year after acquisition of MPI by Saratoga.

After the divestment on December 16, 2011, MPI became 51%-owned by PT Saratoga Power and 49%-owned by the Company.

The divestment of MPI resulted in a gain of US$43 million recognized in the 2011 consolidated statement of comprehensive income.

The key items of assets and liabilities associated with the subsidiaries disposed in 2011 are as follows:

	Carrying amount
Cash and cash equivalents	10,480,564
Trade and other receivables	31,289,128
Inventories	1,795,799
Property, plant, and equipment (Note 14)	134,272,460
Oil and gas properties (Note 15)	20,925,110
Other assets	24,865,814
Trade and other payables	(17,608,165)
Long-term debt	(76,703,427)
Other liabilities	(42,210,484)

The proceeds from disposals of subsidiaries received in 2011 are as follows:

Divestment of MPI	54,880,000
Divestment of Medco Tunisia Anaguid Limited	56,284,295
Divestment of PT Apexindo Pratama Duta Tbk in 2008 (proceeds were partially received in 2011)	35,000,000
Divestment of Tomori E&P Limited in 2010 (proceeds were received in 2011)	260,000,000
Less: cash and cash equivalents of divested subsidiaries	(10,480,564)
Total	**(395,683,731)**

(Expressed in United States Dollars, unless otherwise stated)

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements

The significant existing Gas Supply and Transfer of Power Purchase Agreements of the Group as of December 31, 2011 are as follows:

Entity	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia			
PT Pupuk Sriwidjaja (Persero)	August 7, 2007	Commitment to supply 45 BBTU of gas/day (BBTUD) at an average price of US$3.59/ MMBTU.	15 years in accordance with the terms and conditions as stated in the agreement.
PT Mitra Energi Buana	July 24, 2006	Commitment to supply and sell gas in the quantity of 2.5 BBTUD at an agreed price ranging from US$2.65/MMBTU to US$3.59/MMBTU.	7 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	January 20, 2006 last amended with agreement dated July 20, 2011	Commitment to supply and sell gas involving 38,925.20 BBTU at an agreed price ranging from US$4.17/MMBTU to US$4.83/MMBTU.	5 years.
PT Meta Epsi Pejebe Power Generation (MEPPO-GEN)	January 20, 2006	Commitment to supply gas involving 14.5 BBTUD during the contract term, at an agreed price of US$2.3/MMBTU.	7 years or when such quantity has been fully supplied, whichever occurs first.
PT Sarana Pembangunan Palembang Jaya (SP2J)	April 13, 2010	Commitment to supply gas involving 0.15 BBTUD - 1 BBTUD with an agreed gas price of US$2.73 MMBTU.	4 years or when such quantity has been fully supplied, whichever occurs first.
PT Pertamina (Persero)	January 16, 2004 the agreement has been amended several times the latest (the fifth amendment) on January 1, 2012	Commitment to deliver and sell LPG pursuant to the conditions set forth in the agreement.	5 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	December 30, 2003 and last amended with agreement dated March 17, 2010	Commitment to supply and sell 7 BBTUD of gas from December 2009 to March 2010 and 12.5 BBTUD from April 2010 to May 2013 and at a gas price ranging from US$4.32/MMBTU to US$4.86/ MMBTU.	10 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	December 30, 2002 and amended with agreement dated December 12, 2004	Commitment to supply and sell 56,182 BBTU of gas at a gas price ranging from US$2.376/MMBTU to US$2.506/MMBTU for the first year and at US$2.685/MMBTU for the second year until the end of the contract.	11 years.
PT Pertamina EP	February 19, 2010	Commitment to supply 143.09 MMSCF of gas per year with agreed price ranging from US$3.94/MMBTU to US$4.43/MMBTU.	April 27, 2009 up to November 27, 2013, or until such quantity in the agreement has been fully supplied, whichever occurs first.
Perusahaan Daerah Pertambangan dan Energi	August 4, 2009	Commitment to supply maximum of 0.5 BBTUPD of gas produced from South Sumatra Extension Block.	September 2009 up to November 2013. As of the completion date of the consolidated financial statements, the gas supply has not yet commenced because there are still some unfulfilled requirements.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

Company	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia			
Perusahaan Daerah Kota Tarakan	January 22, 2009	Commitment to supply 1-3 BBTUD of gas at a price of US$3/MMBTU, escalating by 2.5% per year.	10 years.
Perusahaan Daerah Mura Energi	August 4, 2009	Commitment to supply 2.5 BBTUPD of gas produced from the Temelat Field with contract value estimated at US$8.073 million.	10 years starting from April 2011. As of the completion date of the consolidated financial statements, the gas supply has not yet commenced because there are still some unfulfilled requirements.
PT PLN Tarakan	April 1, 2010	Commitment to supply and sell 10,134 BBTU of gas at average gas price during contract period of US$ 3.98/MMBTU with total value of US$37.49 million.	5 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Gas Negara (Persero) Tbk	December 4, 2009 and last amended on July 20, 2011	Commitment to supply natural gas from Keramasan Field in South and Central Sumatra with total gas volume of 27,860 BBTU (last amended) at a maximum value of US$125 million.	December 2009 up to February 28, 2013.
PT Perusahan Daerah Kota Tarakan (PDKT)	April 2011	Commitment to supply natural gas from Tarakan PSC block with total gas volume of 268.5 BBTU at a maximum value of US$846 thousand.	May 2011 up to April 2016.
Perusahan Daerah Pertambangan dan Energi	August 10, 2011	Commitment to supply and sell 3 BBTUD of gas at a gas price ranging from US$4.02/MMBTU to US$5.09/MMBTU.	9 years or until such quantity has been fully supplied, whichever occurs first.
PT Medco E&P Lematang			
PT Perusahaan Listrik Negara (Persero)	March 21, 2007 last amended on February 8, 2010	Commitment to supply and sell gas involving 48.6 BBTUD at an agreed price ranging from US$4.93/MMBTU to US$5.18/MMBTU.	Until PSC contract expires or such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Gas Negara (Persero) Tbk	December 4, 2009 last amended on April 15, 2010	Commitment to supply natural gas from Singa Field in Lematang Block with the total gas volume of 53 thousand BBTU at an agreed price ranging from US$5.20/MMBTU to US$5.57/MMBTU.	3 years and 2 months starting March 2010.
PT Medco E&P Malaka			
PT Pupuk Iskandar Muda (Persero)	December 10, 2007 last amended on November 12, 2010	Commitment to supply 110 BBTUD of gas at a selling price of US$6.50 + 0.35 x (bulk urea prilled price - 425/34) per MMBTU.	32 months after November 12, 2010.
PT Perusahaan Listrik Negara (Persero)	April 9, 2008	Commitment to supply 14.3 BBTUD of gas with an estimated total value of US$565.99 million.	17 years
PT Medco E&P Tomori			
PT Donggi Senoro LNG	January 22, 2009	Commitment to supply 227 BBTUD of gas with the price calculated based on certain agreed formula expressed in US$/MMBTU using the value of the Japan Crude Cocktail (JCC) as basis.	15 years (starting from the date of commercial operations of the LNG Plant).
PT Medco E&P Simenggaris			
PT Pertamina Gas and PT Medco Gas Indonesia	August 28, 2009 amended on May 20,2010	Commitment to supply a maximum of 28.85 BBTUD of gas produced from South Sembakung Field.	11 years starting from the fourth quarter of 2011.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements

i. Crude Oil Transaction

In December 2008, the Group entered into a Crude Oil Sale from Purchase Agreement with Petro Diamond Singapore Pte Ltd (PDS), whereby the Group agreed to, among others, supply crude oil of approximately 250,000 barrels per month effective from January 1, 2009 to December 31, 2011 at a price based on Indonesian Crude Price (ICP) of Sumatra Light Crude (SLC) plus a certain premium per barrel as stated in the agreement. On the same date, the Group entered into a Prepayment Agreement with PDS in relation to such crude oil sale, whereby the Group received an advance of US$130 million (gross), which is recorded as advances from customer. Revenue is recognized upon actual delivery of crude oil to PDS.

PDS is a wholly-owned subsidiary of Mitsubishi Corporation (Mitsubishi). Mitsubishi is an indirect shareholder of the Group.

On June 30, 2011, the Company through its wholly-owned subsidiary, Petroleum Exploration & Production International Limited (PEPIL), signed a Crude Oil Sales and Purchases Agreement (COSPA) with Petro-Diamond Singapore Pte Ltd (PDS).

The time period for the sales of crude oil to PDS will be 3 (three) years, starting in January 2012 up to December 2014 at a price based on Indonesian Crude Price (ICP) of Sumatra Light Crude (SLC) plus a fixed premium per barrel as stated in the agreement. The first delivery will start in January 2012.

ii. Aircraft Sale and Purchase Agreement

In May 2006, the Group entered into a Charter Agreement with PT Airfast Indonesia (Airfast) whereby the Group shall lease an aircraft from Airfast for ten years from the delivery date of the aircraft. Under the Agreement, the Company shall pay monthly rental fees and service fee which shall be based on service fee arrangements chargeable for two years after the delivery date of the aircraft.

In January 2011, Fortico International Limited (formerly known as Bawean Petroleum Limited), a wholly-owned subsidiary, signed an aircraft sale and purchase agreement with Magnate International Investment Pte Ltd for the purchase at a total value of US$14 million of the abovementioned aircraft which was previously leased from Airfast. With this aircraft acquisition, the Group no longer has a finance lease arrangement with Airfast.

iii. Agreement for the Development of Coal Bed Methane (CBM)

In February 2009, the Group through PT Medco Energi CBM Indonesia and Arrow Energy (Indonesia) Holdings Pte Ltd (Arrow), has signed a Heads of Agreement (HOA). The Group and Arrow will cooperate to explore for and develop Coal Bed Methane (CBM) over the Group’s conventional oil and gas PSC working area. Each of the parties shall have a 50% participating interest.

The Group and Arrow will work together to expeditiously negotiate a CBM Production Sharing Contract with the Indonesian regulatory authorities aimed at commencing exploration operations as soon as possible.

On December 3, 2010, the Company through PT Medco CBM Pendopo, signed a CBM Production Sharing Contract with Dart Energy (Muralim) Pte Ltd (previously Arrow) and BPMIGAS to carry out CBM development activities in Muralim Block, South Sumatra.

The Group and Dart Energy (Muralim) Pte Ltd have executed the Joint Operating Agreement in May 2011 aimed at commencing exploration operations as soon as possible.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

iii. Agreement for the Development of Coal Bed Methane (CBM) (continued)

On Agustus 1, 2011, the Company through PT Medco CBM Lematang, signed a CBM Production Sharing Contract with PT Methanindo Energy Resources, PT Saka Energi Indonesia, and BPMIGAS to carry out CBM development activities in Lematang Block, South Sumatra.

iv. Portfolio Investment Management Agreement

The Company entered into portfolio investment management agreements with Julius Baer and Barclays Wealth (acting as "Fund Managers"), whereby the Company appointed these Fund Managers to invest and manage the Company's investment portfolio. Based on such agreements, the investment portfolio will consist of cash and financial instruments, in the form of traded shares of stocks, commercial papers, mutual fund units and other marketable securities.

Under the agreements, the Fund Managers are required to report every month the net asset value of the Company's respective investment portfolios under their management. The Fund Managers are entitled to management fee based on the Net Asset Value of the investment portfolio. The total net asset value of the Company's funds managed by the Fund Managers amounted to about US$243 million as of December 31, 2011. These are presented as part of "Short-term Investments" in the consolidated statements of financial position (Note 5).

v. Building Rental

The Group has signed a lease agreement with PT Api Meta Graha to rent The Energy Building for 5 years starting mid-2009. The rental is paid on a quarterly basis in advance.

The remaining rental commitment on The Energy Building amounts to US$12.5 million which represents the rental cost in the next two and a half years.

vi. Joint Venture to market LNG

In October 2010, the Group and its partners in downstream Senoro Gas Development Project and the shareholders of DSLNG, namely, PT Pertamina (Persero) (Pertamina) and Mitsubishi Corporation (MC), signed a Marketing Joint Venture Heads of Agreement (MJV HOA) with Chubu. Pursuant to the MJV HOA, Chubu, Pertamina, MC and the Group will establish a joint venture to market LNG purchased by Chubu and to be diverted to other potential buyers.

vii. PSC Extension

In October 2010, the Government of the Republic of Indonesia through the Upstream Oil and Gas Supervisory Agency (BPMIGAS) approved the extensions of the respective Production Sharing Contracts (PSC) of South & Central Sumatra (S&CS), Block A and Bawean.

The extension of S&CS PSC is for 20 (twenty) years, which will be effective from November 28, 2013 up to November 27, 2033, with commitment value of US$24 million.

The extension of Bawean PSC is for 20 (twenty) years, which will be effective from February 12, 2011 up to February 11, 2031, with commitment value of US$50.5 million.

The extension of Block A PSC was also concurred with by the Government of Aceh in line with the Law No. 11 Year 2006 on the Governing of Aceh. The extension of Block A PSC is for 20 (twenty) years, which will be effective from September 1, 2011 to August 31, 2031.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

vii. PSC Extension (continued)

In addition to the rights and obligations of the Contractors as set forth in the Amended and Restated Production Sharing Contract for Block A, Aceh, the Contractors agreed, among other matters, to allocate, at the minimum, 1% of the total revenue from the yearly production as their contribution to the community development based on a Memorandum of Agreement dated April 5, 2010 between PT Medco E&P Malaka and the Government of Aceh Province.

41. CONTINGENCIES

a. Litigation

i. Hamzah Bin M. Amin's lawsuit relating to Block A PSC

In September, 2008, Hamzah Bin M. Amin and 5 other villagers (Plaintiff) filed a legal claim against PT Medco E&P Malaka (Defendant), a subsidiary, alleging that land erosion from the exploration activities by Asamera Oil, the previous owner of the Block A PSC in Alur Rambong I well, resulted in material damage to the Plaintiffs' land. The case was registered at Idi District Court. The Plaintiffs demand that the Defendant, as the operator of Block A, should pay compensation from land erosion totaling approximately Rp4.8 billion. The Group's portion is 41.67% (in line with participating interests in Block A PSC) of the possible total compensation, or approximately Rp1.99 billion.

The District Court has issued its decision ordering the defendant to return the rice field in its original condition.

Responding to the ruling, the plaintiff and defendant are now seeking to cassation at the Supreme Court level.

As of the date of the completion of the consolidated financial statements, the litigation process is still ongoing and no decision has yet been issued or made known. Management is unable to assess the ultimate outcome of the litigation. Nevertheless, management believes that the legal claim is without merit, and as such the Group has not made any provision for the claim.

ii. Partner Selection to Invest in the Donggi Senoro Project

The Commissioners' Panel of Commission for the Supervision of Business Competition (KPPU) decided on January 5, 2011, that the Group, together with its business partners, PT Pertamina (Persero) ("Pertamina") and Mitsubishi Corporation ("Mitsubishi"), have allegedly violated Articles 22 and 23 of the Law No. 5 Year 1999 concerning Prohibition on Monopolistic Practices and Unfair Business Competition (Law No. 5/1999).

In its decision, the KPPU Commissioners' Panel, among other matters, imposed on the Group an administrative penalty in the amount of Rp6 billion. However, the Commissioners' Panel's decision does not nullify or stop the ongoing business consensus and even recommends to the Government to encourage the Donggi Senoro Project to be accomplished within the planned project time frame.

In regard to the KPPU's decision which is not yet legally final and binding (in kracht van gewijsde), on January 31, 2011, pursuant to the Law No. 5/1999, the Group officially filed an objection to the District Court. However, on November 17, 2011, the Central Jakarta District Court rejected the submission of the objection by the Group, Pertamina and Mitsubishi regarding the said KPPU's decision.

41. CONTINGENCIES (continued)

a. Litigation (continued)

ii. Partner Selection to Invest in the Donggi-Senoro Project (continued)

In regard to the decision of the Central Jakarta District Court, which is also not final and binding (in kracht van gewijsde), on January 25, 2012, the Group officially submitted the memorandum of cassation to the Supreme Court through the Central Jakarta District Court.

As of the date of the completion of the consolidated financial statements, the investigation process for the objection to the KPPU decision is still ongoing in the Supreme Court. At this stage, management is unable to assess the ultimate outcome of such litigation process. Nevertheless, management believes that the decision issued by the Commissioners' Panel on the Group has no strong legal merit, and as such, the Group has not made any provision for the litigation.

b. Government and Joint Venture Audit Claims

In relation with its oil and gas exploration and production activities, the Group is subject to periodic audits by governmental agencies and joint venture partners. Claims arising from these audits are either agreed by management and recorded in the accounting records, or are disputed.

Resolution of disputed claims may require a lengthy negotiation process extending over a number of years. As of December 31, 2011, management believes that the Group has strong position against these claims, and therefore no provisions have been made for these claims.

c. Surety Obligations

Medco Energy US LLC is contingently liable to a surety insurance company in the aggregate amount of US$19.6 million as of December 31, 2011 and 2010, respectively, relative to bonds issued on Medco's behalf to the United States Department of the Interior Minerals Managements Service (MMS) and certain third parties from whom oil and gas properties were purchased. The bonds are third party guarantees by the surety insurance company that the Company will operate in accordance with applicable rules and regulations and perform certain Plugging and Abandonment obligations as specified by applicable purchase and sale agreements.

d. Gas Flow Incident at Lagan Deep–1 Well

Lagan Deep-1 well is an exploration well which spudded in September 8, 2011 with total planned depth of approximately 3,500 meters and will be completed within 75 days. The well is located in South & Central Sumatra Production Sharing Contract ("PSC") working area. On September 13, 2011, there has been an unintended flow of gas from Lagan Deep-1 well. The unintended flow of gas occurred during the drilling activity that reached the depth of approximately 800 meters. There were no fatalities, injuries, damage to facilities and fire due to this incident. Considering that Lagan Deep-1 well is an exploration well, management believes that this incident will not impact the gas production and revenue of the Group and that no significant losses will be sustained by the Group from the incident.

e. Demonstrations in Tiaka Field Production, Senoro-Toili Block

From August 20, 2011 to August 22, 2011, demonstrations occurred in the Tiaka field which damaged the facility and for safety reasons, required the evacuation of company personnel and the temporary suspension of the operational activities in the field. Based on the investigation conducted by the Company, the Company believes that the incident has no material adverse impact on the Company's financial position and operating results.

(Expressed in United States Dollars, unless otherwise stated)

41. CONTINGENCIES (continued)

f. Muslim A. Gani Lawsuit Relating to Land Acquisition of Matang Project

In December 2011, Muslim A. Gani and two other villagers (Plaintiff) filed a legal claim against PT Medco Energi Internasional Tbk (Defendant), relating to land acquisition by the defendant in Matang. The case was registered at Idi District Court, Aceh. The plaintiff demanded that the defendant pay compensation for the land acquisition totaling approximately Rp1.05 billion.

42. ASSET ABANDONMENT AND SITE RESTORATION OBLIGATIONS

The movements in site restoration and abandonment obligations are presented below:

	2011	2010
Indonesia		
Beginning balance	55,803,875	31,450,110
Additions during the year	9,046,062	25,258,825
Divested subsidiaries	-	(905,060)
Ending balance	64,849,937	55,803,875
Escrow account	(26,590,264)	(23,338,240)
Ending balance - net	38,259,673	32,465,635
United States of America (US)		
Beginning balance	18,240,279	16,804,391
Additions during the year	929,257	1,435,888
Divestment of US	(3,671,217)	-
Ending balance	15,498,319	18,240,279
Total	**53,757,992**	**50,705,914**

The current estimates for the asset abandonment and site restoration obligations were determined by management, not by an independent consultant. Management believes that the accumulated provisions as of the dates of the statements of financial position are sufficient to meet the environmental obligations resulting from future site restoration and asset abandonment.

The Group has escrow accounts in PT Bank Negara Indonesia (Persero) Tbk and PT Bank Rakyat Indonesia (Persero) Tbk for the funding of abandonment and site restoration obligations (ARO) relating to oil and gas operations in Indonesia amounting to about US$26.6 million and US$23.3 million as of December 31, 2011 and 2010, respectively.

43. MIDDLE EAST AND NORTH AFRICA

The Group has oil and gas exploration and production joint venture contracts in Libya and Yemen and an oil and gas service contract in Oman. In early 2011, civil unrests were taking place in Libya, and to a lesser extent in Yemen and Oman. The situations in Yemen and Oman have not had any significant effects on the Group's operations in those countries.

43. MIDDLE EAST AND NORTH AFRICA (continued)

Due to the ongoing civil unrest in Libya in early 2011, the Group suspended its operations in that country. As of the completion date of the 2011 consolidated financial statements, the Group has already resumed its operations with limited activities. As of December 31, 2011, the Group has total capitalized exploration expenditures of US$155 million or 6.5% of the Group's total consolidated assets as of that date. The expenditures were substantially spent for the drilling activities involving primarily sub-surface well equipment, not in the form of tangible assets on land, that have resulted in the discovery of very significant volume of hydrocarbons that reside about 10,000 feet underground. Therefore, the assets (i.e., the hydrocarbon reserves and the associated sub-surface well equipment) had not been exposed to the disturbances during the civil unrest.

44. SIGNIFICANT SUBSEQUENT EVENTS

i. On February 3, 2012, the Company has paid in full the Medium-Term Notes I Series A Phase II amounting to US$7,400,000.

ii. In February 2012, the Company signed a Loan Agreement with PT Bank Mandiri (Persero) Tbk (Mandiri) to roll over the maturing Working Capital Credit facility amounting to US$50 million. This facility will mature on March 12, 2013.

iii. In February 2012, the Company signed a Loan Agreement with PT Bank ICBC Indonesia to roll over the matured Working Capital Credit facility amounting to US$10 million. This facility will mature on February 25, 2013.

iv. In March 2012, PT Medco Ethanol Lampung, made an early repayment of its working capital and investment obligations to Indonesia Eximbank amounting to US$3,000,000 and US$28,000,000 respectively (Note 22c).

v. Based on Notarial Deed No. 3 dated January 4, 2012 of Karlita Rubianti, S.H., PT Medco Energi CBM Indonesia established PT Medco CBM Rimau with initial paid-in capital amounting to Rp1,000,000,000. PT Medco Energi CBM Indonesia's investment together with that of PT Medco Energi Nusantara's in PT Medco CBM Rimau amounting to Rp1,000,000,000, represent equity interest of 100%.

vi. Medco Yemen Malik Limited was incorporated on February 7, 2012 under the British Virgin Islands (BVI) Business Companies Act 2004, with registered number 1694649 and address at the Palm Grove House P.O. Box 438 Road Town, Tortola, VG 1110 – British Virgin Islands. Medco Yemen Malik Limited is one hundred percent (100%) owned by Medco Yemen Holding Limited with authorized capital of 50,000 shares with no par value.

vii. Based on Certificate of Incorporation No. ET-265735 dated January 19, 2012 of Joy A. Rankine, Assistant Registrar of Companies of the Cayman Islands, Medco Strait Services Pte Ltd established PT Medco Petroleum Services Limited with initial paid-in capital amounting to US$50,000. Medco Strait Services Pte Ltd's investment amounting to US$50,000 represents equity interest of 100%.

viii. In February 2012, PT Bio Jathropa Indonesia (BJI), a subsidiary of MPI, entered into a power purchase agreement with PT PLN (Persero) involving a power plant at Cibalapularang, Cianjur, West Java, whereby BJI agreed to provide and sell electricity power to PLN for a period of 15 years starting on the Commercial Operating Date (COD) at a price of Rp656 per KwH.

ix. On March 19, 2012, the Company has completed the 2nd phase of the 49% subscription to the capital stock of PT Medco Power Indonesia (Note 40a).

45. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

The following are several published accounting standards issued by the Indonesian Financial Accounting Standards Board (DSAK) that are considered relevant to the financial reporting of the Group but not yet effective for the 2011 financial statements.

i. PSAK No. 10 (Revised 2010), “The Effects of Changes in Foreign Exchange Rates”
This revised PSAK prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and translate financial statements into a presentation currency.

ii. PSAK No. 16 (Revised 2011), “Property, Plant and Equipment”
This revised PSAK prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

iii. PSAK No. 18 (Revised 2010), “Accounting and Reporting by Retirement Benefit Plans”
This revised PSAK is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence, this Standard complements PSAK No. 24 (Revised 2010).

iv. PSAK No. 24 (Revised 2010), “Employee Benefits”
This revised PSAK establishes the accounting and disclosures for employee benefits and requires the recognition of liability and expense when an employee has provided service and the entity consumes economic benefit arising from the service.

v. PSAK No. 26 (Revised 2011), “Borrowing Costs”
This revised PSAK provides that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

vi. PSAK No. 30 (Revised 2011), “Leases”
This revised PSAK prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases which applies to agreements that transfer the right to use assets even though substantial services by the lessor maybe called for in connection with the operation or maintenance of such assets.

vii. PSAK No. 33 (Revised 2011), “Stripping and Environmental Management Activities at the General Mining”
This revised PSAK is applied to accounting for general mining in relation with stripping activity and environmental management activity.

viii. PSAK No. 46 (Revised 2010), “Accounting for Income Taxes”
This revised PSAK prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery/(settlement) of the carrying amount of assets/(liabilities) that are recognized in the consolidated statement of financial position; and transactions and other events of the current period that are recognized in the financial statements.

ix. PSAK No. 50 (Revised 2010), “Financial Instruments: Presentation”
This revised PSAK establishes the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

45. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS (continued)

x. PSAK No. 55 (Revised 2011), "Financial Instruments: Recognition and Measurement"
This revised PSAK establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in PSAK No. 50 (Revised 2010): Financial Instruments: Presentation. Requirements for disclosing information about financial instruments are in PSAK No. 60: Financial Instruments: Disclosures.

xi. PSAK No. 56 (Revised 2011), "Earnings per Share"
This revised PSAK prescribes the principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same period and between different reporting periods for the same entity.

xii. PSAK No. 60, "Financial Instruments: Disclosures"
This PSAK requires disclosures in financial statements that enable users to evaluate the significance of financial instruments to financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

xiii. PSAK No. 64, "Exploration for and Evaluation of Mineral Resources"
This PSAK specifies the financial reporting for the exploration and evaluation of mineral resource, requires entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this PSAK and measure any impairment in accordance with PSAK No. 48 (Revised 2009), "Impairment of Assets."

xiv. ISAK No. 15, PSAK No. 24 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined scheme that can be recognized as an asset under PSAK No. 24 (Revised 2010), "Employee Benefits".

xv. ISAK No. 20, "Income Taxes - Changes in the Tax Status of an Entity or its Shareholders"
This Interpretation identifies how an entity should account for the current and deferred tax consequences of a change in tax status of an entity or its shareholders.

xvi. ISAK No. 26, "Reassessment of Embedded Derivatives"
This Interpretation provides that an entity shall not reassess whether an embedded derivative should be separated from the host contract and accounted for as a separate derivative unless there is a change in the contract terms which will significantly change the cash flows required under the contract, in which case a reassessment is necessary. The entity shall determine if the change in the cash flows is significant by considering to what extent the expected future cash flows related to the embedded derivative or to the host contract, or both, have already changed and whether the change is relatively significant compared to the cash flows previously expected under the contract.

The Group is presently evaluating and has not determined the effects of these revised standards on its consolidated financial statements.

(Expressed in United States Dollars, unless otherwise stated)

46. OPERATIONAL RISKS

The Group's operations in the oil and gas sector are subject to hazards and risks inherent in drilling for and production and transportation of natural gas and oil, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, blowouts, cratering, pipe line ruptures and spils, which can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to properties of the Group. Additionally, certain of the Group's oil and natural gas operations are located in areas that are subject to tropical weather disturbances, some of which can be severe enough to cause substantial damage to facilities and possibly interrupt production. As protection against operating hazards, the Group maintains insurance coverage against some, but not all, potential losses. The Group's insurance coverage for its oil and gas exploration and production activities includes, but is not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage to certain assets, employer's liability, comprehensive general liability, and automobile and workers compensation insurance.

47. RECLASSIFICATIONS IN THE 2010 CONSOLIDATED FINANCIAL STATEMENTS

As discussed in Note 2b, effective on January 1, 2011, the Group adopted PSAK No. 1 (Revised 2009), which requires that the minority interest is presented in the Equity section of the consolidated statement of financial position.

In addition, the Group reclassified the sales of oil received by Medco LLC, Oman for operating the Karim field in Oman as part of net oil and gas sales in the 2010 consolidated statement of comprehensive income to more appropriately present the economic substance of the transaction. In prior years, such oil sales were presented as part of revenue from other contracts in the consolidated statement of comprehensive income. The associated costs were also reclassified into production and lifting costs which were presented as cost of other contracts and related services in prior year.

A summary of the reclassification is shown as follows:

	2010		
	As previously reported	**Reclassification**	**As reclassified**
Consolidated statement of financial position as of December 31, 2010			
Equity			
Non-controlling interests	-	28,775,488	28,775,488
Consolidated statements of comprehensive income for the year ended December 31, 2010			
Revenue from other services	101,492,287	(90,291,296)	11,200,991
Net oil and gas sales	569,386,907	90,291,296	659,678,203
Production and lifting costs	(196,358,929)	(71,202,312)	(267,561,241)
Cost of other services	(77,245,587)	71,202,312	(6,043,275)

48. APPROVAL AND AUTHORIZATION FOR THE ISSUANCE OF CONSOLIDATED FINANCIAL STATEMENTS

The issuance of the consolidated financial statements of the Group as of December 31, 2011 and 2010 and January 1, 2010/December 31, 2009 and for the years ended December 31, 2011 and 2010 was approved and authorized by the Board of Directors on March 20, 2012, as reviewed and recommended for approval by the Audit Committee.

RESERVES ESTIMATION

The following information on proved developed, undeveloped and probable reserve quantities as well as contingent resources are estimates only, and do not purport to reflect realizable values or fair market values of the Group's reserves. The Group emphasizes that reserve estimates are inherently imprecise. Accordingly, these estimates are expected to change as future information becomes available. There are numerous uncertainties inherent in estimating oil and natural gas reserves including many factors beyond the control of the Group.

The following information on the Group's reserves and resources quantities are estimated either by the Group's engineers, an independent petroleum engineering consultant, i.e., Gaffney, Cline & Associates (GCA), or based on estimates by the operators of the respective blocks. Generally accepted petroleum engineering principles and definitions applied by the industry to proved and probable reserve categories and subclassifications as well as contingent resources were utilized in preparing the reserves and resources disclosures.

Management believes that the reserve quantities shown below are reasonable estimates based on available geological and engineering data.

			Proved (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2010				December 31, 2011
Indonesia Assets							
1	Production	Rimau [1]	43,358	-	-	6,024	37,334
2	Production	Kampar/S.S. Extension [2]	44,071	-	-	10,624	33,447
3	Production	Lematang (Lapangan Singa Field) [1]	10,262	-	-	2,178	8,084
4	Production	Tarakan [1]	5,005	-	-	1,196	3,809
5	Production	Sembakung [1]	2,013	-	-	813	1,200
6	Production	Senoro Toili (Tiaka Field) [3]	483	-	-	180	303
7	Production	Bawean [4]	11,610	-	-	373	11,237
8	Development	Senoro Toili (Senoro Gas Field) [5]	67,248	-	-	-	67,248
9	Development	Block A [6]	7,818	-	-	-	7,818
	Sub-total		**191,868**	**-**	**-**	**21,388**	**170,480**
International Assets							
		United States [7]					
1	Production	East Cameron 316/317/318	2,176	(99)	-	85	1,992
2	Production	Main Pass 64/65	5,394	(78)	-	169	5,147
3	Production	Mustang Island Block 758	432	(397)	-	35	-
4	Production	Brazos Block 437/451	1,478	(1,471)	-	7	-
5	Production	West Delta Block 52	71	-	68	3	-
	Sub-total		**9,551**	**(2,045)**	**68**	**299**	**7,139**
	Total Proved Reserves		**201,419**	**(2,045)**	**68**	**21,687**	**177,619**

* MBOE: Thousand Barrel Oil Equivalent. Indonesia assets are using 5.85 while US assets are using 6 for Gas to Oil conversion factor.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
December 31, 2011 and 2010
(UNAUDITED)

RESERVES ESTIMATION (continued)

			Proved and Probable (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2010				December 31, 2011
Indonesia Assets							
1	Production	Rimau [1]	52,745	-	-	6,024	46,721
2	Production	Kampar/S.S. Extension [2]	56,280	-	-	10,624	45,656
3	Production	Lematang (Lapangan Singa Field)[1]	12,292	-	-	2,178	10,114
4	Production	Tarakan [1]	6,461	-	-	1,196	5,265
5	Production	Sembakung [1]	2,412	-	-	813	1,599
6	Production	Senoro Toili (Tiaka Field) [3]	1,696	-	-	180	1,516
7	Production	Bawean [4]	14,506	-	-	373	14,133
8	Development	Senoro Toili (Senoro Gas Field) [5]	71,346	-	-	-	71,346
9	Development	Block A [6]	22,067	-	-	-	22,067
	Sub-total		**239,805**	**-**	**-**	**21,388**	**218,417**
International Assets							
		United States [7]					
1	Production	East Cameron 316/317/318	3,875	(487)	-	85	3,303
2	Production	Main Pass 64/65	6,559	(56)	-	169	6,334
3	Production	Mustang Island Block 758	620	(585)	-	35	-
4	Production	Brazos Block 437/451	2,534	(2,527)	-	7	-
5	Production	West Delta Block 52	71	-	68	3	-
	Sub-total		**13,659**	**(3,655)**	**68**	**299**	**9,637**
	Total Proved and Probable Reserves		**253,464**	**(3,655)**	**68**	**21,687**	**228,054**

* MBOE: Thousand Barrel Oil Equivalent. Indonesia assets are using 5.85 while US assets are using 6 for Gas to Oil conversion factor.

RESERVES ESTIMATION (continued)

			Proved and probable (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2010				December 31, 2011
Contingent Resources							
1	Development	Senoro Toili (Senoro Gas Field) (5)	27,128	-	-	-	27,128
2	Exploration	Bangkanai (8)	3,638	-	-	-	3,638
3	Exploration	Simenggaris (8,9)	10,535	-	-	-	10,535
4	Exploration	Libya (10)	175,850	-	-	-	175,850

(1) The Group's reserve estimates per December 31, 2009 were certified in the GCA Report signed on March 15, 2010.

(2) The Group's reserve estimates for Kampar/S.S. Extension as of December 31, 2009 were certified by the GCA Report signed on March 15, 2010, assuming no PSC extension. Additional reserve estimates in 2010 are based on in-house estimates and take into account the PSC extensión up to 2033, which was obtained in 2010.

(3) The Group's reserve estimates for Senoro Toili block Tiaka field were certified by the GCA Report as of December 31, 2007, with effective working interest of 50%. Revision in the Group's reserves estimate is due to sale of 20% working interest effective December 31, 2010.

(4) The Group's reserves estimate for Bawean block is based on internal estimates and reflects an effective working interest of 100%. In 2010, PSC extension to 2031 has been obtained.

(5) The Group's reserves estimates for Senoro Toili Gas field were certified by the GCA Report as of February 1, 2010, with effective working interest of 50%. The decline in the Group's reserves estimate is due to the sale of 20% working interest effective December 31, 2010.

(6) The Company's reserves estimate for Block A was certified by the GCA Report as of December 31, 2007, with effective working interest of 41.67%. In 2010, PSC extension to 2031 has been obtained.

(7) The Group's reserves estimate for the US assets was certified by Netherland, Sewell & Associates, Inc (NSAI) Report as of December 31, 2010.

(8) Contingent reserves estimates for the Bangkanai and Simenggaris blocks are based on in-house estimates and subject to finalization of Gas Sales Agreements.

(9) Contingent reserves estimate for Simenggaris block is based on in-house estimates.

(10) The Company's contingent reserves estimates for Libya block are based on DeGoyler MacNaughton evaluation as of September 30, 2008 and effective working interest of 50%, which represent the estimated quantities of petroleum to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. There is no certainty that it will be commercially viable to produce any portion of the resources. The Best Estimate is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate.

MEDCOENERGI

Board of Directors & Board of Commissioners Statement

REGARDING THE RESPONSIBILITIES TOWARD THE 2011 ANNUAL REPORT
PT MEDCO ENERGI INTERNASIONAL TBK

We, the undersigned, being the members of the Board of Commissioners and Board of Directors of MedcoEnergi, hereby, declare that we are fully responsible towards the preparation and presentation of the 2011 Annual Report and 2011 Financial Statements. All information on the 2011 Annual Report and 2011 Financial Statements has been fully and accurately disclosed, and the Reports do not contain false or omitted information or material fact.

In witness whereof, the undersigned have drawn up this statement truthfully

Jakarta, 24 April 2012
Prepared by:

Lukman A. Mahfoedz
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Chief Executive Officer

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President Commissioner

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